



United Nations

United Nations Development Programme

**Financial report and audited
financial statements**

for the year ended 31 December 2022

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-eighth Session

Supplement No. 5A



United Nations Development Programme

**Financial report and audited
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Report of the Board of Auditors



United Nations • New York, 2023

Note

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

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Letters of transmittal and certification

Letter dated 28 April 2023 from the Administrator, the Assistant Secretary-General/Assistant Administrator and Director, Bureau for Management Services, and the Chief Finance Officer and Comptroller of the United Nations Development Programme addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the year ended 31 December 2022, which we hereby approve.

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

We, the undersigned, acknowledge that:

Management is responsible for the integrity and objectivity of the financial information included in these financial statements.

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on management's best estimates and judgments.

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties. UNDP internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.

Management provided the Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.

The recommendations of the Board of Auditors and UNDP internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

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

(Signed) Achim **Steiner**
Administrator

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

(Signed) Andrew **Rizk**
Chief Finance Officer/Comptroller
Bureau for Management Services

**Letter dated 26 July 2023 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 Development Programme for the year ended 31 December 2022.

(Signed) **Hou Kai**
Auditor General of the People's Republic of China
Chair of the Board of Auditors

Chapter I

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

Opinion

We have audited the accompanying financial statements of the United Nations Development Programme (UNDP), which comprise the statement of financial position (statement I) as at 31 December 2022 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNDP as at 31 December 2022, 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 and the International Standards of Supreme Audit Institutions. Our responsibilities under those standards are described in the section below entitled “Auditor’s responsibilities for the audit of the financial statements”. We are independent of UNDP, in accordance with the ethical requirements 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 the auditor’s report thereon

The Administrator is responsible for the other information, which comprises the financial report for the year ended 31 December 2022, contained in chapter III below, but does not include the financial statements and our auditor’s report thereon.

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

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

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

The Administrator is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNDP to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management either intends to liquidate UNDP or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process of UNDP.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding 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 internal control of UNDP;
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- (d) Draw conclusions on the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNDP to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNDP to cease to continue as a going concern;

(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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

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

(Signed) **Hou Kai**
Auditor General of the People's Republic of China
Chair of the Board of Auditors

(Signed) **Pierre Moscovici**
First President of the French Cour des comptes
(Lead Auditor)

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

26 July 2023

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly. As the lead United Nations agency on international development, UNDP works in 170 countries and territories to eradicate poverty and reduce inequality. UNDP helps countries to develop policies, leadership skills, partnering abilities and institutional capabilities, and to build resilience, to achieve the Sustainable Development Goals. Its work is concentrated in three focus areas: sustainable development; democratic governance and peacebuilding; and climate and disaster resilience.

The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2022. The audit was carried out at headquarters in New York, at the Global Shared Service Centres in Copenhagen and Kuala Lumpur and at country offices in Argentina, Bangladesh, Burundi, Chad, Egypt, Kazakhstan, Thailand and Türkiye.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at 31 December 2022 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Overall conclusion

As a result of the audit, the surplus of \$536¹ million for 2022 initially presented by UNDP in its draft financial statements turned to a deficit of \$25 million in the final version of the financial statements. The decrease of \$561 million resulted mainly from two material adjustments raised by the Board, linked to overestimated revenue recognition (\$518 million) and an impairment analysis of receivables (\$31 million) (see below).

The finances of UNDP remain sound, with high levels of liquid assets. Total revenue decreased by \$314.8 million in 2022 to \$5,322.1 million, compared with \$5,636.9 million in 2021. UNDP funding is received on a cyclical basis and budgeted on a biennial basis.

Total expenses in 2022 (\$5,347.6 million) were similar to those in 2021 (\$5,384.9 million). The largest expense category continued to be contractual services, with expenses of \$1,995.3 million (37.3 per cent of overall expenses in 2022), while \$1,021.8 million (19.1 per cent) was spent on supplies and consumables, \$871.0 million (16.3 per cent) on staff costs and \$951.8 million (17.8 per cent) on general operating expenses.

The deficit for 2022 amounted to \$25.4 million, compared with a surplus of \$252.0 million in 2021. UNDP maintains a high level of current assets (\$6,916.4 million) to meet its current liabilities (\$1,502.9 million).

The major part of voluntary contributions is tightly earmarked and can be used only for certain projects. In 2022, voluntary contributions to regular resources decreased in both absolute (\$273.4 million) and relative (4.5 per cent) terms compared

¹ Unaudited financial statements.

with 2021 and accounted for 12.2 per cent of total UNDP voluntary contributions. A high level of tightly earmarked contributions continues to pose challenges for management with respect to focusing on priorities and deploying resources flexibly to meet demand across all areas of activity.

Key findings

Finance and budget

Overestimated revenue recognition

UNDP erroneously recorded revenue for government cost-sharing contracts financed by international financial institutions up front instead of on a cash basis per its current revenue recognition policy for certain donors presenting a credit risk, which would have resulted in a significant overestimation of its 2022 revenue. Consequently, an adjustment of \$518 million was made in the final version of the financial statements.

Impairment analysis of receivables

UNDP produces an ageing receivables analysis in compliance with IPSAS 26: Impairment of cash-generating assets, but it is not carried out on a comprehensive basis. Based on the Board's findings, an impairment adjustment of \$31 million was recorded against the Global Environment Facility (GEF) receivable in the final version of the financial statements.

Medical Insurance Plan

The Board reviewed employee benefits liabilities as at 31 December 2022 and noted that UNDP Medical Insurance Plan funding needs amounting to \$133.7 million are not tracked through a dedicated fund in the system, which could hamper the monitoring and oversight capacity of UNDP and therefore its ability to address any foreseeable funding difficulties.

Presentation of the statement of comparison of budget and actual amounts (statement V)

Budget information as currently provided by UNDP in statement V fully complies with IPSAS 24: Presentation of budget information in financial statements. However, in note 6 to the financial statements, the reconciliation between actual amounts and net cash flows required by paragraph 47 of IPSAS 24 should be set out on a more comparable basis.

Implementation at the United Nations Development Programme of the reform delinking the United Nations resident coordinator and the United Nations Development Programme resident representative functions

The Board has audited the implementation by UNDP of the delinking of the United Nations resident coordinator function from the resident representative function of UNDP.

UNDP anticipated and implemented a complex transition on short notice, as requested by the General Assembly and by the Executive Board of the United Nations Development Programme. The implementation of the reform was a success in that it allowed the new resident coordinator offices to effectively start working and functioning from the beginning of 2019 and did not cause excessive disruption to the functioning of UNDP and the implementation of its programmes.

Financial consequences of the reform

The management of human resources was a key issue. UNDP succeeded in recruiting, appointing and training the new resident representatives in time. The reform also had profound implications for the management of UNDP field country offices.

The Board took due note of the difficulty in establishing a clear and comprehensive assessment of the budgetary consequences of the delinking for UNDP. This difficulty is due in part to the incremental nature of the delinking process and to the long-standing integration of the coordination function in the Programme's core structure. Potential annual savings for UNDP may be estimated in the range of \$14 million to \$34 million.

Impact of the reform on the role of the United Nations Development Programme with regard to shared services

As regards back-office functions, the delinking process has had a limited impact on the role historically played by UNDP as the service provider and backbone for the United Nations system. UNDP has even made a strategic commitment to continuing to pursue its role of "enabler" at the country level. The question remains, however, as to how much importance UNDP should attach to such back-office functions in the future.

Opportunity to build more strategically on the integrator function

With regard to the core activities of UNDP in the field of development, the General Assembly, in its resolution [72/279](#), reiterated the integrator role originally envisaged for UNDP. The provision of integrated solutions lies in the DNA of UNDP. However, further clarification could help in reducing the risk of misunderstandings with clients and stakeholders when it comes to the operational delimitation of responsibilities between the resident coordinators and the UNDP resident representatives. The delinking process appears to be a unique opportunity to sharpen and consolidate the role of UNDP at the centre of the United Nations development agenda, based on the idea that one of the key assets of UNDP compared with other multilateral or bilateral development actors is that it can establish a special partnership with the other United Nations entities.

Risk management*Risk universe*

By nature, development operations intervene in a risky universe. The risks faced by UNDP can first and foremost stem from the risky nature of development work. They can also arise from endogenous or exogenous causes, be recurrent or more difficult to predict because of their more or less unique nature, and threaten the accomplishment of UNDP activities at a strategic level or at an operational one. UNDP appears to be at a turning point, as several of the strategic risks faced by the organization today, notably risks related to resources and reputation, are of a critical nature, which poses specific challenges.

Multiple risk management tools at the operational level

UNDP has been managing risks to routinely conduct its operations since well before the first introduction of the enterprise risk management policy. There is indeed a variety of risk management tools for which the enterprise risk management policy constitutes an umbrella framework and in which the Office of Audit and

Investigations of UNDP plays a major role, which extends in practice beyond the scope of the third line of defence.

The Board has looked at two specific case studies to analyse UNDP risk management in concrete and high-impact areas: the transition of enterprise resource planning from Atlas to Quantum, and the 2020 internal audit of GEF. Lessons can be learned from these cases, including the need to ensure that high risks associated with major corporate projects are escalated to the appropriate level, and the need to better understand key implementation challenges on the ground.

Maturity and implementation of the enterprise risk management policy

The implementation of the enterprise risk management policy is a high priority for UNDP and has gone through a series of incremental improvements, in particular, through the progressive, but still unfinished, integration of its various elements, the development of adequate information technology tools and platforms and the recent adoption of a risk appetite statement. The Office of Audit and Investigations has played a critical role in providing key guidance with regard to this improvement path. Some elements can still be highlighted, notably concerning the maturity of the risk management framework, including in using the recently adopted risk appetite statement at the operational level, as well as the implementation of the statement in terms of identification, assessment and mitigation of risk.

Ultimately, risk management in UNDP would benefit from better linkages with the wider accountability system, especially in the fields of internal control, programme planning and budget, as well as results and performance.

Management of programmes and projects related to Sustainable Development Goal 16 (governance)

UNDP currently faces particular challenges with regard to development policies, including the following: (a) the tendency of some donors to focus on emergency humanitarian response to crises rather than on preventing and addressing structural factors that affect long-term development; (b) the political sensitivity of operations in exposed settings; and (c) the difficulty of ensuring alignment and coordination on the ground among the various stakeholders.

In this context, UNDP has dedicated a significant amount of its activity to the fulfilment of Sustainable Development Goal 16 on promoting just, peaceful and inclusive societies (governance). As at the date of the audit, UNDP was managing almost 1,400 projects, representing the second largest expenditure item per Goal in 2022 (\$878 million). Such expenditure has been declining for several years, however, notably due to the gradual reduction in and termination of large multi-donor initiatives such as the law and order trust fund for Afghanistan.

Sustainable Development Goal 16 and the United Nations Development Programme strategic plan

Two fifths of Sustainable Development Goal 16 project outputs are not valued under any signature solution developed by UNDP along with its strategic plan for the period 2018–2021. In addition, a significant number of projects linked to “governance” activities are not explicitly recorded as such, being related neither to Goal 16 nor to signature solution 2 of UNDP (strengthening effective, inclusive and accountable governance). UNDP nevertheless underlines that there should not be a direct affiliation between projects linked to governance and Goal 16, as governance activities in the areas of environment, poverty and health, for example, could be tagged to Goals related more directly to those respective areas.

The efforts of UNDP to engage in the Sustainable Development Goal 16 agenda is not always sufficiently captured through the results framework of the strategic plan because of deficiencies and inconsistencies in activity-tagging. This is notably due to the fact that the integrated results and resources framework for the UNDP strategic plan for the period 2022–2025 is designed to measure delivery against agreed outcomes and outputs, not specifically against the Goals.

Sustainable Development Goal 16 in information systems and data platforms

Discrepancies in the data reported between the different information and technology applications used by UNDP were noted for certain projects. The various software applications used by UNDP to enter and use physical and financial data serve different purposes, but there is no framework document to clarify the use of such data, the ways entries are to be accounted for and the results relating to the projects.

The corporate planning system platform used for linking project outputs to the country programme document and the strategic plan, and for the selection of Sustainable Development Goal targets, allowed all data entries to be modified without any security check until 2022. Despite the current use of Quantum, this vulnerability still exists for the linkage between project outputs and those of country programme documents, although Quantum has added a layer of security that prevents any unauthorized changes to the country programme document results targets, as well as to the indicators.

Mobilization of global and field expertise

UNDP has a wealth of governance-related substantive knowledge products on the intranet, through communities of practice, and can rely on platforms such as the Sustainable Development Goal 16 Hub. This scattered information could be brought together in a virtual library to facilitate the identification of the knowledge produced and provide a better picture of UNDP achievements. The Global Policy Network is aimed at identifying and bringing together the governance expertise of UNDP staff, as part of an ongoing capacity mapping exercise using a platform powered by artificial intelligence. However, the process for validating the skills of the members in the platform is still not complete and its funding is not guaranteed. Global governance expertise, which is composed of the skills of UNDP personnel, should be better programmed and mobilized, both internally and for key stakeholders such as Governments and public authorities. After the updating and vetting of internal capacities and profiles is accomplished, a mechanism should be developed to make expertise available and deployable in a more dynamic way. A consolidated supply of governance-related expertise could then, beyond traditional project implementation, be built and leveraged with potential beneficiaries and donors, and even become an innovative source of income for UNDP.

Five regional bureaux at the headquarters level, including five hubs in the regional areas, supervise the activities of the country offices. Their role in feeding back issues from the field, especially to the Oslo Governance Centre, could be strengthened. Their support activities are not specifically reviewed and do not include a monitoring role. In particular, the supervision of the linking process between projects and Sustainable Development Goal 16 is not part of their mandate.

While joint projects are conducted between UNDP and international partners, engagement on Sustainable Development Goal 16 is insufficiently coordinated at the global and country levels, and does not sufficiently harness the presence of UNDP in the field, and in particular in fragile contexts, to strengthen a joint approach locally.

Measuring results and reporting on impacts

In addition to the standard reporting stream, reporting to donors is done on an ad hoc basis but through a harmonized framework. The Board noted, on the one hand, significant deviations from corporate guidance in the documents available for a sample of projects in relation to UNDP commitments and, on the other hand, dissatisfaction on the part of several donors. Formal feedback from beneficiaries in the form of quality assurance, in particular, to measure the effects of each project in the country of implementation, is not provided.

UNDP measures the results of a “governance” project at its closure, but not its effective long-term viability and sustainability. In line with the recommendations of the internal audit, it would be useful to provide each project with the means, in particular, financial means, to analyse its impact and capitalize on its results.

As the custodian of four of the 24 indicators for Sustainable Development Goal 16, UNDP is working to improve the capacity of Member States to report on them. It also uses these data to report on progress on the 2030 Agenda for Sustainable Development, but without a centralized and integrated statistical function that would allow for more detailed analysis of Goal 16.

UNDP is, since 2019, part of a global alliance for SDG16+ to engage civil society. However, UNDP can further elevate the visibility of its work in the area of Sustainable Development Goal 16. There is no joint report by the custodian agencies of the SDG16 Goal 16 indicators, which would give more visibility to the governance work of UNDP, although the Programme is currently working with the United Nations Office on Drugs and Crime and the Office of the United Nations High Commissioner for Human Rights on a joint report for 2023, nor is this major activity mentioned expressly in the annual report of the Administrator. Measuring and reporting impact and results is essential to ensure adequate resource mobilization, but reporting to donors, as well as the capacity of donors to provide feedback, have remained limited. There are several ways UNDP could enhance its leadership in measuring and reporting on governance impact and results, including through enhancing its capacity to monitor the longer-term impact of governance programmes and by strengthening its statistical function to better analyse governance data and communicate and report better on governance on the global stage.

Recommendations

The Board has made 19 new recommendations on the basis of its audit. Details on how they can be implemented are provided throughout the present report, notably in paragraphs immediately following the formulation of each recommendation. The main recommendations are that UNDP:

Finance and budget

Overestimated revenue recognition

(a) **Carry out a comprehensive review of all contribution agreements with indirect financing;**

Impairment analysis of receivables

(b) (i) **Carry out an annual impairment review of unbilled receivables, (ii) write off GEF receivables and adjust GEF-related revenues accordingly for closed or cancelled projects and (iii) record GEF contributions and cash receipts by project;**

Medical Insurance Plan

(c) **Create a dedicated internal fund in the accounting system in order to monitor the funding needs of the Medical Insurance Plan and enhance oversight;**

Presentation of the statement of comparison of budget and actual amounts (statement V)

(d) **Reconcile the budget and the net cash flow positions on a comparable basis in the notes to the financial statements;**

Implementation at the United Nations Development Programme of the reform delinking the United Nations resident coordinator and United Nations Development Programme resident representative functions

Financial consequences of the reform

(e) **Conduct a comprehensive analysis on both the human resources and the financial consequences of the delinking reform at UNDP;**

Impact of the reform on the role of the United Nations Development Programme regarding shared services

(f) **Explore various possible scenarios taking into consideration the implications of the delinking reform at UNDP and the increasing role of other players, and develop a strategy on its medium-term role regarding back-office services shared with or provided to other entities of the United Nations system;**

Opportunity to build more strategically on the integrator function

(g) **Develop a strategy on its role as integrator in order to reposition itself vis-à-vis the resident coordinator and the United Nations development system as regards the development agenda, and articulate better with other priorities of the United Nations, including in the fields of peacekeeping operations and humanitarian affairs;**

Risk management

Risk universe

(h) **Regularly update its Executive Board on critical risks of strategic importance and ensure that these risks are managed under the enterprise risk management framework;**

(i) **Analyse its current communication practices in the light of the most critical risks facing the organization, tailor its strategy to address them proactively, in particular with regard to reputational and funding risks, and better position itself with key stakeholders;**

Multiple risk management tools at operational level

(j) **Review existing risk management tools owned by UNDP in order to (i) simplify the landscape in view of their added value, coherence and complementarity, (ii) emphasize the particular risks linked to implementing partners and (iii) where these tools so require, engage with the Office of Audit and Investigations to ensure its exclusive positioning as the third line of defence;**

Maturity and implementation of the enterprise risk management policy

(k) **Operationalize its risk management at a more granular level by making full use of the existing risk appetite statement;**

(l) **Clearly define the scope of the function of its Chief Risk Officer and the chair of the corporate risk committee, as well as their functional relationship with the regional bureaux;**

(m) **Update its enterprise risk management policy, with the objectives of (i) developing user-friendly methodologies for assessing risks, (ii) ensuring a prioritization of the most critical risks to tackle as a priority and (iii) strengthening the monitoring and reporting of risk treatment measures;**

(n) **Give a central place to risk management in its updated accountability framework, in order to better link risk management with internal control, strategic programming and budgeting, as well as results and performance, systems;**

Management of programmes and projects related to Sustainable Development Goal 16 (governance)

Taking advantage of the information systems and data platforms of the United Nations Development Programme to better track activities and results related to Sustainable Development Goal 16

(o) **Ensure fuller coherence and consistency in the tagging of governance projects as related to Sustainable Development Goal 16 and signature solution 2, and take advantage of the transition to Quantum to ensure the consistency of the various data platforms, as well as their security in terms of access;**

Mobilizing the global and field expertise of the United Nations Development Programme on governance

(p) **Develop an action plan to increase the operational impact of its expertise in governance, notably through skill mobilization and knowledge dissemination internally and externally;**

(q) **Strengthen the role of regional bureaux in monitoring programmes and projects on governance, as well as the link between regional bureaux and the Oslo Governance Centre;**

Better measuring results and reporting on the impact of programmes and projects related to governance

(r) **Strengthen its communication on the results of governance-related programmes and projects, improving the quality of information provided and ensuring better feedback to donors;**

(s) **Enhance its leadership in monitoring the longer-term impact of programmes and projects related to governance, notably with the objective of initiating global reporting on the implementation of Sustainable Development Goal 16.**

Follow-up on previous recommendations

Out of 50 outstanding recommendations, 36 have been fully implemented (representing 72 per cent of outstanding recommendations, compared with 68 per cent in 2021).

Key facts

170	Countries and territories where UNDP operates
\$774 million	Budget for 2022 approved by the Executive Board for regular resources. ² Other resources do not fall within the remit of the approved budget of the Executive Board although they are accounted for in the financial statements
\$5.32 billion	Total revenue
\$5.35 billion	Total expenses
\$14.82 billion	Total assets
\$3.07 billion	Total liabilities

A. Mandate, scope and methodology

1. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly of the United Nations. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.
2. The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2022 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.
3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNDP as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of UNDP. The audit included a general review of financial systems and internal controls and testing of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.
4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting

² Regular resources refer to commingled, untied and unearmarked resources that are free from the restrictions of funding partners.

system and the internal financial controls and, in general, the administration and management of UNDP operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report thereon accordingly. Those matters are addressed in the relevant sections of the present report, and the details of the results are included in the annex to the present chapter.

5. The Board has also performed the annual audit of the regular resources of the UNDP Global Environment Facility trust fund and issued an unqualified audit opinion for the year ended 31 December 2022.

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

7. The audit was carried out on site at headquarters in New York in November 2022 and May 2023 and at the Global Shared Service Centres in Copenhagen and Kuala Lumpur in November 2022, and the country offices in Argentina, Bangladesh, Burundi, Chad, Egypt, Kazakhstan, Thailand and Türkiye between September 2022 and February 2023.

8. Recommendations on findings at country offices were issued to country offices and followed up at headquarters. They concerned the areas of finance and budget, administration and security, human resources and operations management, as well as delinking, risk management and Sustainable Development Goal 16.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

9. Up to the financial year ended 31 December 2021, there were 50 outstanding recommendations: 33 from the report on the 2021 financial statements and 17 from prior exercises.

10. Out of these outstanding recommendations, 36 have been implemented (72 per cent of outstanding recommendations, compared with 68 per cent in 2021), 11 are still under implementation (22 per cent) and 3 are considered to have been overtaken by events (6 per cent).

11. The Board notes the absence of long-standing open recommendations, as the 11 recommendations considered as still under implementation were issued in the report on the 2021 financial statements.

12. Details on the status of implementation of the recommendations are provided in the annex to the present report.

2. Financial overview

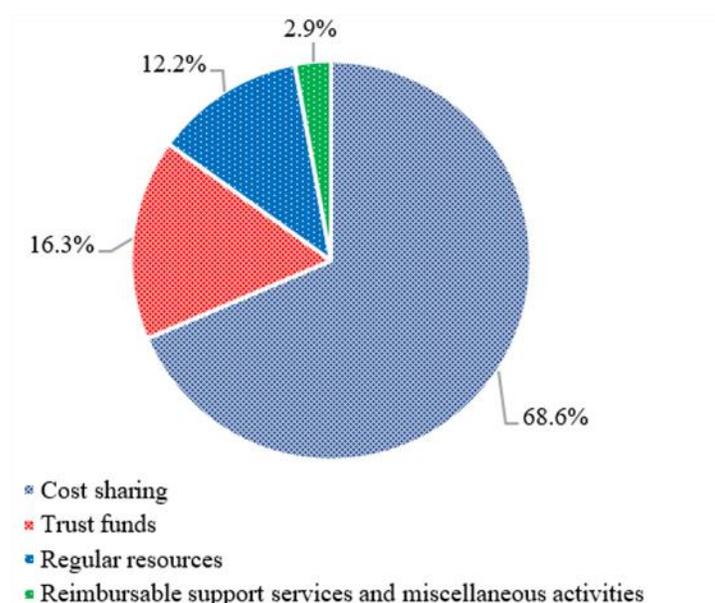
Revenue and expenses

13. UNDP revenue includes voluntary contributions, revenue from exchange transactions, investment revenue and other revenue. During 2022, total revenue amounted to \$5,322.1 million (2021: \$5,636.9 million) and total expenses amounted to \$5,347.6 million (2021: \$5,384.9 million), resulting in a deficit of \$25.4 million (2021 surplus: \$252.0 million). The decrease in revenue was due mainly to a decrease in voluntary contributions.

14. Total voluntary contributions to UNDP amounted to \$4,997.6 million (2021: \$5,304.0 million), equivalent to 93.9 per cent of total revenue (2021: 94.1 per cent).

Voluntary contributions decreased by \$306.4 million (5.8 per cent) compared with 2021, the result primarily of a reduction in regular resources (\$273.4 million) and cost-sharing (\$319.0 million), offset slightly by an increase in voluntary contributions to trust funds (\$259.2 million). UNDP funding is received on a cyclical basis and budgeted on a biennial basis. Revenue is recorded at the time an agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of \$608.6 million (2021: \$882.0 million), cost-sharing of \$3,428.3 million (2021: \$3,747.3 million), trust funds of \$815.0 million (2021: \$555.8 million) and reimbursable support services and miscellaneous activities of \$145.7 million (2021: \$119.0 million). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions to regular and other resources



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2022.

15. Total expenses in 2022 (\$5,347.6 million) were almost equal to those in 2021 (\$5,384.9 million). For the breakdown of expenses into segments, UNDP excludes an elimination of \$270.0 million to remove the effect of internal UNDP cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source. Before elimination, expenses amounted to \$5,617.5 million, with the breakdown by segment as follows: regular resources expenses of \$803.1 million (14.3 per cent), cost-sharing expenses of \$3,655.1 million (65.1 per cent), trust fund expenses of \$574.6 million (10.2 per cent) and expenses for reimbursable support services and miscellaneous activities of \$584.8 million (10.4 per cent).

16. The classification of the expenses by type indicates that the largest expense category continued to be contractual services, with expenses of \$1,995.3 million (2021: \$2,008.6 million), comprising 37 per cent of overall expenses in 2022. An amount of \$1,021.8 million (2021: \$1,216.7 million), or 19 per cent of total expenses, was spent on supplies and consumables used. The decrease of \$195.0 million between 2021 and 2022 was linked mainly to a reduction in information technology and communications equipment costs of \$145.1 million (including a reduction of \$128.6 million in programme expenses). Staff costs remained stable and amounted

\$871.0 million (2021: \$866.2 million), or 16 per cent of total expenses. An amount of \$951.8 million (18 per cent of total expenses) was spent on general operating expenses net of \$270.0 million for internal cost recovery. The 2022 increase in general expenses by \$107.4 million (2021: \$844.4 million) was linked to the growth in travel expenses (\$64.0 million) due to resumption of travel after the coronavirus disease (COVID-19) period, and learning and recruitment costs (\$56.4 million). An amount of \$377.6 million was spent on grants and other transfers (2021: \$349.7 million). Other expenses, depreciation and amortization (\$130.1 million) increased by \$30.8 million, due mainly to the Global Environment Facility (GEF) receivables impairment (see below).

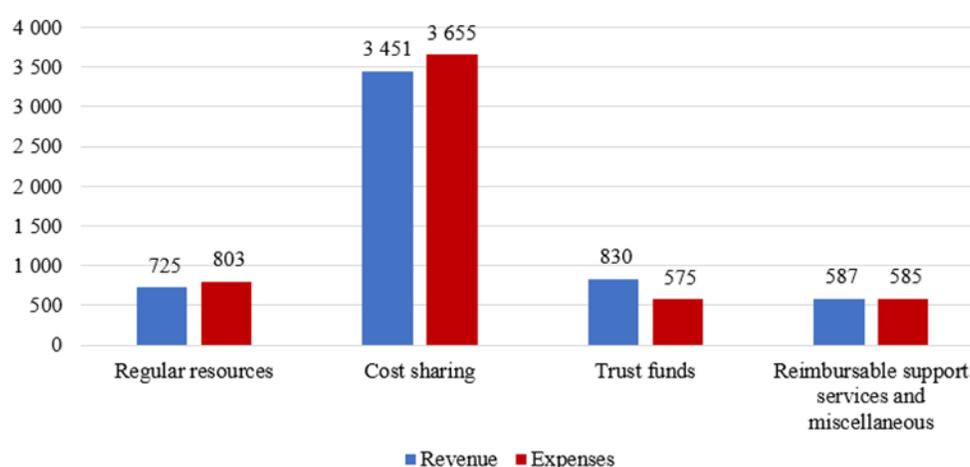
17. Total expenses by cost classification indicate that \$4,632.2 million (82.5 per cent) was spent on programme activities (2021: \$4,651.5 million); \$188.3 million (3.4 per cent) on development effectiveness (2021: \$209.0 million); \$495.5 million (8.8 per cent) on management, including independent oversight and assurance (2021: \$444.3 million); and \$301.6 million (5.4 per cent) on special-purpose activities and other costs (2021: \$341.2 million). The breakdown of expenses by cost classification excludes an elimination of \$270.0 million to remove the effect of internal UNDP cost recovery.

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

Figure II.II

Overview of comparative revenues and expenses (before elimination of internal cost recovery)

(Millions of United States dollars)



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2022.

Ratio analysis

19. The analysis by the Board of the main financial ratios of UNDP (see table II.1 below) shows an overall improvement in 2022 as compared with 2021. This improvement resulted from a larger percentage decrease in liabilities than in assets, especially with regard to short-term positions: current assets decreased by 8.9 per cent, while current liabilities decreased by 18.8 per cent.

20. As at 31 December 2022, UNDP total assets (\$14,822.2 million) had decreased by 2.2 per cent as a result of reductions in short-term investments (\$442.09 million)

and in the activities of the Multi-Partner Trust Fund Office,³ offset by an increase in non-exchange transaction receivables (\$223.6 million). Total liabilities had decreased by 14.0 per cent as a result of a decrease in funds held in trust on behalf of the Multi-Partner Trust Fund Office (\$154.8 million) and actuarial gains from non-current employee benefits (\$381.5 million) related to a change in financial assumptions (discount rate) for after-service health insurance and other benefits.

Table II.1
Ratio analysis

Ratio	31 December 2022	31 December 2021
Current ratio^a		
Current assets: current liabilities	4.60	4.10
Total assets: total liabilities^b	4.82	4.24
Cash ratio^c		
Cash plus current investments: current liabilities	2.70	2.57
Quick ratio^d		
Cash plus current investments plus current accounts receivable: current liabilities	4.45	3.94

Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2022.

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

^b A high ratio is a good indicator of solvency.

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

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

21. The current assets of UNDP as at 31 December 2022 were \$6,916.4 million, or 4.60 times the current liabilities of \$1,502.9 million, which indicates the Programme's ability to meet its short-term obligations. Similarly, total assets of \$14,822.2 million were almost five times the total liabilities of \$3,072.7 million, which indicates a healthy financial position. Assets included contributions committed by donors for future periods.

22. Reserves consist of the operational reserve, the endowment fund and the reserve for special initiatives. UNDP calculated its operational reserve in compliance with the methodology approved by its Executive Board. The operational reserve consists of the operational reserve for regular resources and the operational reserve for other resource activities. As at 31 December 2022, UNDP held a reserve of \$309.3 million, compared with a reserve of \$301.5 million reported on 31 December 2021. The increase of \$7.8 million represents a formula-based transfer from the accumulated surplus of previous years to the operational reserve (\$8.0 million), offset by extinction of the reserve for special initiatives, which was held and fully utilized to support office relocation costs (\$0.16 million).

³ UNDP current assets related to the Multi-Partner Trust Fund Office decreased by \$315.99 million (cash and investments), and long-term investments increased by \$157.79 million.

3. Finance and budget

Overestimated revenue recognition

23. UNDP erroneously recorded revenue up front for government cost-sharing contracts financed by international financial institutions, instead of on a cash basis per its current revenue recognition policy, for certain donors that presented a credit risk, which would have resulted in an overestimation of its 2022 revenue. Therefore, an adjustment of \$518 million was made in the final version of the financial statements.

24. According to IPSAS 23: Revenue from non-exchange transactions (taxes and transfers), when signing a contribution agreement as a recipient, UNDP either:

(a) Records a receivable for the full amount upon signature of the contribution agreement, including multi-year agreements for which the schedule of payments is distributed over several reporting periods; or

(b) Recognizes the revenue progressively upon the actual cash transfers, in cases where historical experience raises doubts regarding the funds' availability.⁴ This is the case for some government cost-sharing contributions for which the funding ultimately transferred to UNDP has proven volatile in the past.

25. Before post-audit adjustments, for fiscal year 2022 UNDP recorded \$5,512 million in voluntary contributions (2021: \$5,304.0 million), including \$3,945 million in cost-sharing contributions (2021: \$3,747 million).

26. In 2022, UNDP recognized an accrual of \$518 million for government cost-sharing agreements with indirect financing from international financial institutions, while no accrual was recorded in the 2021 financial statements. The Board noted that, in 2021, those agreements with indirect financing from international financial institutions were recorded exclusively on a cash basis.

27. The Board identified several shortcomings in the analysis of these agreements by UNDP:

(a) From 2019 to 2021, the revenue resulting from an agreement signed in 2019 with the Government of Chad⁵ was considered, in compliance with paragraph 35 of IPSAS 23, as uncertain, and was recognized only upon the actual cash transfers. A small portion of the agreement (about \$10 million, or 2 per cent of the total amount of \$424 million) had been recorded initially, and a payment of \$3 million had been received and recognized as revenue in 2022 on a cash basis. Nevertheless, in its initial 2022 financial statements, UNDP recognized upfront revenue of \$410 million for the same agreement. UNDP explained that the reason for the sudden change in the recording of revenue in 2022 was that the country office had informed the Global Shared Service Centre that indirect financing provided by the Arab Bank for Economic Development in Africa had covered the full amount of the agreement, which had been considered as fully reflecting the overall implementation of the commitment of Chad. During the audit, however, the Board found out that in fact only \$18.5 million had been covered by the Bank;

(b) The approach for all contribution agreements signed before 2022 appears to be inconsistent. In the initial 2022 financial statements, UNDP calculated the accrued revenue for contribution agreements with financing from international financial institutions as the difference between the total commitment and the part financed by such institutions. Most of those financing agreements were signed before

⁴ According to paragraph 35 of IPSAS 23: "An inflow of resources is probable when the inflow is more likely than not to occur. The entity bases this determination on its past experience [...]"

⁵ The *Programme d'appui au développement local et à la finance inclusive au Tchad* is a three-phase project covering the period from January 2018 to December 2030.

2022, and revenue was recognized upon the transfer of cash. (Over 90 per cent of the sample tested by the Board concerned agreements signed before 2022.) This new approach, not based on external reasons, would have been a voluntary “change in accounting policy” and, if confirmed to be in compliance with IPSAS 3 (Accounting policies, changes in accounting estimates and errors), should have been applied retrospectively⁶ through an adjustment of the 2022 opening balance.⁷ In addition, for the tested contracts, the Board noted a low payment rate from international financial institutions, and UNDP indicated that those institutions had provided no schedule of payments, which made it uncertain as to when the funds would be received;

(c) The review of contribution agreements appears to be insufficient. UNDP has not performed a comprehensive analysis of all agreements financed by international financial institutions. The Board identified 26 projects financed by such institutions which are recognized as revenue on a cash basis, representing about \$100 million in 2022, and which have not yet been analysed by UNDP in order to apply IPSAS 23 in a consistent way. Until all of these agreements are reviewed, the only acceptable solution is to keep unchanged the existing policy (i.e. cash-basis revenue recognition based on paragraph 35 of IPSAS 23). UNDP adjusted its 2022 financial statements accordingly, which reduces the revenue recognized in 2022 by \$518 million compared with the initial statement submitted to the Board.

28. The Board recommends that UNDP carry out a comprehensive review of all contribution agreements with indirect financing.

29. This review should be done before the Board’s interim audit of the 2023 financial statements.

30. UNDP accepted the recommendation.

Impairment analysis of receivables

31. UNDP produces an ageing receivables analysis in compliance with IPSAS 26 (“Impairment of cash-generating assets”), but it is not carried out on a comprehensive basis. Based on the Board’s findings, an impairment adjustment of \$31 million, which was not material to the UNDP financial statements, was recorded against Global Environment Facility receivables.

32. As at 31 December 2022, UNDP had recorded \$4,966 million in contributions receivable (2021: \$4,742 million). The Board noted that UNDP carries out IPSAS 26 impairments on the billed receivables (\$253 million), which represents only about 5 per cent of all receivables recorded at the end of 2022. The Board noted that the largest receivable, amounting to \$1,186 million⁸ (about 24 per cent of all UNDP receivables), is related to GEF, the largest donor in 2022 voluntary contributions, which amount to \$539 million. To meet the objectives of international environmental conventions and agreements, GEF funding is provided by participating donor countries to developing countries and countries with economies in transition.

33. Donors’ contributions are provided via several trust funds administered by the World Bank, acting as the GEF trustee. Funds approved by the GEF Council are transferred to different partners through 18 GEF agencies to implement projects and

⁶ According to paragraph 24 (b) of IPSAS 3: “When an entity changes [...] an accounting policy voluntarily, it shall apply the change retrospectively.”

⁷ According to paragraph 27 of IPSAS 3: “[...] when a change in accounting policy is applied retrospectively in accordance with paragraph 24 (a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.”

⁸ Before impairment.

programmes in the recipient countries. The trustee helps mobilize GEF resources through a replenishment process every four years and transfers funds to GEF agencies. UNDP is acting as an implementing agency of GEF in accordance with an agreement on financial procedures signed in November 2010.⁹ GEF accepts funding commitments through donor agreements that are accounted for as contributions by UNDP and reflected in a dedicated trust fund within UNDP. These contributions are recognized as revenue upon the signature of agreements in accordance with IPSAS 23. The receivable represents the balance between the amount committed through the donor agreement and the cash received. The accounting process is handled by the finance team located at the Global Shared Service Centre in Kuala Lumpur.

34. The vertical funds programme support, oversight and compliance hub of the Bureau for Policy and Programme Support, located in New York, requests cash from the trustee twice a year, on the basis of forecast expenses. Due to the significant number of projects (more than 1,000) and as per the financial procedures agreed with the GEF trustee, cash requests are made and the related cash receipts are recorded at the aggregate level (and not at the project level), so that there is no follow-up of receivables at the project level, but rather at the aggregate level. Consistent with a signed agreement with the GEF trustee, the donor requires cash requests at the fund level and not at the project level; however, it is noted that the GEF trustee also requires project-level details for every closed project and a detailed annual reconciliation report. For closed and cancelled projects, the vertical funds programme support, oversight and compliance hub assesses and communicates the amount of cancelled commitments to the trustee. The Board notes that this reporting is not communicated to the Global Shared Service Centre team in Kuala Lumpur. That is why closed and cancelled projects are not written off, and receivables were overestimated.

35. The vertical funds programme support, oversight and compliance hub transmitted to the Board the 2022 annual report to the trustee on reconciliation,¹⁰ in which it was highlighted that commitments were cancelled or reduced in 2022 by \$23 million in relation to projects closed or cancelled in 2022. The Board identified in a sample of receivables that this information was not considered by the finance team, and that no receivables were written off. On that basis, the Board requested from the finance team an estimate of the unspent balance¹¹ for projects closed between 2020¹² and 2022. The finance team's estimate amounts to \$31 million, while the report to the trustee on reconciliation for the same period amounts to \$38 million.

36. The Board reconciled both bases and identified several instances in which there was a time lag between the date of financial closure of the projects and the report to the trustee. Until a comprehensive reconciliation by project between the receivables, received cash and unspent balances for closed or cancelled projects is carried out in order to record the write-off of receivables, UNDP has adjusted the 2022 financial statements and recorded an impairment of GEF receivables of \$31 million.

37. The Board recommends that UNDP (a) carry out an annual impairment review of unbilled receivables; (b) write off GEF receivables and adjust GEF-related revenue accordingly for closed or cancelled projects; and (c) record GEF contributions and cash receipts by project.

⁹ Financial procedures agreement signed between the UNDP and the World Bank on 19 November 2010. Section 12.4 of the agreement requires that "UNDP's external auditors shall audit the financial statements of the UNDP/GEF Trust Fund".

¹⁰ Performed in accordance with section 12.3 of the financial procedures agreement between UNDP and the International Bank for Reconstruction and Development.

¹¹ Difference between the receivable recognized upon the signature of agreements and the recorded expenses.

¹² In 2019, UNDP refined its accounting treatment of non-exchange transactions pursuant to IPSAS 23 and replenished its receivables at year end.

38. UNDP accepted the recommendation, noting that a revenue reduction would be recognized when mutual understanding was reached between UNDP and a donor through a project amendment. UNDP committed to assess how best to follow up on GEF contributions, receivables and cash receipts by project identification number.

Medical Insurance Plan

39. The Board reviewed employee benefits liabilities as at 31 December 2022 and noted that funding needs of the UNDP Medical Insurance Plan amounting to \$133 million had not been tracked through a dedicated fund in the system, which could hamper the capacity of UNDP to address any foreseeable funding difficulties.

40. The Medical Insurance Plan is a health insurance scheme operated by the United Nations and related organizations, such as UNDP, the United Nations Children's Fund (UNICEF) and the Office of the United Nations High Commissioner for Refugees (UNHCR), for the benefit of locally recruited active staff members (in the General Service and National Professional Officer categories) and former staff members (and their eligible family members) serving or residing at designated duty stations away from headquarters. The Plan was established in 1987 by the General Assembly, in accordance with its resolution 41/209 III and regulation 6.2 of the Staff Regulations and Rules of the United Nations, and replaced the Medical Expense Assistance Plan.

41. UNDP holds custody of the Plan and is responsible for the corresponding policies. The Plan is not held by a separate legal entity and UNDP bears the risk for both the assets and the liabilities. Administration of the Plan was delegated to Cigna, which acts as a third-party administrator in accordance with applicable rules and regulations. The UNDP Medical Insurance Plan is targeted at the following employees and entities: UNDP country offices; UNDP locally recruited staff members governed by the Staff Regulations and Rules of the United Nations and stationed outside New York headquarters; and United Nations system Medical Insurance Plan subscribers administered by UNDP.

42. UNDP has built a reserve for the Medical Insurance Plan since its creation, amounting to \$65.6 million in 2012, \$121.6 million in 2020 and \$133 million as at 31 December 2022. This corresponds to the historical net accumulated balance from contributions received, less all claims and administrative cost payments for all employees and entities under the Plan. In order to address treasury matters and assess the risk related to the custodian responsibilities for the Plan, UNDP mandated a consulting agency to analyse the funding of the Plan through a long-term projection study in 2021. Based on participant data supplied by UNDP as at 30 December 2020, the consulting agency provided an overview of the assumptions and methodologies used to perform the projections under the scope of the study, as well as the results of their projections of the Plan's cash flows under different scenarios. The conclusion of this study was issued in February 2022: it forecasts a systemic deficit for the Plan, causing consumption of the accumulated reserves in future years.

43. As at 31 December 2022, the Board noted that the liability of the Medical Insurance Plan shown under employee benefits liabilities corresponded to the net accumulated balance from contributions received, less all claims and administrative cost payments for all employees and entities under the Plan, which amounted to \$133 million. The Board did not identify any investment strategy or revenues linked to this reserve.

44. UNDP is the custodian of the Medical Insurance Plan for its own eligible employees and all United Nations system subscribers for whom payroll is administered by UNDP through a service-level agreement. The net accumulated balance of the Plan is currently directly reflected under employee benefits liabilities and not through a dedicated fund in the system, and the reserves are part of the

accumulated surplus. The Board is of the view that monitoring the funding needs of the plan through a dedicated fund in the system is a best practice. Setting up such a fund and the corresponding oversight would enable UNDP to better address the foreseeable funding difficulties evidenced by the above-mentioned study.

45. The Board recommends that UNDP create a dedicated internal fund in the accounting system in order to monitor the funding needs of the Medical Insurance Plan and enhance oversight.

46. UNDP accepted the recommendation.

*Presentation of the statement of comparison of budget and actual amounts
(statement V)*

47. Budget information as currently provided by UNDP in statement V fully complies with IPSAS 24. However, in note 6 to the financial statements, the reconciliation between actual amounts and net cash flows required by paragraph 47 of IPSAS 24 should be set out on a more comparable basis.

48. Paragraph 1 of IPSAS 24 states that the Standard “requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements”. Paragraph 8 of the Standard states that “an approved budget is not a forward estimate, or a projection based on assumptions about future events and possible management actions that are not necessarily expected to take place”. Paragraph 47 of the Standard requires that a reconciliation be disclosed “on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements”, between “actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences” and “net cash flows from operating activities, investing activities, and financing activities”, i.e. as shown in statement IV.

49. Regarding the implementation of IPSAS 24, the main data presented in the UNDP draft 2022 financial statements are the following: statement V shows, on a cash basis: (a) a final approved budget amounting to \$774.35 million; (b) actual expenditure financed by the approved budget amounting to \$746.97 million; and (c) budget implementation resulting in a surplus of \$27.38 million. Statement IV shows a 2022 decrease in cash and cash equivalents amounting to \$94.34 million.

50. In regards of the compliance of statement V with IPSAS 24, the above figures show that revenue and expenditure covered by the UNDP “approved budget” (i.e. the institutional budget and the programmatic budget) represent approximatively only 14 per cent of the revenue and expenditure recognized on the face of the IPSAS financial statements.

51. This is explained in note 6.10 by the fact that “amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities [...] are incorporated in statement IV but not in statement V”. (The same can be said concerning the difference between statements II and V.) UNDP considers that:

For IPSAS reporting purposes, the approved budgets of UNDP are the institutional budget financed from regular resources¹³ and the portion of the resource plan relating to development activities to be financed from regular

¹³ The UNDP institutional budget, according to article 13 of the Financial Regulations and Rules of UNDP, covers “development effectiveness, United Nations development coordination, management and special purpose activities”.

resources.¹⁴ As other resources of UNDP are a forward estimate and projection based on assumptions about future events and are not formally approved by the Executive Board, the other resources are not presented in statement V (see note 6.4).

Such an exclusion of other resources is compliant with paragraph 8 of IPSAS 24, which provides a definition of an “approved budget” that excludes estimates and projections. Thus, although representing only a small proportion of the resources and expenses recognized in the financial statements, statement V is compliant with IPSAS 24.

52. In terms of reconciliation between actual amounts and net cash flows in note 6.8, paragraph 47 of IPSAS 24 requires that a reconciliation be provided between “actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences” on the one hand, and “net cash flows from operating activities, investing activities, and financing activities”, as shown in statement IV, on the other hand.

53. Although this point is not formally described in paragraph 47, but can be inferred through the IPSAS 24 reference to “net cash flows”, the requirement is to reconcile the cash basis budget surplus/deficit (in the present case, a surplus of \$27,380,000) with the increase/decrease of cash and cash equivalents, as shown in statement IV (a net decrease of \$94,343,000). The logic is that, to apply paragraph 47 of IPSAS 24 in a consistent way, the “net cash flows” (namely, the difference between inflows and outflows of cash) must be reconciled with the budget surplus/deficit at year’s end (which is the difference between budgeted resources and actual expenses), not with the budgeted cash expenditure alone.

54. At present, note 6.8 provides a reconciliation between the actual cash expenditure (\$746.97 million) and the decrease in cash (\$94.34 million). Such a reconciliation is inconsistent and should be replaced by the usual reconciliation in accordance with paragraph 47 of IPSAS 24, as mentioned above, between the budget surplus/deficit and the cash increase/decrease (“net cash flow”). Although not crucial, since the “approved budget” covers only a very small part of the resources and expenditure presented in the financial statements, this formal point should be adjusted.

55. Considering that (a) UNDP shares with other agencies, including the United Nations Capital Development Fund, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and the United Nations Population Fund (UNFPA), the same approach to reconciliation described in paragraph 47 of IPSAS 24 in their note relating to statement V, and that (b) there is no impact on the other financial statements, the Board does not require an immediate adjustment, in order to leave sufficient time for these organizations to coordinate in order to comply with paragraph 47 of IPSAS 24.

56. The Board recommends that UNDP reconcile the budget and the net cash flow positions on a comparable basis in the notes to the financial statements.

57. As required by paragraph 47 of IPSAS 24, this reconciliation should be made in note 6 to the financial statements between the approved budget cash-based surplus/deficit (and not only the budget cash-based expenditure) shown in statement V and the net cash flow increase/decrease shown in statement IV.

58. UNDP accepted the recommendation and noted that existing disclosure for paragraph 47 of IPSAS 24 is the same as those made by several other development

¹⁴ Regulation 26.01 of the Financial Regulations and Rules of UNDP states that “the Administrator shall annually submit financial statements in accordance with the International Public Sector Accounting Standards, including a regular resources account and another resources account”.

agencies, and committed to liaise with them with the objective of aligning the disclosure made in note 6.8 and reconciling the surplus/deficit, rather than only the expenditure on statement V, with the net cash flow on statement IV.

4. Implementation at the United Nations Development Programme of the reform delinking the United Nations resident coordinator and United Nations Development Programme resident representative functions

59. The delinking of the United Nations resident coordinator and UNDP resident representative functions is part of a wider reform agenda initiated by the Secretary-General. The General Assembly decided, by its resolution [72/279](#) of 31 May 2018, to deeply modify the positioning of the operational activities for development of the United Nations system. The main objective was to increase the overall performance and accountability of the United Nations development system. In paragraph 14 of that resolution, the Assembly emphasized the need to ensure full achievement of the efficiency gains as outlined in the report of the Secretary-General entitled “Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet” ([A/72/684-E/2018/7](#)), in which he announced that “a new generation of United Nations country teams and a reinvigorated resident coordinator system should be operational by the end of 2019”. In paragraph 32 of that same resolution, the Assembly requested the Secretary-General “to ensure an effective and efficient transition to a repositioned United Nations development system, including by giving due consideration to the role of a responsive United Nations development programme as the support platform of the United Nations development system providing an integrator function in support of countries in their efforts to implement the 2030 Agenda”.

60. As the functions of resident coordinator and resident representative were fully integrated into the UNDP organization, delinking them was a major reform for UNDP, which had not initiated it. The strategic, financial, organizational, administrative and material consequences of the reform have been significant for UNDP.

61. The present section provides an examination of the overall implementation of the reform by UNDP (sect. 4.1), the human resources management component of the reform (sect. 4.2), its financial consequences (sect. 4.3), its impact on the role of UNDP regarding shared services (sect. 4.4) and the opportunity to build more strategically on the integrator function (sect. 4.5).

4.1. Overall implementation of the reform by the United Nations Development Programme

62. UNDP anticipated and implemented a complex transition on short notice, as requested by the General Assembly and by the Executive Board of UNDP. The implementation of the reform was a success in that it allowed the new resident coordinator offices to effectively start working and functioning from the beginning of 2019 and did not cause excessive disruption to the functioning of UNDP and the implementation of its programmes.

63. The time frame during which the reform was carried out was particularly short. Indeed, General Assembly resolution [72/279](#) was adopted on 31 May 2018 and the delinking of the functions of United Nations resident coordinator and UNDP resident representative was effective on 1 January 2019, only seven months later.

64. The possibility of such a reform had already been considered previously. The place and role of the resident coordinator had been discussed several times by the General Assembly prior to 2018. In its resolution [71/243](#) of 21 December 2016, the Assembly called for a quadrennial review of the operational activities for development of the United Nations system and requested the Secretary-General:

To ensure the full implementation of the management and accountability system of the United Nations development and resident coordinator system, including, in order to secure the impartiality and fairness of the resident coordinators, the full implementation of an effective functional firewall between the functions of the resident coordinator and the United Nations Development Programme resident representative, ensuring that the resident coordinator delegates responsibility for the operational activities and fundraising of an individual entity of the country team, and adjusting resident coordinator performance assessments accordingly.¹⁵

65. Nevertheless, UNDP was given little notice for the implementation of the delinking reform. In September 2018, the Secretariat proposed an implementation plan, with a set of milestones, including the appointment of new resident coordinators as soon as January 2019.

66. The reform was carried out by ad hoc structures at the senior level. Internally, UNDP established an inter-bureau anchor group on United Nations development system reform, dedicated to the implementation of the reform, which was operational even before the Secretary-General had published its implementation plan; the first meeting of the UNDP anchor group documented by the external audit team was on 24 July 2018. Incidentally, it can be noted that this working group had its counterpart at the level of the Secretariat, with an internal working group on the transition to a reinvigorated resident coordinator system, in which UNDP was also involved. According to its terms of reference, the UNDP anchor group had the responsibility of:

- (a) Providing strategic guidance, oversight and regular advice to senior management (including the Administrator of UNDP);
- (b) Serving as a sounding board for engagement with the United Nations Sustainable Development Group;
- (c) Formulating corporate positions;
- (d) Ensuring that UNDP plays a proactive role in the work of the United Nations Sustainable Development Group's Strategic Results Group, including the implementation of the reform mandates;
- (e) Liaising with regional bureaux to ensure that the work of the Strategic Results Group is focused on strengthening United Nations integration at the country level and ensuring that links are made with discussions in the United Nations development system.

67. At the operational level, the reform has led to the implementation of a set of targeted actions, according to a precisely defined timetable, which have been closely monitored. The Deputy Secretary-General of the United Nations and the Administrator of UNDP set up a matrix to help monitor the implementation of 15 areas of focus (such as the accreditation of resident coordinators and operations support) in order to implement the reform under the best conditions. Specific consideration was given to country offices, by defining a set of actions to be implemented (country office implementation checklist), updated every year for these different areas and validated by the resident representatives on the basis of guidelines from headquarters and with close monitoring by the regional offices. Other areas of focus included:

- (a) Human resources management measures for 1,000 personnel, in addition to the 129 resident coordinators and resident representatives;
- (b) Unintended consequences for the organization of country offices;
- (c) Immediate additional costs of around \$ 20 million;

¹⁵ General Assembly resolution 71/243, para. 57 (c).

(d) Settlement of legal issues, such as the extension of country agreements to resident coordinators;

(e) Logistics, including the transfer of assets and the occupation of offices;

(f) Long-term support for the ramp-up of resident coordinator offices through the provision of services.

68. The Board has audited a sample of eight country offices in which it concluded that the administrative transition had been successfully implemented overall. Notably, the Board observed that the reform had broadly been carried out as planned, especially with regard to the establishment of country agreements for resident coordinator offices, which to a large extent did not depend on UNDP. The country office implementation checklist had been consistently shared with country offices and systematically applied. The administrative transition had then generally been expected to end by 31 December 2022.

4.2. Human resources management component of the reform

69. The management of human resources was a key issue. UNDP succeeded in recruiting, appointing and training the new resident representatives in time. The reform also had profound implications for the management of UNDP field country offices.

4.2.1 Implementation of the reform in the field of human resources

Recruitment

70. In 2018 and 2019, UNDP had to ensure the recruitment of an unprecedented number of senior-level personnel. Only 7 of the 121 resident coordinators and resident representatives in post in the final two months of 2018 decided to remain with UNDP as new resident representatives. As a result, UNDP had to recruit more than 100 new resident representatives. In the majority of the cases, the recruitment was made through internal placements, including promotions. Sixteen external recruitments were also undertaken in 2019. The recruitment efforts of UNDP were not limited to new resident representatives. UNDP also had to recruit new deputy resident representatives, as many of the former country directors were posted as resident representatives. It also agreed, as requested by the Secretariat, to assist the new resident coordinator offices in recruiting their staff members and managing their contracts. As of the beginning of 2020, UNDP was managing contracts, payroll, benefits and entitlements for 777 resident coordinator office staff.

Updating of job descriptions and performance appraisal forms

71. UNDP had to update the resident representative job description in order to take into consideration the end of the coordination function. The new job description recognizes the leadership of the resident coordinator in the country, as per the mandates contained in General Assembly resolution [72/279](#), and was aligned with the management and accountability framework in July 2019.

72. A new performance appraisal form was also issued for the resident representatives, including, since 2020, a mandatory performance goal on their contribution to United Nations country teams. The resident coordinators are requested to provide feedback on this contribution.

Abolition of posts in country offices and reorganizations

73. As the new heads of UNDP country offices are no longer permanently in charge of a coordination function, they can focus on the leadership of those offices. Prior to the reform, resident representatives were supported by 177 deputy resident

representatives, country directors and deputy country directors. With the reform, the organization has been simplified, with the designation of one or two deputy resident representatives in most of the country offices and the abolition of all of the country director posts. In total, the number of those positions dropped from 177 to 121 as at 30 June 2020, which is a key contributor to the cost reduction for UNDP linked to the reform (see sect. 4.3).

74. Some 476 posts in 130 country offices were transferred from UNDP to the Secretariat. Indeed, a series of positions related to resident coordinator support and coordination functions, such as coordination advisers, coordination specialists and heads of resident coordinator offices, were transferred to the repositioned resident coordinator system and thereby to the Secretariat. These roles and positions were transitioned out of UNDP, and recruitments were undertaken by the new resident coordinator system. Beyond the resident representative positions mentioned above, the overall number of posts actually abolished according to the staff tables for UNDP country offices remains to be clarified.

75. The delinking reform had other consequences for the organization of work in the country offices. Some staff members decided to follow the new resident coordinators and had to be replaced. Others remained in UNDP offices but lost the part of their activities linked to coordination, and their duties and workloads had to be adapted or redefined. UNDP has not measured globally the magnitude and impact of these reorganizations but states that, except for the 56 abolished country director posts, the delinking reform did not lead to other significant post changes. For instance, in a number of country offices, the secretary and the driver of the former resident coordinator or resident representative previously worked part-time on coordination activities and now, since working with the resident representative, exclusively work for the country office. The time saved is probably used for other purposes, but this is not measured by UNDP.

Interim period for replacement of resident representatives

76. One of the key issues for UNDP was the timetable for the replacement of the former resident coordinators and resident representatives by the new resident representatives. All former resident coordinators and resident representatives left before 1 January 2019. Only seven were immediately appointed as resident representatives in the same country. For all the other country offices, appointing a new resident representative as quickly as possible was key to avoid a long interim period.

77. In 10 countries, it was not possible to appoint a new resident representative in 2019, due mainly to the time required for accreditation of these new heads of office by the local Government. For the other country offices, the average start date of the new resident representative was the end of May 2019. Therefore, the average interim period was around 150 days. The main reason for this was not the delays in the recruitment process but rather the time needed to move existing staff and newly recruited staff to new positions and new countries, as well as the time needed to obtain the necessary official accreditation by the host countries.

Training and support provided to the new resident representatives

78. To onboard at the same time more than 100 new resident representatives was a particular challenge to the organization. In spite of the leadership requirement for their selection, new resident representatives were by definition taking on new functions that they had not exercised previously. UNDP handled this challenge well, notably through in-person meetings and training sessions for all new resident representatives (one week in Bonn, Germany, in February 2019, and one week in New York in September 2022), numerous virtual meetings and training sessions, special

events, written guidance or advice and, in some cases, individual coaching. Similar attention was given to the new deputy resident representatives or country directors.

Impact on programme implementation

79. This unprecedented human resources reform did not have a negative impact on the implementation of UNDP programmes and projects. In spite of the interim periods and the learning curve of the new resident representatives, the 2019 programmes were implemented normally and the field offices were able to effectively manage the coronavirus disease (COVID-19) crisis in 2020. This success is due to several factors: clarification of the responsibilities inside the country offices, the head of office being responsible for the leadership of the UNDP country office full time; strong motivation of the newly appointed resident representatives; the extent and quality of the training provided to them, including personal coaching; and the new management atmosphere, which seemed to have a positive effect on staff members.

4.2.2 Consequences of the reform for United Nations Development Programme human resources

Consequences for country office staff and management

80. The delinking reform involved significant changes in the profiles of heads of UNDP country offices and in the management of these offices: resident representatives are on average younger, more likely to come from countries of the global South and slightly more likely to be women.

81. We reviewed the profiles of the resident coordinators and resident representatives as at the end of 2018 in all UNDP country offices, and the profiles of the resident representatives appointed after the delinking reform. The main differences are set out in table II.2.

Table II.2

Profile of former resident coordinators and resident representatives (2018) and new resident representatives (2019)

	<i>Resident coordinators and resident representatives as at the end of 2018</i>	<i>Resident representatives as of 2019</i>
Average year of birth	1963	1967
Post level	10 Assistant Secretary-General, 34 D-2 and 77 D-1	31 D-2, 79 D-1 and 7 P-5
Gender	50.4 per cent female	51.3 per cent female
Geographical origin	42.1 from the global South	49.6 per cent from the global South
Professional origin	59 per cent from UNDP	86 per cent from UNDP

Source: Data provided by UNDP to the Board.

Age

82. The reform has resulted in a rejuvenation of senior management in country offices, which is a positive outcome of the reform but could also be partly explained by the level of seniority needed for a multi-agency coordination function. The average year of birth of the resident coordinators and resident representatives was 1963 as at the end of 2018, while the average year of birth for the resident representatives in 2019 was 1967. Three factors mostly explained the difference in ages: (a) most of the

2019 resident representatives had been recently appointed, while the resident coordinators in 2018 had spent an average of two years in their positions; (b) most of the new resident representatives had been appointed for the first time to a post at this level, while many of the former resident coordinators and resident representatives had previously held another post at a similar level; and (c) the resident representative function can, in ranking, fall slightly below the resident coordinator position, and slightly younger staff may be more easily appointed to this position. It could also be noted that, in 2018, only 10 of the resident coordinators and resident representatives had been born after 1970 (the youngest in 1974), while that was the case for 32 of the resident representatives in 2019 (the youngest born in 1980). While the rejuvenation of leadership can be seen as a positive outcome of the reform, for an organization such as UNDP, this was a significant shift in a very short period of time.

Position levels

83. Globally, the fact that UNDP resident representatives are no longer resident coordinators did not bring substantial changes for UNDP in post levels, nor did it create substantial economies in staff expenses. Most of the resident coordinators and resident representatives were at the D-1 and D-2 levels (77 and 34, respectively, as at the end of 2018). The situation was the same after the delinking reform (79 of the resident representatives were at the D-1 level and 31 were at the D-2 level in 2019). The main changes were that 10 of the previous resident coordinators and resident representatives had been Assistant Secretaries-General, which was no longer the case in 2019 with the new resident representatives, and that 7 resident representatives were at the P-5 level in 2019.

Gender parity

84. The share of women, already slightly higher before the reform, has further increased. In 2018, there was gender parity among the resident coordinators and resident representatives, 50.4 per cent of whom were female and 49.6 per cent of whom were male. The balance did not change much after the reform: 51.3 per cent of the resident representatives appointed in 2019 were female and 48.7 per cent were male.

Geographical origin

85. UNDP took the opportunity of the delinking reform to significantly rebalance the geographical origin of its heads of country offices. In 2018, only 42 per cent of the resident coordinators and resident representatives came from countries in the global South, whereas, in 2019, they accounted for half of the resident representatives.

Professional origin

86. Fewer United Nations resident coordinators are coming from UNDP. While 59 per cent of the resident coordinators and resident representatives as at the end of 2018 were UNDP staff members, that percentage dropped to 48 per cent in 2019 and 42 per cent in 2021. In contrast, the proportion of resident representatives that are UNDP staff has dramatically increased with the reform: in 2019, 86 per cent of the resident representatives were UNDP staff members, compared with 59 per cent of the resident coordinators and resident representatives the previous year.

Changes in the management of the country offices

87. Globally, in a few months, UNDP had to replace 94 per cent of its heads of office (former resident coordinators and resident representatives). Resident representatives dedicate themselves full time to the management of the UNDP field office, while the

resident coordinators and resident representatives had previously needed to split their time between that role and coordination functions.

88. The challenge that has been met in the area of human resources management is commendable. As noted above, this shift was accompanied by a comprehensive training effort. The human resources policy has also been updated over the past three years, especially with the implementation of a talent review policy, the development of individual coaching, the detection of high potential, the greater attention given to addressing management problems in the field offices and the implementation of the annual rotation exercise for the resident representative posts. The impact of the change in the resident representative profiles and of these new policies was perceptible in the staff survey conducted in 2020, which showed an increase in scores for personal commitment, pride in being part of UNDP and leadership. The subsequent survey, undertaken in March and April 2023, is expected to provide more relevant data on these issues.

89. More generally, the delinking reform has dramatically changed the management of UNDP field country offices and has represented a human resources experience without many comparable examples in the international public sector. In connection with the UNDP People for 2030 and Leaders for 2030 strategies, it would be useful to analyse these changes, and to learn from them.

4.3. Financial consequences of the reform

90. The Board took due note of the difficulty in establishing a clear and comprehensive assessment of the budgetary consequences of the delinking for UNDP. This difficulty is due in part to the incremental nature of the delinking process and to the long-standing integration of the coordination function in the core structure of UNDP. The potential annual cost reduction for UNDP may be estimated in the range of \$14 million to \$34 million.

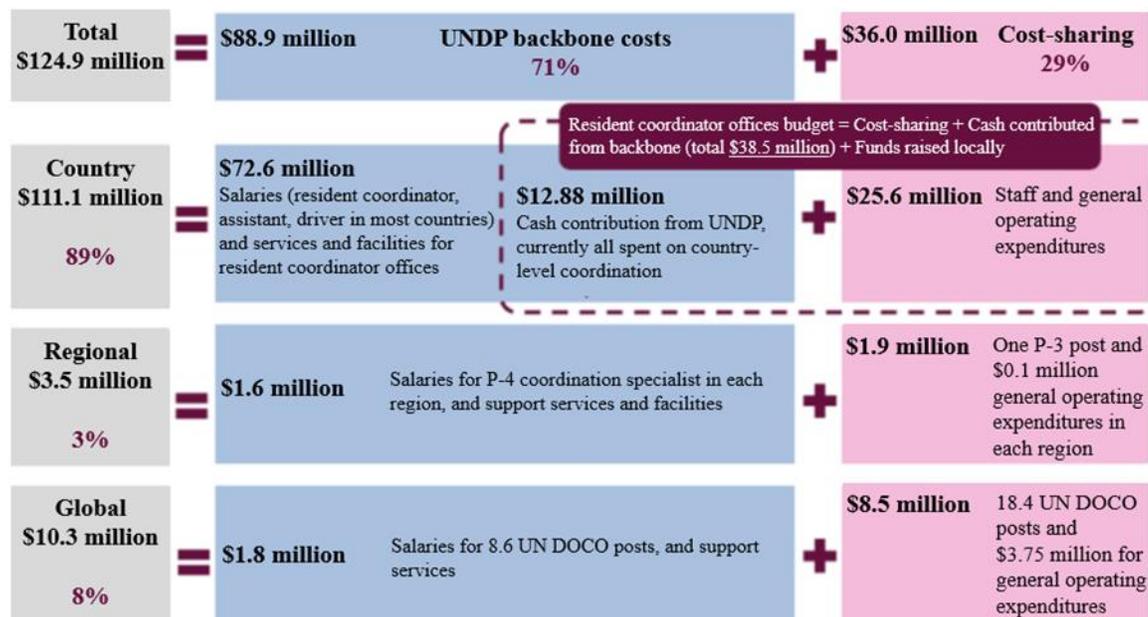
Reform of the funding of the resident coordinator system

91. The funding system for the resident coordinator system that existed prior to the United Nations development system reform derived from the 2013 cost-sharing agreement that took effect on 1 January 2014. It was initially based on an overall annual amount of \$121 million, of which \$88 million, known as backbone costs, was provided by UNDP, as manager and host of the system, and \$33 million was provided through a cost-sharing system among United Nations Sustainable Development Group member entities, including UNDP. This system continued until 2018, with an overall budget that was revised annually. In 2018, the overall budget reached \$127 million, financed by UNDP in the amount of \$90 million under backbone costs and \$5.1 million under cost-sharing. The total cost to UNDP in 2018 was therefore \$95.1 million. UNDP was the manager of the entire system.

92. Figure II.III provides a breakdown of the use of funds for 2016.

Figure II.III
Estimated United Nations Development Programme backbone costs and assigned United Nations Development Group cost-sharing budgets for 2016

(Millions of United States dollars)



Source: Dalberg, "Independent review of the United Nations Development Group system-wide cost-sharing agreement in support of the resident coordinator system" (August 2017), figure 2.

93. The United Nations development system and delinking reforms have replaced this agreement with a new funding system. Funds are now raised by the special purpose trust fund for the new resident coordinator system from three sources: (a) voluntary contributions from Member States; (b) the United Nations Sustainable Development Group cost-sharing arrangement, the amount of which has been doubled; and (c) a 1 per cent coordination levy, which is taken from closely earmarked non-core contributions. The contribution of UNDP to the financing of the resident coordinator system is therefore now through its participation in the cost-sharing by United Nations Sustainable Development Group entities, which amounted to \$10.3 million annually for the 2019–2021 period, increasing to \$10.6 million annually for the 2022–2023 period.¹⁶

Consequences of the reform on United Nations Development Programme expenditure

94. Of the expenditures under the previous funding system, the regional- and global-level ones are no longer under the purview of UNDP, and are covered by the special purpose trust fund. Based on 2016 data, this represents roughly \$13.8 million annually. The same is true for the cash contribution allocated at the country level (\$12.9 million). Expenditure for the salaries of the resident coordinator, the resident coordinator's driver and the resident coordinator's assistant were maintained, as the resident coordinator had to be replaced by the newly hired resident representative; the estimated amount for 2016 was \$49.8 million (the order of magnitude is comparable to the information provided to the UNDP Executive Board).

95. The \$48.4 million in other expenses incurred at the country level (\$22.8 million in services and facilities for the resident coordinator offices and \$25.6 million in staff

¹⁶ See A/75/905.

and general operating expenses, financed by cost-sharing) should no longer be the responsibility of UNDP. Some of these expenses continue to be incurred by UNDP on behalf of the resident coordinators, but they are now billed under the memorandum of understanding analysed below. However, except for the abolished country director posts, it is not certain that these expenses are sufficiently individualized for UNDP to have effectively eliminated them. Some of them may continue to be borne by UNDP as a loss of economies of scale.

96. In total, a comparison of the structural financial amounts borne by UNDP before and after the delinking reform leads to the following estimates:

(a) The cost of the resident coordinator system for UNDP was \$94 million in 2016¹⁷ before the delinking reform;

(b) This cost was replaced, after the reform, by a cost of \$60 million (\$10 million for cost-sharing and \$50 million for replacing the resident coordinators and, if necessary, accompanying staff such as a driver and an assistant);¹⁸

(c) To this cost of \$60 million may be added a share of costs for lost economies of scale, for general expenses and for personnel costs.¹⁹ A reasonable estimate of this loss of economies of scale is that it could be on the order of \$20 million at most.²⁰

97. Given these assumptions, the structural expenses now borne by UNDP would be between \$60 and \$80 million per year, compared with \$94 million under the old system, resulting in an estimated annual difference in the range of \$14 million to \$34 million. UNDP has not been able to provide any alternative estimate of the financial impact of the reform.

Transition costs caused by the reform

98. In 2018, UNDP estimated the transition costs that would be caused by the reform at \$20 million between 2018 and 2021. They turned out to be lower: the breakdown prepared by the UNDP shows an overall cost of \$13.1 million, most of which comes from the costs of recruiting, moving and training the new resident representatives and deputy resident representatives.

New recurring costs generated by the reform

99. UNDP also reports new recurrent costs related to the reform and repositioning of the United Nations development system: \$11 million in costs to consolidate back offices and service centres at the global, regional and country levels to support resident coordinators, United Nations country teams and “a new generation of United Nations country teams”. These expenses would include: the development and maintenance by UNDP of business operations strategy 2.0 and leading its implementation in 61 out of 131 countries, the secondment of a D-1 and a P-4 to the Development Coordination Office to support the reform of the United Nations development system, and other participation in inter-agency actions. UNDP indicates that it has made provision for expenses related to the possible return of the seconded

¹⁷ Based on the 2016 figures from the aforementioned Dalberg report, which are the most recent and detailed ones. An update was made by UNDP in 2018, with a global estimate of \$95 million.

¹⁸ This assumption of \$50 million is the most favourable to UNDP, assuming that the cost of resident representatives and accompanying staff is of the same level as the previous cost for resident coordinators. In 2018, UNDP had anticipated this cost to be slightly lower (\$43 million).

¹⁹ For instance, if a lawyer who was working part-time before the reform remains employed by UNDP even if it does not need this lawyer on a full-time basis, thus preventing the underlying economies of scale.

²⁰ UNDP had anticipated in 2018 that this share of costs from lost economies of scale would be in the range of \$15 million.

staff to retirement, and compensation in the event of separation, among other things. The fund had an original allocation of \$4.6 million, and \$0.744 million has thus far been utilized.

100. UNDP had to create fiscal space, in its integrated resources plan and integrated budget for the period 2018–2021, to equip itself with the right skills and competencies to roll out its integrator function and to implement the critical programmatic areas of the strategic plan. Management has conveyed that this constituted investment in dedicated team capacity at the headquarters level to conceptualize and shepherd the roll-out of this function. For its integrated resources plan and integrated budget for the 2022–2025 budget, an amount of \$48 million is provided for “United Nations development coordination activities”. More broadly across UNDP, however – as being an integrator is not a “new”, but rather an elevated, function for UNDP – costs incurred to roll out implementation were not disaggregated and were perceived by UNDP to be limited.

Lack of detailed assessment and reporting by the United Nations Development Programme on the financial consequences of the reform for its expenditure

101. No clear and comprehensive assessment has been made so far by UNDP of the consequences of the delinking reform on its budget. The financial consequences of the reform do not seem to have been measured, and UNDP, during the audit period, could not provide figures confirming the Board’s estimates that it benefited from savings amounting to between \$14 million and \$34 million.

102. UNDP has provided regular briefing notes on progress in the implementation of the reform to its Executive Board (two such notes in 2019, 2020 and 2021, and one note in 2022). These notes provided a fairly comprehensive overview of achievements in areas such as general support to the resident coordinator system, planning, analysis and reporting capacities, joint implementation of the Sustainable Development Goals and coordinated actions, such as the response to the COVID-19 pandemic crisis. However, these notes did not provide analyses and hard data on the administrative aspects of the reform, especially on finance and premises.

103. As far as premises are concerned, the reporting provided has been incomplete and at times incoherent. In his note dated 19 October 2019, the UNDP Administrator informed the Deputy Secretary-General that:

Seventy-nine renovation projects were received, for a total of \$3.1 million. In close consultation with the United Nations Development Coordination Office, 72 of the 79 projects have been reviewed and approved for \$1.7 million. The remaining seven projects, for \$1.4 million, are under consideration by the United Nations Development Coordination Office and expected to be approved shortly. Most of these premises’ renovation projects should be completed by year end.

In the notes to the Executive Board, the issue was mentioned only in the 2020 memos, in which it was indicated that the scope of services provided by UNDP to the resident coordinator Offices included “supporting 14 renovation projects for resident coordinator Office premises”. This information does not include any budgetary element and is not consistent with the note sent to the Deputy Secretary-General a few months earlier. Without mentioning this difference, in 2019, the reporting on renovation projects included both approved and pipeline (under consideration) projects while, in 2020, the reporting included only the approved and ongoing projects as at the end of the current (reporting) year. No other mention of renovation of premises is made in the 2021 and 2022 notes to the Executive Board.

104. From a financial perspective, an initial preliminary analysis note for the Executive Board was developed in 2018, which presented the expected additional costs, as well as the expected savings. The subsequent briefing notes included regular updates on the relationship between UNDP and the special purpose trust fund. They contained quantitative data on the volume of services provided by UNDP to the resident coordinator offices, as well as on the satisfaction rate. They also included the results of the 1 per cent contribution levy and the doubling of cost-sharing.

105. The note for the 2019 annual session listed \$3.07 million in transition costs incurred in 2018, without providing details. These transition costs (which had been estimated at \$20 million in the 2018 preliminary analysis) were not subsequently communicated to the Executive Board.

106. These notes did not provide any information on whether the envisaged additional expenditure and the expected savings had been achieved, nor did they provide a financial assessment of the reform.

Programme cost-sharing and 1 per cent levy expenditures since 2019

107. The contributions of UNDP to the financing of the resident coordinator system are of two types: cost-sharing and the 1 per cent contribution levy. The contribution to cost-sharing has doubled, from \$5.1 million in 2019 to \$10.3 million in 2020 and \$10.6 million in 2022. The 1 per cent contribution is a levy on funds collected by agencies for the special purpose trust fund. It can be either “donor administered”, i.e. paid directly by the donor to the fund, or “agency administered”, i.e. collected by the agency and paid to the Fund. The “agency administered” amounts collected by UNDP were \$5.8 million in 2020, \$6.6 million in 2021 and \$8.8 million in 2022, or \$21.2 million for all three years.

108. The costs for collecting the 1 per cent levy are high. They were estimated at \$0.422 million in 2019 for an amount collected of \$2.68 million. For the period 2020–2022, the UNDP provides an estimate of \$0.6 million for 2020, \$0.6 million for 2021 and \$0.7 million for 2022, corresponding to 9.5 per cent of the amount collected. UNDP states that these costs are for staff time, which was spent on administrative work on agreements, support to country offices and training and, at headquarters, legal support and policy-setting, training, the transfer of funds to the special purpose trust fund on a quarterly basis and engagement with donors, the Executive Board and the Development Coordination Office.

109. UNDP considers that proposals to increase the 1 per cent coordination levy would further jeopardize the ability of UNDP – and the United Nations development system – to deliver programming and results on the ground.

Services provided by the Programme for the resident coordinator offices

110. The resident coordinator system was not ready in 2019 to assume autonomously the support functions necessary for its operation. A memorandum of understanding was signed between UNDP and the Secretariat to ensure the continuity of support services. It presented a list of services, some of which were provided on a regular basis (“turnkey services”) and others on demand (“pay-as-you-go services”).

111. The services are invoiced applying a cost recovery fee for general expenses (“general management support”) of 8 per cent (4 per cent on staff expenses), as well as a lump sum payment to cover direct costs specifically to be incurred in connection with the implementation of the services. This lump sum is negotiated between the parties when the budget is drawn up.

112. Payments from the Secretariat to UNDP are made quarterly, in advance of the provision of services as per the agreed memorandum of understanding, on the basis

of the projected budget. Requests from the resident coordinator office to UNDP for services are normally made exclusively through the resident coordinator system service portal, known as IRIS.

113. In each country, the memorandum of understanding is translated into a service-level agreement between the resident coordinator and the UNDP country office. The service-level agreement sets out the operating principles of the agreement and includes the following in the appendix tables of the categories of services that can be provided: one table on “turnkey solutions”, including frequency estimates, on a flat-rate basis; and one on “pay-as-you-go solutions”. The tables are generally renewed or amended annually.

114. The overall amount of services delivered has decreased rapidly since 2019, which was expected, as such services are mostly transitional. The service delivery expenses were \$97.2 million in 2020, \$45.9 million in 2021 and \$37.5 million (provisional) in 2022. Staffing costs ceased after 2020, with the payment of salaries for all staff having been transferred to the Secretariat. Only the salaries of drivers remained in the scope of the memorandum of understanding.

115. In 2021, the expenses for the services provided were as shown in table II.3.

Table II.3

Services provided by the United Nations Development Programme to the resident coordinator in 2021

(United States dollars)

<i>Activity</i>	<i>Expenses</i>
Activity 5: general operating expenses – turnkey services	18 393 862
Activity 7: coordination fund	12 531 465
Activity 2: driver of the resident coordinator	3 497 402
Activity 4: official business travel	2 206 102
Activity 6: human resources services	1 876 105
Activity 8: hospitality	373 128
Activity 3: National Professional Officers	70 201
Subtotal	38 948 265
UNDP direct cost	6 939 315
Total	45 887 580

Source: UNDP.

116. A survey conducted in 2020 showed an overall satisfaction rate of 73 per cent with service delivery both in UNDP and the Development Coordination Office. Areas for improvement highlighted were “communication”, “better clarity of expectations” and “more effective mechanisms to resolve issues as they come up”.

117. The memorandum of understanding is scheduled to expire at the end of 2023. At that time, the remaining services still being provided by UNDP will be delivered to resident coordinator offices locally at the country office level based on locally agreed service-level agreements using existing procedures in place similar to services provided to other agencies, and will mainly include office premises, facilities management, and transportation services for those resident coordinator offices that were not able to conclude the purchase of their own United Nations vehicles in 2023.

IRIS will be discontinued, and requests in 2024 will be made via the UNall tool linked to the Quantum enterprise resource planning system.

118. The Board recommends that UNDP conduct a comprehensive analysis of both the human resources and the financial consequences of the delinking reform at UNDP.

119. This information would form the basis of UNDP reporting to its Executive Board and to the quadrennial comprehensive policy review of operational activities for development of the United Nations system.

120. The Administration accepted the recommendation but considered that this information should not form the basis for reporting to the Executive Board and the quadrennial comprehensive policy review.

4.4. Impact of the reform on the role of the United Nations Development Programme with regard to shared services

121. As regards back-office functions, the delinking process has had a limited impact on the role historically played by UNDP as the service provider and backbone for the United Nations system. UNDP has even made a strategic commitment to continuing to pursue its role of “enabler” at the country level. The question remains, however, as to how much importance UNDP should attach to such back-office functions in the future.

Limited impact of the reform to date on the role of operational backbone

122. UNDP has traditionally played a central role in providing administrative and financial back-office services to the United Nations system. This function as a service provider has developed as a natural consequence of the “universal” presence of UNDP in the field, especially for entities without a presence (non-resident agencies). In the policy on United Nations agency services dated 2019, it is recalled that, consistent with the mandate to provide services to entities of the United Nations system on request by a United Nations agency, UNDP has an underlying responsibility to provide such services as long as: (a) the requested services and their provision are consistent with the regulations, rules, policies and procedures and aims of UNDP, such as progress towards the Sustainable Development Goals; and (b) the requesting United Nations entity agrees to pay the related costs for the provision of the services and remains financially responsible for such services. Generally, when these two preconditions are met, UNDP offices should provide the requested services. In its report for the year 2019, the Board stated that UNDP was a major provider of common services in the areas of administration, information and communications technology (ICT), human resources, procurement and logistics to other United Nations country team members.

123. The delinking reform has had a limited impact so far on the role that UNDP plays as a backbone of the United Nations system. The General Assembly, in its resolution [72/279](#) of 31 May 2018, requested more integration on shared services without explicitly mentioning UNDP. A note issued in 2020 for the UNDP Executive Board on the progress made in the implementation of the resolution highlighted the importance of UNDP as an operational backbone, meaning essentially the provision of common services in virtually all United Nations country teams and the provision of essential services to the resident coordinator offices. The resident representative surveys commissioned by headquarters confirm that the country offices provide many services to other United Nations agencies. On the one hand, worldwide, country offices provided operational services (e.g. finance, human resources administration, procurement and ICT) to other United Nations agencies in more than 90 per cent of

cases in 2019. On the other hand, on the basis of the perception of the resident representatives, UNDP did not receive any services from sister agencies in 84 per cent of cases.

Commitment to continue along the same path, in the framework of the broader United Nations development system reform

124. The UNDP strategic plan for the period 2018–2021 stressed the importance of the support role of the Programme in the United Nations system. It was emphasized that “UNDP remains committed to working ever more closely with partners across the United Nations, including with the Secretariat and its departments and in mission settings. UNDP plays different roles alongside sister agencies, as an integrator, service provider and implementation partner”. This is in line with the management and accountability framework of the United Nations development and resident coordinator system issued in September 2021, which has a specific objective on the rationalization of operational activities in the field. In the report of March 2021 commissioned by the Independent Evaluation Office on the UNDP strategic plan, it was concluded, regarding the role of operational backbone to the United Nations development system, that “UNDP has improved its management and operations, showing determination to be a more client-oriented operational service provider”.

125. This priority is reiterated in the UNDP strategic plan for the period 2022–2025, approved by the Executive Board in 2021, in which, in particular, it is stated that “the country office of the future continues to provide quality services in human resources, finance, procurement, general operations and administration to the resident coordinator system, while maximizing opportunities for greater efficiency through clustering and other initiatives. Serving as a platform for non-resident United Nations entities enables them to operate in otherwise impractical contexts”. This objective is part of a broader desire to participate in the modernization of operational systems and structures.

126. Paradoxically, the priority is not associated with any performance indicator. No indicator of the integrated results and resources framework of the strategic plan translates the evolution of the volume or quality of the support services for the benefit of other agencies in the tier-three component, on organizational effectiveness and efficiency.

127. In its audits of eight country offices in 2022–2023, the Board did not notice any recent major evolution in the service-sharing activities of UNDP. In most of the countries audited, UNDP was still playing a central role in providing administrative services, because of: (a) history (old local agreements with other United Nations agencies); (b) the fact that it was locally the sole entity with the will, size and skill to do so; or (c) its efficiency and readiness. For example, in Bangladesh, the United Nations clinic and common premises in Dhaka were managed by UNDP.

128. UNDP has historically been the operational backbone of the United Nations system in providing services, but there is an evolving service delivery market, with more United Nations agencies offering services than in the past. The impact of this evolution and of the delinking on UNDP service-sharing activities in the medium or long term should be assessed. UNDP is a member of United Nations Sustainable Development Group efficiency reporting task team. As agreed by the task team, global shared services providers such as UNDP are not expected to conduct a cost-benefit analysis based on the provision of services to other agencies. Instead, service recipients are expected to report efficiencies, both quantitative and qualitative.

129. The Board recommends that UNDP explore various possible scenarios taking into consideration the implications of the delinking reform at UNDP and the increasing role of other players, and develop a strategy on its medium-term

role regarding back-office services shared with or provided to other entities of the United Nations system.

130. One of the scenarios could be to disengage, especially in countries where the UNDP presence either appears too light to carry out such shared administrative back-office services or would no longer be justified by its development mandate.

131. The Administration accepted the recommendation.

4.5. Opportunity to build more strategically on the integrator function

132. With regard to the core activities of UNDP in the field of development, the General Assembly, in its resolution [72/279](#), reiterated the integrator role originally envisaged for UNDP. The provision of integrated solutions lies in the DNA of UNDP. However, further clarification could help in reducing the risk of misunderstandings with clients and stakeholders when it comes to the operational delimitation of responsibilities between the resident coordinators and the UNDP resident representatives. The delinking process appears to be a unique opportunity to sharpen and consolidate the role of UNDP at the centre of the United Nations development agenda, based on the idea that one of the key assets of UNDP compared with other multilateral or bilateral development actors is that it can establish a special partnership with the other United Nations entities.

133. The function of integrator for UNDP, clearly distinct from the function of service provider, has never been fully clarified and operationalized despite several attempts. This function is mentioned in paragraph 32 of General Assembly resolution [72/279](#), in which the Assembly requested the Secretary-General to ensure an effective and efficient transition to a repositioned United Nations development system, including by giving due consideration to the role of a responsive UNDP as the support platform of the United Nations development system providing an integrator function in support of countries in their efforts to implement the 2030 Agenda.

134. In an undated note to the UNDP Executive Board entitled “Preliminary analysis of the financial and other implications of resolution [72/279](#) for UNDP”, UNDP acknowledged the importance of the integrator function. It indicated that strategic leadership by the resident coordinator needed to be backed up by smart programmatic integration of the United Nations development offer at the country level. The General Assembly recognized this in the resolution by asking UNDP to function as the support platform of the United Nations development system providing an integrator function, but did not define it further, stressing only that it was a natural role for UNDP and an opportunity for the organization to build on what it does best and to do this at the service of the larger system and the countries that it serves.

135. In response to requests from the United Nations Sustainable Development Group and its Chair, UNDP published a short paper to highlight the concept of the integrator functions in the context of a reformed resident coordinator system. It did not provide a definition of the concept that could clearly be grasped by non-practitioners, but stated as follows: “‘Strategic integration’, therefore, relies on a shared understanding of the [Sustainable Development Goals], their interlinkages and the ability to transform independent, specialized/sectoral interventions into cohesive and synergistic development offers, based on the demand of partner countries”. At the request of the auditors, UNDP underlined that the integrator role was not necessarily a new function that required implementation, but had always been integral to the UNDP mandate.

136. In its evaluation of the UNDP strategic plan for 2018–2021, published in March 2021, the Independent Evaluation Office made several remarks concerning the integrator role and its appropriation by UNDP, concluding that the concept had so far

not been clearly understood. The Office rephrased the integrator approach as developing possible solutions with a multidimensional and holistic lens to address underlying and root causes that were identified in the strategic plan as “wicked and stubborn” development issues. In addition, the Office noted: “Some stakeholders even questioned whether UNDP should really pursue the integrator role after the delinking of the resident coordinator function. Others indicated [that] the integrator role was thrust upon UNDP. Such comments further confirm the lack of comprehensive understanding and the potential of the different and complementary approaches to integration promoted by UNDP”. With regard to field offices and countries, the Office reported that UNDP had also faced challenges in linking its integrator role with Governments and within United Nations country teams. It had met resistance from some resident coordinators and United Nations agencies that struggled to distinguish, for example, between the overall coordination role of the Development Coordination Office and resident coordinators and the technical integration role of UNDP. In many programme countries, the UNDP integrator role had proven particularly contentious and confusing. The Office also stated that, even though the UNDP integrator function was mentioned by the Secretary-General in his report to the General Assembly in 2018 on the repositioning of the United Nations development system, it had not been clearly understood. Especially unclear was how it should complement, rather than duplicate or conflict with, the coordination role of the newly independent resident coordinators.

137. Further refinement and clarity between the UNDP integrator function and the resident coordinators’ coordination role, now that the delinking phase of the reform is over and as the independent resident coordinators are testing the boundaries of their new roles, would help to ensure an improved roll-out of reforms at the country level and reduce misunderstandings with other agencies, external partners and Member States when it comes to operational delimitation between resident coordinators and UNDP resident representatives. As stated in the above-mentioned note to the UNDP Executive Board, it would also give an opportunity for the organization to build on what it does best and to do this at the service of the larger system and the countries that it serves.

138. So far, the integrator function, because it has remained loosely defined, does not translate into concrete operational changes or reorientations. This could constitute a missed opportunity for UNDP as the key development agency at the heart of the United Nations system. UNDP is well equipped to grow into the integrator, from a sustainable developmental perspective, of various United Nations workstreams that currently largely fail to pay sufficient attention to this dimension. In particular, how to translate peacekeeping or humanitarian work into medium- to long-term development is an area in which UNDP, as the key development agency at the heart of the United Nations system, could further develop its expertise and usefully play its integrator function.

139. The Board recommends that UNDP develop a strategy on its role as integrator in order to reposition itself vis-à-vis the resident coordinator and the United Nations development system as regards the development agenda, and articulate better with other priorities of the United Nations, including in the fields of peacekeeping operations and humanitarian affairs.

140. The Administration accepted the recommendation.

5. Risk management

141. The Board has audited risk management at UNDP, looking notably at the Organization’s risk universe (sect. 5.1), multiple risk management tools used at the operational level (sect. 5.2), two significant case studies (sect. 5.3), maturity and

implementation of the enterprise risk management policy (sect. 5.4) and risk management in the context of the wider accountability system (sect. 5.5).

5.1. Risk universe

142. By nature, development operations intervene in a risky “universe”. The risks faced by UNDP first and foremost stem from the risky nature of development work. They can also arise from endogenous or exogenous causes, be recurrent or more difficult to predict because of their more or less unique nature, and threaten the accomplishment of UNDP activities at a strategic level or at an operational one (sect. 5.1.1). UNDP appears to be at a turning point, as several of the strategic risks faced by the organization today, notably risks related to resources and reputation, are of a critical nature, which poses specific risks (sect. 5.1.2).

5.1.1 By nature, the United Nations Development Programme intervenes in a universe of high and varied risks

143. By nature, development operations intervene in a risky “universe”. A review of some of the main critical risks that have had an impact on activities in recent years highlights this. Trying to give an overview and classify the major risks affecting UNDP activities is not an easy task. The risks first and foremost stem from the risky nature of development work. They can also arise from endogenous or exogenous causes, be recurrent or more difficult to predict because of their more or less unique nature, and threaten the accomplishment of UNDP activities at a strategic level or at an operational one.

Risky nature of development work

144. According to the UNDP strategic plan for the period 2022–2025, “today’s development challenges are dynamic, interconnected puzzles of multidimensional risks that require systemic solutions”. UNDP intervention in the area of development is multidimensional. As stated in the strategic plan, it covers: structural transformation, including green, inclusive and digital transitions; leaving no one behind, through a rights-based approach centred on human agency and human development; and building resilience to respond to systemic uncertainty and risk. UNDP is currently involved in areas including democratic governance, rule of law, peace and electoral support, climate, environment, biodiversity and energy, social programmes including gender equality, nutrition and poverty alleviation, disaster preparedness, agriculture, forestry and community-based development. All these dimensions arguably contribute to development but create the risk of not contributing coherently to development goals and not being sufficiently prioritized according to proven development impacts, as well as the risk of dispersion.

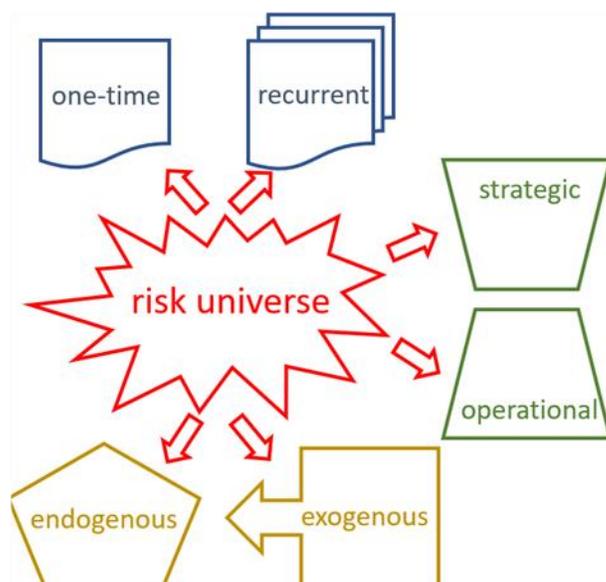
145. Development aid is an area that is very competitive and, to achieve its development goals, UNDP is compelled to find its competitive advantage among a wide range of stakeholders. At the same time, the two main historical *raison d’être* of UNDP have been diluted or challenged over time. UNDP was established in 1965, in the middle of the first United Nations Development Decade, from 1960 to 1970, with two main objectives: to provide technical assistance to countries and to coordinate technical assistance provided by the United Nations system. The General Assembly, in its resolution 2029 (XX) of 1965, envisioned that the creation of UNDP would simplify organizational arrangements and procedures, would facilitate overall planning and needed coordination of the several types of technical cooperation programmes carried on within the United Nations system of organizations and would increase their effectiveness.

146. This reference to technical assistance (often called technical cooperation at the time) was in line with and commensurate with the funding mechanisms, which were dependent on voluntary contributions. Over many decades, the increase in financing volumes managed by UNDP, as well as the growing financial needs of countries for development, has diluted the focus on technical assistance at the same time that development banks and a few bilateral donors were significantly increasing their credit and grant offers for development. In addition, in recent decades, United Nations agencies have improved their capacity to provide technical assistance, have mobilized the related resources, and thus have been relying increasingly less on UNDP expertise in this field. There is no reference in the strategic plan for 2022–2025 to technical assistance or capacity-building, which might result in abandoning in large measure this space to competition with other agencies. While risks involved in development have tended to be higher and more complex, there is also a risk of UNDP losing its edge in such a competitive context.

147. Meanwhile, the reform of the United Nations development system in 2018–2019 and the resulting delinking at the country level of the UNDP resident representative function from the function of resident coordinator, which was a major component of the reform, led UNDP to redefine its role vis-à-vis other parts of the United Nations development system. This is compounded by the fact that hosted entities such as the United Nations Office for South-South Cooperation, the Multi-Partner Trust Fund Office and the United Nations Capital Development Fund have managed in their own varying ways to develop specific development offers for the rest of the United Nations or beneficiaries.

148. In addition, success in development is difficult to define, and progress is challenging to measure. This in turn sometimes makes the cost of development aid difficult to justify. Evidencing results is a major challenge for development practitioners and agencies at the global, country or even project level. In a context of scarce public resources, this challenge poses a major risk for development.

Figure II.IV
Risk universe



Source: Board of Auditors.

Endogenous vs. exogenous risks

149. A first way of describing the risk universe affecting the ability of UNDP to fulfil its mandate, and to try to classify key risks at stake, is to consider whether they result mainly from exogeneous or endogenous causes.

150. Endogenous risks, namely those resulting from UNDP development actions and the means that it deploys to achieve development goals, can affect the fulfilment of the mission, its efficiency and its effectiveness. They can be related to, among other things, inadequate governance, poor resource management, poorly designed policies, inadequate service delivery, lack of transparency and accountability, or fraud and discipline.

151. Exogenous risks tend to rise as development challenges become more complex and multidimensional. In the *Human Development Report 2021/2022: Uncertain Times, Unsettled Lives – Shaping our Future in a Transforming World*, it is noted that: “Global crises have piled up: the global financial crisis, the ongoing global climate crisis and COVID-19 pandemic, a looming global food crisis. There is a nagging sense that whatever control we have over our lives is slipping away, that the norms and institutions we used to rely on for stability and prosperity are not up to the task of today’s uncertainty complex”. Conflicts and wars are to be added to this mix. UNDP has developed specific skills for supporting other United Nations agencies and partner countries to mitigate these risks and address them once they materialize. UNDP has responded to crises in Afghanistan and Ukraine or has been tasked with technical leadership of the United Nations socioeconomic response plan during the COVID-19 pandemic and could demonstrate in those crises its surge, operational and analytical capacity. This illustrates the key role of UNDP in the midst of crises of various types.

Recurrent vs. one-time risks

152. A second way to describe the risk universe affecting UNDP operations is to determine whether or not the key risks are recurrent.

153. Typical recurrent risks can be found in the field of management, including in dealing with project and programme management and the sensitive interface between UNDP and implementing partners, operational functions such as financial or human resources activities, quality and timeliness of procurement and contract management, data management and information technology systems, management of service centres, or the fight against fraud and corruption. In this context, a key element is to determine if the risks are systemic in nature, in order to be able to tackle their root causes.

154. Some other risks are more exceptional by nature and are sometimes qualified as unique events. This has been the case for the COVID-19 pandemic, environmental catastrophes, conflicts and humanitarian crises and sudden macroeconomic and monetary imbalances. These kinds of risks can appear harder to anticipate, and mitigation measures are sometimes difficult to put in place. It must be noted that some events that may seem unique when they materialize can also be analysed in terms of recurrence: for instance, many believe that the COVID-19 crisis follows and perhaps announces other health emergencies of the same nature; or recurrent risks linked to information technology systems can become exceptional when the entity decides to completely change its enterprise resource planning system. This is the case, for instance, with regard to the climate, for which episodes of drought, fire, lethal heatwaves and other natural hazards are creating a new climate environment affecting the least developed countries the most.

Strategic vs. operational risks

155. A third way to classify risks is to see whether the key risks are of a strategic or operational nature. This distinction seems particularly relevant for UNDP.

156. Some risks appear to be of a strategic nature, in the sense that they can affect the core of an entity's mandate or would require action at the level of the Administrator or the Executive Board. Strategic risks require informed discussions and mitigation measures, both at the highest level. This is the case for the financing risk or the risk triggered by specific projects of a particular magnitude or complexity.

157. On the other hand, risks can be operational in nature, and UNDP has developed a vast array of risk mitigation tools and policies to address this. Its portfolio of roughly 4,000 projects around the world constitutes a major area of operational risk because projects and programmes are the vehicles through which resources and development responsibilities leave the entity and are handed over to a large extent to partners of varying nature and status (Governments, non-governmental organizations or private actors). In addition, another class of operational risk can be found in the administrative procedures through which UNDP conducts its operations.

5.1.2 The United Nations development Programme appears to be faced with a number of potentially existential risks without having the adequate tools to deal with them

158. UNDP appears to be at a turning point. Several of the strategic risks faced by the organization today are of a critical nature, which poses specific challenges. Two appear to be particularly critical: resource risks and reputational risks.

Challenging management of strategic risks

159. Management of risks has by definition a strategic nature. In International Organization for Standardization (ISO) 31000, which is the only external reference of the UNDP enterprise risk management policy, it is stated that: "Organizations of all types and sizes face internal and external factors and influences that make it uncertain whether and when they will achieve their objectives. The effect this uncertainty has on an organization's objectives is 'risk'".

160. Nevertheless, the identification and management of the most critical strategic risks of UNDP remains challenging. The UNDP strategic plan, while indicating the new and complex risks facing economic and social development in general, lacks a candid analysis of the risks, external and internal, that could prevent the organization from achieving its objectives. The definition of the scope and objectives of the enterprise risk management policy in the policy itself also fails to establish precisely this link between risks and strategic objectives.

161. The examination of the corporate risk register as well as the minutes of the risk committee meetings indicate that all risks considered are of an operational nature. In the risk register dated November 2022 establishing the list of key risk indicators, which are still in the draft stage, the risk labelled as strategic, as with all other key risk indicators, is linked to operations (programme and projects): "[percentage] of strategic risk treatments among programme and projects with completed risk entries that are acclaimed". The enterprise risk management policy does not provide an adequate platform for identifying, assessing, discussing and mitigating strategic risks, namely risks that would prevent UNDP from discharging its mandate and achieving its strategic objectives. These risks are treated using parallel mechanisms within the Executive Group, where senior management is represented, and the recently created Corporate Performance Unit is charged with providing assessment and treatment

proposals at that level, outside the established enterprise risk management mechanisms.²¹

162. Strengthening the involvement of the governing bodies could help the management of critical strategic risks to mature. When considering the governance structure of risk management in UNDP, it appears that it is a function that remains strictly at the administrative level and does not greatly involve the governing bodies. The enterprise risk management policy's custodians remain at the operational level (Bureau for Management Services and Bureau for Policy and Programme Support, jointly). The risk committee is formally chaired by the Associate Administrator, acting as chief risk officer. The Joint Inspection Unit, in its report of 2019 on enterprise risk management,²² notes that executive heads must set a tone that supports enterprise risk management implementation, but also insists on the role of legislative or governing bodies in risk management.²³ The UNDP Executive Board has so far not been regularly informed of the risk management policy and its implementation. It is also not an area on which the Audit and Oversight Committee, which reports to the Administrator, seems to have put a notable emphasis. The fact that the Audit and Evaluation Advisory Committee reports to the Administrator, contrary to recognized good practices in the private sector but in line with other public sector organizations, does not help to keep the Executive Board well informed.

163. In its report, the Joint Inspection Unit recommends that, by the end of 2022, legislative or governing bodies of participating organizations should request executive heads to report on the outcomes of a comprehensive review of the organization's implementation of enterprise risk management against the Unit's benchmarks 1 to 9, as outlined in the report. UNDP has not accepted this recommendation and its current practices are not in line with it. The risk committee does not regularly include in its discussions, or establish as an integral part of the enterprise risk management policy, an analysis of the organization and its internal and external context, in accordance with section 4.3.1 of ISO 31000.

164. UNDP recognizes that there is work to be done in terms of how effectively the current management structures anticipate and manage strategic risks. It is imperative that, at least for the most critical risks, regular updates and discussions be carried out in accordance with the accountability framework approved by the Executive Board and in instances established by the risk management policy. A reinforcement of the policy in this field could be desirable.

²¹ According to the terms of reference of the UNDP Corporate Performance Unit: "The new unit will work with teams across the house to strengthen the control and oversight of UNDP's organizational performance, anticipating risks and facilitating harmonized analysis, insight, and advice on the direction of UNDP's programmes, operations, and management practices. [...] The new unit is designed to complement and leverage the capacities of existing corporate mechanisms".

²² [JIU/REP/2020/5](#), recommendation 1: "In order to fulfil their oversight roles and responsibilities, legislative/governing bodies should incorporate [enterprise risk management] into their meetings at least annually, with substantive coverage determined by the organization's mandate, field network and risk exposure".

²³ *Ibid.*, benchmark 4: "To fulfil their oversight and accountability roles and responsibilities and to prepare for uncertainties, legislative/governing bodies must be engaged with [enterprise risk management] to ensure that executive heads are setting the appropriate 'tone at the top'. They should be aware of, at a minimum, the key strategic risks an organization is facing and the strategies for each, as well as the policies and frameworks related to [enterprise risk management]. Audit and oversight committees can play a key role in advising on ways of implementing and sustaining [enterprise risk management] by conveying technical information between staff and their respective legislative/governing body and sharing good practices from other sectors".

165. UNDP notes that an independent review of the risk committee is ongoing and that management is actively seeking to address the gaps identified through the initiative launched by the Administrator for his first 100 days in office. Steps are under way to update the UNDP corporate accountability framework, which is an opportunity to further enhance how these executive leadership bodies work, including in managing risks. The updated enterprise risk management policy and corporate accountability framework should reflect the mainstreaming of strategic risks into these processes.

Resource risks

166. The risk for UNDP of not being sufficiently and adequately funded currently appears to be a major strategic risk. As part of the United Nations system-wide reform, the Secretary-General proposed a funding compact, which was adopted by the General Assembly in its resolution [72/279](#), advocating a set of ambitious commitments by Member States and the United Nations Sustainable Development Group to ensure predictable and flexible funding for United Nations development activities. Most of the funding-related commitments in the compact, despite recognition of the need to address the imbalance between core and non-core resources as well as “the quality of non-core resources”, are currently trending in the opposite direction for UNDP. UNDP does not discuss this in its strategic plan in terms of risks, but instead states that one of its objectives is funding: “Responding effectively to evolving country priorities requires flexible and predictable funding. UNDP aims to see Member States increase regular resources funding as a proportion of its revenues, in line with the 30 per cent goal of the funding compact, as well as pooled and thematic funding”.

Reputational risks

167. UNDP is faced with reputational risks of a varied nature. The funding compact underlines the need for “greater transparency and clarity on what the United Nations does with the resources with which it has been entrusted, and what is achieved with those resources” and the fact that the “results produced must be credible, accessible and better communicated”.²⁴ The main reputational risks stem notably from the fact that: (a) strategic developmental objectives could appear not to have been achieved or to be achieved with a suboptimal utilization of scarce resources that could be used for other objectives; (b) UNDP could be implicated in politically charged situations; or (c) confidential or sensitive information could prematurely be made public (e.g. investigations into sexual exploitation and abuse, corruption, misconduct, etc.). Recent events and reputational crises, such as that triggered by the audit of the GEF by the Office of Audit and Investigations in 2020, show that UNDP has a high capacity to respond in a well-articulated and timely fashion once the crisis has materialized. Nevertheless, communication appears mainly to be defensive and ex post. Proactive communication that would showcase the role of UNDP in implementing GEF-funded projects, for example, is still lagging. UNDP communication activities, located in the Bureau of External Relations and Advocacy, are mostly geared towards fundraising, as an analysis of communication outputs confirms.

168. The Board recommends that UNDP regularly update its Executive Board on critical risks of strategic importance and ensure that these risks are managed under the enterprise risk management framework.

169. The Board recommends that UNDP analyse its current communication practices in the light of the most critical risks facing the organization, tailor its

²⁴ [A/74/73/Add.1-E/2019/14/Add.1](#), paras. 35 and 36.

strategy to address them proactively, in particular with regard to reputational and funding risks, and better position itself with key stakeholders.

170. Regarding the first of these recommendations, UNDP management notes that it already engages with and reports to the Executive Board on the implementation of its strategic plan, organizational performance and in case of issues identified through Office of Audit and Investigations briefings. Therefore, UNDP management is of the view that the Executive Board should be updated on the most strategic risks as part of the existing reporting. UNDP accepted the second of these recommendations.

5.2. Multiple risk management tools at the operational level

171. UNDP has been managing risks to routinely conduct its operations since well before the introduction of the first enterprise risk management policy. There is indeed a variety of risk management tools (sect. 5.2.1) for which the enterprise risk management policy constitutes an umbrella framework (sect. 5.2.2) and in which the Office of Audit and Investigations of UNDP plays a major role, which extends in practice beyond the scope of the third line of defence (sect. 5.2.3).

5.2.1. Variety of operational risk management tools

172. UNDP has developed over the years and, generally, long before the first enterprise risk management policy, a multiplicity of risk management tools for which it is difficult to have an exhaustive view and which would have to be assessed and sometimes revisited, modified or dropped.

Multiplicity of risk management tools

173. Many risk management tools of varying natures exist. The enterprise risk management policy established in 2019 provides a list of existing tools for risk management (see table II.4). The tools form quite a heterogeneous set, comprising risk management tools that deal with varied operational and programmatic areas, are more or less actively curated and would, in several cases, need additional attention to their structure or implementation modalities. The sheer multiplicity of tools, which taken individually serve different purposes, creates in itself a level of complexity that is difficult to manage.

Table II.4

United Nations Development Programme risk management tools

<i>Tools and policies</i>	<i>Objectives and main features</i>
Harmonized approach to cash transfers ^a	Risk-based inter-agency framework relying on an assessment of risks at the country level (macroassessment) or at the implementing partner level (microassessment). This assessment triggers different levels and frequencies of due diligence and mitigation measures (audit, reporting obligations)
Capacity assessments of partners and UNDP	Assess capacity of implementing partners, whether governmental, non-governmental, United Nations organization or UNDP, on the basis of specific criteria. Use of the partner capacity assessment tool is mandatory. It replaces the harmonized approach to cash transfers when the threshold for using that approach is not met but is otherwise also applicable
UNDP anti-fraud policy	Prevent, detect and address acts of fraud and corruption involving staff and non-staff personnel, vendors and implementing partners

*Tools and policies**Objectives and main features*

United Nations programme criticality framework ^b	The programme criticality framework is a common United Nations system policy for decision-making on acceptable risk. It ensures that activities involving United Nations personnel can be balanced against security risks. Programme criticality assessments help to facilitate cooperation between security personnel, programme managers and senior managers in ensuring that informed and legitimate decisions are taken about the safety and security of United Nations personnel. It was last updated in 2016
United Nations Security Management System Security Policy Manual: policy on security risk management	Security planning is a core security function contributing to the safety and security of United Nations personnel, premises and assets. Security planning proactively lays out a set of predetermined and rehearsed responses to various crises that could have an impact on the United Nations Security Management System in a security area. It was promulgated in 2018
Business continuity management	A policy and a user guide, which sets the framework for the organization to respond to internal and external threats and ensures the organization's preparedness, resilience and ability to continue to deliver its mandate when such threats occur
Policy on due diligence and partnerships with the private sector	Complemented by its risk assessment tool and the risk assessment tool guidelines (2013), the policy is aimed at strengthening the risk management capacity of UNDP to work with the private sector
Programme/projects quality assurance	Quality standards for programming strengthen and enable the achievement of results. They improve development effectiveness and efficiency. This policy outlines UNDP standards and mechanisms to assure programming quality. All country, regional and global programmes and projects are required to adhere to the quality standards for programming. Managers are accountable for upholding them
Social and environmental standards and screening procedures	The standards underpin the commitment of UNDP to mainstreaming social and environmental sustainability into its programmes and projects to support sustainable development. The standards are an integral component of UNDP quality assurance and its risk management approach to programming
Theory of change	All UNDP programmes must be based on a theory of change that defines the change pathway required to achieve the desired development results, drawing on evidence-based causal analysis
Audits and evaluation	UNDP management is responsible for adequately designing and effectively maintaining governance, risk management and control processes to ensure that organizational objectives are achieved. The Office of Audit and Investigations is responsible for independently assessing the adequacy and effectiveness of these systems and processes on the basis of a risk assessment methodology and risk-based annual workplan

*Tools and policies**Objectives and main features*

	Evaluations conducted by UNDP fall into two categories: independent evaluations conducted by the Independent Evaluation Office; and decentralized evaluations commissioned by programme units, including country offices, regional bureaux and practice and policy bureaux
Procurement ethics, fraud and corrupt practices policy	The policy guides the prevention of fraud and corrupt practices in procurement, as well as their identification and the management of appropriate responses
Procurement strategy and procurement planning	Procurement forecasting and delivery (procurement planning) is essential to effective project and risk management, and therefore to the overall performance of the organization. There is a specific policy at the project level

Source: UNDP and Board of Auditors.

^a The [harmonized approach to cash transfers] framework represents a common operational (harmonized) framework for transferring cash to government and non-governmental partners (both implementing partners [...] and responsible partners [...]), irrespective of whether these partners work with one or multiple United Nations agencies. The objective of the [...] framework is to support a closer alignment of development aid with national priorities and to strengthen national capacities for management and accountability, with the ultimate objective of gradually shifting to national systems. It is intended to serve as a simplified set of procedures on requesting, disbursing, providing assurance, and reporting on funds to effectively manage risks, reduce transaction costs and promote sustainable development in a coordinated manner". See https://view.officeapps.live.com/op/embed.aspx?src=https://poppp.undp.org/sites/g/files/zskgke421/files/2023-06/FRM_Financial%20Management%20and%20Implementation%20Modalities_Harmonized%20Approach%20to%20Cash%20Transfers%20%28HACT%29_1.docx.

^b See <https://programmecriticality.org>.

174. The list is not exhaustive, as various risk-based tools have been developed for specific business areas. This is the case, for instance, for some tools created after the enterprise risk management policy was established, such as projects under the risk management framework for environmental and climate vertical funds developed in 2022 and for which a specific project risk dashboard exists.²⁵ This is also the case when a tool has been developed, sometimes with reason, outside the enterprise risk management policy, such as the elaborate risk management analysis on which the Office of Audit and Investigations bases its workplan and priorities.

175. Several of the tools would need to be updated more regularly to maintain their relevance. For instance, the policy on due diligence and partnerships with the private sector dates from 2013, well before the funding compact and the strategic drive (both United Nations system-wide and specifically for UNDP) to expand opportunities for private sector funding. The policy is currently under review, to be updated in 2023.

Audit of risks associated with programme activity

176. UNDP policy requires that each programme activity be audited "at least once in its lifetime", in accordance with Office of Audit and Investigations guidelines. Project activities are also subject to the harmonized approach to cash transfers assurance activities in accordance with UNDP guidelines on that approach. For projects implemented through an implementing partner, which amount to 6,334 implemented projects, including support services for national implementation projects, external audit is performed according to a risk-based framework, namely the harmonized approach to cash transfers. This implies that not all projects are audited every year

²⁵ See <https://co.pims.undp.org/risk-instance/dashboard>.

and that the vast majority of those audits are performed by a private audit firm. Project developers and country office personnel must ensure that an adequate review of project implementation capacity has been completed for the selected implementing partners (except for other United Nations agencies) if more than \$150,000 per programme cycle is to be transferred to the partner. This review requires completion of a partner capacity assessment. The programme manager has an obligation to review national implementation audit reports and harmonized approach to cash transfers assurance reports and ensure that the partner takes corrective action to respond to recommendations, in particular in cases in which qualified audit opinions are issued by auditors. These external audits reports are collected by the Office of Audit and Investigations and the results are summarized in a specific public annual report issued by the Office. Of the 133 country offices that submitted their audit plans, 86 planned to audit 441 projects (comprising 603 project outputs), with total estimated expenditure of \$613 million. Of the remaining 47 country offices, 23 indicated that they complied with the guidelines for the harmonized approach to cash transfers and would rather carry out assurance activities, and 24 indicated that their project expenditure was either below the audit threshold or managed within the framework direct implementation or country office support arrangements.

177. Direct implementation projects are not submitted for external audit but for internal audit by the Office of Audit and Investigations, either on the occasion of the audit of a country office or through the audit of a specific project. The Office estimates that around 30 per cent of project expenditure is audited in this way every year.

178. In some country offices audited by the Board, implementation of the harmonized approach to cash transfers has been considered an issue. For instance, in the country office in Argentina, demonstrable efforts have been undertaken for several years regarding the approach. In its audit of the country office in 2017, the Office of Audit and Investigations noted that the harmonized approach to cash transfers had not been fully implemented and suggested an action plan for completing the pending microassessments and spot checks. In the quarterly financial management report sent by the regional bureau for Latin America and the Caribbean to the country office in June 2022, it was noted that, for the microassessment, there were 26 unassessed partners with a budget over \$150,000 regardless of the expense, and that, given the associated risks, the country office was advised to ensure full adherence to the harmonized approach to cash transfers policy with regard to the cash transfer to minimize the risk exposure. At the time of the audit, of the 61 implementing partners, 27 did not reach the required threshold for the year under consideration. For the remaining 34 partners, the country office entrusted a private consulting firm with the responsibility of conducting the microassessment. In the country office in Bangladesh, it was noted that, since 2018, the national urban poverty reduction programme had been audited three times by the Office of the Comptroller and Auditor General of Bangladesh. For the two previous audits, implementing partners at the local level did not provide a response with details of the explanation and evidence, contrary to expectations.

179. In addition, in some cases, private audit firms do not provide sufficient value for money, as was observed in Argentina. A sample of external audits showed that a very limited number of audit firms were contracted and that competition remained limited. The sampled audits did not provide sufficient elements for management attention beyond the audit opinion. The country office is engaged with Argentinian external auditors. The fact that the vast majority of projects in Argentina are funded with Argentinian public money warrants the involvement of the General Audit Office of Argentina, the supreme audit institution or the provincial-level public sector auditor.

Risk management in the area of environmental and social issues

180. Following the audit of environmental and social issues by the Office of Audit and Investigations, an inter-office social and environmental standards working group was set up to analyse the fulfilment of the social and environmental standards implementation plan of 2020. The revised standards came into effect on January 2021. Continuous monitoring of the progress of implementation of the plan has since been conducted. Implementation of the social and environmental standards policy was assessed on a sample basis, according to two indicators: the number of countries with stakeholder response mechanisms in place (baseline results-oriented annual reporting for 2016: 73 per cent of country offices with no stakeholder response mechanisms); and the percentage of social and environmental standards documentation disclosed in the transparency portal.

181. The social and environmental standards implementation plan of 2020 has still not reached its intended objectives even though it has led, for instance, to increased attention on potential high-risk project activities for such standards. In 2022, 296 social and environmental screening procedures were analysed: 262 projects had been completed; 29 did not require a social and environmental screening procedures; and 5 had not produced such a procedure. In 2021, of 508 projects analysed, 400 had been completed; 95 did not require a social and environmental screening procedures; and 13 did not produce such a procedure. These figures do not tally with the sample, which shows that the number of projects exempted was greater than the number of projects having produced a SESP. This tool is under development and is supposed to provide more accurate data sooner.

182. More needs to be done to implement the social and environmental standards policy systematically and efficiently.

5.2.2. Integration efforts through the enterprise risk management policy

183. Integration efforts of the various risk management tools under the umbrella of the enterprise risk management policy should be deepened.

184. The UNDP enterprise risk management policy of 2019 is aimed at integrating all existing risk management tools. According to the policy, it is the “umbrella framework for risk management in the organization. It brings together several prescriptive [United Nations]/UNDP policies and procedures which are applied to manage particular categories of risk when relevant”. This integration of the various risk tools in effect at UNDP is one of the objectives of the update of the framework in 2019 after several audits by the Office of Audit and Investigations pointed to weaknesses in that respect. In its enterprise risk management audit for 2021, the Office still pointed to necessary efforts in terms of integration.

185. The process of integration of the various risk management policies and tools into a single framework managed through the enterprise risk management policy has recently undergone substantial improvements. This is the case, for instance, with the social and environmental standards dated 2021 which, in order to align with the enterprise risk management policy, now include changes to the descriptions and ratings of social and environmental risks. It also involves an additional categorization of substantial risk projects to align with enterprise risk management. Integration is not an easy task because several key risk management tools predate, sometimes substantially, the first enterprise risk management policy and have been developed with specific objectives and methods as well as specific data and monitoring frameworks. It is nevertheless key to attain the objectives of the enterprise risk management policy.

186. This alignment of risk management policies and tools under the enterprise risk management umbrella will likely be made easier with the operationalization of the integrated data platforms supported by the new Quantum+ solution. This will nevertheless require substantial additional work, which is already ongoing.

5.2.3. Role of the Office of Audit and Investigations in managing operational risks

187. The Office of Audit and Investigations plays a major role in the management of the risk framework, which sometimes goes beyond its assignment under the policy as the third line of defence.

188. The Office is a key stakeholder in the management of operational risks and at the same time an auditor of the system. On the one hand, it is an integral part of major operational tools such as the harmonized approach to cash transfers and social and environmental standards, of which it monitors implementation at the programme and country office levels. In this respect, it acts as part of the second line of defence, through assurance activity. The Office is an integral part of the internal control mechanisms that have been designed mainly at the project level. On the other hand, as an internal auditor and being responsible for investigations, the Office acts as a key player of the third line of defence.²⁶ Its role in the second line of defence should qualify it to be part of the corporate risk committee as a linchpin of the most resource-intensive operational risk management mechanisms that UNDP has at its disposal. Nevertheless, as one of the main bodies constituting the third line of defence, the Office should probably not be a voting member of the committee, especially because it might, and indeed regularly does, audit the implementation of risk management policies and the enterprise risk management policy at the corporate level. The Office is currently not a member of the risk committee but could be given a seat as an observer without the authority to make decisions.

189. In this respect, in the external quality assessment of the Office conducted by the Institute of Internal Auditors in September 2022, it was already observed that both the Office's detailed work at the operational level and its viewpoints on transversal topics were seen as essential and were particularly appreciated as an early warning system, not least given the decentralized structure of UNDP; however, senior stakeholders also perceived that internal audit activity often focused on the transactional level rather than taking the wider strategic view.

190. A recent and positive evolution is the strengthening of the enterprise risk management monitoring functions of the second line of defence within regional bureaux. The ongoing establishment of the programme risk management team in the Regional Bureau for Africa can be seen as a positive example if some of the responsibilities currently entrusted to the Office are progressively taken over by such units instead of being duplicated.

191. The Board recommends that UNDP review existing risk management tools owned by UNDP in order to: (a) simplify the landscape in view of their added value, coherence and complementarity; (b) emphasize the particular risks linked to implementing partners; and (c) where these tools so require, engage with the Office of Audit and Investigations to ensure its exclusive positioning as the third line of defence.

²⁶ On the three lines of defence, see the enterprise risk management policy, sect. 4.1: "The 'three lines of defence' support more effective risk management by introducing structured governance and oversight that clarifies and segregates roles and responsibilities based on the following: first line of defence, functions that own and manage risks; second line of defence, functions that oversee and/or specialize in risk management, compliance; third line of defence, functions that provide independent assurance".

192. UNDP accepted the recommendation, recalling that the third point (on engaging with the Office) would also necessitate the Office's consent.

5.3. Case studies

193. The Board has looked at two specific case studies to analyse UNDP risk management in concrete and high-impact areas: the transition of enterprise resource planning from Atlas to Quantum (sect. 5.3.1); and the 2020 internal audit of GEF (sect. 5.3.2). Lessons can be learned from these cases, including the need to ensure that high risks associated with major corporate projects are escalated to the appropriate level, and the need to better understand key implementation challenges on the ground.

5.3.1. Risk management in the transition of enterprise resource planning from Atlas to Quantum

194. Risk management in the transition from Atlas to Quantum would have benefited from a more integrated and coherent approach.

New enterprise resource planning, an asset for risk management

195. The transition of enterprise resource planning from Atlas to Quantum is intended in particular to improve risk management.

196. At the project level, Quantum is aimed at simplifying processes for risk monitoring. It integrates a module for the internal control framework, as was the case in Atlas, and will also include the risk registers and link both. Risk managers should therefore be supported in their decisions by data generated automatically.

197. At the corporate level, UNDP corporate risks registers (corporate, headquarters units, regional bureaux and offices) migrated to the corporate planning system in mid-2022. Quantum+ is tailored to manage and provide an overview of risks through, for example, automated risk categorization, assessment, impact and likelihood. However, this new module, like any new tool, will need to be appropriated by risk owners in order to be used efficiently.

198. The new enterprise resource planning system will allow the centralization of user clearances and multifactor authentication, but will outsource some risks to a cloud provider. Compared with Atlas, the segregation of duty and user clearance are rationalized, and the Quantum project team managed to centralize all clearances in the same module, a task that turned out to be technically complicated. This allows the internal control framework to be enforced in a more automatic way, given that user clearances and task segregation are coherently defined. Also, compared with Atlas, the multifactor authentication is enabled automatically through Quantum. This is likely to reinforce security and lower cyberrisks. Finally, the risk of outsourcing all business operations to a cloud provider has been accurately identified and treated by the Office of Information and Technology Management and its Chief Cybersecurity Officer.

199. The Board did not conduct an audit of the Quantum project per se, but looked at how risks correlated with the Quantum transition were identified, assessed (criticality in terms of impact and likelihood), responded to (avoided, mitigated, tolerated or escalated) and monitored.

Quantum dedicated risk management framework

200. In order to monitor the Quantum transition, a specific risk committee and register were set up, as well as a dedicated project board. The Quantum risk register includes 84 risks, of which 11 were still active in March 2023. The assessment of

impact and likelihood is similar to the UNDP corporate risk register, but the risk significance categorization does not follow the UNDP risk assessment matrix. Once significance is computed, the corporate risk register divides it into four categories (low, moderate, substantial and high) while the Quantum register uses three categories (low, medium and high). This discrepancy, beyond the technical details, does not facilitate risk assessment and the escalation process. Given the Quantum risk categorization method, a number of inaccuracies in risk significance have been observed: of the 84 risks in the Quantum risk register, 31 appear miscategorized, including 2 that are still active.

201. The management of risks at the project level through the Quantum risk register may have led to misleading categorization of certain risks, implying inaccuracies and mitigation measures that are not always adequate for the risk. The Quantum project team indicated that instances of miscategorization, as highlighted in the previous paragraph, reflected the demands of the eight partner agencies that had adhered to the project, which had their own views on the level of risk that needed to be reflected as such in the project risk register. This shows that dealing with Quantum transition risks mainly at the project level was not sufficient to have a proper assessment of the risks.

Link between different risk registers

202. Risk management for the transition to Quantum has been conducted at three different levels: the Quantum risk register and committee (project level); the information and technology management risk register (unit level); and the corporate risk register and committee (corporate level). The project-level risk management procedures are not limited to UNDP but include other client agencies of the enterprise resource planning system, which also have their own risk registers.

203. Some inconsistencies between the three levels have been noted, as well as an unclear mechanism to link the various processes. This leads, for instance, to undermining of the risks of the transition to Quantum, especially in view of the fact that the “go live” was postponed twice in 2022 to mitigate the transition risk and that the initial cost of the project has overrun. The risk linked to the “go-live” identified in the information and technology management risk register is assessed as having a potential financial impact of \$5 million but this relates to the impact on the Quantum project budget, while the risk could have a major impact on the organization and its operational capacity as well as a major impact on the eight agencies that are undergoing the same transition. The “go-live” risk impact, though always difficult to quantify in financial terms, should have been assessed as much higher.

Lessons learned

204. The risks associated with the transition to Quantum, a major corporate project, have been managed outside the main corporate enterprise risk management system. This tendency to use a separate and dedicated framework for managing risks was observed in other projects of the same magnitude, such as the grouping of support functions in clusters such as in Copenhagen or Kuala Lumpur (“clustering” reform). A specific mechanism has been developed with a dedicated risk register and risk committee.

205. While this is understandable, in particular in view of the technicality of the project and fact that the transition to Quantum involved a partnership with eight other institutions and required piloting at that level, some shortcomings have been noted: first, the complexity of the risk management mechanism, which involves four different risk registers (at the partner agency, project, unit and corporate levels) that are not fully coherent with one another and whose methodologies sometimes differ for assessing and categorizing risks; second, cooperation that is not fluid between the

project and the corporate levels, resulting notably in a lack of attention at the highest level to inaccuracies in the identification, assessment and mitigation of risks, and even the undermining of some of the critical risks at stake, not to mention major mitigation measures necessary.

206. Drawing lessons from this experience, UNDP needs to find a way to ensure that high risks associated with major corporate projects are escalated to the appropriate level. In this perspective, UNDP is working on a definition of “high risk”, i.e. risk that is considered to be strategic to the organization and should be reviewed regularly at the level of the risk committee.

5.3.2. Internal audit of the United Nations Development Programme Global Environment Facility in 2020

207. The internal audit of GEF in 2020 led to a swift reaction from UNDP management, several interactions with the Office of Audit and Investigations and an ambitious management action plan. UNDP management had the double reaction to ringfence the crisis to the management of GEF-funded projects and, to some extent, to the management of environment-related vertical funds, as well as to genuinely try to learn from the crisis. How UNDP has benefited from the audit of GEF remains to be seen as some of the initiatives will take time to produce results. It would nevertheless be useful for those workstreams to be further integrated into UNDP business and risk management processes.

Internal audit

208. GEF is a financial organization that works to preserve the environment. Created in 1991 by the World Bank, UNDP and the United Nations Environment Programme, it brings together 183 Member States, 32 of which provide the funds necessary for its mission. It has the objective of supporting environmental projects dedicated to the fight against global warming, soil degradation, water pollution or, more generally, in favour of sustainable development and biodiversity protection. In particular, it provides financial support for projects that help the least developed countries to achieve the objectives set out in the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity. Roughly 40 per cent of GEF grants have been mobilized by UNDP, working with partner countries. UNDP, along with the United Nations Environment Programme, is a leading United Nations partner of GEF.

209. A highly critical audit of GEF was released by the Office of Audit and Investigations in 2020. This internal audit covered the fiscal years 2018 and 2019, with an overall rating of “partially satisfactory/significant improvements needed”. A number of weaknesses were identified, including inadequate monitoring of GEF-led projects and a lack of monitoring of internal control and the organization’s financial resources. In the report, the Office described multimillion dollar “financial anomalies” in project management, with evidence of “fraudulent activities” in two country offices and “suspected collusion between different project managers” in another. The audit resulted in 12 recommendations, 5 of which were deemed “high priority”. These recommendations covered insufficient oversight, operational weaknesses in GEF project management and weaknesses in risk management practices as well as in financial resource management and procurement.

Management of the crisis and of the risks for the United Nations Development Programme

210. UNDP management has reacted swiftly and has immediately taken a number of initiatives. The report by the Office of Audit and Investigations, the main conclusions of which were leaked to the media, had a high impact on the credibility of GEF, including for donors. GEF has gone through a crisis of confidence that led to the request for a review process by an external consultant in 2021. Dependent on international funding and with its credibility affected, GEF took the audit findings very seriously. Two follow-up reports on the 12 recommendations were issued by the Office of Audit and Investigations, in June 2021 and January 2022. A website dedicated to the follow-up of the recommendations was also launched.

211. The follow-up dashboard indicates that many corrective actions have been implemented since the publication of the audit for 2020. Of the 12 initial recommendations, all are considered by GEF as to have been completed by September 2022.

212. In addition, management took a series of decisive structural steps. First, an inter-bureau task force was created as one of the critical forums for management to look at UNDP systems, initially through the lens of the audit of GEF for 2020 but with the intention to broaden the scope. UNDP developed a means of implementation paper to understand better the implementation challenges for the organization on the ground, with an action plan to be implemented in 2023. The initiative under way to define and identify high-risk projects is also a direct follow-up to issues emerging from the audit of GEF for 2020 that had broader implications across the work of UNDP.

5.4. Maturity and implementation of the enterprise risk management policy

213. The implementation of the enterprise risk management policy is a high priority for UNDP and has gone through a series of incremental improvements, in particular, through the progressive, but still unfinished, integration of its various elements, the development of adequate information technology tools and platforms and the recent adoption of a risk appetite statement. The Office of Audit and Investigations has played a critical role in providing key guidance with regard to this improvement path. Some elements can still be highlighted, notably concerning the maturity of the risk management framework, including in using the recently adopted risk appetite statement at the operational level (sect. 5.4.1), as well as the implementation of the statement in terms of identification, assessment and mitigation of risks (sect. 5.4.2).

5.4.1. Maturity of the risk management framework

214. The current architecture of the enterprise risk management policy appears in most aspects to be evolving towards maturity, but UNDP would benefit from operationalizing its risk management framework at a more granular level by making full use of the recently adopted risk appetite statement and clearly defining the scope of the function of Chief Risk Officer.

Architecture of the policy

215. The architecture of the enterprise risk management policy has gained in maturity since its introduction but additional improvements are needed. The concept of enterprise risk management in UNDP was introduced by the internal auditor (the Office of Audit and Performance Review, now the Office of Audit and Investigations). An external firm, contracted by the internal auditor, drafted an enterprise risk management model and presented its approach at the UNDP global management team meeting in January 2006, at which an initial risk assessment was done. Thereafter, an

enterprise risk management working group was formed and the enterprise risk management policy was approved in February 2007. Implementation has been incremental and the policy has been updated regularly, the latest version dating from 2019. At the time of the audit fieldwork, a new version was pending approval in accordance with the Office of Audit and Investigations recommendation. The policy has been audited several times by the Office, first in 2014, with a follow-up audit in 2016 and the most recent audit in July 2021. At the system-wide level, implementation of the policy was also reviewed by the Joint Inspection Unit in 2019, which emphasized the role of the external auditor in the process²⁷ and made specific recommendations.

216. The current architecture of the enterprise risk management policy, when benchmarked with the ISO 31000 referenced in it, appears in most aspects to be evolving towards maturity. The architecture is supported by a network of risk owners and risk managers. The information technology system has evolved from Atlas to Quantum (for projects) and Quantum+ (for corporate, regional or country office risk management) and is aimed at ensuring a better integration of the different components of the system, in particular the integration of the various levels and of the project component with the other-level component. As of early 2023, the potentialities of Quantum and Quantum+ in this regard seem promising but still have to be fully realized.

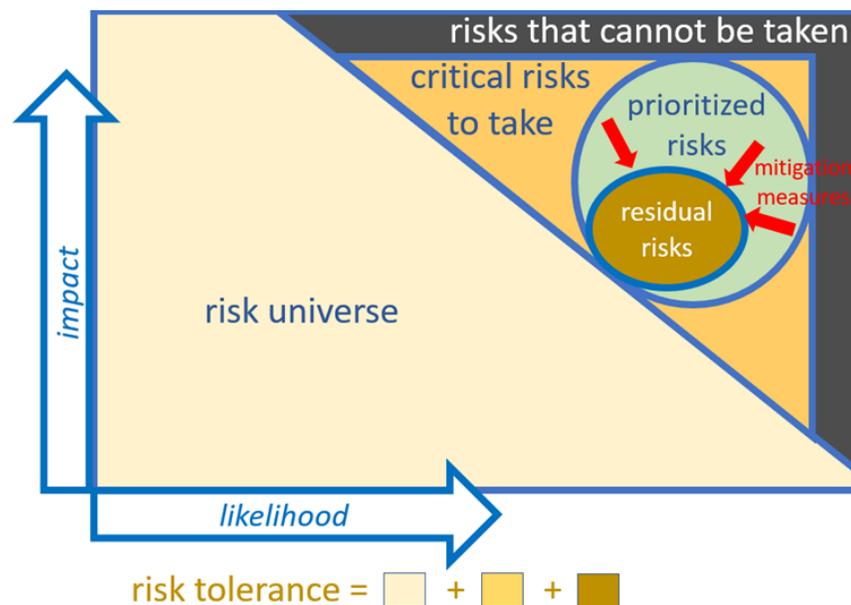
Risk appetite statement

217. The concepts of “risk appetite” and “risk tolerance” are key to unlocking risk management. As mentioned by the Board in volume II of its financial report and audited financial statements for the year ended 30 June 2022 (A/77/5 (Vol. II)), “risk appetite” defines the overall risk that an organization is ready to bear in pursuing its missions, whereas the “risk tolerance” concept is commonly used at a more granular and operational level for a given risk.²⁸ Risk appetite deals with the willingness of the organization to take on risk, while risk tolerance, drilling down from the overall risk appetite categories, deals with the concrete ability to do so at the operational level. Tolerance for risks includes three layers: risks that are not considered critical; critical risks that are not given priority; and residual risk that remain after mitigation measures have been taken (see figure II.V). The definition of a risk appetite, when expressed publicly in a risk appetite statement as is the case for UNDP, facilitates mitigation actions even if they imply that a residual risk remains, which can be described later in more detail in more granular internal documents. This definition of a risk appetite needs to balance several factors, including cost-related factors.

²⁷ See [JIU/REP/2020/5](#), para. 63: “Recommendations by external auditors have contributed to reinforcing [enterprise risk management]”.

²⁸ For more details, see the United Nations System Chief Executives Board for Coordination guidelines on risk appetite statements, 30 September 2019 (CEB/2019/HLCM/26).

Figure II.V
Risk tolerance



Source: Board of Auditors.

218. In its audit of enterprise risk management in 2021, the Office of Audit and Investigations recommended the establishment of a risk appetite statement, which was required in the enterprise risk management policy of 2019. Following the audit, a risk appetite statement was elaborated and approved by the Administrator in October 2021.

219. Risk appetite has been defined across eight risk categories on the basis of enterprise risk management categories and rated on a risk appetite scale that ranges from “minimal” to “seeking”. For each category (strategic, reputation, operational, organizational, social and environmental, financial, regulatory, and safety and security), the overall risk appetite is defined. Residual risks, namely risks that exceed the risk appetite, receive specific attention: “For those risks that cannot be brought within the risk appetite in a proportionate and cost-effective fashion and cannot be avoided, approval to continue should be obtained in accordance with the standard governance arrangements”. The risk appetite statement is complemented by risk appetite statement guidance, which details the methodology for every component of the risk appetite statement.

220. The statement is supposed to be reviewed regularly – though no review has been conducted so far – and lessons learned from the reviews captured in a lesson learned register in accordance with the statement. These reviews can be triggered by changes in strategic priorities, changes in approach to specific risks or major changes in business or operating models. They would gain more visibility and authority if the revised risk appetite statement were approved at the level of the Executive Board.

221. The recent approval of the risk appetite statement does not yet allow for a full assessment of its impact on the organization. It is still not fully operationalized and integrated into the platforms used in the organization to follow risk management.

222. The Board recommends that UNDP operationalize its risk management at a more granular level by making full use of the existing risk appetite statement.

223. UNDP accepted the recommendation and stated that it had already started on the implementation process.

Chief Risk Officer

224. The UNDP Associate Administrator has recently been considered as Chief Risk Officer but the framework of this function remains incomplete.

225. First, the terms of reference for this important position are still not approved and therefore the scope of the function remains unclear to date. Minutes of the corporate risk committee meeting in 2022 mention neither the existence of the function nor the fact that the Associate Administrator has been appointed.

226. Furthermore, the functional relationship between the Chief Risk Officer and the risk focal points and risk officers, including in the field, would need to be clarified in order to allow the Chief Risk Officer to rely on a clear risk management network. This would also help to strengthen the second line of defence of the risk management system.

227. The Board recommends that UNDP clearly define the scope of the function of its Chief Risk Officer and the chair of the corporate risk committee, as well as their functional relationship with the regional bureaux.

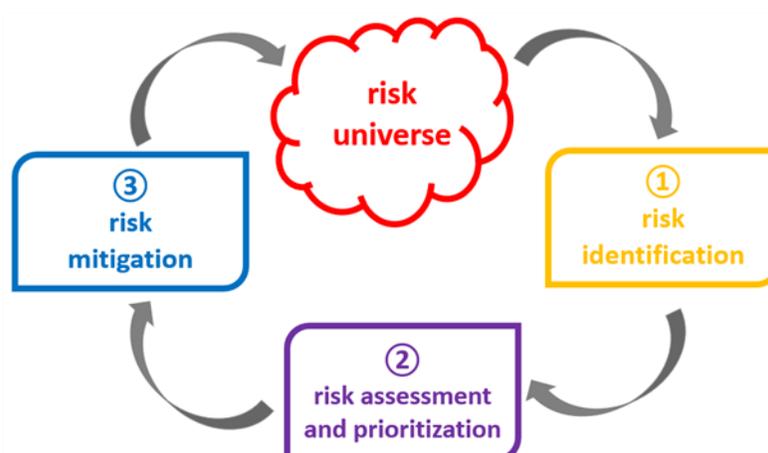
228. UNDP considers this recommendation to already have been implemented, as a revision of the Chief Risk Officer job description was made after the completion of the Board's audit. The Board will follow up on this issue in its next report.

5.4.2. Implementation of the policy

229. The full implementation of the policy requires attention to three key steps: identification of the main risks at stake; assessment of their criticality and prioritization of the most critical risks; and the design and implementation of appropriate mitigation measures.

Figure II.VI

Key steps in risk management



Source: Board of Auditors.

Risk identification

230. The Office of Audit and Investigations, in its audit of 2021, highlighted recurring weaknesses in risk identification practices and the updating of risk logs on

the basis of a review of regional, country and corporate-level risk registers. This audit followed the Board's audit in 2020, which recommended that country offices complete risk registers for all projects and that bureau directors fulfil their responsibilities with regard to enterprise risk management, ensuring that offices under their supervision include risks relating to internal issues. In 2021, the Board noted that the development of the new risk register was ongoing. The supporting documents received did not explain what specific mechanism/process would be established to ensure that country offices record project-related risks for all of their projects and that risk entries are complete. As of May 2022, the related dashboard reported 421 projects without risk entries. The Board also stated that it welcomed the ongoing efforts to address the recommendation. The supporting documents received, however, did not explain what specific mechanism/process would be established to ensure that directors of bureaux fulfil their responsibilities with regard to enterprise risk management. The Board, in its audit conducted in 2023, assessed these recommendations as having been implemented.

Risk assessment

231. The corporate risk register is systematically maintained and regularly updated but could be improved. The register as it appeared in Quantum+ in March 2023 comprises eight active corporate-level risks. It must be noted that all risks have outlived their expiration date of 31 December 2022 as well as the deadline for all risk treatments, which was generally 31 December 2021 and sometimes 2022.

232. The corporate risk register constitutes the summit of a pyramid that included almost 1,000 programme risks as at March 2023 and thousands of project-level risks. How a risk ends up being included in the register is the result of successive escalations. Some major internal corporate projects that entail highly critical risks such as the change in enterprise resource planning and the clustering project are managed outside the main enterprise risk management framework and benefit from a specific risk committee and risk framework monitored outside the system. It is also noted that none of the risks identified by regional bureaux made it into the corporate register. For instance, the crisis in Ukraine, in spite of its substantial impact on UNDP globally, is not mentioned in the corporate register.

233. The assessment of most of the key risks also needs to be improved. On the basis of an analysis of risk registers at the project, country office, regional and corporate levels, it is observed that the assessment needs enhancement and is even sometimes missing. According to the policy, each risk needs to be assessed, but this analytical element is often insufficient. This feature of the policy does not seem to have been applied with the necessary rigour or in accordance with the policy. In view of the diverse skills and capacity that these assessments would necessitate in order to be implemented in accordance with the policy, a serious effort would be necessary. Besides, the policy requires a monetary assessment of the impact of the risk if it were to materialize. This is rarely done or is done in a fashion that seems quite random and conducted without a clear methodology. This feature of the policy also seems overly ambitious. Finally, the sheer number of risks and risk treatments that need to be identified, treated and monitored renders the exercise difficult to manage properly. A few of these observations have already been picked up by the Office of Audit and Investigations.

Risk mitigation and follow-up

234. The level of compliance with the enterprise risk management policy at the country office or project level is in progress in all locations audited in 2022 and early 2023. Compliance is enforced by management and is now supported by an integrated data management system in which inputs at the various levels can be accessed and

monitored in real time even if the transition from Atlas and Quantum is still not assessed. Audits by the Office of Audit and Investigations have also constituted a healthy incentive for improvements in compliance.

235. The quality of risk assessment nevertheless remains an issue. The enterprise risk management policy demands that all identified risks are assessed. Those escalated to the corporate risk committee should be supported by adequate analytical underpinning, for instance, but in general all risks should be assessed and fully understood. The policy also demands that all identified risks should have their impact evaluated in financial terms, in some cases by the provision of a bracket to reflect the various degrees of materialization of the risk (e.g. partly or fully materialized). The Board noticed that, based on its review of the various levels of risk identification, including at the project and country office levels, the risk assessment is often conducted in a cursory fashion and is seldom based on a well-researched theoretical underpinning. The financial impact is very often absent or done at random, without an explicit methodology.

236. While the design of the enterprise risk management policy and its implementation are improving incrementally, more needs to be done to strengthen the monitoring of mitigation measures. The relevance of the enterprise risk management policy eventually depends on its “downstream” elements, namely what happens after the risks have been identified and assessed and the logs and registers have been uploaded in the systems. The policy calls for mitigation measures (also called risk treatments) to be established once the risks have been identified and assessed. These risk treatments are uploaded in the Quantum system and a deadline for their treatment is assigned. It is also not clear how at the project level the implementation of these mitigation measures is followed up on, as shown in the section of the present report on social and environmental standards. The Board has nevertheless obtained evidence that risk treatments have been followed up on by the relevant units for risks included in the corporate risk register, but this work is rarely monitored in the risk platforms.

237. The Board recommends UNDP update its enterprise risk management policy, with the objectives of: (a) developing user-friendly methodologies for assessing risks; (b) ensuring a prioritization of the most critical risks to tackle as a priority; and (c) strengthening the monitoring and reporting of risk treatment measures.

238. This process should also lead to a review, under the leadership of the Chief Risk Officer, of the quality of the existing enterprise risk management tools, including risk registers and risk treatment and response plans.

239. UNDP accepted the recommendation.

5.5. Risk management in the context of the wider accountability system

240. Risk management in UNDP would benefit from better linkages with the wider accountability system (sect. 5.5.1), especially in the fields of internal control (sect. 5.5.2), programme planning and budget (sect. 5.5.3), as well as results and performance (sect. 5.5.4).

5.5.1. Risk management and the accountability framework

241. The Executive Board decision in which the UNDP accountability system is defined ([DP/2008/16/Rev.1](#)) has not been updated since 2008 and does not mention the enterprise risk management policy. In its report for the year ended 31 December 2021, the Board noted that: the Executive Office had initiated plans to update the UNDP corporate accountability framework, including the UNDP decision to establish a corporate compliance board, and that the current timeline for the update of the corporate

accountability framework indicates that the draft is not to be finalized until 2023. The Board made a recommendation in this regard, which is under implementation.

242. The inclusion of governing bodies in the accountability framework could inspire the enterprise risk management framework. The accountability framework of 2008 takes a holistic view of accountability and includes the governing bodies (Executive Board, General Assembly (Fifth Committee) and Economic and Social Council) and other internal and external stakeholders, including beneficiaries. This approach is still missing in the enterprise risk management policies; it has been conceived as an internal UNDP process and remains unopen to other United Nations entities, donors or, more fundamentally, governing bodies. Even if, especially recently, the Executive Board and the Audit and Evaluation Advisory Committee have shown interest in being informed about risk, the enterprise risk management policy and the risk appetite statement, they are not an integral part of the risk management framework.

243. The new accountability framework should focus on defining the appropriate modalities of engagement of the legislative or governing bodies, as well as donors, implementing partners and beneficiaries, in the enterprise risk management policy, as was already underlined by the Joint Inspection Unit in 2019.²⁹

244. In addition, while implementing partners are definitely involved in important elements of risk management (e.g. harmonized approach to cash transfers and social and environmental standards), they are to a large extent left out of the design and discussion of the risk matrix. In particular, while all projects are accompanied by a risk register, the Board has not found evidence that the implementation of the mitigation measures envisioned at the approval stage of the projects is adequately followed up on and assessed for the duration of the project.

5.5.2. Risk management and internal control

245. Internal control and risk management are intricate concepts that are essential parts of the UNDP accountability system. Internal control can broadly be defined as a process designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance.³⁰ Under such a broad definition, risk management is usually considered as one of the key components of the internal control system, but the reverse is also true, as the quality of internal control is an element used to assess the criticality of a risk and determine the mitigation measures required.

246. The integration of risk management and internal control needs to be improved. In theory, points of integration already exist: (a) both the internal control framework policy and the enterprise risk management policy integrate the three lines of defence model; (b) internal control is included as a risk subcategory in the appendix to the enterprise risk management policy; (c) the internal control framework policy includes multiple references to the enterprise risk management policy and to the concepts of risk assessment and risk management; and (d) the internal control framework operational guide includes a dedicated section on risk management. In practice, however, UNDP internal control could benefit greatly from more mature risk

²⁹ The Joint Inspection Unit found, inter alia, that: “(a) legislative/governing body interest is one of the most important drivers for implementing [enterprise risk management]; (b) donor interest is also an important driver for implementing [enterprise risk management]; (c) [enterprise risk management] provides an opportunity to enhance transparency, establish trust with a legislative/governing body and leverage, attract or support additional funding opportunities; [and] (d) legislative/governing bodies need to be engaged with [enterprise risk management] practices at the strategic level”.

³⁰ Committee of Sponsoring Organizations of the Treadway Commission, “Internal control – integrated framework”, 2013.

management, and vice versa: risk management could, for instance, help to ensure that controls are targeted where they are most needed, and improvements in internal control could contribute to reassessing the associated risks and mitigation measures needed.

5.5.3. Risk management and programme planning and budget

247. Bridges between the budget process and risk management could also be developed. UNDP budgets are prepared for a period of four years and then biannually to reflect the strategic plan and its funding cycles. In line with the UNDP Financial Regulations and Rules and related budgetary regulations, the operational, logistical and financial aspects are supposed to be integrated into the planning phase by linking the budget to the strategic and programmatic documents. The enterprise risk management process and, more generally, risk management processes, which should be an integral part of this work, nevertheless remain largely underexploited. For instance, the various steps of the integrated workplan process currently include attention to risk management and the risks identified in enterprise risk management registers, but there is no clear link with the budget and resource allocation processes.

5.5.4. Risk management and results and performance

248. More mature risk management could also contribute to strengthening the results and performance frameworks. Risk management could notably help to better align senior management compacts, including between the country office resident representative and the regional bureau, with key planning objectives and performance indicators, as reported to the Executive Board and legislative bodies. Considered a key element of the accountability system, the compacts, which are contractual terms of reference for senior management, are an opportunity to crystallize their programme objectives, articulate their vision of how they will implement their mandates, and establish the parameters by which they will be assessed on their use of financial and human resources, integration of sustainable development practices and implementation of oversight body recommendations. Nevertheless, this high-level exercise has so far made little or no use of risk management.

Figure II.VII

Risk management and accountability framework



Source: Board of Auditors.

249. **The Board recommends that UNDP give a central place to risk management in its updated accountability framework, in order to better link risk management with internal control, strategic programming and budgeting, as well as results and performance, systems.**

250. UNDP accepted the recommendation.

6. Management of programmes and projects related to Sustainable Development Goal 16 (governance)

251. UNDP currently faces particular challenges with regard to development policies, including the following: (a) the tendency of some donors to focus on emergency humanitarian response to crises rather than on preventing and addressing structural factors that affect long-term development; (b) the political sensitivity of operations in exposed settings; and (c) the difficulty of ensuring alignment and coordination on the ground among the various stakeholders.

252. In this context, UNDP has dedicated a significant amount of its activity to the fulfilment of Sustainable Development Goal 16 on promoting just, peaceful and inclusive societies (governance). As at the date of the audit, UNDP was managing almost 1,400 projects, representing the second largest expenditure item per Goal in 2022 (\$878 million). Such expenditure has been declining for several years, however, notably due to the gradual reduction in and termination of large multi-donor initiatives such as the law and order trust fund for Afghanistan.

253. The Board audited UNDP management of programmes and projects related to Sustainable Development Goal 16 and concluded that it would be necessary to better underscore the Goal 16 priority as a key element of the UNDP strategic plan (sect. 6.1), take advantage of UNDP information systems and data platforms to better track activities and results related to Goal 16 (sect. 6.2), mobilize UNDP global expertise on governance (sect. 6.3) and better measure results and report on the impact of programmes and projects related to governance (sect. 6.4).

6.1. Better underscoring the Sustainable Development Goal 16 priority as a key element of the United Nations Development Programme strategic plan

254. Two fifths of Sustainable Development Goal 16 project outputs are not valued under any signature solution developed by UNDP along with its strategic plan for the period 2018–2021. In addition, a significant number of projects linked to “governance” activities are not explicitly recorded as such, being related neither to Goal 16 nor to signature solution 2 of UNDP (strengthening effective, inclusive and accountable governance). UNDP nevertheless underlines that there should not be a direct affiliation between projects linked to governance and Goal 16, as governance activities in the areas of environment, poverty and health, for example, could be tagged to Goals related more directly to those respective areas.

255. The efforts of UNDP to engage in the Sustainable Development Goal 16 agenda is not always sufficiently captured through the results framework of the strategic plan because of deficiencies and inconsistencies in activity-tagging. This is notably due to the fact that the integrated results and resources framework for the UNDP strategic plan for the period 2022–2025 is designed to measure delivery against agreed outcomes and outputs, not specifically against the Goals.

256. Development policies currently face particular challenges, including the tendency of some donors to focus on the emergency humanitarian response to crises rather than on preventing and addressing structural factors that affect long-term development, the political sensitivity of operations in exposed settings and the difficulty of ensuring alignment and coordination on the ground for all stakeholders.

257. In this context, while the attainment of Sustainable Development Goal 16 is a high priority for UNDP and receives substantial funding, this effort is not always sufficiently captured through the result framework of the strategic plan because of inadequacies and inconsistencies in activity tagging.

258. Sustainable Development Goal 16 is aimed at promoting peaceful and inclusive societies for sustainable development, ensuring access to justice for all and building effective, accountable and inclusive institutions at all levels. Originally summarized as “peace, justice and strong institutions”, it is now called “peace, justice and inclusive societies”. For the monitoring of its implementation by Member States, as with other Goals, Goal 16 is associated with targets and indicators to measure achievement. There are 12 targets and 24 indicators associated with Goal 16.

259. UNDP does not have a global measure, beyond the few indicators relating to the targets of Sustainable Development Goal 16 for which it is responsible. The World Bank has been monitoring indicators (governance worldwide indicators) for several years to give a clearer picture of governance.

260. Over the past five years, the evolution of the six families of indicators monitored by the World Bank shows stagnation for four families and pronounced deterioration for two (the latter being: political stability; and voice and accountability).

261. Through its work, such as the annual Human Development Report, UNDP measures the evolution of the overall development context at the global level. In the *Human Development Report 2021/2022: Uncertain Times, Unsettled Lives – Shaping our Future in a Transforming World*, it pointed out that progress in governance had stalled in the past two decades. It argued that governance in the Anthropocene must enable systemic and transformational change based on the principles of transparency, inclusion and subsidiarity.

262. In early 2023, the Administrator announced to the Executive Board³¹ that UNDP was developing a governance strategy that could be a “governance offer” comparable to the crisis offer of 2022. This builds on, among other things, the signature solution 2 (governance) approach already adopted in 2022, which is broken down into a number of service offerings that address a broad range of governance issues.³²

263. Sustainable Development Goal 16 is now a significant part of the work of UNDP and was included in the peace pillar of its five strategic pillars for the period 2018–2021. It is the second largest item, after Goal 1 on poverty eradication, with expenditure of \$878 million in 2022 compared with \$1,098.7 million in 2021.

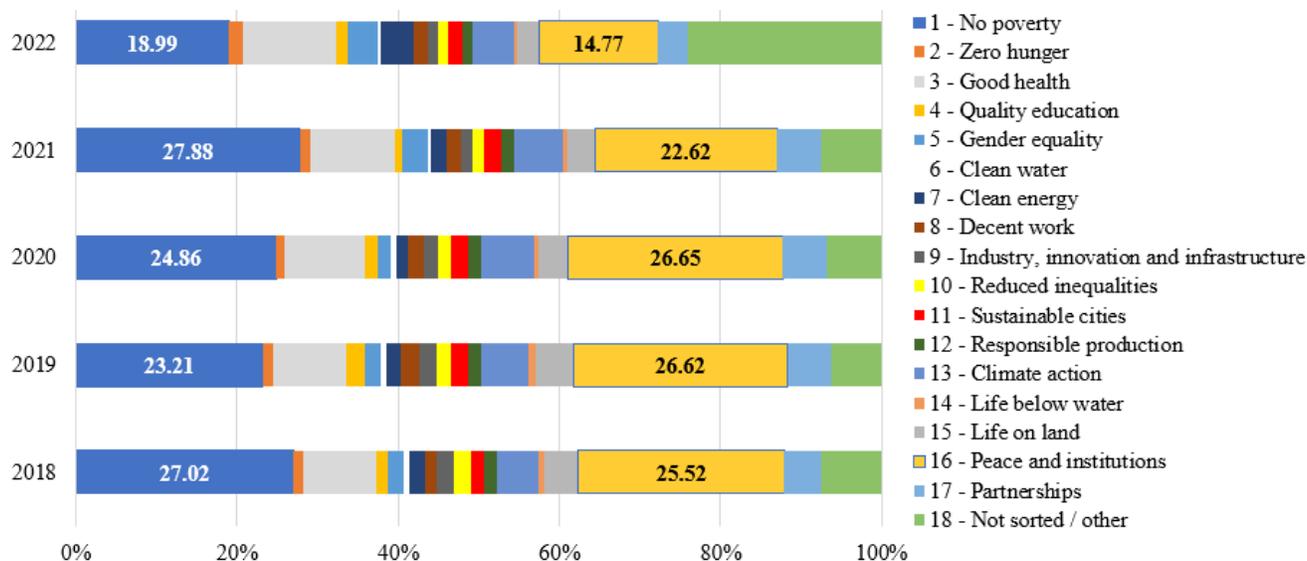
264. However, this share has, quite surprisingly, been decreasing for several years: it represented 14.8 per cent of the budget in 2022 compared with 25.6 per cent in 2018. It has also decreased in terms of expenditure: 15.8 per cent in 2022 compared with 26.4 per cent in 2018. This is notably due to the gradual shrinking and the end of large multi-donor initiatives such as the law and order trust fund for Afghanistan.

³¹ Administrator’s statement, Executive Board session, January 2023.

³² The notion of governance is broader than that of “democratic governance”, which falls under target 16.3 of Sustainable Development Goal 16, on the rule of law and access to justice.

Figure II.VIII
Breakdown of United Nations Development Programme budget programmes by Sustainable Development Goal, 2018–2022

(Percentage)



Source: External audit team based on UNDP project-based portfolio analytics; data updated on 10 March 2023.

265. According to the project-based portfolio analytics data platform, the budget devoted to Sustainable Development Goal 16 (\$1,005.4 million in 2022) has decreased by 31 per cent in five years (\$1,463.1 million in 2018) and even by 32 per cent compared with the previous year (\$1,485.3 million in 2021). In terms of expenditure, the decrease is even greater: 36 per cent between 2018 (\$1,202.5 million) and 2022 (\$765.3 million) and 29 per cent since 2021 (\$1,079.4 million).

266. The implementation rate of expenditure against the budget for Sustainable Development Goal 16 (76 per cent in 2022), while reflecting a decrease compared with 2018 (82 per cent), is not significantly different from the average implementation rate of UNDP projects.

267. In organizational terms, governance support at headquarters is complex. The headquarters office combines three entities under two of its offices (anchor bureaux) for the implementation of Sustainable Development Goal 16: the governance team under the Bureau for Policy and Programme Support, which is closely associated with two teams under the Crisis Bureau (the rule of law, security and human rights team, created in 2014, and the conflict prevention, peacebuilding and responsive institutions team), totalling just under 150 personnel located mainly at headquarters (51 per cent of the total) but also disseminated throughout the five regional hubs (29 per cent of the total). Different key players have been meeting monthly since September 2020, with the support of the Oslo Governance Centre, in the Sustainable Development Goal 16 task team.

268. The link between the Sustainable Development Goals and local-level implementation is made through the UNDP five-year country programme documents, which are themselves designed to be consistent with the multi-year programming frameworks (United Nations Sustainable Development Cooperation Framework) of the United Nations country team in a given country.

269. Sustainable Development Goal 16 represents a substantial share of the work of UNDP. 1,363 projects, or 27.7 per cent of the 4,917 projects³³ supported by UNDP in 2022, were concerned in some way with this objective and implemented in around 130 countries. These projects are part of a stock of nearly 3,400 projects under the Goal for the period 2012–2022, of which it is impossible to know how many have been closed. Compared with 2021³⁴, the number of projects decreased by 5.5 per cent in 2022. Their average budget is less than \$1 million (\$0.70 million in 2022) and has fallen sharply (by 78.6 per cent) since 2018, possibly in conjunction, according to management, with the closing of projects in Afghanistan (such as the law and order trust fund for Afghanistan).

270. The vast majority of the projects are led by the country offices, alongside 17 projects led at headquarters – including the rule of law, security and human rights global programme in place since 2008 – and 27 projects conducted at the regional level. In addition, headquarters teams working on Sustainable Development Goal 16 are seeking a more macro-level portfolio approach than the traditional project approach.

Table II.5

Overall analysis of Sustainable Development Goal 16 projects, 2018–2022

(Millions of United States dollars)

	<i>Budget</i>	<i>Expenses</i>	<i>Number of projects</i>	<i>Average budgeted amount/project</i>
2022	1 251.04	878.02	1 363	0.70
2021	1 539.81	1 122.21	1 442	0.68
2020	1 588.25	1 285.97	1 405	1.13
2019	1 490.37	1 205.16	1 331	1.12
2018	1 484.33	1 219.65	1 189	1.25

Note: Data for 2022 are provisional.

Source: UNDP transparency portal (open.undp.org) as at 31 December 2022.

271. These country office projects are in line with the priorities of the current country programme documents: a survey shows that in 10 country programme documents³⁵ priorities related to Sustainable Development Goal 16 were always among the three or four priorities. It should be noted that there are no specific additional guidelines for the implementation of projects related to Goal 16, nor to any other Goal, as UNDP chose to have a standardized approach to programming across all signature solutions and Goals, but that they are in line with the general rules set out in the programme and operations policies and procedures.

272. The country offices are, however, unevenly involved in projects related to Sustainable Development Goal 16. Each of the five regional hubs has a specialized adviser, but in the period 2012–2022 one project in two was conducted in areas covered by the Regional Bureau for Africa and the Regional Bureau for Latin America and the Caribbean. Over the same period, 10 countries accounted for a quarter of all projects.

³³ See transparency portal, 2022, 9 March 2023.

³⁴ 1,443 projects in 2021 according to the transparency portal.

³⁵ Barbados, Ecuador, Gabon, Jordan, Mali, Mozambique, Panama, Sudan, Tanzania (United Republic of) and Thailand.

273. In terms of the amount budgeted in 2022,³⁶ the main beneficiaries of projects related to Sustainable Development Goal 16 are shown in table II.6.

Table II.6

Main beneficiaries of Sustainable Development Goal 16

(Millions of United States dollars)

<i>Beneficiary</i>	<i>Amount</i>
Argentina	87.9
Colombia	54.5
Conflict Prevention, Peacebuilding and Responsive Institutions	52.1
Ukraine	46.5
Iraq	41.9
Somalia	30.6
Lebanon	25.1
Brazil	24.6
Burkina Faso	22.0
Bureau for Policy and Programme Support global programme	12.8

Source: UNDP.

274. However, the UNDP contribution to the implementation of Sustainable Development Goal 16 is not limited to the management of a portfolio of focused projects but includes various contributions, the efficiency of which is more difficult to measure. They include an internal network of expertise (Global Policy Network, led by the Bureau for Policy and Programme Support since 2018), UNDP policy and knowledge products and specialized platforms (hubs) of internal and external experts.

275. UNDP is one of many United Nations agencies and international institutions with a role in supporting countries to achieve, and to track progress against, Sustainable Development Goal 16. Other United Nations specialized agencies³⁷ and international institutions³⁸ also carry out governance-related projects and work to support Member States in achieving the targets set. Moreover, UNDP is the custodian or co-custodian agency of 4 of the 24 indicators of Goal 16 (with two subindicators under 16.7.1.).

³⁶ As at 31 December 2022 (source: transparency portal).

³⁷ These include the United Nations Office on Drugs and Crime (UNODC), the Office of the United Nations High Commissioner for Human Rights (OHCHR), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Children's Fund (UNICEF), the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and the United Nations Human Settlements Programme (UN-Habitat).

³⁸ The Organisation for Economic Co-operation and Development and the World Bank.

Figure II.IX
**Sustainable Development Goal 16 indicators under United Nations
 Development Programme custodianship**

16.3.3: Proportion of the population who have experienced a dispute in the past two years and who accessed a formal or informal dispute resolution mechanism, by type of mechanism

16.6.2: Proportion of population satisfied with their last experience of public services

16.7.1: Proportions of positions in national and local institutions, including (a) the legislatures; (b) the public service; and (c) the judiciary, compared to national distributions, by sex, age, persons with disabilities and population groups

16.7.2: Proportion of population who believe decision-making is inclusive and responsive, by sex, age, disability and population group

Source: Tier classification for global Sustainable Development Goal indicators, as at 30 November 2022.

276. Some of the agencies responsible for monitoring the Sustainable Development Goals belong to the United Nations Sustainable Development Group consortium, created in 1997, which brings together 40 funds, programmes, specialized agencies, departments or offices³⁹ under the chairship of the Deputy Secretary-General, with the UNDP Administrator as Vice-Chair. The Group oversees, among other things, the United Nations Sustainable Development Cooperation Framework.

277. UNDP is thus conducting some joint projects on Sustainable Development Goal 16 with other United Nations agencies, including two projects with Secretariat entities.⁴⁰

278. In addition to the Sustainable Development Goal approach to its work, UNDP has developed its own modality for addressing effective governance in its strategic plan,⁴¹ which is presented as an essential foundation for its work on structural change, inclusiveness and the resilience of societies. Among the six signature solutions in the plan, there is a governance theme (signature solution 2), which concentrates the most expenditure: \$1,138 million in 2022, an increase of 11.0 per cent compared with 2021. This amount is broken down⁴² into \$205 million in vertical funds, \$439 million in government cost-sharing, \$412 million in third-party cost sharing and \$71 million in regular resources.⁴³

279. A comparison between the targets and indicators of Sustainable Development Goal 16 and the headings of signature solution 2 shows a difference between the two categories. Although 80 per cent of the projects under the Goal also fall under signature solution 2, Goal 16 is relevant to each of the signature solutions, and signature solution 2 is relevant to all the Goals.

³⁹ The United Nations Sustainable Development Group core group consists of 13 United Nations entities: Department of Economic and Social Affairs, Food and Agriculture Organization of the United Nations, International Labour Organization, International Organization for Migration, OHCHR, UNDP, United Nations Environment Programme, UNESCO, United Nations Population Fund (UNFPA), Office of the United Nations High Commissioner for Refugees, UNICEF, UN-Women, World Food Programme and World Health Organization.

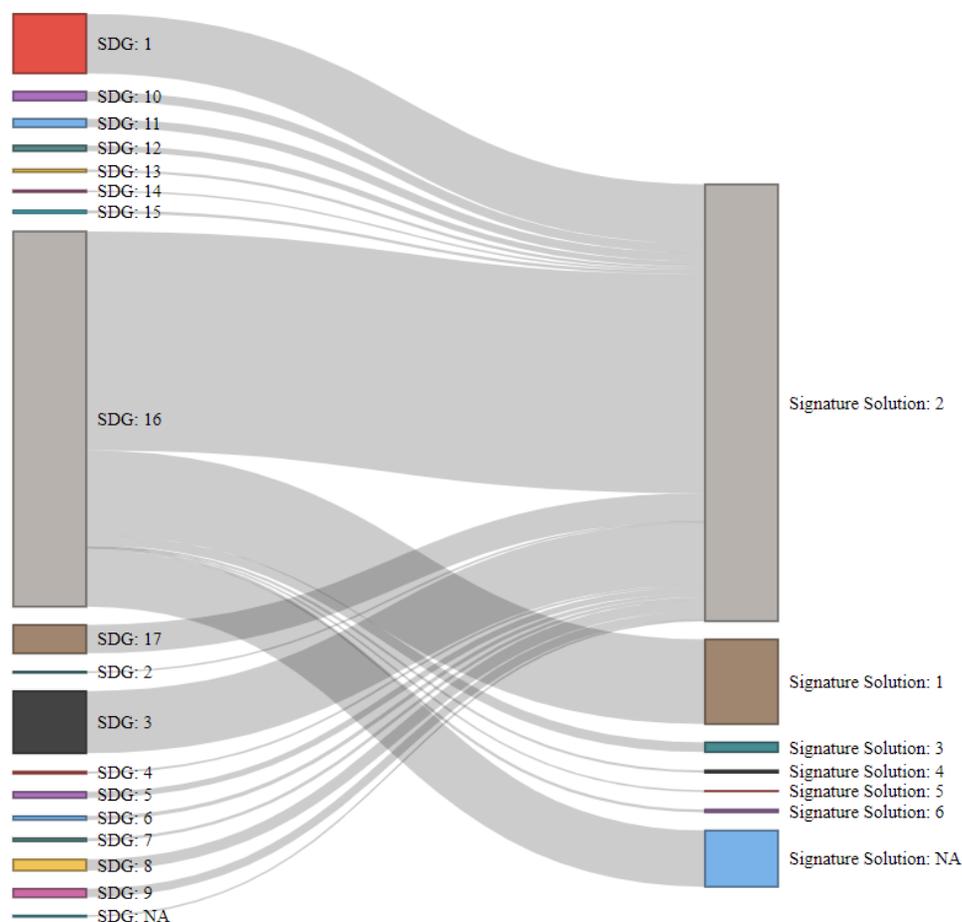
⁴⁰ The peace and development advisers project with the Department of Political and Peacebuilding Affairs, and the United Nations transition project with the Department of Political and Peacebuilding Affairs and the Department of Peace Operations.

⁴¹ Strategic plan for the period 2018–2021, and strategic plan for the period 2022–2025.

⁴² Source: PowerBI.

⁴³ Project-based portfolio analytics, data updated on 15 March 2023. It should be noted that \$11 million is not broken down in 2022.

Figure II.X
Correspondence between budget for Sustainable Development Goals and United Nations Development Programme signature solutions



Source: External audit team, based on the transparency portal, as at 10 March 2023.

280. Since the UNDP reference framework is signature solution 2, the latter approach is preferred to link a project to an indicator: for each project, an output is identified in principle and linked to an outcome, which fits into one of the signature solution 2 headings. In principle, an output can be linked to three different targets of one or more of the Sustainable Development Goals.

281. Donors for signature solution 2 projects appear to be fairly concentrated. The number of donors was 553 in 2018, but has since declined, to 490 in December 2022, a 12 per cent drop. Six of the donors each spent more than \$50 million on these projects in 2022, led by the Global Fund to Fight AIDS, Tuberculosis and Malaria, which spent nearly \$298 million, or more than 16 per cent of the overall budget.

282. Six countries or groups of countries were among the top 10 donors for signature solution 2 projects in 2022: Argentina (in second position, with a budget of \$185 million), the European Union (fourth, with a budget of \$126 million), Japan (fifth, with a budget of \$92 million), Sweden (sixth), the Kingdom of the Netherlands (seventh) and Germany (eighth). UNDP itself is ranked third with a budget of more than \$100 million in 2022.

283. With regard specifically to Sustainable Development Goal 16, this hierarchy is comparable but had changed slightly by 2022, with the European Union at the second

rank instead of fourth, the retention of nine of the traditional donors present in 2021 but with a reduced contribution (Germany, United States of America, Sweden and Japan), and the inclusion in this selection of a country in the global South (Argentina). Italy was no longer among the largest donors in 2022.

284. The dependence of the budget on these major donors is high (58.0 per cent of the budget in 2022) and increasing.

Table II.7

Top 10 donors, 2022

(Millions of United States dollars)

<i>Organization/country</i>	<i>Rank in 2022</i>	<i>Budget for 2022</i>	<i>Rank in 2021</i>	<i>Budget for 2021</i>
Multi-Partner Trust Fund Office	1	145.97	1	254.86
European Union	2	118.86	4	105.62
UNDP regular resources	3	105.27	3	111.24

Source: UNDP.

285. Project data for Argentina show a strong link between Sustainable Development Goal 16 and signature solution 2. Of the 2,813 project outputs linked to the Goal and associated with a signature solution in 2022,⁴⁴ 2,289, or four fifths, belong to signature solution 2. In its presentation of the strategic plan for the period 2022–2025 (entitled “Strategic plan at a glance”), although the choice of iconography had not been decided by the Executive Board, the same symbol was used indistinctly for Goal 16 and signature solution 2.

286. However, the Board of Auditors found that UNDP underestimates its governance-related activity. First, the signature solutions tool is not fully used. In 2022, only 2,821 of the 4,727 project outputs listed as contributing to Sustainable Development Goal 16 were linked to a signature solution, which implies that 4 out of 10 project outputs for the Goal are not valued under a signature solution, which represents \$208 million.

287. For example, for 2022, 100 per cent of the projects in Afghanistan, the Syrian Arab Republic and Zimbabwe did not identify any signature solution. Examination of their country programme document output on the corporate planning system platform does not reveal any association with the strategic plan outputs, thus generating a discrepancy in data reporting, whereas their country programme document outputs are in fact linked to those of the strategic plan. Furthermore, the country programme document of Bangladesh is associated with only one strategic plan output, with the result that 94 per cent of the projects do not have a signature solution and are therefore not included in the integrated results and resources framework reporting. At the global level, the data from the transparency portal show that for the year 2022 project expenditure of \$1,230 million was not linked to signature solutions or country programme document outputs, and was therefore not tracked in the integrated results and resources framework. These findings raise the question of the usefulness of the signature solution marker in the analysis of data by UNDP.

288. In addition, a significant number of projects linked to governance activities are not recorded as such.⁴⁵ Of the 4,917 UNDP-led projects in 2022, 1,255 (or 25.5 per

⁴⁴ Source: project-based portfolio analytics, data updated on 10 March 2023, available on PowerBI.

⁴⁵ Source: transparency portal. This is also confirmed, on a more limited scope, by the recent evaluation of the access to justice programmes.

cent) contained governance-related terms⁴⁶ in their title or description, of which 550 were not related to Sustainable Development Goal 16 or to signature solution 2.

289. This undervaluation may be due to difficulties in understanding the term governance during the pre-definition and elaboration phase of the project document. The framing of the project output in terms of Sustainable Development Goal 16 may be poorly appreciated by the local team, so that a governance project will not reflect its real contribution to the Goal. The same is true if the strategic plan output filled in does not correspond to the reality of the project: signature solution 2 would then be underreported, despite the integrated results and resources framework, in particular the four results and 13 indicators. For instance, the Zimbabwe Electoral Commission Capacity Building Project, although unambiguously related to governance, is not linked to signature solution 2.

290. A comparison of the projects reported under Sustainable Development Goal 16 and signature solution 2 shows a number of different practices in the countries surveyed for the audit. In Argentina, almost all projects for the Goal⁴⁷ are also rated as signature solution 2. This is also the case in Türkiye, for example. Conversely, in Thailand, none of the five Goal 16 projects are associated with signature solution 2.

291. UNDP nevertheless underlines that there should not be a direct affiliation between governance activities and Sustainable Development Goal 16, as governance activities in the areas of environment, poverty or health, for example, could be tagged to Goals related more directly to those areas.

292. While UNDP has proposed a guidance note to avoid such misalignments at the beginning or during the life of the project, it is not specific to Sustainable Development Goal 16 and dates back to July 2019, and will therefore need to be adapted for the transition to Quantum. Webinars and training sessions are regularly offered to teams by members of the headquarters governance team, but a note defining the items to be associated with Goal 16 or signature solution 2 could be provided.

293. In general, some ambiguity in the term “governance” is tangible. In fact, Sustainable Development Goal 16 is seen by UNDP as both a goal and an enabler. This is also the case for signature solution 2, whose link with the other signature solutions is not always understandable by the teams.

294. UNDP has tried to resolve this difficulty. Work carried out by the Bureau for Policy and Programme Support governance team on signature solution 2 in 2021 has made it possible to clarify the concept and the associated indicators within the integrated results and resources framework. A new integrated offer on governance was also developed in March 2023⁴⁸ to structure UNDP action, notably on signature solution 2. It draws a composite list of objectives for this action without making a clear distinction between governance as an end or as a means.

295. UNDP action on governance could be better promoted externally, in line with its real contribution, by clarifying the items linked to governance and ensuring that each project explicitly linked to governance or to the above-mentioned items is linked to Sustainable Development Goal 16 or signature solution 2.

296. UNDP should identify the signature solutions for all implemented projects, so that the corresponding expenditure is included in the integrated results and resources framework for 2022. The overall amount at stake was approximately \$1,233 million in expenditure in 2022.⁴⁹

⁴⁶ Government, governance, institutions, elections, justice, etc.

⁴⁷ 25 of 26 projects.

⁴⁸ Still in draft form.

⁴⁹ See UNDP transparency portal (15 May 2023).

6.2. Taking advantage of United Nations Development Programme information systems and data platforms to better track activities and results related to Sustainable Development Goal 16

297. Discrepancies in the data reported between the different information and technology applications used by UNDP were noted for certain projects. The various software applications used by UNDP to enter and use physical and financial data serve different purposes, but there is no framework document to clarify the use of such data, the ways entries are to be accounted for and the results relating to the projects.

298. The corporate planning system platform used for linking project outputs to the country programme document and the strategic plan, and for the selection of Sustainable Development Goal targets, allowed all data entries to be modified without any security check until 2022. Despite the current use of Quantum, this vulnerability still exists for the linkage between project outputs and those of country programme documents, although Quantum has added a layer of security that prevents any unauthorized changes to the country programme document results targets, as well as to the indicators.

299. Comparisons of physical and financial data on development projects, whether or not they fall within the scope of Sustainable Development Goal 16, have revealed significant discrepancies between the various existing applications (transparency portal and other UNDP websites), for both internal use and external communication.

300. UNDP reporting tools have different purposes, as shown in table II.8.

Table II.8
Reporting platforms and tools

<i>Report/platform tool</i>	<i>Expenditure data source</i>	<i>Data-refreshing frequency</i>	<i>Data scope</i>
Atlas project reports	Commitment control	Live	Programme projects and management projects
Stream	Commitment control	Daily	Programme projects
Project Information Management System+	Commitment control	Daily	Global Environmental Facility programme projects only
Intranet-based corporate dashboards	Commitment control	Daily	Programme projects and management projects
Transparency portal (International Aid Transparency Initiative)	General ledger	Weekly	Programme projects
Combined delivery report	General ledger	Quarterly	Programme projects

Source: UNDP.

301. A framework document should be necessary to clarify the allocations and results of these different project applications. It would have the advantage of facilitating the auditability of data, placing newcomers in a defined environment and promoting synergies within the network. It would also make it possible to determine the full cost of the various tools, in particular in terms of Microsoft licences (PowerBI).

302. In addition, the corporate planning system platform used for linking project outputs to the country programme document and the strategic plan and for the

selection of Sustainable Development Goal targets had allowed all data entries to be modified without any security check, until January 2022 when the entire indicator data entry module was migrated to Quantum+. In that sense, Quantum+ has brought a higher level of data reliability for UNDP. During the final quarter of 2022, once again, the lock was removed for testing purposes and changes were possible.

303. **The Board recommends that UNDP ensure fuller coherence and consistency in the tagging of governance projects as related to Sustainable Development Goal 16 and signature solution 2, and take advantage of the transition to Quantum to ensure the consistency of the various data platforms, as well as their security in terms of access.**

304. UNDP accepted the recommendation.

6.3. Mobilizing the global and field expertise of the United Nations Development Programme on governance

305. UNDP has a wealth of governance-related substantive knowledge products on the intranet, through communities of practice, and can rely on platforms such as the Sustainable Development Goal 16 Hub. This scattered information could be brought together in a virtual library to facilitate the identification of the knowledge produced and provide a better picture of UNDP achievements. The Global Policy Network is aimed at identifying and bringing together the governance expertise of UNDP staff but there is no skills validation process for the members of the platform and its funding is not guaranteed. Global governance expertise, which is composed of the skills of UNDP personnel, should be better programmed and mobilized, both internally and for key stakeholders such as Governments and public authorities. After the updating and vetting of internal capacities and profiles is accomplished, a mechanism should be developed to make expertise available and deployable in a more dynamic way. A consolidated supply of governance-related expertise could then, beyond traditional project implementation, be built and leveraged with potential beneficiaries and donors, and even become an innovative source of income for UNDP.

306. Five regional bureaux at the headquarters level, including five hubs in the regional areas, supervise the activities of the country offices. Their role in feeding back issues from the field, especially to the Oslo Governance Centre, could be strengthened. Their support activities are not specifically reviewed and do not include a monitoring role. In particular, the supervision of the linking process between projects and Sustainable Development Goal 16 is not part of their mandate.

307. While joint projects are conducted between UNDP and international partners, engagement on Sustainable Development Goal 16 is insufficiently coordinated at the global and country levels, and does not sufficiently harness the presence of UNDP in the field, and in particular in fragile contexts, to strengthen a joint approach locally.

Global expertise

308. UNDP can rely on broad and significant expertise in governance, both at headquarters and at the regional and local levels, but it is difficult to identify and make use of this expertise outside the portfolio of projects with which they are associated.

309. This expertise is supported by a number of tools within the UNDP knowledge management strategy⁵⁰ to stimulate internal and external debate and to foster the emergence and dissemination of new approaches (e.g. information integrity) to governance. The Bureau for Policy and Programme Support and Crisis Bureau

⁵⁰ UNDP knowledge strategy for the period 2021–2025, dated June 2021.

headquarters offices, regional hubs and some country offices, as well as the Oslo Governance Centre, have produced a wealth of knowledge on governance, which is posted on the various UNDP websites. This production is aimed at providing reflections, strategies and concepts.⁵¹

310. Internally, this approach is supported by the existence of communities of practice,⁵² internal communities originally structured around signature solutions that UNDP staff can join on a voluntary basis. Led by the Bureau for Policy and Programme Support, the community of practice on governance has been active since 2019 and allows for informal and structured exchanges within UNDP. Some 20 events took place in 2022, including consultations, seminars, webinars and chats, fewer than in each of the previous two years (35), clearly owing to the COVID-19 context. The community has flourished and diversified into thematic and regional subgroups hosted by the digital platform SparkBlue.

311. On another scale, the Oslo Governance Centre has been facilitating the Sustainable Development Goal 16 Hub since 2018, an open community of interest created in 2016 in response to an internal UNDP need. The Centre acts as an incubator and supports research on governance issues (e.g. prevention of extreme violence). The platform had about 3,600 registered users at the end of 2022 (of which about a quarter were UNDP staff), compared with about 700 at the end of 2020 and 3,000 at the end of 2021, but almost no active contributors.

312. Despite numerous thematic networks related to Sustainable Development Goal 16⁵³ and a census carried out by the Oslo Governance Centre in August 2020,⁵⁴ there is no complete and up-to-date mapping of the universe of research and knowledge on Goal 16, nor any formalized capitalization on the governance themes that have been explored.⁵⁵

313. In order to better identify staff expertise, UNDP has undertaken since May 2018 to build a Global Policy Network⁵⁶ within the organization.

314. The Global Policy Network should provide a clear view in three important dimensions: demand analysis, by region, country or signature solution; capacity mapping; and knowledge products.⁵⁷ At its most recent meeting, in November 2022, the Global Policy Network Governance Board decided to refocus the ambition. The revised implementation plan foresees better alignment with the strategic plan, exploitation of the possibilities offered by Quantum+ and a generalization of the Consolidation of Territorial and Administrative Reform II (STAR 2) application in the network.

315. According to UNDP, the updating and vetting of internal capacities and profiles across Global Policy Network thematic areas of work will be completed in 2023. The next step after the vetting process would be to develop a mechanism to make expertise available and deployable in a more dynamic way. A consolidated supply of

⁵¹ See, for example, UNDP Oslo Governance Centre, *Horizon Scanning: The Future of 21st Century Governance: Trends, Threats, Challenges and Opportunities* (2021). In late 2020, the Bureau for Policy and Programme Support launched a series of consultations on the future of governance, concluding with a synthesis publication in March 2021, which described developments in the approach to governance.

⁵² Six communities of practices aligned with the six signature solutions were launched in February 2019.

⁵³ On the fight against corruption, for example, in the context of the recent relocation to Oslo of the Anti-Corruption for Peaceful and Inclusive Societies team.

⁵⁴ Survey of websites, social media accounts and resources of global players on Sustainable Development Goal 16.

⁵⁵ As for the prevention of violent extremism.

⁵⁶ UNDP Global Policy Network, "Policy without borders, policy beyond borders", May 2018.

⁵⁷ 14 digital guides are in production.

governance-related expertise could then, beyond traditional project implementation, be built and leveraged with potential beneficiaries and donors, and even become an innovative source of income for UNDP.

316. Based on the experience of the Crisis Bureau,⁵⁸ the inventory of expertise capacities is carried out on a voluntary and self-assessment basis on a platform (EVA-ai) developed specially for UNDP since September 2021. The levels of expertise are ranked from 1 to 4. As at 8 March 2023, the platform showed a total of 15,096 names of UNDP staff,⁵⁹ of which approximately 11,000 had completed their registration process. As at the same date, 2,029 people had declared a governance competence (signature solution 2), of whom 730 were at level 4. Of these, almost 450 were not project-related (non-national personnel services agreement and service contract categories). The Board is of the view that, in terms of mobilization of expertise, the various initiatives described above, while attempting to bridge the gaps, have not yet reached maturity. Besides, there is still a disconnect between global expertise on governance and its mobilization for operational needs. It is still unpractical for country teams to access this global knowledge for project design and implementation.

317. The Board recommends that UNDP develop an action plan to increase the operational impact of its expertise in governance, notably through skill mobilization and knowledge dissemination internally and externally.

318. UNDP accepted the recommendation.

Regional bureaux and field expertise

319. The role of regional bureaux and their five regional hubs is to provide strategic direction, oversight and support to country offices in their engagement with host countries to achieve the expected results and outputs of the strategic plan for the period 2022–2025.

320. In line with the strategic plan for the period 2022–2025, the role of regional bureaux in the development, implementation and review of governance-related actions, including in support of country offices, is expected to be crucial. The governance focal points of the regional bureaux and hubs are part of the Sustainable Development Goal 16 task team, which meets monthly under the responsibility of the Oslo Governance Centre⁶⁰ to discuss governance-related issues, is one of the main information- and knowledge-sharing structures. The many activities of these offices include technical support, knowledge products, seminars, communities of practices, events and regional projects.

321. However, only the Regional Bureau for Africa has proposed a strategic adaptation of the strategic plan in order to accelerate the achievement of the Sustainable Development Goals. In its renewed strategic offer in Africa, it proposes, among other things, to promote sound governance, peace and security across the continent, where the notion of governance is seen as both an impact area and an enabler. Regional bureaux such as the Regional Bureau for Latin America and the Caribbean have developed reflections on governance,⁶¹ although this is not an application of the strategic plan for the period 2022–2025.

⁵⁸ Over the past decade, UNDP has developed a crisis mobilization capacity (Global Policy Network Experts Roster for Rapid Response procedure with approximately 6,000 deployable internal experts). About 100 governance experts were deployed in 2022 of a total of 1,882.

⁵⁹ Against 10,157 at the end of 2021.

⁶⁰ However, not all focal points are systematically present at the meeting, as was the case, for example, for the meeting of 31 August 2022.

⁶¹ See UNDP, “Latin America and the Caribbean: effective governance, beyond recovery” (2021).

322. Furthermore, the role of the regional bureaux as a link between the country offices and the Oslo Governance Centre is not structured. On the one hand, the Centre does not intervene in direct support of the country offices, even though, according to the Centre's project document, they are one of its target groups. On the other hand, the regional bureaux share with the Centre specific problems encountered by the country offices on governance issues, such as the prevention of violent extremism or information integrity, but only occasionally, according to the minutes of the meetings. It is also noted that some ad hoc projects, such as the renewed strategic offer in Africa, have no link with the Centre, even though the theme (stabilization of institutions in a regional area marked by civil conflict and terrorism) might justify it.

323. Despite the description of the missions of the regional bureaux, their role in monitoring and supervising governance projects is not explicit. They do not monitor indicators (of the integrated results and resources framework or the 2030 Agenda), but the programmes of country offices. They do not intervene in the linkage or codification with Sustainable Development Goal 16, which is done at the country office level using an information system; it is at the headquarters level that a minimum check is carried out of the existence of the link between the project and the output. With regard to the results (results-oriented annual report), the regional bureaux carry out limited checks, such as monitoring the implementation of the country programme documents and verifying financial data, but do not draw up any balance sheets or provide any verification of indicators.

324. As a result, the decentralized nature of UNDP appears to impede the proper reporting of reliable information on governance activity. Paradoxically, the regional bureaux at headquarters, although far from the field, have a monitoring function (albeit minimal) of the association of projects with Sustainable Development Goal 16 or signature solution 2, whereas the regional hubs could be responsible for this. This disconnection between the macro level and the field is the first risk identified in the Bureau for Policy and Programme Support risk register.

325. The Board recommends that UNDP strengthen the role of regional bureaux in monitoring programmes and projects on governance, as well as the link between regional bureaux and the Oslo Governance Centre.

326. UNDP accepted the recommendation.

Partnerships with international entities for Sustainable Development Goal 16

327. On the topic of governance, UNDP collaborates with several entities on Sustainable Development Goal 16,⁶² including United Nations agencies, the Organisation for Economic Co-operation and Development and the World Bank, which are also custodians of Goal 16 indicators. The United Nations Office on Drugs and Crime (UNODC) is a major player in governance, the custodian of 10 indicators of Goal 16 and, although with a smaller budget than UNDP (\$300 million compared with over \$1 billion) has significant data production. The World Bank, which devotes an important part of its activity to governance,⁶³ contributed \$130 million in 2021 to UNDP projects, mainly focused on signature solution 2. Although there are global

⁶² Inter-agency cooperation frameworks (United Nations Sustainable Development Cooperation Frameworks) generally include a priority on governance.

⁶³ 750 dedicated staff, working in developing regions and countries in transition, on public sector management, accountability, legal frameworks for development, transparency and information. The World Bank conducts a survey on worldwide governance indicators that aggregates country-level data. It is also implementing the fragilities, conflict and violence strategy for the period 2020–2025, which is aligned with the Sustainable Development Goals.

agreements between UNDP and some of these agencies, some have expired, such as the memorandums of understanding with UNODC (2008) and with UN-Women (2018).

328. At the country office level, coordination can be carried out in conjunction with the resident coordinator, or independently by UNDP. At the headquarters level, the three governance teams (on conflict prevention, peacebuilding and responsive institutions; governance; and rule of law, security and human rights), are responsible for developing partnerships in the field of governance. At the international level, cooperation in the field of governance is as much political (alliances, platforms and exchange forums) as technical (United Nations Sustainable Development Group working groups, anti-corruption, human security, etc.).

329. UNDP fosters dialogue and organizes informal partnerships for visibility or advocacy purposes (joint initiatives or participation in United Nations country team working groups),⁶⁴ as well as formal, binding partnerships such as joint project agreements.

330. Inter-agency coordination for the implementation of Sustainable Development Goal 16 is, according to recent independent country programme evaluations, in some countries weak⁶⁵ or hard to evidence⁶⁶ and appears insufficiently formalized.

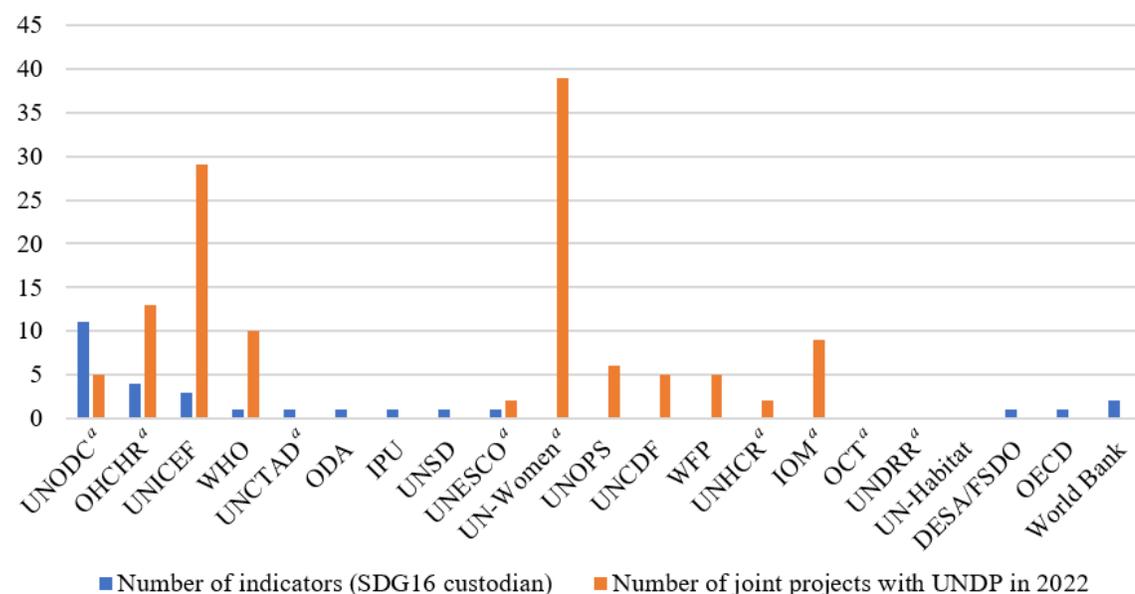
331. Despite its importance, the cooperation relationship between the World Bank and UNDP is not based on a global agreement on Sustainable Development Goal 16 and is implemented mainly in a decentralized manner, at the initiative of representatives of the two institutions. The numerous forms of field cooperation are not reflected in a single document. More use should be made of the UNDP presence in the field for joint capacity-building and technical assistance for countries in a fragile context. If a global partnership strategy for Goal 16 exists, it does not consider in an combined way the memorandums of understanding, the custodian role of partners and their involvement in joint governance projects with UNDP in 2022.

⁶⁴ For example, the country office in Türkiye chairs one of the United Nations country team working groups (result group 5 on good governance, human rights and the rule of law).

⁶⁵ Sri Lanka, midterm evaluation and strategic direction-setting of the UNDP portfolio on Sustainable Development Goal 16, 2021: “Although UNDP works in collaboration with other [United Nations] agencies such as UNICEF, UNFPA and UN-Women to implement many activities, the level of coordination between agencies is minimal especially in comparison to the opportunities available for coordination and cooperation, under the [One United Nations] policy for a sector-wide approach to governance, justice, development and peacebuilding issues”; and South Sudan independent country programme evaluation, 2021: “UNDP and [the United Nations Mission in South Sudan] cooperate on joint events and activities in areas of governance and rule of law, but programmatic collaborations are limited”.

⁶⁶ Central African Republic independent country programme evaluation, 2022: “The evaluation found little evidence of UNDP coordination or cooperation with international financial institutions such as the World Bank and the African Development Bank, despite sharing similar objectives”.

Figure II.XI
UNDP partners on Sustainable Development Goal 16



Source: [SDG16hub.org](https://sdg16hub.org), UNDP project-based portfolio analytics, updated on 10 March 2023, available on PowerBI.
 Note: Number of joint projects in the sense of “joint activity”, as other modalities are not considered in these data (parallel funding, passthrough, pooled funding). Number of WB projects involving UNDP not known.

Abbreviations: DESA/FSDO, Department for Economic and Social Affairs, Financing for Sustainable Development Office; IOM, International Organization for Migration; IPU, Inter-Parliamentary Union; OCT, Office of Counter-Terrorism; ODA, Office for Disarmament Affairs; OECD, Organisation for Economic Co-operation and Development; OHCHR, Office of the United Nations High Commission for Human Rights; UNCDF, United Nations Capital Development Fund; UNCTAD, United Nations Conference on Trade and Development; UNDRR; United Nations Office for Disaster Risk Reduction; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNICEF, United Nations Children’s Fund; UN-Habitat, United Nations Human Settlements Programme; UNHCR, Office of the United Nations High Commissioner for Refugees; UNODC, United Nations Office on Drugs and Crime; UNOPS, United Nations Office for Project Services; UNSD, United Nations Statistics Division; UN-Women, United Nations Entity for Gender Equality and the Empowerment of Women; WFP, World Food Programme; WHO, World Health Organization.
^a Few memorandums of understanding or agreements with UNDP are identified at the headquarters level (UNODC, OHCHR, UNCTAD, UNESCO, UN-Women, UNHCR, IMO, OCT, UNDRR and World Bank) and some of them are out of date (UNODC and UN-Women).

332. In the field, coordination exists de facto in the formalized framework of joint projects. Nearly half are related to Sustainable Development Goal 16.⁶⁷ Nevertheless, dialogue with other agencies is not systematically formalized. In Liberia or Thailand, for example, UNDP does not have a formalized relationship with UNODC, UNICEF, the United Nations Educational, Scientific and Cultural Organization (UNESCO) or UN-Women. The long-term partnership (2016–2020) between UNDP and the World Bank in Yemen is the first of its kind.

333. UNDP specializes in different governance areas and engages in a wide variety of coordination mechanisms. It works, for example, on electoral assistance (Inter-Agency Coordination Mechanism for United Nations Electoral Assistance), non-discrimination (Praia Group on Governance Statistics), rule of law (global focal

⁶⁷ 184 project outputs and 143 joint projects related to Sustainable Development Goal 16 out of a total of 398 project outputs and 317 joint projects in 2022. Source: UNDP project-based portfolio analytics, updated on 10 March 2023, available on PowerBI. The number of joint projects is understood in the sense of “joint activity”, the other modalities not being taken into account in the data (parallel funding, pass-through or pooled funding).

point), corruption (global working group), right to information (International Programme for the Development of Communication) and information integrity (community of practice). Greater coordination would ensure that the added value of UNDP is better identified.

334. With regard to indicators, the role of UNDP as a custodian agency for four indicators is framed by the work of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators and General Assembly resolution 71/313. In particular, it is working with UNODC and the Office of the United Nations High Commissioner for Human Rights (OHCHR) to develop the Sustainable Development Goal 16 survey tool, and with most of the Goal 16 custodian agencies⁶⁸ to organize regional training on measuring the Goal.

335. UNDP recalls the existence of formal agreements, but is developing other partnership modalities, which allow it to act in a flexible and agile manner.

336. Inter-agency coordination has room for improvement at the highest level, by structuring the role of the specialized agencies. This common base would allow for a legible and sustainable functioning of the steering and development of Sustainable Development Goal 16, beyond the people involved today. In the field, the structuring of exchanges and informal dialogues with international financial institutions and the network of United Nations agencies would make it possible to give visibility to cooperation that sometimes appears minimal and dispersed.

337. The Board observed that engagement on Sustainable Development Goal 16 is insufficiently coordinated at the global and country levels and that UNDP does not sufficiently use its presence in the field, in particular in fragile contexts, to strengthen a joint approach locally.

6.4. Better measuring results and reporting on the impact of programmes and projects related to governance

338. Measuring results and reporting on the impact of governance programmes and projects is essential to ensure adequate resource mobilization, but reporting to donors as well as the capacity of donors to provide feedback has so far remained limited. There are several ways that UNDP could enhance its leadership in this field, including by strengthening its capacity to monitor longer-term impacts of its actions, strengthening its statistical function to better analyse governance data and communicating better at the global level.

Reporting to donors

339. In addition to the standard reporting stream, reporting to donors is done on an ad hoc basis but through a harmonized framework. The Board noted, on the one hand, significant deviations from corporate guidance in the documents available for a sample of projects in relation to UNDP commitments and, on the other hand, dissatisfaction on the part of several donors. Formal feedback from beneficiaries in the form of quality assurance, in particular to measure the effects of each project in the country of implementation, is not provided.

340. In a context of dwindling contributions, the requirement to monitor the adequacy of the various levels of reporting on projects (annual progress report and financial report) and the specific expectations of the contributing countries is essential in order to maintain the level of mobilization of UNDP financial resources.

⁶⁸ OHCHR, UNODC, UNICEF, UNESCO, Economic Commission for Africa and Economic and Social Commission for Western Asia.

341. A sample of the main donor representatives interviewed often indicates a significant discrepancy between the levels of expenditure observed and the results measured, as well as their long-term effects. For some contributors, this even raises doubts about the efficiency of UNDP-led projects.⁶⁹

342. Reporting on results is complicated for UNDP by the fact that reporting frameworks are specific to each donor's requirements and the sometimes uneven design and quality of results frameworks.

343. With regard to access to information on the transparency portal, the audit of the panel of the first 15 projects conducted for Sustainable Development Goal 16 at the country office level revealed significant discrepancies between the information policy put forward by UNDP and the documents available on the website, in particular for the project monitoring reports, which are almost entirely absent from the projects examined. This finding is all the more surprising given that the Effectiveness Group of the Bureau for Policy and Programme Support has implemented tools to detect shortcomings by project and by country. The Group refers to the decentralized organization to justify the permanence of the deviations found, especially for projects that are several years old.

344. At a more global level, the impacts of UNDP actions appearing on the transparency portal are limited to a financial vision by Sustainable Development Goal and to a few illustrations that are particularly poor in view of the financial volumes at stake (\$4.23 billion, including \$0.9 billion for Goal 16). It is noted that the infographic on making an impact, which includes the key data, dates from 2020.

345. There is room for significant improvement in the representation of data on the transparency website in order to better illustrate and enhance the value of UNDP actions, in particular with regard to financial issues. This information could include mention of the main achievements for each year. The use of data visualization should be sought, as well as the establishment of useful links to other UNDP information websites, in particular the annual report and geographical areas.

346. The Board recommends that UNDP strengthen its communication on the results of governance-related programmes and projects, improving the quality of information provided and ensuring better feedback to donors.

347. UNDP accepted the recommendation.

Measuring impact of governance projects

348. UNDP measures the results of a "governance" project at its closure, but not its effective long-term viability and sustainability, through outcome and programme evaluations. In line with the recommendations of the internal audit, it would be useful to provide each project with the means, in particular, financial means, to analyse its impact and capitalize on its results.

349. The UNDP integrated results and resources framework for 2022–2025 foresees the monitoring of the contribution of project outputs to the Sustainable Development Goals. To this end, UNDP has aligned the results of project outputs, country programme documents and the strategic plan to measure the contribution of the organization's work to the achievement of the Goals. The medium- or long-term impact measurement, unlike ongoing and final evaluations, is not integrated into UNDP practice.

⁶⁹ See interview with representatives of the Kingdom of the Netherlands in Egypt and Kazakhstan, representatives of the European Union for the empowerment of Afghan women project or in Türkiye, and representatives of Switzerland and Sweden in Bangladesh.

350. The outputs associated with projects are short- and medium-term in nature: project documents specify the intentions of stakeholders, not the prospects for impact. Sustainable Development Goal 16 projects last on average five years (for governance projects closed in eight countries),⁷⁰ which is the average duration of a country programme document. The country office establishes an exit strategy with the project owner, where possible.⁷¹ Once the project has been delivered, it is not in the country office's portfolio any more, even if discussions continue with the Government or the implementing partner, as for the Cairo International Centre for Conflict Resolution, Peacekeeping and Peacebuilding project in Egypt.

351. The UNDP closure and transition policy integrates sustainability into UNDP interventions: "closing a project requires assessing overall performance, quality and lessons learned, and necessary handover to ensure sustainability". In addition, project evaluations "should not be limited to assessing the delivery of outputs and activities". In addition, the UNDP evaluation guide, updated in June 2021, provides that, in addition to relevance, effectiveness and efficiency, the sustainability of a project should be assessed.

352. In its evaluation of the strategic plan in 2021, the UNDP Independent Evaluation Office noted that the sustainability of results was an issue, and dedicated an entire chapter to it.

353. UNDP faces methodological and financial difficulties in measuring the impact of projects. For example, "since [Sustainable Development Goal 16] activities focus on systems and institutional strengthening, legislative change or organizational development, it is generally difficult, if not impossible, to conduct adequate impact evaluations. Such assessments usually require counterfactual stories to compare with achievements, which is difficult at the system or organizational level".⁷² Furthermore, in some States where governance issues remain sensitive, the implementation of an ex post impact evaluation depends on the political will of the Government, as illustrated by the project to evaluate the impact of UNDP intervention on the human rights situation in Argentina, which was eventually abandoned. Nevertheless, UNDP does not believe that methodological constraints in the area of governance preclude any effort to assess the impact.

354. UNDP is in the process of updating the results-based management manual and incorporating guidance on impact monitoring at different stages of the project cycle. The Independent Evaluation Office is developing guidance on impact assessments, which was not available as at 8 March 2023.

Supporting partner countries on Sustainable Development Goal 16 monitoring

355. As the custodian or co-custodian of 4 of the 24 indicators for Sustainable Development Goal 16, UNDP is working to improve the capacity of Member States to report on them. It also uses these data to report on progress on the 2030 Agenda, but without a centralized and integrated statistical function that would allow for more detailed analysis of Goal 16.

356. The measurement of Sustainable Development Goal 16 can be broken down into three activities for UNDP: (a) its role as custodian of 4 of the 24 Goal indicators, supplied by States on a voluntary basis within the framework of the 2030 Agenda and for which little data is in practice collected (only 37.5 per cent of Member States reported 1 or more indicators in the voluntary national reviews in 2022, and the lack

⁷⁰ Afghanistan, Egypt, Guatemala, India, Nigeria, Yemen, Iraq and Colombia.

⁷¹ For example, the country office in Iraq, which highlights the results achieved, assesses the quality of the project evaluation and provides feedback when defining the exit strategy.

⁷² Country office in Türkiye.

of available and reliable data is a key issue in monitoring and measuring the objective, an observation that is shared by the Department of Economic and Social Affairs in the United Nations Secretariat); (b) capacity-building in the area of governance measurement; and (c) the measurement of results via Goal 16 indicators within the framework of the Goal 16 projects, which is one of the objectives of the 2030 Agenda.

357. UNDP uses data on governance in several reports. However, there is no dedicated statistics and analysis unit within the two central offices to exploit or analyse governance data. Within the Bureau for Policy and Programme Support, the Sustainable Development Goal integration team⁷³ comprises about 20 people, including economists and data scientists, who work on data visualization for the Goals using statistical data from other sources. UNDP relies substantially on other agencies (World Bank or UNODC) for statistical data on governance.

358. For the 24 indicators under Sustainable Development Goal 16, 11 United Nations entities, including UNDP, have been designated as custodians of 1 or more indicators. The role of UNDP (through the Oslo Governance Centre) as the custodian agency is recent change, by default: its four indicators were initially orphaned until the agency was designated as custodian in 2019 on the basis of its overall governance mandate. In contrast, UNODC has responsibility for 10 indicators, for which it publishes detailed country statistics online.

359. The four indicators under the responsibility of UNDP were reclassified in March 2019 and 2020 by the Inter-Agency and Expert Group on Sustainable Development Goal Indicators from tier 3 to tier 2 after the development of a methodology and its validation at the global level. As at 30 November 2022, 14 of the Goal 16 indicators were classified as tier 2 (including all four UNDP indicators), compared with 11 monitored by other agencies as tier 1 (3 were upgraded to tier 1 in November 2022).

360. The year 2022 marks the second round of data collection by the Oslo Governance Centre for all indicators⁷⁴ from over 160 national focal points (mostly in national statistical offices). The number of responding States increased from 49 in 2021 to 62 in 2022 as the process of collecting the data takes time, including to set up the necessary mechanisms for reporting.

361. To automate the collection process, the Oslo Governance Centre has developed a data collection platform to which Member States transfer their data and metadata. Before being put online on the portal, these data, which have already been verified internally by the national statistics authority in charge of the first data quality control, are subject to further quality control by the Centre's team, with exchanges with the countries. Once validated, the data are converted and deposited on a space managed by the Statistics Division of the Department of Economic and Social Affairs of the United Nations Secretariat, which performs a minimum consistency check before making them public on the Sustainable Development Goals data portal managed by the United Nations Secretariat.

362. In the area of statistical measurement of governance, UNDP has developed a recent service offer to strengthen countries' capacities. Since 2020, the Oslo Governance Centre, in conjunction with other custodian agencies and the UNDP regional hubs and United Nations economic commissions, has been conducting regional training sessions, which have been attended by representatives of national statistical institutes, public entities, civil society and country offices. The Sustainable

⁷³ The mission of this team is to propose integrated solutions to accelerate progress towards the Sustainable Development Goals.

⁷⁴ In 2021, the collection concerned two indicators for which a repository was available and validated by the Statistics Division of the Department of Economic and Social Affairs of the United Nations Secretariat.

Development Goal 16 Hub website, created in 2016, brings together the research community, especially national statistical offices (around 3,000 people), on the topic of data measurement.

363. The Oslo Governance Centre partnered with UNODC and OHCHR in 2021 to produce a harmonized methodology on 13 indicators of Goal 16 (the Goal 16 survey initiative), after a two-year methodological development process that included a test phase with eight countries, to provide a tool for countries to facilitate data collection and reporting on the indicators of Goal 16, thanks to harmonized methodologies.

364. The Oslo Governance Centre is the lead supporting agency of the Praia Group on Governance Statistics. Comprising more than 60 countries and tasked with promoting international standards and the measurement of the Sustainable Development Goal 16 targets, the Group has contributed to the recognition of governance statistics in the Classification of International Statistical Activities.⁷⁵

365. The Global Policy Network, within the framework of signature solution 2, has developed a service offer aimed at developing the localization of the Sustainable Development Goals, to strengthen the capacities of countries or local actors to monitor and report on the indicators of the Goals. Thus, some Goal 16 projects have as outputs the localization of the Goals (at the national and local levels and in the private sector), the strengthening of the capacities of national statistical institutes (or other data-producing entities) in measuring the Goals or the support to carry out national voluntary reviews. Of the 4,727 Goal 16 project outputs for the year 2022 listed in PowerBI, these outputs represent only 2 per cent by volume. Although the Oslo Governance Centre project document indicated that the Centre also had an advisory and support role on the Goal 16 programmes and portfolios developed in the country offices, the eight field visits and the Centre's visit did not show strong interactions.

366. There is a significant gap between the ambitions of UNDP and its role in terms of centralizing, defining and analysing governance data. Unlike most United Nations agencies, there is no effective centralized (or decentralized) statistical and analytical function on governance, although a team of around 20 people within the Bureau for Policy and Programme Support (Sustainable Development Goal integration team) is responsible for monitoring progress on the Goal. The role of UNDP as a custodian agency is certainly recent, but involves not only collecting but also producing, analysing and disseminating data.

367. Progress has been made in measuring and monitoring Sustainable Development Goal 16 and, more broadly, in statistics on governance, thanks to actions taken by the Oslo Governance Centre in terms of methodology, labelling within the United Nations statistical system and training. However, the process requires time, and the data on governance are particularly sensitive for Member States: the rate of information on at least one indicator for Goal 16 by the Member States in the context of their voluntary national review of the 2030 Agenda rose from 32.8 per cent to 39.8 per cent between 2021 and 2023.

Reporting on results at the global level

368. UNDP is, since 2019, part of a global alliance for SDG16+ to engage civil society. However, UNDP can further elevate the visibility of its work in the area of Sustainable Development Goal 16. There is no joint report by the custodian agencies of the Goal 16 indicators, which would give more visibility to the governance work of UNDP, although the Programme is currently working with UNODC and the Office of the United Nations High Commissioner for Human Rights on a joint report for 2023,

⁷⁵ Fifty-fourth session of the Statistical Commission, March 2023, following recommendations on governance statistics made by the Praia Group on Governance Statistics in 2020.

nor is this major activity mentioned expressly in the annual report of the Administrator. Measuring and reporting impact and results is essential to ensure adequate resource mobilization, but reporting to donors, as well as the capacity of donors to provide feedback, have remained limited. There are several ways UNDP could enhance its leadership in measuring and reporting on governance impact and results, including through enhancing its capacity to monitor the longer-term impact of governance programmes and by strengthening its statistical function to better analyse governance data and communicate and report better on governance on the global stage.

369. Except as part of the Sustainable Development Goal progress report, there is currently no overall global reporting specific to Goal 16: neither a specific document on UNDP contributions to the implementation of the Goal, nor a joint document for all Goal 16 custodian agencies.

370. The Secretariat (through the Division for Sustainable Development Goals of the Department of Economic and Social Affairs) is responsible for the coordination and monitoring of the Goals for each Member State in the framework of the 2030 Agenda. It compiles the indicators reported by the custodian agencies in an annual baseline report, the Sustainable Development Goals Report, which was last published in July 2022.

371. In 2019, a group of independent scientific experts in which UNDP participated produced a Global Sustainable Development Report, which complements the Sustainable Development Goals Report. Entitled *The Future is Now: Science for Achieving Sustainable Development*, it develops as a first level the notion of governance, understood as both Sustainable Development Goal 16 and a broader means to initiate systemic transformations to achieve the 17 Goals. A new Global Sustainable Development Report is planned for 2023.

372. Owing to the weakness of the data currently reported on Sustainable Development Goal 16, the main custodian agencies on the Goal (UNDP, UNODC and OHCHR) are considering the establishment of joint reporting on Goal 16. A proposal (draft concept note) was drawn up between the three agencies in November 2022 to make use of the available governance data. Among the deliverables envisaged is the production of a global report on Goal 16 or any other thematic analysis report and a platform on the Goal to inform and promote progress towards its achievement by Member States by 2030, at a cost of \$ 300,000 (for the period 2023–2025).

373. UNDP is currently engaged in several positive avenues:

(a) Internal documents at the regional level (factsheets, progress report on Sustainable Development Goal 16 in Asia), although their sensitivity raises the question of dissemination to the public;

(b) Annual activity report of the Administrator, which already highlights some of the positive actions taken by UNDP in certain countries in relation to signature solution 2 on governance;

(c) Joint initiative with UNODC and OHCHR according to the stated (but yet to be realized) willingness of the three main custodian agencies to develop a global report on Goal 16.

374. The Board recommends that UNDP enhance its leadership in monitoring the longer-term impact of programmes and projects related to governance, notably with the objective of initiating global reporting on the implementation of Sustainable Development Goal 16.

375. This monitoring could be developed through a methodology involving the relevant stakeholders, including partner countries. UNDP should also aim to structure its statistical function to better analyse the governance data of various sources. This should include empowering the Oslo Governance Centre as well as an increased effort

to empower partner countries in this area. As part of this leadership, UNDP should, in coordination with other agencies and in particular other custodians of the indicators of Sustainable Development Goal 16, aim to initiate global reporting on their follow-up.

376. UNDP accepted the recommendation.

7. Information and communications technology weaknesses expected to be addressed by the implementation of the new enterprise resource planning system, Quantum

Password policies of the legacy system

377. The Board reviewed UNDP ITC password policies and assessed the complexity of the set-up in the system. Two password policies⁷⁶ are currently applicable to UNDP and show weaknesses that should be addressed in the new enterprise resource planning tool, Quantum.

378. Best practices and standards for password policies of companies and organizations have been established, such as ISO standards, which define guidelines for creating strong and secure passwords, which is fundamental to securing a highly digital environment, including complexity criteria, uniqueness, multi-factor authentication and mandatory periodical updates.

379. The Board reviewed efficiency and compliance with the applicable rules, regulations and best practices of the Active Directory policy and the Atlas password policy, and both showed weaknesses in terms of lack of complexity and other industry standards. UNDP clarified that the two systems, Atlas and Active Directory, were “antiquated systems that do not fully comply” with the current ICT password policy, based on the National Institute of Standards and Technology standard.

380. Having a robust password policy is paramount for protecting sensitive information and maintaining the security of an organization’s information systems. It should be periodically reviewed and updated to ensure that it remains effective and aligned with the current best practices and standards.

381. The Board noted that Quantum should address the weaknesses described in the observation.

Access rights

382. The Board reviewed the user access rights process in Atlas and identified weaknesses that should be addressed in Quantum.

383. Following the ISO 27001 standard and as part of UNDP internal control, focal points based in various country offices receive automatic monthly exception reports, showing a list of users and their Atlas profiles, for manual and extensive review. These monthly exception reports (inactive vendors, non-staff approvers, terminated staff, voucher approvers, etc.) present the actions to be taken by each focal point in their office and are fundamental for ICT security.

384. The Board obtained and reviewed the monthly automatic exception reports sent to each focal point throughout the year. For 2022, the Board identified that a significant number of automatic reports were not sent (only 28 sent compared with 830 usually) for review in December. UNDP explained this abnormal rate by the decommissioning of Argus during the final week of December 2022 as part of the transition from Atlas to Quantum. The final exception report was generated and sent to the alternate focal

⁷⁶ The first is used for the Active Directory accounts and for single sign-on applications, the second for Atlas.

points whose accounts remained active but not functional. All primary focal point accounts were deactivated.

385. Argus makes the internal control framework exception reports available as information to senior managers and Argus focal points. The Board reviewed the confirmation list of Argus focal points responsible for confirming the list of user accesses. It appeared that, for 2022, only 24 per cent of all focal points confirmed their review of exceptions. UNDP states that the internal control framework exception reports are informative for senior managers and Argus focal points as each head of office ultimately remains responsible for security access and corrective actions.

386. Although UNDP does not consider this online confirmation mandatory, the Board is of the view that it is the only channel to formally control internal control framework exceptions and ensure security. The review is monitored through: (a) timely action on the Argus monthly internal control frameworks reports, tracked in 2022 on the integrated financial dashboard under the internal control framework indicator (which also tracks other aspects of framework performance); and (b) country office performance on the integrated financial dashboard, including the framework indicator as a standing agenda item in quarterly dialogues with bureaux conducted by the Bureau for Management Services. However, the Board did not identify any mitigation measures following the insufficient rate of review. Such control should aim to ensure sufficient completion by focal points and alignment between user access and responsibilities as it is the keystone of system security.

387. The Board also obtained and reviewed the human resources extraction and the Atlas extraction for active accounts as at 31 December 2022. For 2022, the Board identified a number of accounts (28) that were present in the list of active accounts in Atlas but not present in the human resources extraction.

388. The Board identified three accounts that had a date of last connection after their termination date. For these accounts, a review of their logs in the system must be carried out. Of the 28 accounts first identified, the Board also noted 3 accounts that should have been deactivated in the user review process since the account holders had not logged into the system for 180 days.

389. These facts show weaknesses in the process of user access review by the country offices and evidence of insufficient control over the rights granted in the Atlas system. Overall, the Board is of the view that the current access review process does not provide sufficient assurance with regard to rights in Atlas.

390. The Board noted that Quantum should address the weaknesses described in the observation.

C. Transmission of information by management

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

391. The Administration informed the Board, that in accordance with UNDP financial regulation 26.08,⁷⁷ UNDP had written off \$639,583 in 2022. Through the audit mission the Board identified additional write-offs referring to inventory loss amounting to \$1,771,028 and property, plant and equipment disposal amounting to \$547,242. These additional write-offs were not included in the initial statement transmitted by UNDP and are disclosed in the present report by the Board.

⁷⁷ The Administrator may, after full investigation, authorize the writing off of losses of assets, provided that a statement of all such amounts written off is submitted to the Board of Auditors with the accounts, as required by regulation 26.01.

392. The total amount of write-offs for the year ended 31 December 2022 was \$2,957,853 (compared with \$136,231 in 2021).

2. Ex gratia payments

393. As required by UNDP financial regulation 23.01, the administration reported no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

394. 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 assurance of identifying material misstatements, including those resulting from fraud. Its financial audit should not, however, be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

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

396. UNDP reported 7 cases of fraud and 35 cases of presumptive fraud during 2022, of which 29 are still pending, with a potential financial impact of \$180,620. Seven new cases of fraud and presumptive fraud were resolved in 2022, with a financial loss of \$132,354 for UNDP.

D. Acknowledgement

397. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Administrator of UNDP and his staff.

(Signed) **Hou Kai**
Auditor General of the People's Republic of China
Chair of the Board of Auditors

(Signed) **Pierre Moscovici**
First President of the Court of Auditors of France
(Lead Auditor)

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

26 July 2023

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2021

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken implemented by events
1.	2018	A/74/5/Add.1 , chap. II, para. 85	The Board recommends that UNDP assess whether and what internal financial control procedures could be introduced by UNDP to enhance data quality and limit risks of errors by means of having standardized control procedures and appropriate documentation to evidence that control procedures have been performed.	UNDP has introduced a clustered Compliance and Quality Assurance Unit, which would address the issue of standardized control procedures in future periods. Quality assurance: <ul style="list-style-type: none"> Provides cross-functional overview support for finance, procurement and human resources services processed in the Global Shared Service Unit. Performs reviews of transactions processed by the Unit and works with relevant Unit service delivery teams to address any impediments/improve service. Promotes standardization by developing and establishing quality assurance mechanisms and leading the development of the training and onboarding process for new Unit staff. 	The Board welcomed the recent changes in the human resources standard operating procedure and the establishment of the Compliance and Quality Assurance Unit at the Global Shared Service Centre, which would address the issue of standardized control procedures in future periods. However, the focus of the Unit is not currently on identifying internal controls to be manually processed or systematically embedded in the new Quantum enterprise resource planning system, nor to collect appropriate documentation for verifying whether major control procedures have been performed. In order to continue to emphasize the need for a comprehensive approach for effective internal controls, the Board created another recommendation in 2021 (A/77/5/Add.1 , chap. I, para. 292) and considers this recommendation to have been overtaken by events.			X
2.	2019	A/75/5/Add.1 , chap. II, para. 77	The Board recommends that UNDP enhance the awareness of country offices and other units on how to conduct fraud risk assessments in an integrated manner, for example, by presenting good practices at regional or annual retreats for its managers.	UNDP has implemented specific actions to enhance fraud awareness: guidance documents on how to conduct fraud risk assessments were provided to country offices and regional bureaux, reminders were sent to include fraud risks in risk registers and all staff were required to complete mandatory anti-fraud training. As at 3 November 2022, the completion rate was 92 per cent. Furthermore, fraud awareness was discussed at the	The Board noted the increasing number of projects that have identified fraud risks in their risk register since 2019. As of September 2022, there were a total of 177 fraud risks in 158 projects compared with 7 risks in 7 projects in 2019, and a total of 39 fraud risks in 18 offices compared with 11 fraud risks in 11 offices in 2019 when the recommendation was made.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification			
						Implemented	Under implementation	Not Overtaken by events	
3.	2019	A/75/5/Add.1 , chap. II, para. 101	The Board recommends that UNDP enhance the awareness of country offices and other units on how to document fraud risk treatment actions in the corporate risk management tools available, for example, by presenting good practices at regional or annual retreats for its managers.	<p>resident representatives' retreat in October 2022.</p> <p>As part of UNDP efforts to strengthen fraud risk management and to support the management, prevention and mitigation of fraud risks across the organization, the Office of Financial Management fraud management action plan requires all offices to identify risks associated with fraud in the enterprise risk management tool. To support offices in this regard, the Bureau for Management Services has developed a risk fraud assessment guide, which is available on the enterprise risk management toolkit page, to support UNDP personnel in preventing, detecting and responding to fraud.</p> <p>In addition, long-term agreements to conduct fraud and corruption risk assessments have been made available to country offices since October 2021. There has also been a significant improvement in recording fraud risks at the project and programme levels. As of September 2022, there were a total of 177 fraud risks in 158 projects compared with 7 risks in 7 projects in 2019, and a total of 39 fraud risks in 18 offices compared with 11 fraud risks in 11 offices in 2019 when the recommendation was made.</p>	<p>The Board considers this recommendation implemented.</p> <p>The Board noted the efforts to enhance awareness in country offices and other units to mitigate fraud risks identified at the country office level. As listed in the fraud risk assessment guidance note, possible mitigation measures could be the clustering of services or the strengthening of the procurement and vendor processes.</p> <p>The focus of this recommendation is not on the initial fraud risk assessment but rather on the risk treatment measures that reduce the likelihood and/or impact of the fraud risk below the threshold of acceptability. The auditors noted that treatment measures are assigned to treatment owners in the enterprise resource planning process.</p> <p>The Board considers this recommendation to be implemented.</p>		X		
4.	2019	A/75/5/Add.1 , chap. II, para. 124	The Board recommends that UNDP further enhance its continuous efforts to raise fraud awareness with external partners.	UNDP has added the anti-fraud link to all local UNDP websites, linking to the UNDP accountability page, and the link is shared with relevant stakeholders. Templates used with external parties (i.e. implementing	The Board noted that the template for the project cooperation agreement was updated and since March 2022 includes an acknowledgement by the signing implementing partner to have read			X	

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
				partners) have also been updated to include fraud-related information.	and agree to be bound by UNDP anti-fraud policy. The Board appreciated the proactive communication by UNDP on the availability of online training on ethics to external stakeholders and the link to anti-fraud policies on local websites. It considers this recommendation to be implemented.			
5.	2019	A/75/5/Add.1, chap. II, para. 148	The Board recommends that UNDP assess the application of good practices such as rotation of tasks among personnel in contexts where a higher risk of fraudulent acts has been identified.	UNDP has clustered at the Global Shared Service Centre several of the country office functions. Rotation is already offered within the Finance Unit of the Centre for capacity-building. Procurement personnel are subject to the human resources mobility policy. In addition, as previously noted, a large proportion of procurement fraud cases pertain to vendor activities that are duly reported by country offices, which indicate that UNDP compliance and other oversight measures are effective at the process level to identify instances of fraud when it occurs. Procurement personnel diligently report such cases.	The Board noted that since 2021 UNDP has had a mobility policy that defines rotational and non-rotational positions for staff. Outside the Global Shared Service Centre, contexts with a higher fraudulent act have not yet been identified in activities conducted locally in country offices. The Board holds that the rotation of tasks and portfolios is an easy and cost-efficient measure in order to reduce fraud risks. It considers this recommendation to be implemented in country offices for major risks identified in risk registers.	X		
6.	2019	A/75/5/Add.1, chap. II, para. 159	The Board recommends that UNDP establish a detective control at Global Shared Services Unit level to ensure that information entered by country offices into the enterprise resource planning system is correct and accurate.	With human resources clustering, all UNDP human resources transactions were moved from country offices to the Global Shared Service Centre. The Centre gradually took over the entry of all human resources data in the enterprise resource planning system. Human resources clustering was completed with the phase-out of the service contract modality in June 2022. UNDP replaced the service contract with the national personnel services agreement contract modality and the Centre took over	The Board noted the role of the Global Shared Service Centre in verifying the correctness and accuracy of information submitted by country offices. The Board considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
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				the administration. As a result, UNDP country offices are no longer entering human resources transactions in the enterprise resource planning tool. They now submit their requests for human resources transactions to the Centre, which makes the entries in the enterprise resource planning tool.				
7.	2020	A/76/5/Add.1 , chap. II, para. 83	The Board recommends that UNDP assess measures to mitigate the risk of erroneous asset or expense recognition resulting from use of an incorrect catalogue code upon the initial purchase.	Quantum uses a single/unified catalogue. Rules have been configured in the procurement module to determine the appropriate account code based on multiple parameters (item category, unit cost, attractive item or not, or internal/external use). The only input required from the requisitioner is the selection of the asset use value (internal or external) to indicate if the asset is for internal or external use. This minimizes the erroneous capitalization or expensing of asset items.	The Board acknowledges the improvements and the automated tasks implemented in the tool in order to mitigate the risk of error in the definition of newly created assets. It considers this recommendation to be implemented.	X		
8.	2020	A/76/5/Add.1 , chap. II, para. 89	The Board recommends that UNDP record revenue from exchange transactions in the period in which services were rendered and assess how the enterprise resource planning system could support this accounting approach to ensure an appropriate process and follow-up and complete recovery of revenue from exchange transactions.	The guidance was issued through 2022 quarterly and year-end closure instructions to UNDP offices on the requirement to have a standard process in place to follow up on outstanding amounts for services provided by UNDP to United Nations agencies. Guidance was also issued to prevent the incorrect recording of exchange revenue, in that revenue from exchange transactions must be recorded in the period in which services were rendered. This included instructions that financial authorizations be received upfront, prior to UNDP providing services to agencies. A similar message was sent out via Yammer to UNDP revenue focal	The Board noted the new guidance issued by UNDP to standardize the process of following the outstanding amounts related to services provided to other United Nations entities and the automated billing through Quantum. It considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not implemented by events
				points in September 2022. Quantum now has automated billing services for agencies, addressing the root cause of the issue.				
9.	2020	A/76/5/Add.1 , chap. II, para. 118	The Board recommends that UNDP further automate preventive controls with respect to assigning staff functions to non-staff and include all minimum control functions that must be held by staff.	The requirement for preventive controls is fully implemented in the new identity and access management module, in which profiles are connected to the contractual modality of the person given access to the system, making it impossible to erroneously assign staff access rights to non-staff personnel.	The Board acknowledges the preventive controls implemented in the identity and access management module regarding role assignment for staff and non-staff. The Board considers this recommendation to be implemented.	X		
10.	2020	A/76/5/Add.1 , chap. II, para. 119	The Board recommends that UNDP review cases of non-compliance and analyse why country offices did not fully comply with the corporate internal control framework but still confirmed compliance during the annual assertion exercise.	UNDP analysed 101 cases and took action to deactivate the human resources administrator and position administrator roles that were not dummy workflow assignments. UNDP put a system in place to review annual representation submissions and discuss results with regional bureaux. The review of the annual representation submissions for 2021 was held in 2022 and results were discussed individually with each regional bureau to address cases of non-compliance. In addition, internal control framework training was delivered to all offices during the first half of 2022, emphasizing the importance of ensuring the veracity of annual representation Statements.	The Board noted the analysis made by UNDP regarding the non-compliant cases. It considers this recommendation to be implemented.	X		
11.	2020	A/76/5/Add.1 , chap. II, para. 142	The Board recommends that UNDP explore possibilities for integration of the delegation of authority process, which is currently paper-based, into its enterprise resource planning system.	UNDP has explored the possibility of integrating the current paper-based delegation of authority into the new enterprise resource planning system, Quantum. The identity and access management tool may provide a possibility for integration of the delegation of authority process.	The Board noted the work done by UNDP regarding the integration of delegation of authority into Quantum. The Board considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
12.	2020	A/76/5/Add.1 , chap. II, para. 148	The Board recommends that UNDP explore whether an automated control could be implemented in the enterprise resource planning system to prevent users from approving payments for themselves.	The new UNDP enterprise resource planning system, Quantum, which went live in January 2023, has built-in automated controls to prevent users from approving payments for themselves.	The Board acknowledges the automated controls integrated into Quantum. It considers this recommendation to be implemented.	X		
13.	2020	A/76/5/Add.1 , chap. II, para. 166	The Board recommends that UNDP ensure that country offices record project-related risks for all of their projects and that risk entries are complete.	UNDP introduced Quantum+ in April 2022, with transition risk registers in the new platform. As of December 2022, all country offices and regional and central bureaux have recorded their programme risks in Quantum+, and 93.2 per cent of UNDP projects have completed their risk registers in Atlas. A PowerBI dashboard is available to facilitate the monitoring of project risks.	The Board noted actions put in place by UNDP to enhance risk management at the country office level. It considers this recommendation to be implemented.	X		
14.	2020	A/76/5/Add.1 , chap. II, para. 167	The Board recommends that UNDP ensure that directors of bureaux fulfil their responsibilities with regard to enterprise risk management and ensure that offices under their supervision keep their risk registers up to date.	Following the launch of the risk module in Quantum+, country offices entered their risk registers into the new application, which were reviewed by the regional bureaux. Risk assessment is a dynamic process, and country offices are required to update their risks regularly.	The Board noted that country office risk registers had been reviewed by regional bureaux. The Board considers this recommendation to be implemented.	X		
15.	2020	A/76/5/Add.1 , chap. II, para. 190	The Board recommends that UNDP include documentation of harmonized approach to cash transfers (HACT) implementation in the new cloud-based enterprise resource planning system and that UNDP include functional controls within the system to ensure compliance with HACT policies.	The harmonized approach to cash transfers tool is now part of Quantum+. This new integration in Quantum+ is the primary UNDP planning, monitoring and oversight tool for programme and operations policies and procedures for the harmonized approach to cash transfers. The system maintains all transactions that were previously available in the legacy platform. It also allows for the paperless submission and approval workflow for all processes, including	The Board acknowledges the integration of the harmonized approach to cash transfers tool in Quantum. It considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
				engagement of high-risk partners. It includes integration with the corporate planning system, avoiding the need for entering country programme documents manually and providing digitized issues and risk logs for assessments and assurance activities. In addition, the Quantum suite of applications equips UNDP with advanced technologies and streamlined processes that enhance transparency, improve risk management and strengthen its reporting and monitoring capabilities.				
16.	2020	A/76/5/Add.1 , chap. II, para. 290	The Board recommends that UNDP explore possibilities for robust data input controls and regular data maintenance mechanisms in the new supplier portal which ensure accurate, complete and reliable vendor master data.	The second phase of Quantum, which covers spending with authorized suppliers, is now deployed and fully benefits from the improved data controls on supplier and banking information.	The Board noted the data controls rolled out in Quantum regarding suppliers' information. It considers this recommendation to be implemented.	X		
17.	2020	A/76/5/Add.1 , chap. II, para. 334	The Board recommends that UNDP avoid publishing contact details from staff members and consultants in advertisements and solicitation documents.	UNDP has introduced a generic procurement team email in the solicitation template in the new Quantum sourcing platform that is now used globally. UNDP considers this recommendation to have been implemented and requests its closure by the Board.	The Board noted that the new template in Quantum avoids publishing personal contact details in the solicitation process. The Board considers this recommendation to be implemented.	X		
18.	2021	A/77/5/Add.1 , chap. II, para. 28	The Board recommends that UNDP take measures to enhance appropriate recording of purchase orders and receipts of goods and services.	The recommendation concerns only three cases, which are isolated instances. There is a policy in place that provides guidance on the requirements for the creation of multiple-line purchase orders. UNDP management reiterated the provisions of the policy to all UNDP offices in the fourth quarter closing instructions. Regional bureaux regularly follow up with and send periodic reminders to the country offices and arrange	The Board welcomed the efforts of the regional bureaux to enhance appropriate recording by country offices of purchase orders and receipts of goods and services. The auditors noted that the regional bureaux had monitored delays on receipts and were informed of actions taken locally to screen purchase orders without contracts, to detect purchase orders that had no receipt over 30 days, to repair reporting errors in the regional	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
				procurement training to foster local capacity at the country office level.	dashboard that did not contain detailed purchase order line items, or to gain clarification and explanation on delays from project focal points. The Board considers this recommendation to be implemented.			
19.	2021	A/77/5/Add.1 , chap. II, para. 37	The Board recommends that UNDP streamline and clarify policies for the recording of expenses reported by partners to ensure that expenses are accounted for in the correct period.	The Office of Financial Management has published a revised policy on recording expenses. In addition, programme and operations policies and procedures for national implementation, direct implementation, direct cash transfers and reimbursement were revised to specifically indicate when implementing partner expenses should be recorded for UNDP. Furthermore, cut-off expense testing was done half-yearly and yearly, and the result revealed a much lower error rate than for 2021.	The Board noted UNDP actions to clarify policies to ensure that expenses from implementing partners are accounted for in the correct period. The Board considers this recommendation to be implemented.	X		
20.	2021	A/77/5/Add.1 , chap. II, para. 56	The Board recommends that UNDP perform regular reviews of prices used for cost recovery for global services rendered under a contractual arrangement and adjust prices as identified by those reviews to avoid material shortcomings.	UNDP identified all material cost recovery for global services rendered. The majority of the costs are related to the universal price list and therefore updated annually. Examples are shared in supporting documents. UNDP considers this recommendation to be implemented.	The Board noted the reviews performed by UNDP regarding the cost recovery prices. It considers this recommendation to be implemented.	X		
21.	2021	A/77/5/Add.1 , chap. II, para. 57	The Board recommends that UNDP define clear responsibility for the review of prices used for cost recovery for global services rendered under a contractual arrangement.	UNDP maintains the responsibility lines with each service line leader, who is responsible for the review of the prices of their service lines. No material shortcomings are noted in the cost recovery area.	The Board noted the efforts of UNDP to redefine responsibilities in the update of agreed prices for service-level agreements. It considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not implemented by events
22.	2021	A/77/5/Add.1, chap. II, para. 65	The Board recommends that UNDP use prices for cost recovery based on actual work performed relying on tracked data of actual service provisions instead of using lump sums to ensure transparency and that neither profits nor losses occur.	Starting in 2022, UNDP had already billed the client agency concerned for the provision of financial services on the basis of actual time spent. The terms of the service-level agreements for the Office of Legal Services for 2023 with clients now provide for the costing on the basis of the most recent pro forma costs to ensure full cost recovery.	The Board welcomed the efforts of UNDP to start billing based on the actual time spent instead of lump sums. As this new method of billing started in 2023, the control of its effective application will be possible during the next year audit. The Board considers this recommendation to be implemented.	X		
23.	2021	A/77/5/Add.1, chap. II, para. 69	The Board recommends that UNDP aim to re-establish a contractual arrangement for all services including legal services provided to United Nations entities at headquarters level with a view to determining arrangements for price adjustments as necessary and ensuring full cost recovery in line with the principles for costing and pricing services.	The Office of Legal Support is already in discussions to negotiate the service-level agreements for 2023, which are based on the most recent pro forma costs.	The Board noted the efforts of UNDP to draft new service-level agreements between UNDP and United Nations entities. The Board considers this recommendation to be implemented.	X		
24.	2021	A/77/5/Add.1, chap. II, para. 78	The Board recommends that UNDP follow a consistent approach in line with the established memorandum of understanding to recovery of costs for rented vehicles as part of transportation services which incorporates the aim of neither making profit nor incurring a loss as agreed in the principles for costing and pricing services.	UNDP is transitioning full-time transportation services to the United Nations Secretariat in accordance with the transition arrangements in preparation for the introduction of the global memorandum of understanding in December 2023. During the transition, billing for full-time transportation services will continue to follow provisions of the memorandum of understanding.	The Board noted the new role of the United Nations Secretariat for transportation services and the efforts to recover costs paid by country offices for vehicles that are rented to United Nations agencies. The Board considers this recommendation to be under implementation.		X	
25.	2021	A/77/5/Add.1, chap. II, para. 84	The Board recommends that UNDP improve complete and timely cost recovery for all services provided to other United Nations entities.	Regional bureaux regularly remind country offices of the importance of timely and complete cost recovery. In addition, the Regional Bureau for Asia and the Pacific included a dedicated session on cost recovery in the regional workshop with the	The Board noted the actions of bureaux to raise the awareness of country offices on the subject of a timely and complete cost recovery after the delinking of the resident coordinator system from UNDP and the establishment of the		X	

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
				Deputy Resident Representative/ Operations Manager that took place from 6 to 10 March 2023. The Office of Legal Support has billed the client concerned for all four quarters of 2022 on the basis of the services provided to the client.	Development Coordination Office in the United Nations Secretariat. Nevertheless, the auditors observed that the cut-off issue had not been resolved regarding the amounts recorded in the accounts for 2022. The Board considers this recommendation to be under implementation.			
26.	2021	A/77/5/Add.1 , chap. II, para. 96	The Board recommends that UNDP update the UNDP accountability system and the corporate accountability framework.	UNDP has taken the initiative to carry out preliminary technical updates to the corporate accountability framework, and these updates are pending approval. Within the broad ambit of the UNDP Executive Board-approved accountability system, the efficacy of the corporate accountability framework remains undiminished. A more comprehensive revision of the framework could be undertaken following publication of the report of the Joint Inspection Unit on the accountability systems of the United Nations, to enable UNDP to optimally support the Executive Board, as appropriate, in ensuring alignment with the best or most recent practice and guidance.	The Board noted the update by UNDP on the corporate accountability framework. The auditors are still waiting for the final approved version of the framework. The Board considers this recommendation to be under implementation.		X	
27.	2021	A/77/5/Add.1 , chap. II, para. 103	The Board recommends that UNDP maintain evidence of the spot checks of quality assurance reports.	Regional bureaux continue to perform spot checks of quality assurance reports and maintain regular communication with offices, where needed.	The Board holds that quality assurance is a very important part of the project cycle. UNDP showed evidence of the realization of spot checks through reporting upon completion of checks and their conclusion by domain. The Board considers this recommendation to be implemented.		X	

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
28.	2021	A/77/5/Add.1 , chap. II, para. 114	The Board recommends that UNDP assess whether guidelines for oversight established for Global Environment Facility (GEF) projects could be applied to other UNDP projects.	UNDP management is looking to explore the option of developing a corporate approach to defining and managing high-risk projects.	The Board noted that a complete harmonization is not desirable but that the oversight tools used for the GEF audit could be a good starting point to determine the tools and procedures to be established by UNDP for other projects. The Board considers this recommendation to be under implementation.		X	
29.	2021	A/77/5/Add.1 , chap. II, para. 115	The Board recommends that UNDP facilitate the sharing of tools and best practices between regional bureaux.	Regional bureaux are already sharing tools and best practices, and this good practice will continue in the future. For example, the Regional Bureau for Asia and the Pacific has been working with other bureaux on sharing and adopting best practices (project document builder, Vital Signs, standard operating procedures, pre-project appraisal committees, etc.). The most recent sharing of practices event was held in November 2022 when the Regional Bureau for Asia and the Pacific shared its experience on oversight of the country office plans and overall implementation of the social and environmental standards policy in the region. The evidence of this inter-bureau event is available at: https://undp.sharepoint.com/teams/RBAP/rbapinitiatives/ses/SitePages/Training-and.aspx . Tools developed by the Regional Bureau for Europe and the Commonwealth of Independent States have already been reviewed by the Board of Auditors and assessed as the best examples, which are shared with and applied by other regional bureaux. The Regional Bureau for Europe and the Commonwealth of	The Board noted the events that took place in 2022 and facilitated the sharing of good practices between regional bureaux. The Board considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
30.	2021	A/77/5/Add.1 , chap. II, para. 125	The Board recommends that UNDP ensure timely completion of the annual performance reviews.	Independent States considers this recommendation to be implemented. The Regional Bureau for Latin America and the Caribbean performs oversight of transactions through relevant corporate dashboards, including the internal control framework, identifying country office assurance activities on financial transactions, and follows up directly with country offices to address or correct highlighted issues, to ensure that financial transactions are charged to GEF projects and beyond.	The Board noted the actions put in place by UNDP and the results in terms of the compliance ratio for annual compliance reviews. The Board considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
31.	2021	A/77/5/Add.1 , chap. II, para. 152	The Board recommends that UNDP, in line with established good practices and international standards, continue to integrate sustainability into the organization's procurement policy and strategy.	Sustainable procurement requirements for tracking and monitoring have been integrated into Quantum. Mainstreaming sustainable procurement is one of the objectives in the newly published procurement strategy for the period 2022–2025.	The Board noted that the new procurement strategy integrates sustainability. The Board considers this recommendation to be implemented.	X			
32.	2021	A/77/5/Add.1 , chap. II, para. 153	The Board recommends that UNDP, in line with established good practices and international standards, develop and implement a sustainable procurement action plan which includes elements such as, but not limited to, sustainable procurement objectives and targets, clarification of responsibilities and accountabilities with regard to sustainable procurement and a performance measurement framework.	The Office of Procurement continues to work on the guidelines and criteria that will be part of the action plan.	The Board considers this recommendation to be under implementation.		X		
33.	2021	A/77/5/Add.1 , chap. II, para. 163	The Board recommends that UNDP include sustainable procurement-related goals that are specific, measurable, attainable, relevant and time-bound in individual performance management agreements for all procurement support unit staff.	All staff in the Office of Procurement have been instructed to include sustainable procurement goals in their performance management and development processes.	The Board acknowledges the actions put in place by UNDP to integrate sustainable procurement goals into performance management. The Board considers this recommendation to be implemented.	X			
34.	2021	A/77/5/Add.1 , chap. II, para. 164	The Board recommends that UNDP develop and distribute examples of sustainable procurement-related individual performance goals for key internal stakeholders of the procurement process such as local heads of procurement, programme managers and operations managers.	The Office of Procurement has shared sample sustainable procurement goals with regional operations advisers for consideration for inclusion in performance management and development goals at either the individual or the country office level.	The Board acknowledges the actions put in place by UNDP to integrate sustainable procurement goals into performance management. The Board considers this recommendation to be implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
35.	2021	A/77/5/Add.1 , chap. II, para. 174	The Board recommends that UNDP review existing guidance on sustainable procurement practices and continue to enable its staff to implement existing sustainable procurement requirements stipulated in UNDP programme and operations policies and procedures.	Training on sustainable procurement awareness is scheduled for country offices and regional bureaux in the third and fourth quarters concerning existing policies, following on from training for personnel of the Office of Procurement held from 22 to 25 May 2023, and will be held globally for all business units in September and October 2023. The Office of Procurement is working on developing an outreach plan for the integration of sustainable procurement practices, drawing on the updated guidelines, policy and specifications for sustainable procurement practices.	The Board acknowledges the actions put in place by UNDP to improve existing guidance and to enhance sustainable procurement at country offices and regional bureaux. The Board considers this recommendation to be implemented.	X		
36.	2021	A/77/5/Add.1 , chap. II, para. 185	The Board recommends that, based on a sustainability risk analysis, UNDP develop and continuously update sustainable procurement specifications and regularly communicate those specifications to its requisitioners.	The work on preparing sustainable procurement guidelines and specifications for the top 10 categories is ongoing.	The Board considers this recommendation to be under implementation.		X	
37.	2021	A/77/5/Add.1 , chap. II, para. 196	The Board recommends that UNDP establish a control mechanism to ensure that country offices request non-hydrofluorocarbon refrigerants, where available and feasible, with an ultra-low global warming potential so as to comply with related provision of UNDP social and environmental standards.	UNDP has developed a methodology for greenhouse gas reporting on cooling assets. The updated environmental management tool now collects data on refrigerant type, charge and end-of-life leakage for every cooling asset at UNDP premises. Procurement guidelines for cooling assets have been developed and are now available to country offices. Furthermore, the guidelines have been shared with the real estate consultants advising on the headquarters office strategy for incorporation into future office configurations.	The Board appreciated the efforts of UNDP to include a future review of its guideline in order to establish controls of non-hydrofluorocarbon refrigerants at the country office level. The Board considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken by events
38.	2021	A/77/5/Add.1 , chap. II, para. 206	The Board recommends that UNDP revise its corporate templates for request for proposal to include mandatory and optional sustainability criteria in all templates.	UNDP has included sustainable procurement evaluation criteria in the request for quotes. Sustainable procurement evaluation criteria are already incorporated into the invitations to bid and the requests for proposals.	The Board noted that UNDP has revised its templates for requests for proposals to include mandatory and optional sustainability criteria. The Board considers this recommendation to be implemented.	X		
39.	2021	A/77/5/Add.1 , chap. II, para. 207	The Board recommends the inclusion of clear instructions and requirements on the use of mandatory and optional sustainability criteria for evaluation of offers in the related policy.	The inclusion of sustainable procurement criteria in the evaluation of offers has been implemented, providing clarification that such criteria should be part of the evaluation criteria and not deleted.	The Board noted the added instructions and requirements regarding the use of sustainable procurement criteria. The Board considers this recommendation to be implemented.	X		
40.	2021	A/77/5/Add.1 , chap. II, para. 219	The Board recommends that UNDP manage the greenhouse gas emissions from its freight forwarding long-term agreements and include sustainability criteria in any extension or new contract agreements with freight forwarders.	The long-term agreements for freight forwarders expire at the end of 2023, and sustainable procurement criteria will be included in the upcoming bids for these contracts.	The Board appreciates the role of UNDP for proposing a United Nations-wide methodology aimed at procurement activities in order to incorporate sustainability criteria into the tender evaluation process. The Board considers this recommendation to be under implementation.		X	
41.	2021	A/77/5/Add.1 , chap. II, para. 220	The Board recommends that UNDP report greenhouse gas emissions related to the contracted freight forwarding services in its greenhouse gas inventory and offset them.	In accordance with the United Nations-wide Greening the Blue methodology, United Nations carbon inventory assessments are currently limited to scope 1, scope 2 and scope 3 business travel emissions. Other scope 3 emissions, including project/programme emissions, are not within the scope. Adding freight forwarding emissions to the UNDP corporate greenhouse gas inventory and climate neutrality commitment would be inconsistent with the methodology approved by the United Nations System Chief Executives Board for Coordination. Nevertheless, UNDP has initiated a process at the United Nations level	The Board appreciates the discussions on the measure of greenhouse gas emissions from UNDP freight operations. The Board considers this recommendation to be implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not Overtaken implemented by events
				to pursue a strategic expansion of the current greenhouse gas inventory assessment boundary to incorporate relevant scope 3 emissions, including freight forwarding emissions. An advisory group, co-chaired by UNDP and the United Nations Office for Project Services, has been established with the objective of developing a proposal for consideration for United Nations-wide management.				
42.	2021	A/77/5/Add.1 , chap. II, para. 231	The Board recommends that UNDP improve performance monitoring for all of its solar photovoltaic installations at its own facilities and analyse the reasons for low energy production.	UNDP has updated its environmental management tool to collect annual data on every installed photovoltaic system. This allows UNDP to review the performance of the photovoltaic systems and analyse the reasons for low energy production.	The Board noted that a review will be conducted by UNDP of the performance of its solar photovoltaic installations. The Board considers this recommendation to be under implementation.		X	
43.	2021	A/77/5/Add.1 , chap. II, para. 232	The Board recommends that UNDP take necessary steps to ensure that solar photovoltaic installations at its own facilities are properly operated and maintained to enhance the most economic and environmental benefits.	Using the energy production data for the photovoltaic systems collected through the environmental management tool, the sustainability team identifies all cases for which additional review is needed and reaches out to country offices to request additional information.	The Board noted that a review will be conducted by UNDP of the performance of its solar photovoltaic installations. The Board considers this recommendation to be under implementation.		X	
44.	2021	A/77/5/Add.1 , chap. II, para. 246	The Board recommends that UNDP evaluate the appropriateness of the authorization process in the identified cases and follow up with corrective measures.	The International Civil Service Commission (ICSC) has discontinued COVID-19 danger payments on the basis of the recommendation by the World Health Organization. The associated risk related to this issue is no longer relevant. UNDP considers this recommendation to have been overtaken by events. It is important to add that UNDP has recovered all the funds related to the cases pointed out by the Board of Auditors.	The Board noted that ICSC had discontinued COVID-19 danger payments since 1 July 2022. The Board considers this recommendation to have been overtaken by the events.			X

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification		
						Implemented	Under implementation	Not implemented by events
45.	2021	A/77/5/Add.1 , chap. II, para. 247	The Board recommends that UNDP review its oversight functions and internal controls in place to ensure compliance with the stipulations for danger pay due to the COVID-19 pandemic.	ICSC has discontinued COVID-19 danger payments on the basis of the recommendation by the World Health Organization. The associated risk related to this issue is no longer relevant. UNDP considers this recommendation to have been overtaken by events. It is important to add that UNDP has recovered all the funds related to the case pointed out by the Board of Auditors.	The Board noted that ICSC had discontinued COVID-19 danger payments since 1 July 2022. The Board considers this recommendation to have been overtaken by the events.			X
46.	2021	A/77/5/Add.1 , chap. II, para. 264	The Board recommends that UNDP review and update its policy on termination indemnities in line with the Staff Regulations and Rules of the United Nations to ensure that additional termination indemnities are paid according to clearly defined criteria.	UNDP has developed a revision to its current policy on termination indemnities, which ensures that the criteria for payment of termination indemnities are clearly specified in line with the Staff Regulations and Rules of the United Nations, in particular in relation to the payment of additional termination indemnities. The revised policy has been approved and published.	The Board welcomes the efforts of UNDP to update the policy on termination indemnities and has received the approved signed version. The Board considers this recommendation to be implemented.	X		
47.	2021	A/77/5/Add.1 , chap. II, para. 279	The Board recommends that UNDP ensure compliance with the existing policy.	Country offices/headquarters units were reminded to follow the overtime policy in place and to ensure that standard overtime forms were used when submitting overtime requests. The reminder on the policy was also included in a message by the Director of the Bureau for Management Services.	The Board noted that UNDP had published an internal reminder on the policy on overtime requests. The Board considers this recommendation to be implemented.	X		
48.	2021	A/77/5/Add.1 , chap. II, para. 280	The Board recommends that UNDP implement adequate tools for monitoring overtime as well as internal controls to ensure compliant processes at all duty stations.	UNDP is finalizing the automation of the overtime payment process with a self-service-based approval workflow process. The automated process will gradually be rolled out in the fourth quarter of 2023.	The Board noted that UNDP is working on automating the monitoring of overtime compensation. The Board recommends that the new enterprise resource planning system should include monitoring tools such as time tracking in order to ensure that staff take necessary breaks. The Board considers this recommendation to be under implementation.		X	

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	External auditors' tentative assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	
49.	2021	A/77/5/Add.1, chap. II, para. 292	The Board recommends that UNDP further enhance its internal financial control system by identifying key controls with the aim of improving data quality and limiting risks of errors and by specifying documentation requirements which evidence the performance of these control procedures.	Management is taking the steps necessary to address this recommendation. UNDP is preparing to launch an Oracle solution, which, as a modern enterprise resource planning tool, will enhance basic controls and improve data quality.	The Board takes note of the discussions held on the new enterprise resource planning solution and considers this recommendation to be under implementation.			X		
50.	2021	A/77/5/Add.1, chap. II, para. 314	The Board recommends that UNDP further enhance the close monitoring for cost recovery of Quantum-related costs and strengthen efforts to ensure timely billing for all Quantum services provided to other United Nations entities.	A summary of Quantum billing is as follows. In 2021 Quantum bills were sent to the following participating United Nations agencies on 9 December 2021: UNFPA, UN-Women, UNCDF, UNU, UNITAR and UNSSC. These bills were 100 per cent paid. In 2022, Quantum common cost bills were sent to the following participating United Nations agencies on 18 August 2022: UNFPA, UN-Women, UNCDF, UNU, UNITAR and UNSSC. These bills were 100 per cent paid. In 2022, Quantum specific cost bills were sent to the following participating United Nations agencies on 19 August 2022: UNFPA, UN-Women, UNCDF, UNU, UNITAR and UNSSC. These bills were 100 per cent paid.	The Board notes that UNDP had billed participating United Nations agencies for the costs of Quantum in 2020 to 2022. The Board considers this recommendation to be implemented.		X			
Total number of recommendations						50	36	11	0	3
Percentage of the total number of recommendations						100	72	22	–	6

Chapter III

Financial report for the year ended 31 December 2022

A. Introduction

1. The financial report should be read in conjunction with the United Nations Development Programme (UNDP) audited financial statements and the accompanying notes for the year ended 31 December 2022. All amounts are expressed in United States dollars, which is the functional currency of the Programme. The financial statements are prepared for the calendar year 2022 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the financial performance and position of UNDP.

2. The financial statements aggregate all operations of UNDP at the organizational level. While this aggregate view of the organization is useful for overall performance and position analysis, readers are reminded to consider the segment reporting: statements of financial position and performance (note 5) and programme expenses by geographical region (note 34.3), which segregate operations by segments based on management reporting and by geographical region.

About the United Nations Development Programme

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

What the United Nations Development Programme offers

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

5. In addition, UNDP administers:

- *United Nations Volunteers programme.* The United Nations Volunteers programme is an organization that promotes volunteerism to support peace and development worldwide. The operations of United Nations Volunteers are reflected in the financial statements of UNDP. During 2022, 12,408 United Nations Volunteers from 179 countries supported partner United Nations entities in their peace and development activities in 166 countries of assignment.
- *Junior Professional Officers Programme.* At the end of the 2022 financial year, UNDP was managing the Junior Professional Officers Programme on behalf of 10 United Nations entities, as well as other programmes.
- *Multi-Partner Trust Fund Office.* UNDP houses the Multi-Partner Trust Fund Office, a United Nations centre of expertise on pooled financing mechanisms. It supports development effectiveness and United Nations coordination through the efficient, accountable and transparent design and administration of innovative pooled financing mechanisms.

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

Financial objectives

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

- (a) Accurate and timely reporting of results to the Executive Board and UNDP partners and other governing bodies;
- (b) Establishing and maintaining a sound set of internal financial control mechanisms;
- (c) Meeting the minimum regular resources liquidity requirement range approved by the Executive Board (i.e. three to six months of expenses);
- (d) Producing annual IPSAS-compliant financial statements.

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

B. Summary of financial results and highlights

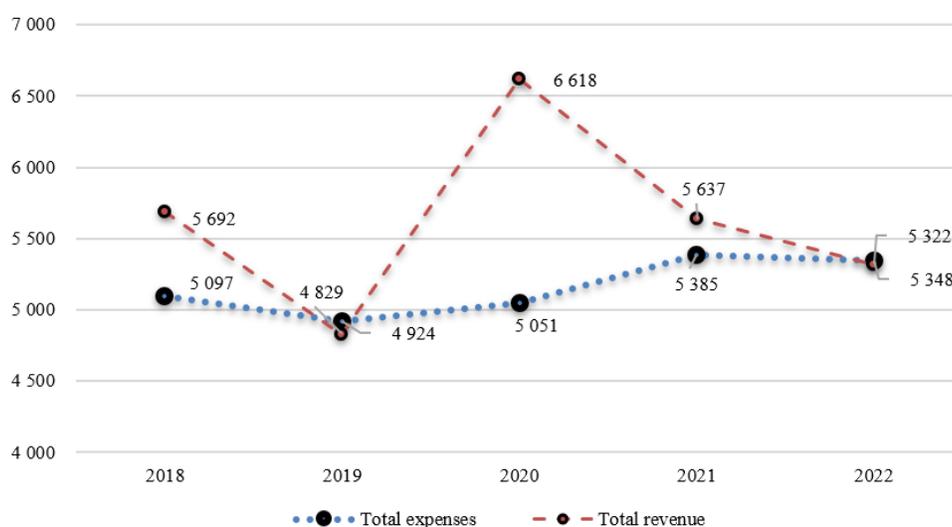
8. In 2022, UNDP reported total annual revenues of \$5,322 million (2021: \$5,637 million) and managed total assets of \$14,822 million (2021: \$15,151 million) (see figure III.I). UNDP recorded total contributions of \$4,998 million (2021: \$5,304 million), comprising \$609 million (2021: \$882 million) in regular resources and \$4,389 million (2021: \$4,422 million) in other resources.

Highlights from fiscal year 2022 compared with 2021 include:

- Decrease in total revenue by \$315 million (or 6 per cent)
- Decrease in total expenses by \$37 million (or 1 per cent)
- Decrease in programme expenses by \$19 million (or 1 per cent)
- Decrease in contractual services by \$14 million (or 1 per cent)
- Decrease in investments, excluding investments for the Multi-Partner Trust Fund Office, of \$404 million (or 5 per cent)

Figure III.I
Total revenue and expenses, 2018–2022

(Millions of United States dollars)



C. Financial performance⁷⁸

Revenue analysis

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

10. The total revenue in 2022 was \$5,322 million, a decrease of \$315 million, or 6 per cent, compared with total revenue of \$5,637 million in 2021.

11. The main sources of revenue of UNDP in 2022 were as follows:

- \$4,998 million, or 94 per cent, from voluntary contributions (2021: \$5,304 million, or 94 per cent).
- \$324 million, or 6 per cent, from exchange, investment and other revenue (\$333 million, or 6 per cent, in 2021).
- The decrease in voluntary contributions was the result of lower revenue from regular resources and cost-sharing contributions. Owing to the nature of cyclical funding, the top three donors' contributions increased by \$103 million from \$1,282 million in 2021 to \$1,385 million in 2022, with a reduction in contributions from other donors.

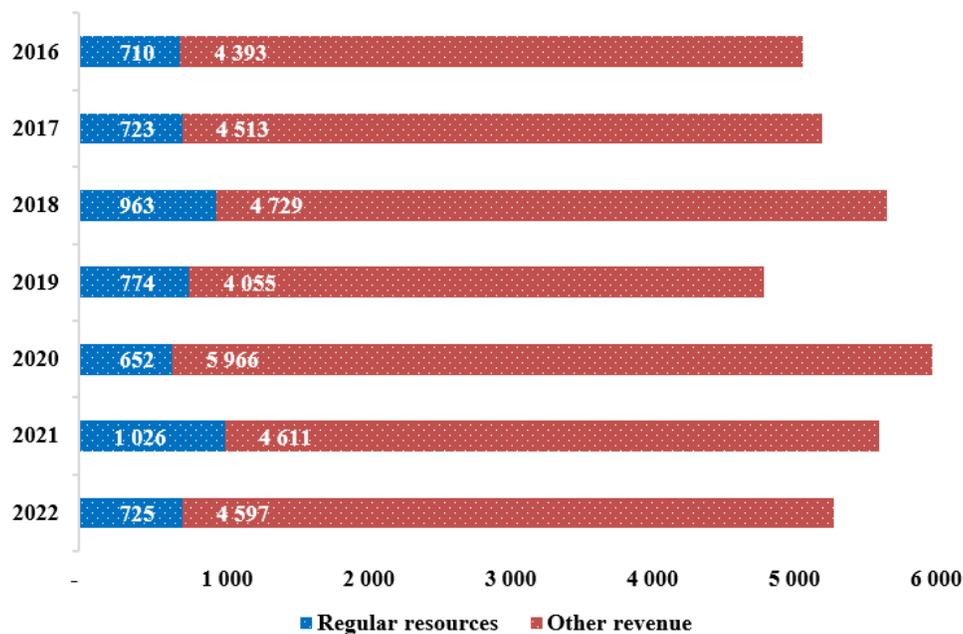
Revenue by segment

12. The proportion of the Programme's core contributions to total revenue decreased in 2022. In 2022, total revenue from regular resources was \$725 million (representing 14 per cent of total revenue) and revenue from other resources was \$4,597 million (representing 86 per cent of total revenue) (see figure III.II). In 2021, total revenue from regular resources represented 18 per cent of total revenue.

⁷⁸ References to "core" signify the "regular resources" segment, while references to "non-core" signify the "cost-sharing", "trust funds" and "reimbursable support services" segments in aggregate.

Figure III.II
Trend of regular resources and other revenue, 2016–2022

(Millions of United States dollars)

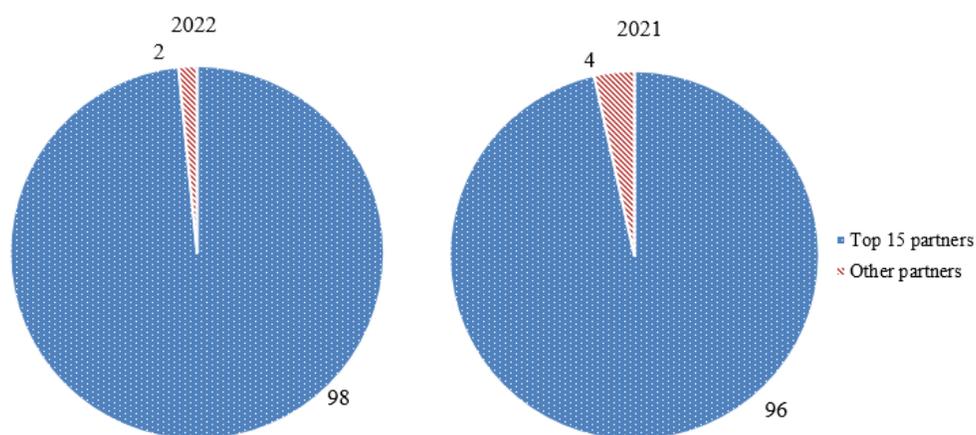


13. Within cost-sharing revenue totalling \$3,451 million, third-party cost-sharing and government cost-sharing provided 68 per cent and 32 per cent of the revenue, respectively. South-South cooperation provided less than 1 per cent of total cost-sharing revenue.

14. Both the core and non-core funding bases are concentrated in a few funding partners (i.e. donors). In 2022, 98 per cent of core revenue was received from 15 partners (2021: 96 per cent) (see figure III.III). In 2022, the largest donor of core funding accounted for 26 per cent (2021: 34 per cent) of total core contributions, amounting to \$609 million.

Figure III.III
Core revenue concentration, 2021–2022

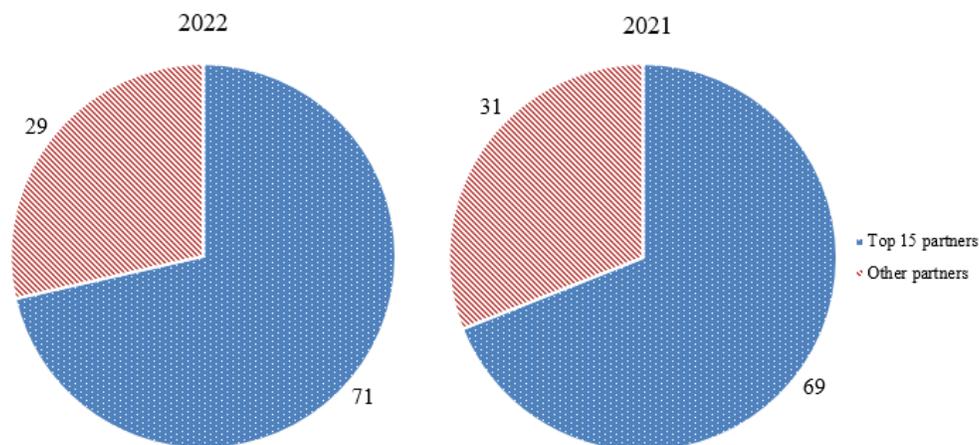
(Percentage)



15. For non-core revenue, the concentration of contributions from the largest 15 partners increased from 69 per cent in 2021 to 71 per cent in 2022 (see figure III.IV). In 2022, the largest donor for non-core funding accounted for 12 per cent (2021: 11 per cent) of total non-core contributions, amounting to \$4,389 million.

Figure III.IV
Non-core revenue concentration, 2021–2022

(Percentage)



16. An analysis of revenue by segment, excluding the elimination of internal UNDP cost recovery, shows that cost-sharing is the largest source of revenue, providing 62 per cent of the revenue of UNDP in 2022, followed by trust funds (15 per cent), regular resources (13 per cent) and reimbursable support services and miscellaneous activities (10 per cent) (see figure III.V).

Figure III.V
Composition of total revenue by segment, 2021–2022

(Percentage)

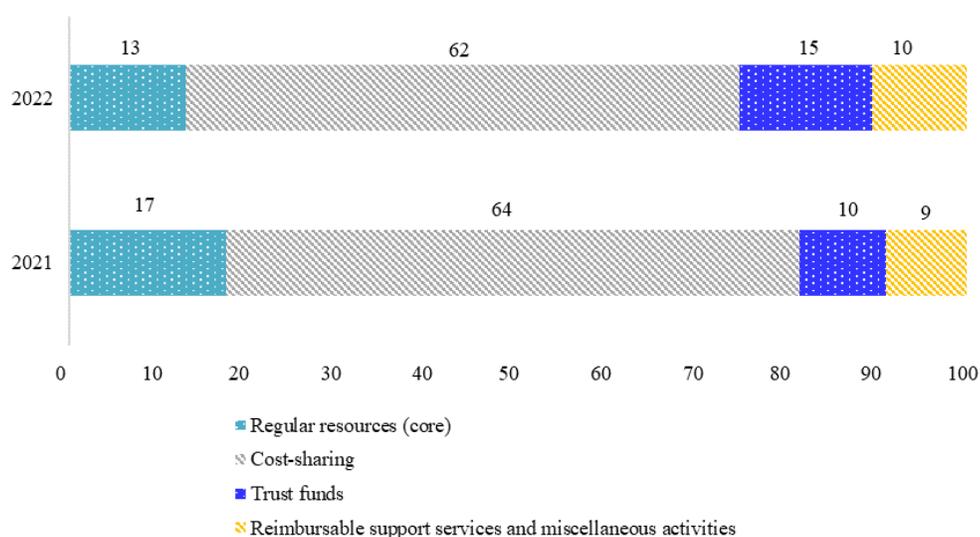
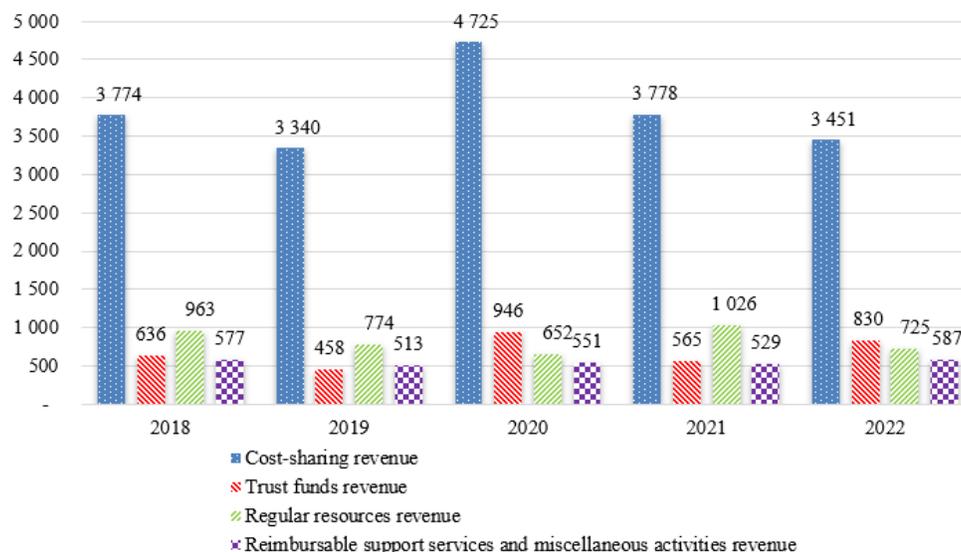


Figure III.VI
Composition of total revenue by segment, 2018–2022

(Millions of United States dollars)



Expense analysis

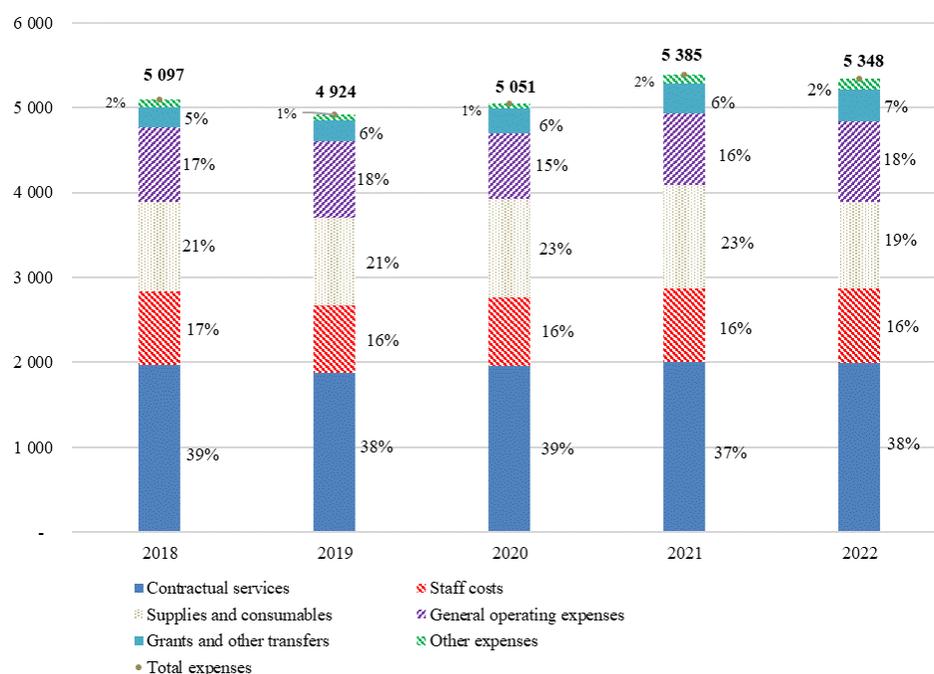
17. In 2022, UNDP expenses were \$5,348 million, a decrease of \$37 million, or 1 per cent, from 2021 (2021: \$5,385 million).

18. The largest expense category by nature continued to be contractual services, for which expenses totalled \$1,995 million in 2022 (2021: \$2,009 million), representing 37 per cent of total expenses (see figure III.VII). The remaining expenses in 2022 by nature were: supplies and consumables, totalling \$1,022 million (2021: \$1,217 million); staff costs, totalling \$871 million (2021: \$866 million); general operating expenses, totalling \$952 million (2021: \$844 million); expenses for grants and other transfers, totalling \$378 million (2021: \$350 million); and other expenses, totalling \$130 million (2021: \$99 million).

19. Government entities and private, financial, academic and civil society organizations contributed to the achievement of the Programme's sustainable development results and implemented \$1,517 million (2021: \$1,753 million) of total programme expenditures incurred in 2022. The decrease in supplies and consumables is attributed mainly to fewer purchases of medical, pharmaceutical and agricultural supplies, and information technology supplies and software maintenance. The increase in general operating expenses is attributed to increased travel and security costs.

Figure III.VII
Composition of total expenses by nature, 2018–2022

(Millions of United States dollars)



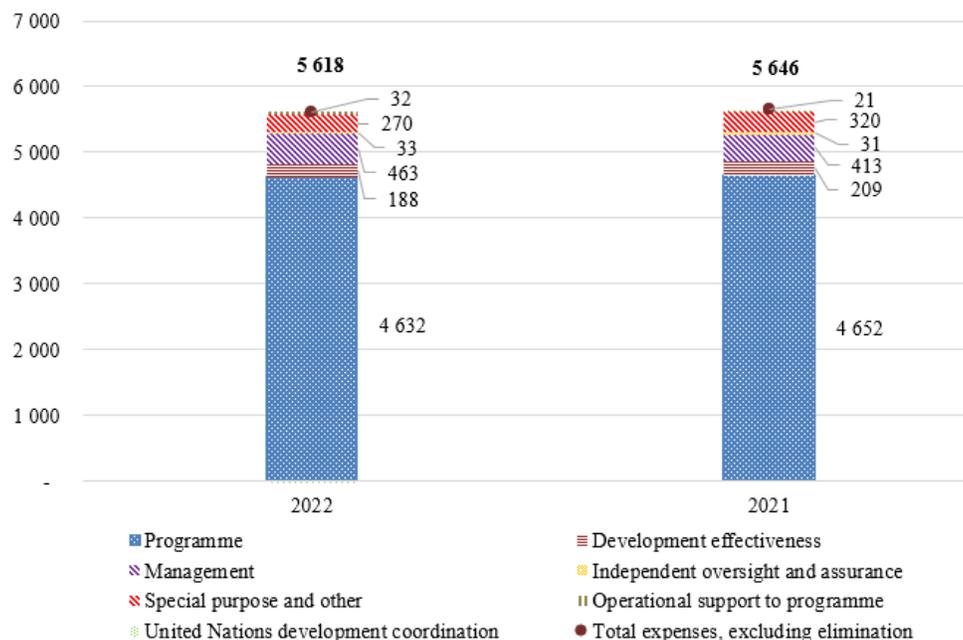
Expenses by cost classification

20. In its decision 2020/12, the UNDP Executive Board endorsed the cost definitions and classification of activities and associated costs in broad categories, as follows: (a) development activities, which encompass subcategories for programme activities, operational support to programme activities and development effectiveness activities; (b) United Nations development coordination activities; (c) management activities; (d) independent oversight and assurance; (e) special-purpose activities, encompassing investments in programmatic and institutional activities related to the United Nations Volunteers programme and the United Nations Capital Development Fund, as well as capital investments and other related expenditure; and (f) budget for additional resources for security measures in line with UNDP Executive Board decision 2021/15.

21. In 2022, of total UNDP expenses of \$5,618 million (excluding the effect of the eliminations of internal cost recovery of \$270 million) (2021: \$5,646 million), \$4,632 million, or 82 per cent, was spent on programme activities (2021: \$4,652 million); \$188 million, or 3 per cent, was spent on development effectiveness (2021: \$209 million); \$32 million, or 1 per cent, was spent on operational support to programme (2021: nil); less than \$1 million was spent on United Nations development coordination (2021: \$21 million); \$463 million, or 8 per cent, was spent on management (2021: \$413 million); \$33 million, or 1 per cent, was spent on independent oversight and assurance (2021: 31 million); and \$270 million, or 5 per cent, was spent on special-purpose and other activities to support operations administered by UNDP (2021: \$320 million) (see figure III.VIII). In 2021, expenses related to independent oversight assurance were reported under management.

Figure III.VIII
Composition of total expenses by cost classification, 2021–2022

(Millions of United States dollars)

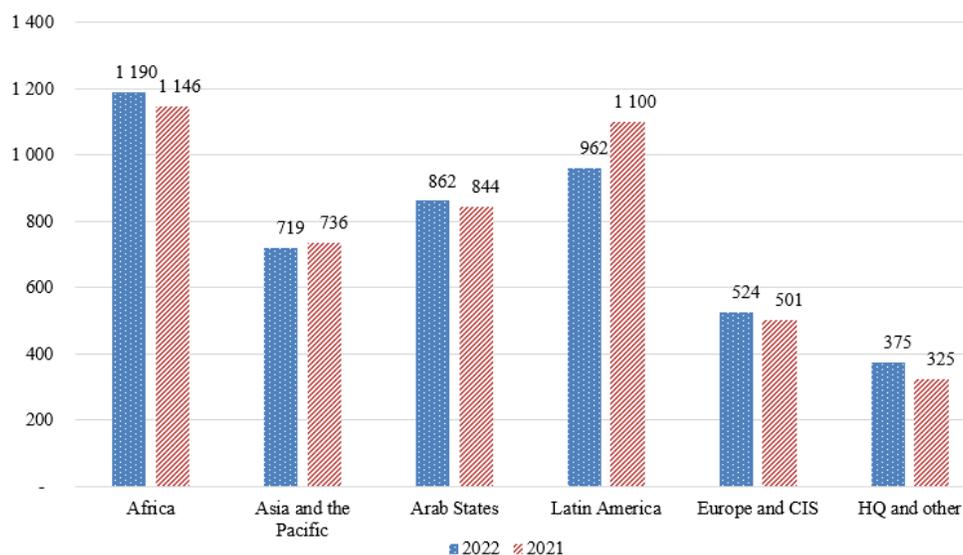


Programme expenses by geographical region

22. In 2022, of total UNDP programme expenses of \$4,632 million (excluding the effect of eliminations), the Africa region continued to have the largest proportion, amounting to \$1,190 million (26 per cent), as shown in figure III.IX.

Figure III.IX
Programme expenses by geographical region, 2021–2022

(Millions of United States dollars)



Abbreviations: CIS, Commonwealth of Independent States; HQ, headquarters.

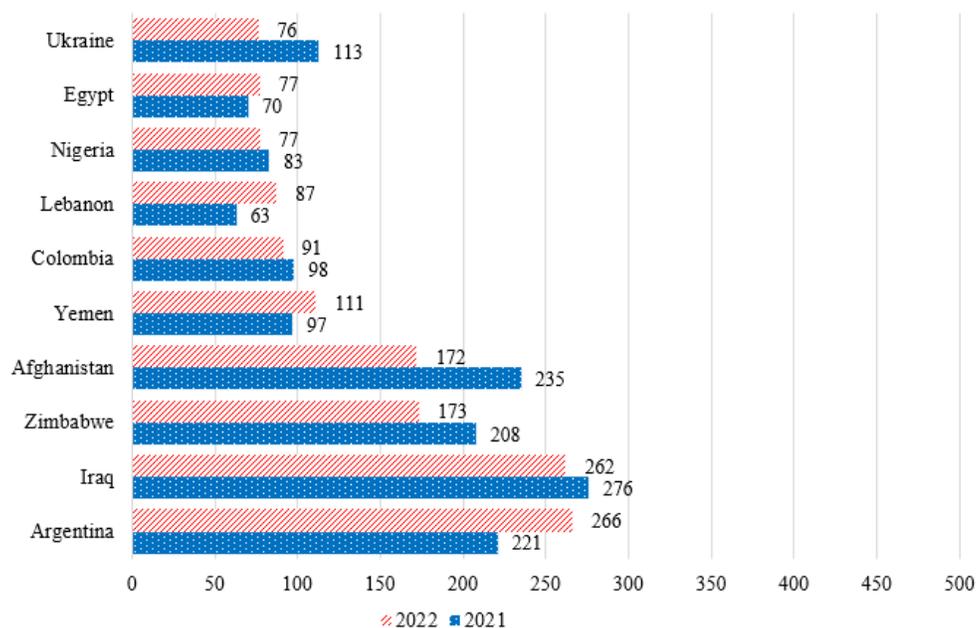
Programme expenses by country office

23. A total of 30 per cent of UNDP programme expenses (\$1,392 million of \$4,632 million) was attributed to the 10 largest country offices, in Argentina, Iraq, Zimbabwe, Afghanistan, Yemen, Colombia, Lebanon, Nigeria, Egypt and Ukraine (see figure III.X).

Figure III.X

Programme expenses, top 10 country offices, 2021–2022

(Millions of United States dollars)

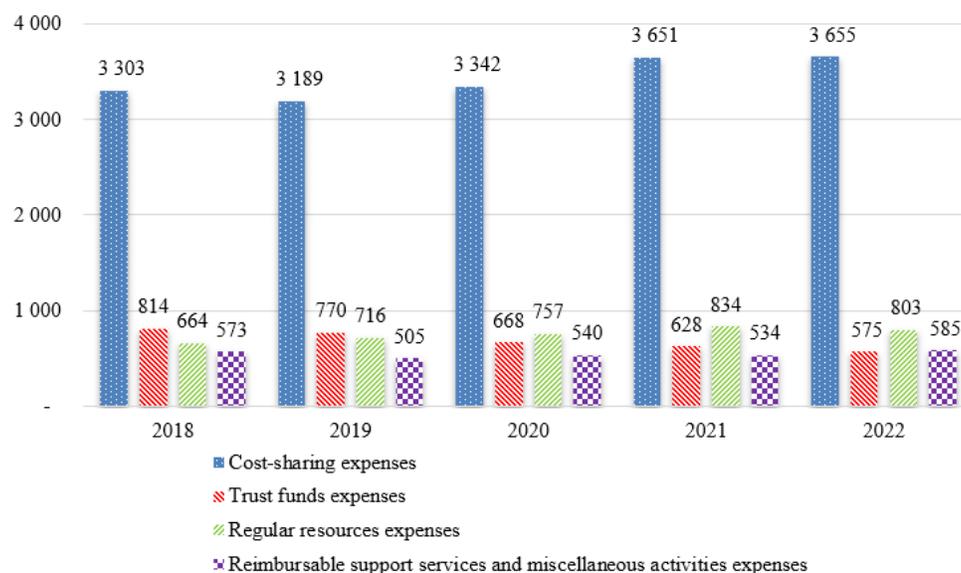


Expenses by segment

24. Of the total expenses for 2022 (excluding the effect of eliminations), 65 per cent was funded from cost-sharing, 14 per cent from regular resources, 10 per cent from trust funds and 11 per cent from reimbursable support services and miscellaneous activities (see figure III.XI).

Figure III.XI
Total expenses by segment, 2018–2022

(Millions of United States dollars)



25. Within cost-sharing expenses, totalling \$3,655 million, 70 per cent was spent on third-party cost-sharing and 30 per cent on government cost-sharing. South-South cooperation continued to account for less than 1 per cent of total cost-sharing expenses.

D. Surplus/deficit

26. In 2022, UNDP had a deficit of expenses over revenue of \$25 million, compared with a surplus of \$252 million in 2021. The decrease stems from the fact that UNDP funding is received on a cyclical basis, that is to say, the revenue from multi-year agreements with donors is recorded in full when those agreements are signed, provided that certain criteria are met. However, spending is available to UNDP only once cash is received from donors.

27. While the top three donors' contributions in 2022 increased by \$0.1 billion, other donor contributions decreased in 2022. Total revenue decreased by \$315 million while total expenses decreased by \$37 million. In the fourth quarter of 2022, UNDP signed agreements with donors amounting to \$1.3 billion compared with \$2.0 billion in 2021 for multi-year core and non-core programmes and projects that will be implemented in future periods.⁷⁹ Of that amount, agreements totalling \$0.7 billion were signed in December 2022 compared with \$0.9 billion in December 2021.

E. Budgetary performance

28. The integrated resources plan and the integrated budget set out the estimated financial resources for the new strategic plan, covering both regular (core) and other (non-core) resources for the period 2022–2025. The integrated resources plan

⁷⁹ References to “core” signify the “regular resources” segment, while references to “non-core” signify the “cost-sharing”, “trust funds” and “reimbursable support services” segments in aggregate.

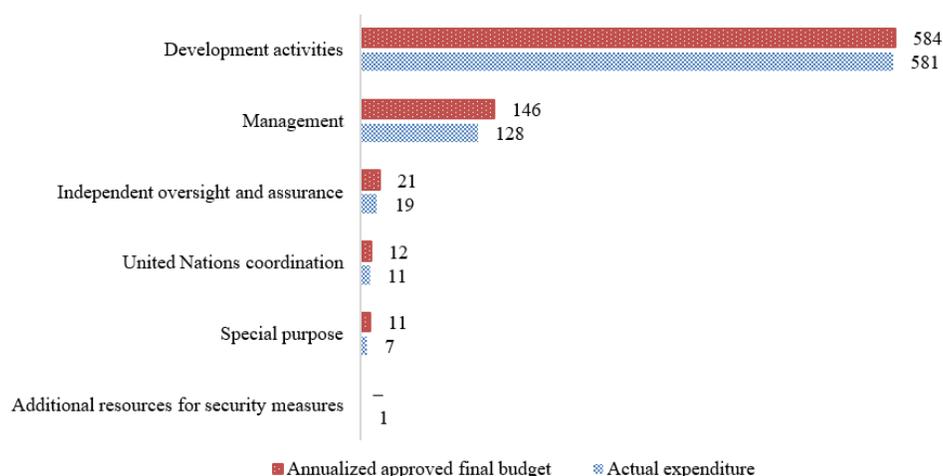
includes regular and other resources and encompasses the integrated budget, which covers regular resources only.

29. In its decision 2021/15, the UNDP Executive Board approved a four-year integrated budget covering the period 2022–2025, with estimates provided for the four annual periods.

30. The UNDP budget for 2022 has been formulated using a modified cash basis and is disclosed in the financial statements as statement V, comparison of budget and actual amounts (regular resources). In addition, to enable a comparative analysis between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is provided in note 6, Comparison to budget.

Figure III.XII
Budget utilization rates for 2022

(Millions of United States dollars)

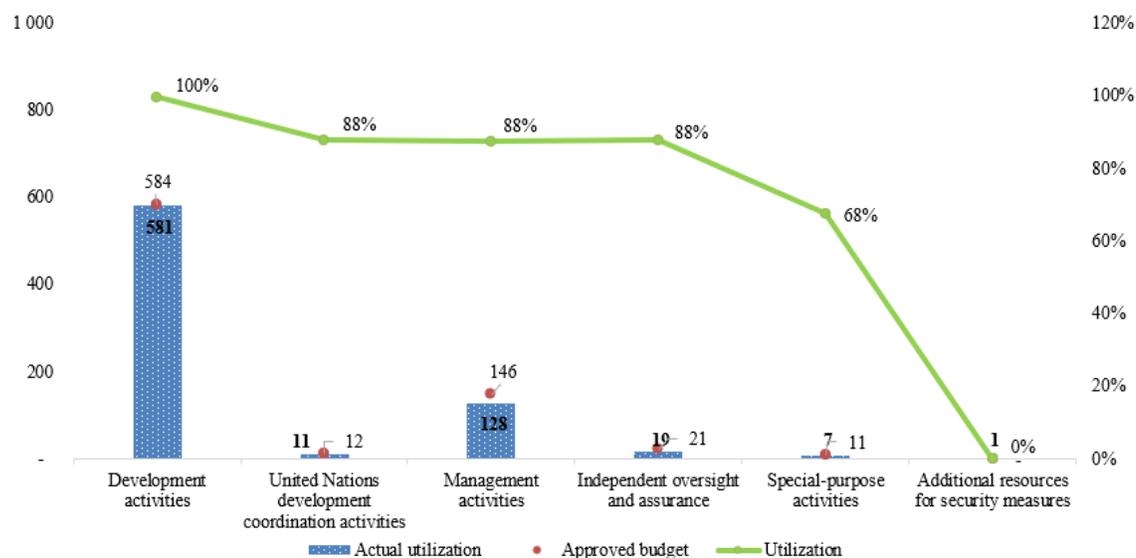


31. For 2022, expenditures for all cost classification categories remained within the 2022 annualized budget. During 2022, annual spending limits for the programmatic and institutional components were based on the level of voluntary contributions received and the liquidity requirement for regular resources, endorsed by the Executive Board, and remained in line with the annualized approved budgets for the period 2022–2025.

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

Figure III.XIII
2022 budget versus actual utilization

(Millions of United States dollars and utilization in percentages)



F. Financial position

Assets

33. At year-end 2022, UNDP held assets of \$14,822 million (2021: \$15,151 million), which comprised investments of \$8,542 million (2021: \$8,954 million), cash and cash equivalents of \$868 million (2021: \$964 million) and non-exchange receivables of \$4,966 million (2021: \$4,742 million). The majority of investments and cash and cash equivalents will be used for development activities funded through cost-sharing and trust funds. Cash and investments include cash and investments held on behalf of the Multi-Partner Trust Fund Office.

34. Overall, assets decreased by \$329 million, or 2 per cent, over the prior year. The change is attributable mainly to a decrease in investments of \$412 million and a decrease in cash and cash equivalents of \$96 million, offset by an increase in receivables from non-exchange transactions of \$224 million.

Liabilities

35. The total liabilities of UNDP decreased by \$501 million, or 14 per cent, from \$3,574 million in 2021 to \$3,073 million in 2022. The change is attributable mainly to funds held in trust for the Multi-Partner Trust Fund Office, which decreased by \$155 million; accounts payable, which decreased by \$75 million; and employee benefits, which decreased by \$310 million.

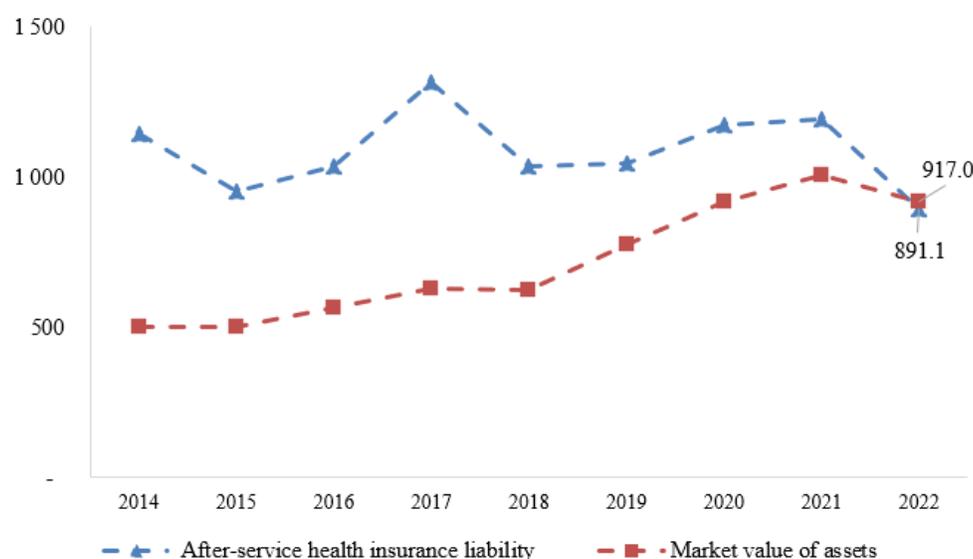
36. The after-service health insurance benefit liability, which was actuarially valued, stands at \$891 million in 2022 (2021: \$1,190 million) (see figure III.XIV). The decrease of \$299 million, or 25 per cent, in the after-service health insurance liability in 2022 is due to the significant increase in the single equivalent discount rate from 3.16 per cent in 2021 to 5.21 per cent in 2022, offset in part by the increase in the health-care cost. The end-of-service/repatriation benefit liability was actuarially valued at \$99 million (2021: \$108 million).

37. UNDP holds \$917 million in cash and investments to fund its after-service health insurance liabilities (103 per cent funded) (2021: \$1,007.8 million and 85 per cent funded) and \$61 million in cash and investments to fund its end-of-service/repatriation liabilities (61 per cent funded) (2021: \$70 million and 65 per cent funded). UNDP made a one-time cash injection of \$49.7 million to further fund the after-service health insurance liability; the decision to do so was made in 2021 and implemented early in 2022. The cash injection, coupled with the decrease in the 2022 liability for after-service health insurance, resulted in UNDP fully funding its after-service health insurance liability for the first time. Figure III.XIV shows the gradual bridge of the funding gap over the years.

Figure III.XIV

After-service health insurance liability and market values of earmarked assets in investments

(Millions of United States dollars)



Liquidity

38. UNDP exceeded the minimum liquidity requirement for regular resources mandated by the Executive Board with 5.0 months of average expenditures (2021: 6.1 months).⁸⁰

Net assets/equity

39. Net assets/equity reached \$11,749 million (see table III.1), comprising accumulated surpluses of \$11,440 million and reserves of \$309 million; \$10,656 million represents the accumulated non-core balances,⁸¹ which increased by 2 per cent (2021: \$10,402 million). The total accumulated surplus balance includes non-cash receivables of \$5,054 million (2021: \$4,800 million). A significant portion of accumulated surpluses is therefore not immediately available for programme delivery. Under its Financial Regulations and Rules, UNDP is permitted to spend only when the cash is received.

⁸⁰ The calculation method is the modified cash basis in order to correspond to the budget basis for regular resources.

⁸¹ References to “core” signify the “regular resources” segment, while references to “non-core” signify “cost-sharing”, “trust funds” and “reimbursable support services” segments in aggregate.

40. In 2022, \$8.0 million was released to the operational reserve from the accumulated surpluses, in accordance with the operational reserve formula approved by the Executive Board in its decision 1999/9. In 2021, \$0.7 million was released to the accumulated surpluses from the operational reserve.

41. During 2022, net assets/equity increased by \$172.9 million as a result of the combined effect of the following factors: (a) deficit of \$25.4 million; (b) decrease in fair value of available-for-sale investments of \$186.3 million; (c) actuarial gains of \$381.5 million; (d) decrease in funds with specific purposes of \$46.6 million; and (e) transfer between reserves and accumulated surplus of \$49.7 million.

Financial position by segment

42. The financial position of UNDP by segment and UNDP in aggregate, as included in note 5 to the financial statements, on segment reporting, is summarized in table III.1.

Table III.1

Summary financial position by segment as at 31 December 2022

(Millions of United States dollars)

	<i>Regular resources</i>	<i>Cost-sharing</i>	<i>Trust funds</i>	<i>Reimbursable support services and miscellaneous activities</i>	<i>Total UNDP</i>
Total assets	3 612.3	7 655.4	2 355.1	1 199.4	14 822.2
Percentage of total UNDP assets	24	52	16	8	100
Total liabilities	2 663.8	110.9	14.9	283.1	3 072.7
Percentage of total UNDP liabilities	87	4	–	9	100
Net assets/equity	948.6	7 544.5	2 340.2	916.3	11 749.5
Percentage of total UNDP assets/equity	8	64	20	8	100

Summary financial position by segment as at 31 December 2021

(Millions of United States dollars)

	<i>Regular resources</i>	<i>Cost-sharing</i>	<i>Trust funds</i>	<i>Reimbursable support services and miscellaneous activities</i>	<i>Total UNDP</i>
Total assets	3 989.8	7 860.3	2 101.1	1 199.8	15 150.9
Percentage of total UNDP assets	26	52	14	8	100
Total liabilities	2 959.7	111.4	15.9	487.3	3 574.3
Percentage of total UNDP liabilities	82	3	1	14	100
Net assets/equity	1 030.1	7 748.9	2 085.1	712.5	11 576.6
Percentage of total UNDP assets/equity	9	67	18	6	100

G. Accountability, governance and risk management

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

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

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

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

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

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

Internal controls

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

46. Internal control is a key responsibility of UNDP management designed to ensure proper management of UNDP operations. It is the responsibility of UNDP management at all levels to:

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

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

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

(d) Monitor the effectiveness of internal controls.

47. The effective application of internal controls within UNDP is aimed at achieving, through the following institutionalized processes:

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

(b) Monitoring and oversight controls, or the second line of defence: these controls are designed to monitor the operational effectiveness of “front-line” controls and mitigate related risks and are exercised by regional bureaux, headquarters divisions and the Ethics Office. The functions are financial performance monitoring, planning and budgeting processes, quality management and assurance, results and performance management;

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

Office and the Office of the Ombudsperson, which issue annual reports to the UNDP Executive Board;

(d) External oversight: internal oversight is supplemented by external bodies, which include the UNDP Executive Board, the Audit and Evaluation Advisory Committee, the Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, the external auditors (Board of Auditors) and regulatory authorities.

Enterprise risk management

48. Since the launch of the updated enterprise risk management policy in March 2019, several enhancements have been made to the enterprise risk management processes and tools designed to improve how UNDP implements the strategic plan for the period 2022–2025 and delivers results. These initiatives include, but are not limited to, the following:

(a) In October 2021, UNDP released its risk appetite statement, which sets out the Programme's internal preference regarding the level of acceptable risk to take in a given situation. It also reflects the UNDP risk culture and the risk attitudes of key external stakeholders and partners. The statement further enforces the risk-enabled culture, in which risk-based decisions are taken and opportunities are pursued according to the need and circumstances of the project or programme;

(b) In June 2022, UNDP launched the enterprise risk management module in Quantum+, which is part of the Programme's corporate management solution. The overall objective is to strengthen how to identify, evaluate and manage programme risks in order to make more risk-informed and timely decisions. The risk module will help to integrate the risk registers with the risks identified through various risk assessment tools, providing management with a comprehensive overview of risks that require attention and timely action to achieve results;

(c) In September 2022, UNDP launched the new programme risk dashboard to help offices to review, update and monitor programme/business unit risks. It provides an overview of the risks that have been identified at the programme/office level to help senior management, programme managers, risk owners and risk focal points to analyse, report, manage and monitor risks to enable risk-informed decision-making by:

- (i) Offering an aggregated view of identified risks that may have an impact on the achievement of the office's objectives;
- (ii) Providing an overview of open risks that need to be reviewed and updated by country offices and business units;
- (iii) Flagging high risks that require further analysis and mitigation by the risk owner;
- (iv) Enabling easy review and monitoring of risk treatments and their progress.

49. The modules of the new UNDP corporate management solution (Quantum) were launched in January 2023. Quantum aims to provide an integrated view of data and enable more comprehensive risk identification, monitoring and management at the project level.

Financial risk management

50. The operations and decentralized business model of UNDP exposes it to a variety of financial risks, including credit risk arising from the failure of counterparties to meet contractual obligations; liquidity risk due to failure to maintain

adequate funds to meet current obligations; and market risk from unfavourable movements in exchange rates, interest rates and/or prices of investment securities. The Financial Regulations and Rules of UNDP and its policies and procedures require offices to implement effective controls and financial risk management procedures to manage these risks.

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

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

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

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

(d) Socially responsible investments selected using a designated provider's negative screens.

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

53. UNDP is exposed to currency risk arising from financial assets and liabilities that are denominated in foreign currency. The Programme's transactions are denominated primarily in United States dollars, but certain donor contributions are received in other currencies, including national currencies in programme countries. The Treasury Division actively manages the Programme's net foreign currency exposure in 10 major currencies against the United States dollar using foreign exchange forward and option contracts. UNDP evaluates on an ongoing basis its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations. The exposure of UNDP to currency and other financial risks is disclosed in note 29, Financial instruments and risk management.

Accounting matters

Critical accounting estimates

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

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

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

Adoption of new accounting standards

56. There are new IPSAS standards that will become effective in 2023 and future years. The impact of the adoption of these standards on the financial statements of UNDP is currently being assessed to ensure implementation on the effective dates.

57. Further information on new accounting developments is included in the financial statements for 2022 (see paras. 3.9 to 3.14, Future accounting changes, under note 3).

Audit services and fees

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

Table III.2

Audit fees

(Thousands of United States dollars)

	2022	2021
UNDP	1 036	1 036
UNDP-GEF	87	87
Total	1 123	1 123

Abbreviations: GEF, Global Environment Facility.

H. Implementation of the Next Generation Enterprise Resource Planning project

59. The Next Generation Enterprise Resource Planning (Quantum) project was approved in May 2020. Its objective is to replace the current enterprise resource planning system, namely, Atlas, which was implemented in 2004, with a modern cloud-based architecture anchored in the Oracle Cloud enterprise resource planning solution, which will support the #NextGenUNDP way of working, in accordance with the new strategic plan for the period 2022–2025. The adoption of Quantum is aligned

with the aspirations and capabilities set out in both the information technology and digital strategies, thereby representing a major milestone in the digitalization of UNDP, as described in the strategic plan.

60. In June 2021, a modern recruitment process and a modern end-to-end procurement sourcing module were launched as part of the Quantum project. In the first half of 2022, UNDP saw the introduction of Quantum+ to support its corporate planning system, donor management processes and enterprise risk management. In addition, the budget formulation module and the learning management platform were released in July and August 2022. As at 31 December 2022, the Quantum financial and payroll modules were ready to be deployed globally; this was completed on 9 January 2023, enabling UNDP to open its new fiscal year in the Quantum digital platform.

61. The total UNDP project costs of the Information and Technology Management Unit for the period 2020–2022 are estimated at \$29.8 million. The move to a cloud-based architecture also provides an opportunity to reduce the ongoing information technology operating costs for enterprise resource planning by \$1.8 million per annum once Atlas has been fully decommissioned. Various other productivity gains and benefits are expected through improvements in digital engagement and ways of working.

I. Achievements in 2022

62. In 2021, UNDP completed the first phase of the clustering of services into its Global Shared Service Centre. In 2022, the next phase of the clustering, which involves the optimization of processes and systems and seeks to ensure the stability and efficiency of clustered services, began. The optimization review was completed, and the implementation of the recommendations is ongoing. In 2022, the Centre continued to service other agencies and programmes through the provision of payroll services to more than 50 organizations.

63. In 2022, UNDP saw its second highest level of programme delivery in over a decade, reaching \$4.6 billion. In Africa, UNDP outperformed its annual target, delivering 102 per cent of planned programme support. In Latin America and the Caribbean, it delivered 115 per cent of planned programme support. UNDP corporate project delivery was exceeded only by its performance in 2021, at the height of the pandemic.

64. In 2022, UNDP collaborated with over 40 countries on debt restructuring and thematic bonds. By the end of 2022, those initiatives had generated over \$11 billion for efforts to achieve the Sustainable Development Goals and climate action.

65. In 2022, the Multi-Partner Trust Fund Office provided a record high of \$1.7 billion to 120 United Nations system entities and implementing partners to support important and innovative inter-agency coalitions to advance the achievement of the Goals.

66. UNDP continued to be the operational backbone of the United Nations system in 2022. It disbursed \$1.9 billion in 114 currencies through its payroll system, more than half of which (53 per cent) was on behalf of United Nations partner organizations. UNDP supported \$3.09 billion (2021: \$2.82 billion) in financial transactions for approximately 118 United Nations entities and other agencies in over 170 countries. This included \$46.2 million (2021: \$57.9 million) of expenses related to services provided to the resident coordinator system.

67. In 2022, UNDP also provided common premises for other agencies in at least 126 countries, where they could avail of common services, such as travel management.

68. In addition, UNDP prioritized corporate efforts to diversify its development partnerships, with a clear focus on international financial institutions and the private sector. Seeking a more seamless approach to working with businesses, UNDP established a new UNDP-supported guarantee policy, an intellectual property licensing policy and digitalized due diligence tools. New and strengthened policies are in place on anti-money-laundering and countering the financing of terrorism.

69. In 2022, consistent with prior years, of every dollar spent, 91 cents went to programmes and services for the achievement of development results.

70. UNDP continues to remain one of the world's most transparent development organizations, with a score of 88.1 per cent in the 2022 Aid Transparency Index, sustaining its position in the "very good" category since 2013. By opening its books in this way, UNDP increased its accountability to its donors and partners. The Programme remains committed to the highest standards of accountability and transparency and will continue to invest in robust accountability and oversight systems at all levels (see open.undp.org).

Chapter IV

Financial statements for the year ended 31 December 2022

United Nations Development Programme

I. Statement of financial position as at 31 December 2022

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
Assets			
Current assets			
Cash and cash equivalents	Note 7	620 987	566 485
Cash and cash equivalents, Multi-Partner Trust Fund Office	Note 7	246 608	397 175
Investments	Note 8	2 712 676	3 154 762
Investments, Multi-Partner Trust Fund Office	Note 8	479 772	645 195
Receivables, non-exchange transactions	Note 9	2 534 563	2 466 743
Receivables, other	Note 10	87 726	57 653
Advances issued	Note 11	221 704	289 795
Loans to Governments	Note 13	–	507
Inventories	Note 12	12 364	12 991
Total current assets		6 916 400	7 591 306
Non-current assets			
Investments	Note 8	4 775 822	4 738 045
Investments, Multi-Partner Trust Fund Office	Note 8	574 157	416 364
Loans to Governments	Note 13	–	2 265
Receivables, non-exchange transactions	Note 9	2 431 554	2 275 736
Property, plant and equipment	Note 14	119 976	121 588
Intangible assets	Note 15	4 229	5 478
Receivables, other	Note 10	95	100
Total non-current assets		7 905 833	7 559 576
Total assets		14 822 233	15 150 882
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 16	192 743	267 572
Advances payable	Note 17	37 850	24 150
Funds received in advance and deferred revenue	Note 18	264 918	240 333
Funds held on behalf of donors	Note 18	6 235	13 676
Funds held in trust, Multi-Partner Trust Fund Office	Note 19	718 020	1 030 581
Employee benefits	Note 20	261 402	260 568
Other current liabilities	Note 21	21 735	14 686
Total current liabilities		1 502 903	1 851 566

United Nations Development Programme

I. Statement of financial position as at 31 December 2022 (continued)

	<i>Reference</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
Non-current liabilities			
Funds held in trust, Multi-Partner Trust Fund Office	Note 19	574 157	416 365
Funds received in advance and deferred revenue	Note 18	16 577	16 585
Employee benefits	Note 20	979 000	1 289 674
Other non-current liabilities	Note 21	103	111
Total non-current liabilities		1 569 837	1 722 735
Total liabilities		3 072 740	3 574 301
Net assets/equity			
Reserves	Note 22	309 301	301 457
Accumulated surpluses	Note 23	11 440 192	11 275 124
Total net assets/equity		11 749 493	11 576 581
Total liabilities and net assets/equity		14 822 233	15 150 882

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

United Nations Development Programme

II. Statement of financial performance for the year ended 31 December 2022

(Thousands of United States dollars)

	<i>Reference</i>	<i>2022</i>	<i>2021</i>
Revenue			
Voluntary contributions	Note 24	4 997 617	5 304 025
Revenue, exchange transactions	Note 25	127 774	115 897
Investment revenue	Note 26	101 489	135 488
Other revenue	Note 27	95 226	81 455
Total revenue		5 322 106	5 636 865
Expenses			
Contractual services	Note 28	1 995 289	2 008 577
Staff costs	Note 28	871 041	866 185
Supplies and consumables used	Note 28	1 021 798	1 216 749
General operating expenses	Note 28	951 787	844 390
Grants and other transfers	Note 28	377 586	349 706
Other expenses	Note 28	114 743	82 239
Depreciation and amortization	Note 28	15 308	17 013
Total expenses		5 347 552	5 384 859
Surplus/(deficit) for the year		(25 446)	252 006

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

United Nations Development Programme

III. Statement of changes in net assets/equity for the year ended 31 December 2022

(Thousands of United States dollars)

	<i>Reference</i>	<i>2022</i>		<i>2021</i>	
		<i>Reserves</i>	<i>Accumulated surpluses</i>	<i>Total net assets/equity</i>	<i>Total net assets/equity</i>
Balance at the beginning of the year		301 457	11 275 124	11 576 581	11 269 823
Changes in net assets/equity					
Transfers from reserves/accumulated surplus	Note 22, 23	8 000	41 700	49 700	–
Funds with specific purposes	Note 22, 23	(156)	(46 399)	(46 555)	9 367
Changes in fair value of available-for-sale investments		–	(186 266)	(186 266)	(18 371)
Actuarial gains/(losses)	Note 20	–	381 479	381 479	63 756
Current year surplus and deficit	Statement II	–	(25 446)	(25 446)	252 006
Total changes in net assets/equity		7 844	165 068	172 912	306 758
Balance at the end of the year		309 301	11 440 192	11 749 493	11 576 581

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

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2022

(Thousands of United States dollars)

	<i>Reference</i>	<i>2022</i>	<i>2021</i>
Cash flows from operating activities			
Surplus/(deficit) for the year	Statement II	(25 446)	252 006
<i>Adjustments to reconcile surplus/(deficit) for the year to net cash flows</i>			
Depreciation and amortization	Note 28	15 308	17 013
Impairments	Note 28	30 496	2 092
In-kind contributions (donated goods)		(1 459)	(3 205)
Amortization of premium/(discount) on investments		9 053	12 141
(Gains)/losses on foreign exchange translation		131 872	82 354
Losses on disposal of property, plant and equipment		2 179	2 575
<i>Changes in assets</i>			
(Increase)/decrease in receivables, non-exchange transactions ^a		(380 475)	(9 399)
(Increase)/decrease in receivables, other ^b		(111 283)	(79 026)
(Increase)/decrease in advances issued ^c		51 501	(79 200)
(Increase)/decrease in inventories	Note 12	627	(674)
<i>Changes in liabilities, net assets/equity</i>			
(Decrease)/increase in accounts payable and accrued liabilities		(74 821)	80 057
(Decrease)/increase in advances payable	Note 17	13 698	9 051
(Decrease)/increase in funds received in advance and deferred revenue	Note 18	24 577	2 663
(Decrease)/increase in funds held on behalf of donors	Note 18	(7 441)	6 126
(Decrease)/increase in funds held in trust, Multi-Partner Trust Fund Office	Note 19	(154 769)	418 073
(Decrease)/increase in employee benefits		73 674	83 532
(Decrease)/increase in other liabilities		7 056	11 499
(Decrease)/increase in reserves	Statement III	3 145	9 367
Cash flows from/(used in) operating activities		(392 508)	817 045
Cash flows from investing activities			
Purchases of investments	Note 8	(3 182 655)	(6 127 390)
Maturities of investments	Note 8	3 473 507	5 582 658
(Increase)/decrease in investments, Multi-Partner Trust Fund Office ^d	Note 8	6 847	(371 858)
(Increase)/decrease in investments managed by external investment managers ^e		(81 082)	(174 135)
Interest and dividends received		92 335	75 002
(Increase)/decrease in loans to Governments	Note 13	2 772	746
Purchases of property, plant and equipment		(15 286)	(12 269)
Disposals of property, plant and equipment		2 146	1 410
Purchases of intangible assets	Note 15	(1 024)	(1 602)
Disposals of intangible assets	Note 15	605	1 165
Cash flows from/(used in) investing activities		298 165	(1 026 273)

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2022 (continued)

	<i>Reference</i>	<i>2022</i>	<i>2021</i>
Cash flows from financing activities		–	–
Cash flows from/(used in) financing activities		–	–
Increase/(decrease) in cash and cash equivalents, including Multi-Partner Trust Fund Office		(94 343)	(209 228)
Effect of exchange rate changes on cash and cash equivalents		(1 722)	(4 404)
Cash and cash equivalents, including Multi-Partner Trust Fund Office: beginning of year		963 660	1 177 292
Cash and cash equivalents, including Multi-Partner Trust Fund Office: end of year	Note 7	867 595	963 660

^a This amount includes an adjustment for foreign exchange translation loss of \$125.713 million.

^b This amount includes an adjustment for interest and dividends received of \$92.335 million in cash, as well as an adjustment for foreign exchange translation gain of \$9.634 million.

^c This amount includes an adjustment for foreign exchange translation loss of \$16.566 million.

^d This amount includes purchases of \$(902) million and maturities of \$909 million.

^e This amount includes net purchases of bonds \$(42.805) million and equity investments of \$(38.277) million.

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

United Nations Development Programme

V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2022

(Thousands of United States dollars)

	<i>Approved budget 2022</i>		<i>Actual expenditure on comparable basis (note 6)</i>	<i>Difference: final approved budget and actual expenditure</i>
	<i>Original</i>	<i>Final</i>		
Development activities				
Programme	466 800	466 800	466 816	(16)
Operational support to programme	32 510	32 510	31 884	626
Development effectiveness	84 359	84 359	82 551	1 808
Subtotal	583 669	583 669	581 251	2 418
United Nations development coordination activities	12 000	12 000	10 545	1 455
Management activities				
Recurring	134 457	134 457	118 811	15 646
Non-recurring	12 000	12 000	9 382	2 618
Subtotal	146 457	146 457	128 193	18 264
Independent oversight and assurance	21 200	21 200	18 607	2 593
Special-purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	11 027	11 027	7 445	3 582
Subtotal	11 027	11 027	7 445	3 582
Total	774 353	774 353	746 041	28 312
Budget from additional resources for security measures (in accordance with Executive Board decision 2021/15)	–	–	932	(932)
Grand total	774 353	774 353	746 973	27 380

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

**United Nations Development Programme
Notes to the 2022 financial statements****Note 1****Reporting entity**

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

1.2. UNDP has its headquarters in New York and works primarily through its global network of offices. The UNDP global network comprises five regional offices, global shared services centres in Copenhagen and Kuala Lumpur, and operations in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations. UNDP serves the donor community and partners with liaison offices in Bonn, Brussels, Copenhagen, Doha, Geneva, Tokyo and Washington, D.C.

1.3. UNDP helps to achieve the eradication of poverty, and the reduction of inequalities and exclusion, and assists countries in developing policies, leadership skills, partnering abilities and institutional capabilities and in building resilience in order to sustain development results. UNDP is continuing its work to support the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals, as they shape global sustainable development efforts for the next 10 years. UNDP helps developing countries attract and use development cooperation and domestic resources effectively and encourages, in all its activities, the protection of human rights, capacity development and the empowerment of women.

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

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

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

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

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

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

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

Foreign currency

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

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

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

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

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

Critical accounting estimates

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

Future accounting changes

3.9. IPSAS 41: Financial instruments was issued in 2018, with an effective date of 1 January 2022, which was subsequently deferred by one year to 1 January 2023 through an IPSAS final pronouncement, entitled "COVID-19: deferral of effective dates", issued in 2020. The impact of the adoption of IPSAS 41 on the financial statements of UNDP is currently being assessed. UNDP expects that the new standard will require a change in the classification and measurement of certain financial assets currently classified and measured at fair value, with changes recorded in net assets/equity to fair value through surplus and deficit.

3.10. Exposure draft 68: Improvements to IPSAS, 2019, was initially due to become effective in 2021 but was subsequently deferred to 1 January 2023 through an IPSAS final pronouncement, entitled "COVID-19: deferral of effective dates", issued in 2020. The proposed standard is not expected to have a significant impact on the financial statements of UNDP upon its adoption.

3.11. IPSAS 43: Leases was issued in January 2022, with an effective date of 1 January 2025. IPSAS 43 supersedes IPSAS 13: Leases and introduces the right-of-use model for lessees. On the basis of the right-of-use model, once the new standard has been adopted and any transitional provisions have expired, most leases will be required to be capitalized, resulting in an increase in the amount of capitalized assets and the recording of related lease liabilities. The impact on annual financial performance is that the depreciation of leased assets and interest costs on the related

lease liabilities will replace the currently recorded lease expenses. The impact of IPSAS 43 on the financial statements on UNDP upon adoption, including the impact of consequential amendments to other standards, is currently being assessed.

3.12. In March 2023, the IPSAS Board issued IPSAS 47: Revenue and IPSAS 48: Transfer expenses, each with an effective date of 1 January 2026. IPSAS 47 will replace IPSAS 9: Revenue from exchange transactions, IPSAS 11: Construction contracts and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers) to create a single consolidated revenue standard. IPSAS 48 is a new standard and is applicable to the accounting for grants made, which is part of the expenses incurred through implementing partners.

3.13. The impact of both IPSAS 47 and IPSAS 48 is currently being assessed. On the basis of preliminary assessments, the impact of IPSAS 47 on UNDP accounting for earmarked voluntary contributions is likely to be significant. Under the current IPSAS 23, UNDP recognizes substantially all voluntary contributions as non-exchange revenue upon signature of the relevant contribution agreement. Under IPSAS 47, UNDP will be required to record revenue from voluntary contributions when (or as) any identified compliance obligations under binding arrangements and any enforceable obligations arising from other earmarked contributions are duly satisfied. Compliance obligations and enforceable obligations as defined in IPSAS 47 are concepts that align with the expectations and entitlements of donors under individually significant earmarked voluntary contribution agreements. The change in the revenue recognition approach upon implementation of IPSAS 47 is expected to result in a significant shift in the timing of recognition for a substantial share of UNDP revenue from earmarked voluntary contributions from the year of signature of the contribution agreement to the subsequent year(s) for which the funds are intended, and as UNDP satisfies the relevant obligations. UNDP considers this to be sufficient implementation time and that the implementation will require additional resources.

3.14. The impact of IPSAS 48 on UNDP implementing partner expense accounting, including grant accounting, is currently being assessed.

Authorization to submit financial statements for audit

3.15. These financial statements were approved and certified by the Administrator, the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer/Comptroller of UNDP. In accordance with the Financial Regulations and Rules of UNDP, these financial statements were authorized to be submitted for audit on 30 April 2023.

Note 4

Significant accounting policies Financial assets classification

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

4.2. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currency are translated into United States dollars at the United Nations

operational rates of exchange prevailing at the reporting date, with gains and losses recognized in surplus or deficit in the statement of financial performance.

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables

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

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

4.7. Receivables, non-exchange transactions, comprise contributions receivable, which represent amounts due based on dates indicated in signed contribution agreements, including multi-year contributions, recognized in full at the time the

agreement is signed, except for agreements that have performance conditions beyond the control of UNDP. These non-exchange receivables are stated at carrying value less impairment for estimated irrecoverable amounts. Impairments of contributions receivable are considered on a case-by-case basis.

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

4.9. Advances issued represent cash transferred to executing entities/implementing partners (see note 34.2 for the definition of executing entities/implementing partners) as an advance. Advances issued are initially recognized as assets and subsequently converted to expenses when goods are delivered or services are rendered by the executing entities/implementing partners and confirmed by receipt by UNDP of certified expense reports as applicable, i.e., financial reports, funding authorization and certificate of expenditure forms or project delivery reports. Once those certified expense reports are received, UNDP recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the end of the reporting year, either from the statements submitted by the entities for audit or from the unaudited statements of the entities.

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

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

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

Fair value through surplus or deficit

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

4.14. All categories of financial assets are assessed at each reporting date to determine whether there is objective evidence that an investment or group of investments is impaired. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses

are recognized in surplus or deficit in the statement of financial performance (directly or through the use of an allowance account) in the year they arise.

Inventories

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

Property, plant and equipment

4.16. All items of property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses. Historical cost includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired for nil or nominal consideration, the fair value at the date of acquisition is deemed to be its cost. The threshold for the recognition of property, plant and equipment as an asset is \$5,000 or more per unit. For leasehold improvements, the capitalization threshold is \$50,000.

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

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

4.19. Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (see paras. 4.51–4.53, on leases).

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

Estimated useful lives of property, plant and equipment

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

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

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

Intangible assets

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

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

4.25. Costs incurred for configuration, customization and subscription fees in connection with cloud-based software-as-a-service solutions are recognized as operating expenses when the services are received, since the systems utilized do not meet the criteria for recognition as controlled assets.

4.26. Costs incurred for the development of software code that enhances, modifies or creates additional capability to existing on-premises systems and satisfies the recognition criteria for an intangible asset are recognized as intangible software assets and amortized over the remaining useful life of the software on a straight-line basis.

4.27. The assessment of whether the costs incurred for integrating and bridging controlled software with software-as-a-service solutions meet recognition criteria for capitalization as intangible software assets may involve making key judgments, including whether a separate asset can be reliably measured.

4.28. Amortization is recognized in surplus or deficit in the statement of financial performance provided on a straight-line basis on all intangible assets of finite life and at rates that will write off the cost or value of the assets to their estimated residual values. The useful lives of intangible software assets are reviewed at least annually.

Any change in useful lives, including those resulting from such enhancements, are accounted for prospectively as a change in the accounting estimate.

Estimated useful lives of intangible assets

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

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

Impairment of non-cash generating assets

4.30. Property, plant and equipment and intangible assets are classified as non-cash generating assets and are reviewed for impairment at each reporting date. None of UNDP property, plant and equipment and intangible assets are held with the objective of earning a commercial return. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use.

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

Financial liabilities classification

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

Other financial liabilities

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

4.33. Payables and accruals arising from the purchase of goods and services are recognized initially at fair value and subsequently measured at amortized cost when

goods/services are delivered/rendered and accepted by UNDP. Liabilities are stated at invoice amounts, less payment discounts at the reporting date. Liabilities are estimated where invoices are not available at the reporting date.

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

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

4.36. Other liabilities include unapplied deposits and other payables. Unapplied deposits represent contributions received from donors that have not been applied against contributions receivable for earmarked activities.

Fair value through surplus or deficit

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

Funds received in advance and deferred revenue

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

Employee benefits

4.39. UNDP recognizes the following categories of employee benefits:

- (a) Short-term employee benefits;
- (b) Post-employment benefits;
- (c) Other long-term employee benefits;
- (d) Termination benefits.

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

4.45. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual participating organizations. UNDP and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Programme's proportionate share of the defined-benefit

obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNDP has treated this plan as if it were a defined contribution plan, in line with the requirements set out in IPSAS 39: Employee benefits. UNDP contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

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

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

Defined-benefit plans

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

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

Other long-term employee benefits

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

Termination benefits

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

Leases

Operating lease

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

Finance lease

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

Right-to-use arrangements

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

Revenue recognition

Contributions (non-exchange revenue)

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

4.56. Enforceability of agreements occurs upon signature. A revenue reduction is recognized when mutual understanding is reached between UNDP and a donor

through a project amendment, subsequent to signing a binding agreement, to reduce previously recognized contribution revenue.

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

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

Revenue from exchange transactions

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

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

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

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

Expense recognition

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

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

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

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

Commitments, provisions and contingencies

Commitments

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

- (a) Capital commitments: aggregate amount of capital expenses contracted for but not recognized as paid or provided for at year end;
- (b) Contracts for the supply of goods or services that UNDP expects to be delivered in the ordinary course of operations;
- (c) Non-cancellable minimum lease payments;
- (d) Other non-cancellable commitments.

Provisions

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

Contingencies

Contingent assets

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

Contingent liabilities

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

Note 5

Segment reporting

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

Regular resources

5.2. Regular resources are all resources of UNDP that are commingled and untied/unearmarked. These include voluntary contributions, contributions from other

governmental, intergovernmental or non-governmental sources and related interest earnings and miscellaneous revenue.

Cost-sharing

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

Trust funds

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

Reimbursable support services and miscellaneous activities

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

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

Segment reporting: statement of financial position as at 31 December 2022

(Thousands of United States dollars)

	<i>Regular resources</i>		<i>Cost-sharing</i>		<i>Trust funds</i>		<i>Reimbursable support services and miscellaneous activities</i>		<i>Total UNDP</i>	
	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
	Assets									
Current assets										
Cash and cash equivalents	115 649	115 775	343 500	303 392	74 656	70 567	87 182	76 751	620 987	566 485
Cash and cash equivalents, Multi-Partner Trust Fund Office	246 608	397 175	–	–	–	–	–	–	246 608	397 175
Investments	630 730	779 803	1 416 439	1 602 842	307 620	371 582	357 887	400 535	2 712 676	3 154 762
Investments, Multi-Partner Trust Fund Office	479 772	645 195	–	–	–	–	–	–	479 772	645 195
Receivables: non-exchange transactions	137 169	122 706	2 114 308	1 963 881	242 815	368 792	40 271	11 364	2 534 563	2 466 743
Receivables, other	86 079	54 651	863	1 220	135	178	649	1 604	87 726	57 653
Advances issued	28 549	26 700	150 869	208 057	41 704	53 980	582	1 058	221 704	289 795
Loans to Governments	–	–	–	–	–	–	–	507	–	507
Inventories	166	494	11 282	11 441	1	3	915	1 053	12 364	12 991
Total current assets	1 724 722	2 142 499	4 037 261	4 090 833	666 931	865 102	487 486	492 872	6 916 400	7 591 306
Non-current assets										
Investments	1 047 284	1 139 520	2 532 421	2 425 924	556 259	566 387	639 858	606 214	4 775 822	4 738 045
Investments, Multi-Partner Trust Fund Office	574 157	416 364	–	–	–	–	–	–	574 157	416 364
Loans to Governments	–	–	–	–	–	–	–	2 265	–	2 265
Receivables, non-exchange transactions	231 866	257 622	1 063 034	1 324 333	1 130 322	667 344	6 332	26 437	2 431 554	2 275 736
Property, plant and equipment	34 058	33 478	22 508	19 009	1 590	2 202	61 820	66 899	119 976	121 588
Intangible assets	214	248	127	182	–	–	3 888	5 048	4 229	5 478
Receivables, other	39	39	19	20	14	16	23	25	95	100
Total non-current assets	1 887 618	1 847 271	3 618 109	3 769 468	1 688 185	1 235 949	711 921	706 888	7 905 833	7 559 576
Total assets	3 612 340	3 989 770	7 655 370	7 860 301	2 355 116	2 101 051	1 199 407	1 199 760	14 822 233	15 150 882

Segment reporting: statement of financial position as at 31 December 2022 (continued)

(Thousands of United States dollars)

	<i>Regular resources</i>		<i>Cost-sharing</i>		<i>Trust funds</i>		<i>Reimbursable support services and miscellaneous activities</i>		<i>Total UNDP</i>	
	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
	Liabilities									
Current liabilities										
Accounts payable and accrued liabilities	56 120	120 447	99 265	98 058	4 101	11 636	33 257	37 431	192 743	267 572
Advances payable	1 715	529	9 731	6 396	10 614	4 039	15 790	13 186	37 850	24 150
Funds received in advance and deferred revenue	249 556	222 993	1 154	2 399	–	–	14 208	14 941	264 918	240 333
Funds held on behalf of donors	5 320	12 438	638	970	167	168	110	100	6 235	13 676
Funds held in trust, Multi-Partner Trust Fund Office	718 020	1 030 581	–	–	–	–	–	–	718 020	1 030 581
Employee benefits	247 709	245 180	4	9	–	–	13 689	15 379	261 402	260 568
Other current liabilities	18 973	9 765	61	3 590	33	88	2 668	1 243	21 735	14 686
Total current liabilities	1 297 413	1 641 933	110 853	111 422	14 915	15 931	79 722	82 280	1 502 903	1 851 566
Non-current liabilities										
Funds held in trust, Multi-Partner Trust Fund Office	574 157	416 365	–	–	–	–	–	–	574 157	416 365
Funds received in advance and deferred revenue	–	–	–	–	–	–	16 577	16 585	16 577	16 585
Employee benefits	792 123	901 263	21	21	–	–	186 856	388 390	979 000	1 289 674
Other non-current liabilities	103	111	–	–	–	–	–	–	103	111
Total non-current liabilities	1 366 383	1 317 739	21	21	–	–	203 433	404 975	1 569 837	1 722 735
Total liabilities	2 663 796	2 959 672	110 874	111 443	14 915	15 931	283 155	487 255	3 072 740	3 574 301
Net assets/equity										
Reserves	164 301	157 456	–	–	3 000	3 000	142 000	141 001	309 301	301 457
Accumulated surpluses/(deficits)	784 243	872 642	7 544 496	7 748 858	2 337 201	2 082 120	774 252	571 504	11 440 192	11 275 124
Total net assets/equity	948 544	1 030 098	7 544 496	7 748 858	2 340 201	2 085 120	916 252	712 505	11 749 493	11 576 581
Total liabilities and net assets/equity	3 612 340	3 989 770	7 655 370	7 860 301	2 355 116	2 101 051	1 199 407	1 199 760	14 822 233	15 150 882

Segment reporting: statement of financial performance for the year ended 31 December 2022

(Thousands of United States dollars)

	<i>Regular resources</i>		<i>Cost-sharing</i>		<i>Trust funds</i>		<i>Reimbursable support services and miscellaneous activities</i>		<i>Elimination^a</i>		<i>Total UNDP</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Revenue												
Voluntary contributions	608 558	881 970	3 428 312	3 747 262	815 048	555 807	145 699	118 986	–	–	4 997 617	5 304 025
Revenue, exchange transactions	3 512	3 160	8 472	527	–	2	117 488	115 143	(1 698)	(2 935)	127 774	115 897
Investment revenue	45 895	97 787	10 020	25 361	10 304	7 524	35 270	4 816	–	–	101 489	135 488
Other revenue	66 984	42 728	3 890	5 219	4 321	2 133	288 302	289 721	(268 271)	(258 346)	95 226	81 455
Total revenue	724 949	1 025 645	3 450 694	3 778 369	829 673	565 466	586 759	528 666	(269 969)	(261 281)	5 322 106	5 636 865
Expenses												
Contractual services	180 157	172 797	1 444 295	1 411 969	277 786	346 295	93 051	77 516	–	–	1 995 289	2 008 577
Staff costs	307 624	310 860	225 346	219 321	32 785	43 182	305 286	292 822	–	–	871 041	866 185
Supplies and consumables used	53 919	93 583	845 047	1 020 726	66 886	71 854	55 946	30 586	–	–	1 021 798	1 216 749
General operating expenses	189 790	159 621	805 401	718 151	109 459	108 890	117 106	119 009	(269 969)	(261 281)	951 787	844 390
Grants and other transfers	16 543	36 174	306 327	258 627	52 687	54 512	2 029	393	–	–	377 586	349 706
Other expenses	51 851	57 204	26 202	19 426	34 716	2 804	1 974	2 805	–	–	114 743	82 239
Depreciation and amortization	3 195	3 363	2 438	2 647	273	417	9 402	10 586	–	–	15 308	17 013
Total expenses	803 079	833 602	3 655 056	3 650 867	574 592	627 954	584 794	533 717	(269 969)	(261 281)	5 347 552	5 384 859
Surplus/(deficit) for the year	(78 130)	192 043	(204 362)	127 502	255 081	(62 488)	1 965	(5 051)	–	–	(25 446)	252 006

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

Note 6
Comparison to budget

6.1. The budget and the accounting basis are different. Statement V, statement of comparison of budget and actual amounts (regular resources), is prepared on the budget basis, that is, a modified cash basis, and statement II, statement of financial performance, is prepared on an accounting basis, that is, an accrual basis.

6.2. The statement of activities and related budget expenditures presented in statement V is aligned with the cost classification categories specified in the joint comprehensive proposal on the cost-recovery policy, endorsed by the Executive Boards of UNDP, the United Nations Population Fund, the United Nations Office for Project Services, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and the United Nations Children's Fund during their second regular sessions in 2020 (decision 2020/12). The following categories come into effect from 2022 onwards: (a) development activities: (i) programme; (ii) operational support to programme; and (iii) development effectiveness; (b) United Nations development coordination activities; (c) management activities: (i) recurring; and (ii) non-recurring; (d) independent oversight and assurance; (e) special-purpose activities: (i) capital investments; and (ii) non-UNDP operations administered by UNDP; and (f) budget for additional resources for security measures in line with UNDP Executive Board decision 2021/15. It is noted that statement II reflects expenses by nature.

6.3. For these reasons, the total actual regular resources budget expenditure differs from total financial accounting expenses.

6.4. Approved budgets are those that permit budget expenditures to be incurred and are approved by the Executive Board of UNDP. For IPSAS reporting purposes, the approved budgets of UNDP are the institutional budget financed from regular resources and the portion of the resource plan relating to development activities to be financed from regular resources. As other resources of UNDP are a forward estimate and projection based on assumptions about future events and are not formally approved by the Executive Board, the other resources are not presented in statement V. The Executive Board has approved a four-year integrated budget covering the period 2022–2025. While the programme and institutional approved budgets are for a four-year period, UNDP allocates those budgets into annual amounts, the total of which comprises the four-year approved budget, in order to provide the budget-to-actual comparison of the annual financial statements. UNDP disclosed annualized approved budget amounts for programmatic components of the integrated budget in table 3a in annex I to the report of the Administrator entitled “UNDP integrated resources plan and integrated budget estimates for 2022–2025” ([DP/2021/29](#)).

6.5. Statement V shows the comparison between the final approved budget and actual amounts calculated on the same basis as the corresponding budget. Explanations of material differences between the final approved budget and the actual amounts are presented below. Statement V also provides more details regarding budgetary performance for the year 2022.

6.6. Material differences between the original approved budget and the final approved budget are nil, as the original approved budget equates to the final approved budget. Budget utilization levels in 2022 were driven by a combination of the following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) requirements and implementation of the Programme's strategic plan for the period 2022–2025.

6.7. Accordingly, actual expenditure in 2022 compared with approved budget levels is as follows:

- Development activities: actual utilization of \$581.3 million, representing 99.6 per cent of the approved budget of \$583.7 million.
- United Nations development coordination activities: actual utilization of \$10.5 million, representing 87.9 per cent of the approved budget of \$12.0 million.
- Management activities: actual utilization of \$128.2 million, representing 87.5 per cent of the approved budget of \$146.5 million.
- Independent oversight and assurance activities: actual utilization of \$18.6 million, representing 87.8 per cent of the annualized approved budget of \$21.2 million.
- Special-purpose activities: actual utilization of \$7.4 million, representing 67.5 per cent of the approved budget of \$11.0 million.
- Budget for additional resources for security measures: actual utilization of \$0.9 million.

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

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
Total actual budget expenditure on a comparable basis as presented in statement V	(739 463)	(7 510)	–	(746 973)
Basis differences	13 594	(389)	–	13 205
Entity differences	333 361	306 064	–	639 425
Increase/(decrease) in cash and cash equivalents from statement IV	(392 508)	298 165	–	(94 343)

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

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

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

Note 7
Cash and cash equivalents

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
United Nations Development Programme		
Cash held in bank accounts	520 198	347 258
Cash held by external investment managers	41 871	37 227
Petty cash and project cash	247	283
Money market funds	35 333	137 540
Money market instruments	24 846	24 997
Bonds	–	20 238
Impairment	(1 508)	(1 058)
Total cash and cash equivalents	620 987	566 485
Held in trust for multi-donor trust funds		
Cash held in bank accounts	1 142	3 927
Money market funds	205 698	310 755
Money market instruments	39 768	82 493
Total cash and cash equivalents: funds held in trust	246 608	397 175
Total cash and cash equivalents and funds held in trust	867 595	963 660

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

7.2. The impairment of \$1.508 million relates to amounts in currency that is currently unusable in the Syrian Arab Republic of \$1.058 million and \$0.450 million relating to outstanding legacy issues in one country office.

7.3. The exposure to UNDP from credit, market and currency risks and its risk management activities related to its financial assets are disclosed in note 29.

Note 8
Investments**8.1****Total investments**

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Current investments		
Investments managed by UNDP	2 707 913	3 147 101
Investments managed by external investment managers	4 763	7 661
Total current investments	2 712 676	3 154 762

	31 December 2022	31 December 2021
Non-current investments		
Investments managed by UNDP	3 844 612	3 704 657
Investments managed by external investment managers	931 210	1 033 388
Total non-current investments	4 775 822	4 738 045
Total investments	7 488 498	7 892 807

Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current investments		
Investments, Multi-Partner Trust Fund Office	479 772	645 195
Non-current investments		
Investments, Multi-Partner Trust Fund Office	574 157	416 364
Total investments, Multi-Partner Trust Fund Office	1 053 929	1 061 559

8.1.1. UNDP investments include held-to-maturity financial assets, which are managed by UNDP, and available-for-sale financial assets, which are managed by external investment managers. Investments for the Multi-Partner Trust Fund Office are held to maturity and represent funds provided to UNDP by donors to be held on their behalf for future disbursement to participating United Nations and non-United Nations organizations.

8.2

Total investments managed by the United Nations Development Fund: held to maturity

(Thousands of United States dollars)

	1 January 2022	Purchases	Maturities	Accrued income/ (amortization)	Others	Reclassification non-current to current	31 December 2022
Current investments							
Money market instruments	1 731 389	767 701	(1 959 513)	2 237	(40)	499 484	1 041 258
Bonds	1 415 712	137 468	(1 513 994)	(4 627)	(2)	1 632 098	1 666 655
Total current investments	3 147 101	905 169	(3 473 507)	(2 390)	(42)	2 131 582	2 707 913
Non-current investments							
Money market instruments	50 013	447 968	–	1 516	(13)	(499 484)	–
Bonds	3 654 644	1 829 462	–	(7 396)	–	(1 632 098)	3 844 612
Total non-current investments	3 704 657	2 277 430	–	(5 880)	(13)	(2 131 582)	3 844 612
Total investments held to maturity	6 851 758	3 182 599	(3 473 507)	(8 270)	(55)	–	6 552 525

8.2.1. As at 31 December 2022, the book value of the held-to-maturity investments exceeded the market value by \$254.018 million (2021: \$16.826 million). UNDP held-to-maturity investments (mostly bonds) have lower coupon/interest rates than the

higher market rates of 2022. This difference between book value and market value does not affect the collectability of the bonds' interest and face value payments as the portfolio is concentrated in high-quality fixed-income instruments with high credit ratings. As at 31 December 2022, UNDP did not have any impairment on held-to-maturity investments.

8.2.2. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 29.

8.3

Investments managed by external investment managers: available-for-sale financial assets

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current investments		
Bonds	5 105	7 574
Bonds, fair value adjustments	(342)	87
Total current investments	4 763	7 661
Non-current investments		
Equities	571 582	533 305
Equities: fair value adjustments	(11 669)	122 890
Bonds	428 672	378 810
Bonds: fair value adjustments	(57 375)	(1 617)
Total non-current investments	931 210	1 033 388
Total investments managed by external investment managers available for sale	935 973	1 041 049

8.3.1. The available-for-sale portfolio represents investments managed by external investment managers for after-service health insurance and end-of-service liabilities. In addition to the above investments, \$41.87 million (2021: \$37.23 million) in after-service health insurance and end-of-service investments have been classified under cash and cash equivalents.

8.3.2. Total after-service health insurance investments, including cash and cash equivalents, amounted to \$917.04 million (2021: \$1,007.85 million). Total end-of-service investments, including cash and cash equivalents, amounted to \$60.80 million (2021: \$70.43 million).

8.3.3. As at 31 December 2022, UNDP did not have any impairment on available-for-sale investments.

8.3.4. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 29.

8.4 Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	1 January 2022	Purchases	Maturities	Accrued income/ (Amortization)	Reclassification non-current to current	31 December 2022
Current investments						
Money market instruments	481 670	327 515	(716 800)	342	40 000	132 727
Bonds	163 525	93 539	(192 478)	(973)	283 432	347 045
Total current investments	645 195	421 054	(909 278)	(631)	323 432	479 772
Non-current investments						
Money market instruments	–	40 000	–	–	(40 000)	–
Bonds	416 364	441 377	–	(152)	(283 432)	574 157
Total non-current investments	416 364	481 377	–	(152)	(323 432)	574 157
Total investments, Multi-Partner Trust Fund Office	1 061 559	902 431	(909 278)	(783)	–	1 053 929

8.4.1. As at 31 December 2022, UNDP did not have any impairment on investments for the Multi-Partner Trust Fund Office.

Note 9 Receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Contributions receivable, current	2 566 567	2 467 623
Impairment ^a	(32 004)	(880)
Contributions receivable, current, net	2 534 563	2 466 743
Contributions receivable, non-current	2 431 554	2 275 736
Total receivables: non-exchange transactions	4 966 117	4 742 479

^a Impairment of contributions receivable increased by \$31.12 million in 2022. There was no reversal of impairment recognized in the prior periods.

Ageing of receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Past due	252 713	129 437
Due in future periods	4 713 404	4 613 042
Total receivables: non-exchange transactions	4 966 117	4 742 479

9.1. Contributions receivable include \$4.71 billion (2021: \$4.61 billion) committed to UNDP by donors in signed agreements for future periods and \$369.04 million (2021: \$380.33 million) in receivables from regular resources.

9.2. The \$252.71 million (2021: \$129.44 million) in past due contributions receivable represents the amount that is already due to UNDP based on the schedule of payments in the signed donor agreements.

9.3. Contributions receivable of \$4.60 billion (2021: \$4.36 billion) represent non-core resources and are restricted, in that they are to be used for project implementation activities to support specified purposes consistent with the policies, aims and activities of UNDP.

9.4. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 29.

Note 10

Receivables: other

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current		
Investment receivables	34 243	18 301
Receivables from third parties	53 690	38 442
Receivables from staff	253	264
Other financial assets	152	2 277
Receivables from United Nations entities	32	312
Miscellaneous receivables	4 344	4 398
Total receivables: other, current, gross	92 714	63 994
Impairment ^a	(4 988)	(6 341)
Total receivables: other, current, net	87 726	57 653
Non-current		
Security deposits	95	100
Total receivables: other, non-current, gross	95	100
Total receivables: other, net	87 821	57 753

^a Impairment of other receivables decreased by \$1.353 million in 2022 (2021: increased by \$3.997 million). Impairments of \$1.025 million were recorded in 2022 (2021: \$4.228 million) against a reversal of impairment recognized in the prior period of \$2.378 million (2021: \$0.231 million).

Ageing of receivables: other

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Less than or equal to 6 months	46 012	27 984
More than 6 months	46 797	36 110
Total receivables: other, gross	92 809	64 094

Receivables: United Nations entities

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Receivables from other entities for reserve for field accommodation	6	24
United Nations University	–	283
Others	26	5
Total receivables, other, from United Nations entities	32	312

10.1. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 29.

Note 11

Advances issued

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Operating funds issued to Governments and non-governmental organizations not yet implemented	92 208	105 848
Operating funds issued to United Nations entities not yet implemented	82 267	109 216
Prepayments	32 528	60 614
Advances to staff	16 249	15 704
Total advances issued, gross	223 252	291 382
Impairment ^a	(1 548)	(1 587)
Total advances issued, net	221 704	289 795

^a Impairment of advances issued decreased by \$0.039 million to \$1.548 million in 2022 (2021: decreased by \$0.013 million). Impairments of \$0.003 million were recognized in 2022 (2021: \$0.128 million), less a reversal of impairment recognized in the prior period of \$0.042 million (2021: \$0.141 million).

Ageing of advances

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Less than or equal to 6 months	205 235	254 968
More than 6 months	18 017	36 414
Total advances issued, gross	223 252	291 382

Note 12
Inventories

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Medical supplies and equipment	10 252	11 273
Information technology supplies and consumables	932	609
Office supplies	677	738
Fuel	57	38
Publications	57	40
Human development reports	3	6
Crisis supplies and equipment	12	12
Other project-related inventories	374	275
Total inventories	12 364	12 991

Note 13
Loans to Governments

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Current		
Loans to Governments	–	507
Total current loans to Governments	–	507
Non-current		
Loans to Governments	–	2 265
Total non-current loans to Governments	–	2 265
Total loans to Governments	–	2 772

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

13.2. As at 31 December 2022, all loans to Governments outstanding in prior years had been paid back to UNDP.

Note 14
Property, plant and equipment

14.1. UNDP has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which comprise 24 per cent of property, plant and equipment assets, are utilized in the delivery of UNDP programmes and projects. Management assets, which comprise 76 per cent of property, plant and equipment assets, are used for non-project specific operations at UNDP country offices and headquarters.

Property, plant and equipment

(Thousands of United States dollars)

	<i>Land</i>	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Communications and information technology equipment</i>	<i>Vehicles</i>	<i>Heavy machinery and other equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
Balance at 1 January 2022								
Cost	7 456	49 142	939	22 191	100 471	13 604	30 627	224 430
Accumulated depreciation	–	(11 448)	(546)	(13 377)	(54 846)	(5 326)	(17 299)	(102 842)
Carrying amount as at 1 January 2022	7 456	37 694	393	8 814	45 625	8 278	13 328	121 588
Year ended 31 December 2022								
Additions and adjustments	(222)	318	251	1 242	10 652	3 641	471	16 353
Disposals, cost	–	(64)	(70)	(3 087)	(8 593)	(1 139)	(769)	(13 722)
Depreciation	–	(1 595)	(47)	(1 309)	(7 159)	(619)	(2 911)	(13 640)
Disposals, accumulated depreciation/depreciation	–	(15)	39	2 207	6 212	653	301	9 397
Impairment	–	–	–	–	–	–	–	–
Recategorization	–	392	–	11	–	10	(413)	–
Carrying amount as at 31 December 2022	7 234	36 730	566	7 878	46 737	10 824	10 007	119 976
Balance at 31 December 2022								
Cost	7 234	49 788	1 120	20 357	102 530	16 116	29 916	227 061
Accumulated depreciation	–	(13 058)	(554)	(12 479)	(55 793)	(5 292)	(19 909)	(107 085)
Carrying amount as at 31 December 2022	7 234	36 730	566	7 878	46 737	10 824	10 007	119 976

14.2. As at 31 December 2022, there were nil assets under construction (2021: \$0.4 million) included under leasehold improvements.

14.3. As at 31 December 2022, UNDP did not have any impairment of property, plant and equipment (2021: \$0.028 million).

Note 15
Intangible assets

(Thousands of United States dollars)

	<i>Software internally developed</i>	<i>Software acquired</i>	<i>Trademarks, copyrights and licences</i>	<i>Assets under development</i>	<i>Total</i>
Balance as at 1 January 2022					
Cost	21 980	47	16	347	22 390
Accumulated amortization	(16 874)	(28)	(10)	–	(16 912)
Carrying amount as at 1 January 2022	5 106	19	6	347	5 478
Year ended 31 December 2022					
Additions and adjustments	1 024	–	–	–	1 024
Disposals, cost	(1 699)	(10)	(5)	(347)	(2 061)
Amortization	(1 658)	(6)	(4)	–	(1 668)
Disposals, accumulated amortization	1 440	10	6	–	1 456
Recategorization	–	–	–	–	–
Carrying amount as at 31 December 2022	4 213	13	3	–	4 229
Balance as at 31 December 2022					
Cost	21 305	37	11	–	21 353
Accumulated amortization	(17 092)	(24)	(8)	–	(17 124)
Carrying amount as at 31 December 2022	4 213	13	3	–	4 229

15.1. As at 31 December 2022, UNDP did not have any impairment of intangible assets (2021: nil).

Note 16
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Accruals	80 899	100 815
Payables to United Nations entities	50 389	91 783
Payables to third parties	51 686	69 592
Other financial liabilities	8 020	154
Payables to staff	1 748	4 566
Investments settlements payable	1	662
Total accounts payable and accrued liabilities	192 743	267 572

Payables to United Nations entities

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
United Nations current account	13 969	23 943
World Health Organization	7 182	6 670
United Nations Relief and Works Agency for Palestine Refugees in the Near East	2 967	3 819
Joint United Nations Programme on HIV/AIDS	2 686	2 465
United Nations Capital Development Fund	1 917	16 332
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	1 327	10 767
United Nations Population Fund	3 613	17 642
United Nations coordination levy	4 334	3 209
Other United Nations entities	12 394	6 936
Total payables to United Nations entities	50 389	91 783

Note 17

Advances payable

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Operating funds payable to Governments and non-governmental organizations	3 577	1 098
Operating funds payable to executing entities/implementing partners	34 273	23 052
Total advances payable	37 850	24 150

Note 18

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

(a) Funds received in advance and deferred revenue

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Current		
Funds received in advance	1 154	3 109
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	14 195	14 217
Deferred revenue, non-exchange transactions	13	14
Clearing accounts with United Nations entities	135 424	119 218
Common service funds received in advance from United Nations entities	114 132	103 775
Total current funds received in advance and deferred revenue	264 918	240 333

	31 December 2022	31 December 2021
Non-current		
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	16 577	16 579
Deferred revenue, other	–	6
Total non-current funds received in advance and deferred revenue	16 577	16 585
Total funds received in advance and deferred revenue	281 495	256 918

18.1. Clearing accounts with United Nations entities represent funds held by UNDP on behalf of United Nations entities for future services provision to those entities. Such services include, inter alia, banking, accounts payable and payroll services. Common service funds received in advance from United Nations entities represent amounts collected on behalf of United Nations entities for services to be provided by UNDP to these entities. Those common services include shared office space, information and communications technology, janitorial services and travel services.

(b) Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Refunds to donors	6 235	13 676
Total funds held on behalf of donors	6 235	13 676

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

Note 19

Funds held in trust: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current		
Multi-Partner Trust Fund Office	718 020	1 030 581
Total current funds held in trust: Multi-Partner Trust Fund Office	718 020	1 030 581
Non-current		
Multi-Partner Trust Fund Office	574 157	416 365
Total non-current funds held in trust: Multi-Partner Trust Fund Office	574 157	416 365
Total funds held in trust: Multi-Partner Trust Fund Office	1 292 177	1 446 946

19.1. This amount represents funds provided by donors to the Multi-Partner Trust Fund Office for future disbursement. In 2022, UNDP, in its role as administrative agent, received net cash inflows from donors of \$1,564.85 million (2021: \$1,821.57 million) and released \$1,735.25 million (2021: \$1,407.24 million). The net cash inflows also include \$15.16 million (2021: \$4.09 million) of interest and investment income and a net movement of other assets and liabilities of \$0.48 million (2021: \$0.36 million).

Note 20 Employee benefits

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current		
Annual leave	89 701	91 094
Medical insurance plan	133 659	128 701
After-service health insurance	18 145	21 692
Repatriation entitlements	10 578	9 542
Home leave	7 215	7 226
Termination benefits	499	500
Workers' compensation	867	836
Contributions payable to the United Nations Joint Staff Pension Fund	296	649
Death benefits	261	254
Other employee benefits	181	74
Total current employee benefit liabilities	261 402	260 568
Non-current		
After-service health insurance	872 962	1 168 732
Repatriation entitlements	88 662	98 358
Workers' compensation	11 936	15 667
Home leave	3 134	4 282
Death benefits	2 306	2 635
Total non-current employee benefit liabilities	979 000	1 289 674
Total employee benefit liabilities	1 240 402	1 550 242

20.1. Annual leave liabilities are calculated for the unused annual leave balance. Separating staff are entitled to be paid for unused annual leave that they may have accrued, up to a maximum of 60 days. Active staff may also carry forward their unused leave balance into the next calendar year, up to the same limit. The standard limitation on the entitlement to carry forward unused leave was reimposed in the first quarter of 2022, when any remaining liabilities for balances in excess of the reimposed standard threshold were extinguished.

20.2. The Medical Insurance Plan was established in 1987 by the General Assembly at its forty-first session, in accordance with United Nations staff regulation 6.2. The Plan is maintained by premiums from staff and proportional contributions from UNDP. Expenses include claims processed during the year and associated administrative expenses. Coverage under the Plan is targeted at the following employees and entities: UNDP country offices; UNDP locally recruited staff members

governed by the Staff Regulations and Staff Rules of the United Nations and stationed outside Headquarters; and United Nations system Medical Insurance Plan subscribers administered by UNDP. The Plan's liability represents the net accumulated balance from contributions received less all claims and administrative cost payments for all employees and entities under the UNDP Plan.

20.3. The liabilities arising from post-employment benefits are determined by independent actuaries and those employee benefits are established in accordance with the Staff Regulations and Rules of the United Nations. The benefits determined by actuaries include after-service health insurance, repatriation entitlements, workers' compensation and death benefits.

20.4. As at 31 December 2022, liabilities for after-service health insurance, repatriation entitlements, workers' compensation and death benefits were determined by an actuarial valuation of the defined-benefit obligation as at 31 December 2022.

Defined-benefit plans

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

20.6. The movements in the present value of the defined-benefit obligation for those plans are as follows:

(Thousands of United States dollars)

	<i>After-service health insurance</i>	<i>Repatriation</i>	<i>Death benefits</i>	<i>Workers' compensation</i>	<i>Total</i>
Defined-benefit obligation as at 31 December 2021	1 190 424	107 899	2 890	16 504	1 317 717
<i>Increase of the obligation</i>					
Current service cost	42 019	7 359	90	1 073	50 541
Interest cost	37 272	2 781	70	114	40 237
Actuarial losses on disbursements	–	–	–	–	–
Actuarial losses from change in financial assumptions	–	–	–	–	–
Actuarial losses from change in demographic assumptions	–	–	–	–	–
Actuarial losses due to experience adjustments	–	–	–	399	399
<i>Decrease of the obligation</i>					
Actual benefits paid	(13 696)	(6 671)	(102)	(830)	(21 299)
Actuarial (gains) on disbursements	(8 683)	(3 128)	(159)	–	(11 970)
Actuarial (gains) from change in financial assumptions	(356 229)	(9 000)	(222)	(4 457)	(369 908)
Actuarial (gains) from change in demographic assumptions	–	–	–	–	–
Actuarial (gains) due to experience adjustments	–	–	–	–	–
Recognized liability as at 31 December 2022	891 107	99 240	2 567	12 803	1 005 717

20.7. The present value of the defined-benefit obligation equals the defined-benefit liability that is recognized in the statement of financial position. The accrued liability represents the already earned portion of the present value of benefits that has accrued

from the staff member's date of entry on duty into qualifying service until the valuation date. The total period of qualifying service may include non-continuous prior periods. An active staff member's benefit is fully accrued when that staff member has reached the date of full eligibility for after-service benefits. Liabilities are calculated using the projected unit credit method, whereby each participant's benefits under the plan are expensed as they accrue, taking into consideration the plan's benefit allocation formula. As retirees continue to make contributions to the scheme, the gross liability is reduced by the present value of expected post-retirement contributions by participants to reflect the net liability.

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

(Thousands of United States dollars)

	<i>After-service health insurance</i>	<i>Repatriation</i>	<i>Death benefits</i>	<i>Workers' compensation</i>	<i>Total</i>
Current service cost	42 018	7 359	90	1 074	50 541
Interest cost	37 272	2 781	70	114	40 237
Total employee benefits expenses recognized	79 290	10 140	160	1 188	90 778

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

(Thousands of United States dollars)

	<i>After-service health insurance</i>	<i>Repatriation</i>	<i>Death benefits</i>	<i>Workers' compensation</i>	<i>Total</i>
Actuarial gains/(losses) from change in assumptions and experience adjustments	356 229	9 000	222	4 058	369 509
Actuarial gains/(losses) on disbursement	8 683	3 128	159	–	11 970
Total actuarial gains/(losses) recognized	364 912	12 128	381	4 058	381 479

20.10. In 2022, the net actuarial gain of \$381.479 million was attributable mainly to the actuarial gain related to after-service health insurance from a change in financial assumptions of \$356.229 million.

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

(Thousands of United States dollars)

	2022	2021	2020	2019	2018
After-service health insurance					
Defined-benefit obligation	891 107	1 190 424	1 173 893	1 047 179	1 036 847
Experience adjustment on plan liabilities	2 877	(27 887)	–	47 926	(188 125)
Duration ^a	18	21	21	22	18
Repatriation					
Defined-benefit obligation	99 240	107 899	116 866	105 166	93 273
Experience adjustment on plan liabilities	11 376	(11 510)	–	1 271	(7 187)
Duration ^a	8	9	10	10	9
Death benefits					
Defined-benefit obligation	2 567	2 890	2 802	2 797	1 427
Experience adjustment on plan liabilities	241	169	–	29	(571)
Duration ^a	7	8	8	8	8
Workers' compensation					
Defined-benefit obligation	12 803	16 504	15 761	14 293	13 319
Experience adjustment on plan liabilities	399	459	271	(541)	(1 398)
Duration ^a	19	19	18	18	17

^a The weighted average duration of the defined-benefit obligation is available only from 2018 onward.

20.12. UNDP estimated benefit payments net of participant contributions for the next 10 years is provided in the table below.

(Thousands of United States dollars)

	2023	2024	2025	2026	2027	2028–2032
After-service health insurance	24 219	26 627	29 028	31 428	33 849	204 770
Repatriation	11 118	9 174	7 874	7 364	7 621	37 486
Death benefits	275	258	249	242	236	1 058
Workers' compensation	872	843	817	788	750	3 533

20.13. At the end of 2022, UNDP had \$917.04 million in cash and investments to fund the after-service health insurance liability. This resulted in a funding position of 103 per cent (2021: 85 per cent) of the total liability of \$891.107 million at the end of 2022.

20.14. UNDP made a one-time cash injection of \$49.7 million to further fund the after-service health insurance liability; the decision to do so was made in 2021 and implemented early in 2022. The cash injection, coupled with the decrease in the 2022 after-service health insurance liability, based on a full actuarial valuation, resulted in UNDP fully funding its after-service health insurance liability for the first time.

20.15. The next actuarial valuation will be conducted in line with the United Nations common system process.

Actuarial assumptions

20.16. In line with several United Nations system organizations, UNDP undertakes a full valuation every second year (at least) and a roll-forward valuation in the interim year. A roll forward is undertaken if the change is within limits specified in the UNDP

after-service health insurance materiality policy. The last actuarial valuation for after-service health insurance, repatriation, workers' compensation and death benefits was completed as at 31 December 2022. The two important assumptions used by the actuary to determine defined-benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate. The principal actuarial assumptions used to determine the defined-benefit obligation are as follows:

	2022	2021
Discount rate:		
(a) After-service health insurance	5.21 per cent	3.16 per cent
(b) Repatriation benefits	5.11 per cent	2.70 per cent
(c) Death benefits	5.06 per cent	2.56 per cent
(d) Workers' compensation	5.29 per cent	3.09 per cent
Health-care cost-trend rates:		
(a) United States of America, non-Medicare plans	6.50, grading down to 3.85 per cent after 9 years	5.17, grading down to 3.95 per cent after 10 years
(b) United States of America, Medicare plans	6.50, grading down to 3.85 per cent after 9 years	5.03, grading down to 3.95 per cent after 10 years
(c) United States of America, dental plans	6.50, grading down to 3.85 per cent after 9 years	4.53, grading down to 3.95 per cent after 10 years
(d) Non-United States of America, Switzerland	4.25, grading down to 2.55 per cent after 6 years	3.44, grading down to 2.25 per cent after 7 years
(e) Non-United States of America, eurozone	5.20, grading down to 4.15 per cent after 11 years.	3.75, remaining at 3.75 per cent after no projection of years
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.97–9.27 per cent
Rate of inflation	2.40 per cent	2.50 per cent
Per capita medical claim cost (varies by age)	\$1,087–\$16,341	\$1,020–\$15,344
Actuarial method	Projected unit credit method	Projected unit credit method

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

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

	2022		2021	
	At age 20	At age 65	At age 20	At age 65
<i>Mortality rate, active employees</i>				
Male	0.00062	0.00495	0.00062	0.00495
Female	0.00034	0.00263	0.00034	0.00263
	2022		2021	
	At age 20	At age 70	At age 20	At age 70
<i>Mortality rate, retired employees</i>				
Male	0.00062	0.01113	0.00062	0.01113
Female	0.00035	0.00570	0.00035	0.00570

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

	2022		2021	
	At age 55	At age 62	At age 55	At age 62
<i>Rate of retirement: staff in the Professional and higher categories with 30 or more years of service</i>				
Male	0.16	0.70	0.16	0.75
Female	0.20	0.80	0.20	0.75

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

	2022	2021
<i>Rate of marriage at retirement for active beneficiaries</i>		
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

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

(Thousands of United States dollars)

	+0.5 per cent	-0.5 per cent
Effect of discount rate change on end-of-year liability	(72 766)	83 006
Effect of change in health-care cost-trend rates on year-end accumulated post-employment benefit obligation	80 864	(71 560)

United Nations Joint Staff Pension Fund

20.22. UNDP is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded,

multi-employer defined-benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund 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.

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

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

20.25. The financial obligation of UNDP to the Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as 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.

20.26. The latest actuarial valuation for the Fund was completed as at 31 December 2021, and the valuation as at 31 December 2022 is currently being performed. A roll forward of the participation data as of 31 December 2021 to 31 December 2022 was used by the Fund for its 2022 financial statements.

20.27. The actuarial valuation as at 31 December 2021 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 117.0 per cent (107.1 per cent in the 2019 valuation). The funded ratio was 158.2 per cent (144.4 per cent in the 2019 valuation) when the current system of pension adjustments was taken into account.

20.28. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2021, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of the present report, the General Assembly had not invoked the provision of article 26.

20.29. Should article 26 be invoked owing either to an actuarial deficiency during the ongoing operation or to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member

organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2019, 2020 and 2021) amounted to \$8,505.27 million, of which 5 per cent was contributed by UNDP.

20.30. During 2022, UNDP contributions paid to the Fund amounted to \$163 million (2021: \$158 million). The amount includes the organizational share as well as the contributions made by the participants. Contributions due in 2023, dependent on staffing levels and changes in pensionable remuneration, are expected to be about \$167 million.

20.31. Membership of 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 at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on 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 are included in the amount.

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

Note 21

Other liabilities

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current		
Unapplied deposits	19 064	1 119
Other payables	2 671	13 567
Total other current liabilities	21 735	14 686
Non-current		
Reimbursable deposits	103	111
Total other non-current liabilities	103	111
Total other liabilities	21 838	14 797

Note 22

Reserves

(Thousands of United States dollars)

	31 December 2021	Movements	31 December 2022
Endowment fund	3 000	–	3 000
Operational reserve	298 301	8 000	306 301
Reserve for special initiatives	156	(156)	–
Total reserves	301 457	7 844	309 301

22.1. The endowment fund reserve is a contribution of \$3.0 million in 1998 from the Government of Japan to strengthen the planning and managerial capacities of Palestinian institutions in order to promote sustainable socioeconomic development. Under the fund's mechanism and implementation arrangements, the principal amount will not be available for programming until such time as the Government of Japan and/or UNDP agree to terminate the fund. However, interest earned on the fund is available for programming.

22.2. The operational reserve was established in 1979 by the Governing Council (now the Executive Board) of UNDP to ensure adequate liquidity of UNDP by funding such reserve through a defined formula which is calculated yearly. The operational reserve is made up of the operational reserve for regular resources and the operational reserve for other resources.

22.3. At 31 December 2022, the balance in the operational reserve for regular resources was \$164 million. At its annual session in 1999, the Executive Board approved a change of basis for the calculation of the operational reserve for regular resources, which is the sum of the following components:

(a) Income: the equivalent of 10 per cent of the average of the annual voluntary contributions received over the three most recent years, rounded to the nearest \$1 million;

(b) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the three most recent years, rounded to the nearest \$1 million;

(c) Liability and structural: the equivalent of 10 per cent of the sum of the income and expenditure components, rounded to the nearest \$1 million;

(d) Cash flow: the equivalent of the cash needs for one month, calculated as one twelfth of the total expenditure of the most recent year, rounded to the nearest \$1 million.

22.4. In addition, the Executive Board approved the establishment of an operational reserve for other resource activities. At 31 December 2022, the balance of the operational reserve for other resource activities was \$142 million. The basis for the calculation of the operational reserve for other resources is the sum of the following components:

(a) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the most recent three years under cost-sharing, trust funds and reimbursable support services and miscellaneous activities, rounded to the nearest \$1 million;

(b) Liability and structural: the equivalent of one year of administrative costs, currently estimated at \$30 million.

22.5. While the reserve calculation for other resources is based on cost-sharing, trust funds and reimbursable support services and miscellaneous activities, the operational reserve for other resources is only presented as part of net assets/equity for reimbursable support services and miscellaneous activities in the table in note 5, Segment reporting: statement of financial position as at 31 December 2022.

22.6. The operational reserve for other resource activities includes the reserve for field accommodation. The reserve for field accommodation was established in 1979 at a maximum level of \$25 million to construct housing for United Nations international staff at the country offices. In 1989, the Governing Council authorized UNDP to expand the scope of the reserves to include financing for United Nations system common premises, intended to accommodate the office needs of the agencies

of the Joint Consultative Group on Policies. The financial position and performance of the reserve for field accommodation is presented in note 34.4, Reimbursable support services and miscellaneous activities.

22.7. The reserve for special initiatives was first approved by the Executive Board in 2000 to establish a capital reserve as a charge from UNDP general resources. The remaining balance was being held to cover office relocation costs such as renovations, furniture, fittings and moving costs and was fully utilized in the 2022 financial year.

22.8. On calculating the operational reserves in 2022, a net transfer from the accumulated surpluses of \$8.0 million was made according to the Executive Board-approved formulas.

Note 23 Accumulated surpluses

(Thousands of United States dollars)

	31 December 2021	Movements	31 December 2022
Accumulated surpluses ^a	10 756 678	16 254	10 772 932
Funds with specific purposes ^b	153 323	(46 399)	106 924
Actuarial gains/(losses)	243 118	381 479	624 597
Changes in fair value of available-for-sale investments	122 005	(186 266)	(64 261)
Total accumulated surpluses	11 275 124	165 068	11 440 192

^a The movement in accumulated surpluses of \$16.25 million consists of the deficit for the year of \$(25.45) million and transfers from reserves of \$41.7 million.

^b The funds with specific purposes include security; information and communications technology; United Nations Volunteers; learning; personnel; and other.

23.1. UNDP recognizes receivables, including future years' receivables, in line with IPSAS, which increases accumulated surpluses. However, spending is available to UNDP only once cash is received from donors. Therefore, any available resource balance is presented net of receivables. In addition, many funds received are earmarked for programme delivery. The table below provides a breakdown of the accumulated surpluses between regular⁸² and other resources,⁸³ net of receivables, to approximate the available resource balance.

	2022			2021	
	Core	Non-core		Core	Non-core
Accumulated surpluses	784 241	10 655 951	Accumulated surpluses, gross	872 642	10 402 482
Less: total receivables	(455 153)	(4 598 786)	Less: total receivables	(435 018)	(4 365 214)
Available resource balance	329 088	6 057 165	Available resource balance	437 624	6 037 268

⁸² References to "core" signify the "regular resources" segment, while references to "non-core" signify the "cost-sharing", "trust funds" and "reimbursable support services" segments in aggregate.

⁸³ Ibid.

Note 24
Voluntary contributions

(Thousands of United States dollars)

	2022	2021
Contributions	5 038 335	5 322 349
Government contributions to local office costs	21 474	25 118
Subtotal contributions and government contributions to local office costs	5 059 809	5 347 467
Contributions in kind	16 657	21 895
Less: returns to donors of unused contributions	(78 849)	(65 337)
Total voluntary contributions, net	4 997 617	5 304 025

24.1. Contributions in kind comprise primarily donated right to use of land and buildings of \$15.198 million (2021: \$18.687 million), as well as donated goods, such as computer equipment and supplies received from donors, of \$1.459 million (2021: \$3.208 million).

24.2. Under its Financial Regulations and Rules, UNDP is permitted to spend only up to the amount of cash received and available cash on hand. In 2022, the amount of cash received amounted to \$4.800 billion (2021: \$5.393 billion).

24.3. The table below provides an indication of the contributions and government contributions to local office costs recognized in 2022 and the year to which the revenue pertains.

(Thousands of United States dollars)

By year	2022		By year	2021	
	Core	Non-core		Core	Non-core
Current year			Current year		
2022	230 994	115 411	2021	480 241	254 184
Subtotal current year	230 994	115 411	Subtotal current year	480 241	254 184
Future years			Future years		
2023	132 231	2 149 619	2023	123 585	2 213 721
2024 and beyond	231 866	2 199 688	2024 and beyond	257 622	2 018 114
Subtotal future years	364 097	4 349 307	Subtotal future years	381 207	4 231 835
Total contributions and government contributions to local office costs	595 091	4 464 718	Total contributions and government contributions to local office costs	861 448	4 486 019
Grand total contributions and government contributions to local office costs	5 059 809		Grand total contributions and government contributions to local office costs	5 347 467	

24.4. UNDP funding is received on a cyclical basis: the revenue from multi-year agreements with donors is recorded when those agreements are signed, provided that certain criteria are met. In the fourth quarter of 2022, UNDP signed agreements with donors for contributions amounting to \$1.342 billion (fourth quarter of 2021: \$1.965 billion) for multi-year core and non-core programmes and projects which will

be implemented in future periods.⁸⁴ Of this, agreements totalling \$0.713 billion were signed in December 2022 (December 2021: \$0.944 billion).

24.5. The decrease in voluntary contributions was the result of lower core and cost-sharing contributions. Owing to the nature of cyclical funding, the top three donors' contributions increased by \$0.103 billion from \$1.282 billion in 2021 to \$1.385 billion in 2022.

Note 25

Revenue: exchange transactions

(Thousands of United States dollars)

	2022	2021
Department of Safety and Security	14 780	15 107
Reimbursement for management and support services	67 112	53 503
United Nations Volunteers programme	1 717	1 922
Implementation support services fees	2 096	1 827
Payroll management services fees	8 374	9 965
Procurement handling fees	9 933	10 398
Training fees	2 790	2 535
Rental revenue	6 368	8 522
Multi-Partner Trust Fund Office administrative agent fees	14 524	12 020
Sales and royalties from sale of publications	–	2
Other exchange revenue	80	96
Total revenue from exchange transactions	127 774	115 897

Note 26

Investment revenue

(Thousands of United States dollars)

	2022	2021
Investment revenue	101 489	135 488
Total investment revenue	101 489	135 488

26.1. Investment revenue is represented as follows:

(Thousands of United States dollars)

	2022	2021
Interest plus amortized discount, net of amortized premium earned on fixed income instruments and bank account balances	88 881	56 911
Dividends earned on the UNDP investment portfolio	8 882	7 084
Realized gain on sale of investments	3 726	71 493
Total investment revenue	101 489	135 488

⁸⁴ References to “core” signify the “regular resources” segment, while references to “non-core” signify the “cost-sharing”, “trust funds” and “reimbursable support services” segments in aggregate.

26.2. The decrease of 25 per cent in UNDP overall investment income is due to a lower realized gain on the sale of investments for 2022, partially offset by higher interest rates for the year from the post-coronavirus disease (COVID-19) economic recovery situation.

Note 27
Other revenue

(Thousands of United States dollars)

	2022	2021
Foreign exchange gains	67 392	41 209
Common system and miscellaneous revenue	27 183	38 894
General management services fees	651	1 352
Total other revenue	95 226	81 455

Note 28
Expenses

(Thousands of United States dollars)

	<i>Programme expenses^a</i>	<i>Total expenses</i>	<i>Programme expenses</i>	<i>Total expenses</i>
	2022	2022	2021	2021
28.1 Contractual services				
Contractual services	1 832 773	1 942 190	1 860 700	1 958 337
United Nations Volunteers-related expenses for contractual services	46 035	53 099	44 049	50 240
Total contractual services	1 878 808	1 995 289	1 904 749	2 008 577
28.2 Staff costs				
Salary and wages	202 569	584 658	192 659	574 581
Pension benefits	37 272	108 733	34 889	105 460
Post-employment and termination	15 967	100 461	20 564	101 796
Appointment and assignment	8 763	22 421	10 578	26 381
Leave benefits	6 374	14 516	6 917	18 105
Other staff benefits	54 943	40 252	62 823	39 862
Total staff costs	325 888	871 041	328 430	866 185
28.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	384 898	410 277	382 488	395 952
Medical, pharmaceutical and agricultural supplies	409 697	414 939	476 471	485 646
Information technology supplies and software maintenance	40 949	66 474	46 834	57 014
Information technology and communications equipment	108 099	108 733	236 669	253 837
Security and office supplies	18 291	21 117	20 934	23 923
Other consumables used	223	258	319	377
Total supplies and consumables used	962 157	1 021 798	1 163 715	1 216 749

	<i>Programme expenses^a</i>	<i>Total expenses</i>	<i>Programme expenses</i>	<i>Total expenses</i>
	2022	2022	2021	2021
28.4 General operating expenses				
Travel	159 957	185 261	111 962	121 272
Learning and recruitment	291 586	305 379	239 674	248 946
Rent, leases and utilities	77 597	160 936	82 653	173 367
Communications	89 749	111 140	92 430	127 258
Freight	71 293	73 051	52 844	54 438
Professional services	37 388	43 352	32 951	37 165
Security	17 808	28 475	18 440	30 496
Reimbursement	2 101	4 430	1 772	3 843
Contribution to jointly financed United Nations activities	3 558	11 306	3 120	10 421
Contribution to information and communications technology	2 504	6 146	2 279	5 454
Insurance/warranties	5 911	6 830	4 774	5 888
Miscellaneous operating expenses	254 762 ^b	15 481 ^c	256 656 ^b	25 842 ^c
Total general operating expenses	1 014 214	951 787	899 555	844 390
28.5 Grants and other transfers				
Grants	370 306	373 438	323 069	325 405
Transfers	2 664	4 148	2 759	24 301
Total grants and other transfers	372 970	377 586	325 828	349 706
28.6 Other expenses				
Sundries	9 163	10 306	12 778	13 988
Foreign exchange losses ^d	32 223	71 762	10 064	63 584
Losses on sale of fixed assets and intangible assets	1 671	2 179	2 014	2 575
Ex gratia payments	–	–	–	–
Impairments ^e	31 169	30 496	112	2 092
Total other expenses	74 226	114 743	24 968	82 239
28.7 Depreciation and amortization				
Depreciation	3 849	13 640	4 208	14 987
Amortization	85	1 668	87	2 026
Total depreciation and amortization	3 934	15 308	4 295	17 013
Total expenses	4 632 197	5 347 552	4 651 540	5 384 859

^a Total expenses include \$4.632 billion of programme expenses and the remaining \$716 million represents development effectiveness, United Nations development coordination, management, special purposes and other. See note 34.1, Total expenses by cost classification, for details.

^b Included in the total miscellaneous operating expenses of \$255 million is \$216 million, which represents internal cost recovery and is eliminated from total expenses.

^c Total miscellaneous operating expenses include \$3.26 million of administrative service fees for United Nations agencies.

^d Foreign exchange losses of \$71.8 million include the effect of exchange rate changes on cash and cash equivalents of \$(1.7) million.

^e Total impairments of \$30.50 million include gross impairments of \$32.28 million, less impairments previously recognized of \$2.42 million and actual write-offs of \$0.64 million.

Note 29

Financial instruments and risk management

29.1. The risk management policies of UNDP, along with its investment guidelines and Financial Regulations and Rules, aim to minimize potential adverse effects on the resources available to UNDP to fund its activities. In its operations, UNDP is exposed to a variety of financial risks, including:

(a) Credit risk: the risk of financial loss to UNDP may arise from the failure of an entity or counterparty to meet its financial/contractual obligations to UNDP;

(b) Liquidity risk: the risk that UNDP might not have adequate funds to meet its obligations as they fall due;

(c) Market risk: the risk that UNDP might incur financial losses on its financial assets due to unfavourable movements in foreign currency exchange rates, interest rates and/or prices of investment securities.

29.2. UNDP manages its working capital investment portfolio centrally within the Treasury Division. Investment activities are overseen by an Investment Committee, comprising senior management, which meets quarterly to review its investment portfolio performance and to ensure that investment decisions comply with the established investment policy and guidelines. The principal investment objectives as stated in the UNDP investment guidelines are:

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

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

(c) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters;

(d) Socially responsible investments selected using a designated provider's negative screens.

29.3. As at 31 December 2022, the working capital portfolio was classified as held-to-maturity financial assets. Holdings include cash, money market instruments and fixed-income securities.

29.4. The Financial Regulations and Rules of UNDP govern the financial management of UNDP. The regulations and rules are applicable to all funds and programmes administered by UNDP and establish the standard of internal control and accountability within the organization.

29.5. UNDP has outsourced the investment management of its after-service health insurance funds and the end-of-service/repatriation liability to two external investment managers in order to ensure an adequate level of investment return, given the longer-term nature of these post-employment benefit liabilities. As at 31 December 2022, the after-service health insurance portfolio and the end-of-service/repatriation portfolio were classified as available-for-sale. Holdings include cash and cash equivalents, fixed-income securities and equities.

29.6. The external investment managers are governed by the investment guidelines. The guidelines ensure that all the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. The guidelines identify eligible instruments for global equities and fixed income investments and specify asset class limits. Reporting by and oversight of the

investment managers occurs formally through quarterly after-service health insurance investment committee meetings. These guidelines are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

29.7. The following tables show the value of UNDP financial assets and financial liabilities outstanding at year end based on the IPSAS classifications adopted by UNDP.

(a) Financial assets

(Thousands of United States dollars)

	<i>Held to maturity</i>	<i>Available for sale</i>	<i>Loans and receivables</i>	<i>Fair value through surplus and deficit</i>	<i>31 December 2022 book value</i>	<i>31 December 2021 book value</i>
Cash and cash equivalents	–	–	620 987	–	620 987	566 485
Investments	6 552 526	935 972	–	–	7 488 498	7 892 807
Receivables: non-exchange transactions	–	–	4 966 117	–	4 966 117	4 742 479
Receivables: other	–	–	87 821	–	87 821	57 753
Advances issued	–	–	221 704	–	221 704	289 795
Loans to Governments	–	–	–	–	–	2 772
Total financial assets	6 552 526	935 972	5 896 629	–	13 385 127	13 552 091

(b) Financial liabilities classification

(Thousands of United States dollars)

	<i>Other financial liabilities</i>	<i>Fair value through surplus and deficit</i>	<i>31 December 2022 book value</i>	<i>31 December 2021 book value</i>
Accounts payable and accrued liabilities	184 875	7 868	192 743	267 572
Advances payable	37 850	–	37 850	24 150
Funds held in trust, Multi-Partner Trust Fund Office	1 292 177	–	1 292 177	1 446 946
Funds held on behalf of donors	6 235	–	6 235	13 676
Other liabilities	21 838	–	21 838	14 797
Total financial liabilities	1 542 975	7 868	1 550 843	1 767 141

29.8. Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2022, the book value of those assets exceeded the market value by \$254.018 million (2021: \$16.826 million). Available-for-sale assets are carried at fair market value based on quoted prices obtained from knowledgeable third parties. The carrying values for loans and receivables are a reasonable approximation of their fair value.

29.9. As at 31 December 2022, UNDP had \$7.868 million in financial liabilities (2021: \$2.122 million in financial assets) recorded at fair value through surplus or deficit arising from forward foreign exchange contracts in various currencies and notional amounts managed by external investment managers.

29.10. For the year ended 31 December 2022, a net gain of \$8.794 million (2021: \$7.215 million) related to financial assets and liabilities recorded at fair value through surplus or deficit was recognized in the statement of financial performance.

Valuation

29.11. The table below presents the fair value hierarchy of the Programme's available-for-sale financial instruments carried at fair value as at 31 December 2022.

(Thousands of United States dollars)

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets				
Financial instruments at fair value through surplus or deficit	–	–	–	–
Equities	559 913	–	–	559 913
Bonds	376 060	–	–	376 060
Liabilities				
Financial instruments at fair value through surplus or deficit	–	(7 868)	–	(7 868)
Total	935 973	(7 868)	–	928 105

29.12. The three fair value hierarchies are defined by IPSAS based on the significance of the inputs used in the valuation as:

- (a) Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices);
- (c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Analysis of United Nations Development Programme credit risk

29.13. UNDP is exposed to credit risk on its outstanding financial asset balances, primarily cash and cash equivalents, investments, and receivables (non-exchange).

29.14. As at 31 December 2022, UNDP operates bank accounts in 149 countries, which exposes it to the risk of the collapse of local financial institutions. UNDP has established risk assessment criteria to assess the creditworthiness of financial institutions before new bank accounts are opened and limits of local currency holdings are approved and monitored centrally by the UNDP Treasury Division. In addition, UNDP, using zero-balance accounts, permits local offices to draw funds in United States dollars and euros from a headquarters-managed master account to periodically replenish local currency accounts. Zero-balance accounts are designed to automatically transfer excess balances to the master account for investment in short-term money market instruments. The arrangement minimizes excess balances in local bank accounts.

29.15. With regard to its investments, the UNDP investment policy and guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the investment guidelines include conservative minimum credit criteria for all issuers, with maturity and counterparty limits by credit rating. The UNDP investment policy and guidelines also require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments for UNDP-managed funds are limited to fixed-income instruments issued by sovereigns; supranational organizations or international agencies; governmental or federal agencies; and banks.

29.16. UNDP utilizes credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's (S&P) and Fitch, to categorize and monitor credit risk on its financial instruments. As at 31 December 2022, investments managed by UNDP were in high-quality fixed-income instruments, as shown in the table below (presented using S&P's rating convention).

Concentration by credit rating: United Nations Development Programme-managed investments

(Thousands of United States dollars)

31 December 2022	AAA	AA+	AA to AA-	A+	A	A-	Not rated	Total
Money market instruments	49 881	74 567	416 911	499 795	–	–	104	1 041 258
Bonds	2 732 398	1 251 313	1 063 639	421 264	803	41 850	–	5 511 267
Total	2 782 279	1 325 880	1 480 550	921 059	803	41 850	104	6 552 525

31 December 2021	AAA	AA+	AA to AA-	A+	A	A-	Not rated	Total
Money market instruments	134 884	119 982	811 415	714 990	–	–	131	1 781 402
Bonds	2 680 523	1 190 301	812 786	386 419	326	–	1	5 070 356
Total	2 815 407	1 310 283	1 624 201	1 101 409	326	–	132	6 851 758

Note: Excludes investments classified as cash equivalents and investments for the Multi-Partner Trust Fund Office.

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2022	AAA	AA+	AA to AA-	A+	A	A-	BBB+	BBB	United States Treasury	Not rated	Total
Bonds	12 544	6 619	11 153	5 744	6 989	6 764	8 911	2 232	35 226	279 878	376 060
Total	12 544	6 619	11 153	5 744	6 989	6 764	8 911	2 232	35 226	279 878	376 060

31 December 2021	AAA	AA+	AA-	A+	A	A-	BBB+	BBB	United States Treasury	Not rated	Total
Bonds	11 931	2 212	11 295	6 045	8 661	2 703	10 079	3 984	39 368	288 576	384 854
Total	11 931	2 212	11 295	6 045	8 661	2 703	10 079	3 984	39 368	288 576	384 854

Note: The externally managed investments are governed by investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of \$230.75 million (2021: \$240.08 million), with the remaining balance of \$46.13 million (2021: \$48.50 million) comprising government bonds.

29.17. The investment management function is centralized at UNDP headquarters, and country offices are not permitted in normal circumstances to engage in investing unless they receive exceptional approval from the UNDP Treasury Division when conditions warrant investing locally within specified parameters.

29.18. The credit risk exposure of UNDP on outstanding non-exchange receivables is mitigated by the Financial Regulations and Rules of UNDP, which require that, for non-regular resources, expenses be incurred after receipt of funds from donors. Exceptions to incurring expenses prior to the receipt of funds are only permitted if

specified risk assessment criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities (as shown in the table below) that do not have significant credit risk. UNDP periodically reviews the amounts for collectability and records an impairment against these receivables when deemed appropriate. As at 31 December 2022, an impairment of \$32.00 million was recognized against the outstanding non-exchange receivables.

Receivables: non-exchange transactions by entity type

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Government entities	1 704 183	1 257 505
Non-governmental entities	3 261 934	3 484 974
Total receivables: non-exchange transactions	4 966 117	4 742 479

Note: Non-governmental entities comprise mainly supranational and international entities.

29.19. The top three donors, accounting for 44 per cent (2021: 50 per cent) of the outstanding non-exchange receivable balances, are multilateral or United Nations pooled funds donors, as shown in the table below. Based on historical payment patterns, UNDP believes that all non-exchange receivable balances are collectable, as the amounts are presented net of the impairment of \$32.00 million.

Non-exchange receivables: top three outstanding balances

(Thousands of United States dollars)

<i>No.</i>	<i>Balance</i>	<i>Percentage of total</i>	<i>Entity type</i>
1	1 120 244	23	United Nations pooled fund
2	546 969	11	Multilateral agency
3	504 134	10	United Nations pooled fund
Subtotal	2 171 347	44	
Other	2 794 770	56	
Total	4 966 117	100	

Analysis of United Nations Development Programme liquidity risk

29.20. Liquidity risk is the risk that UNDP might be unable to meet its obligations, including accounts payable, accrued liabilities, refunds to donors and other liabilities, as they fall due.

29.21. Investments are made with due consideration of UNDP cash requirements for operating purposes based on cash flow forecasting of future funding needs. As shown in the table below, UNDP maintains a portion of its cash and investments in cash and cash equivalents and current investments, which is sufficient to cover its commitments as and when they fall due.

Liquidity analysis

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>Percentage</i>	<i>31 December 2021</i>	<i>Percentage</i>
Cash balances	560 808	7	383 710	5
Cash equivalents	60 179	1	182 775	2
Total cash and cash equivalents	620 987	8	566 485	7
Current investments	2 712 676	33	3 154 762	37
Non-current investments	4 775 822	59	4 738 045	56
Total current and non-current investments	7 488 498	92	7 892 807	93
Total investments, cash and cash equivalents	8 109 485	100	8 459 292	100

Composition of cash equivalents

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Money market funds	35 333	137 540
Money market instruments	24 846	24 997
Bonds	–	20 238
Cash equivalents	60 179	182 775

29.22. UNDP further mitigates its liquidity risk through its Financial Regulations and Rules, by which offices are prohibited from entering into commitments, including purchase commitments, unless a budget already exists. Spending is possible after funds are received and budgets are updated. Spending ability is constantly revised as commitments are made and expenditures incurred. Spending in the absence of received funds has to comply with UNDP risk management guidelines.

Analysis of market risk to the United Nations Development Programme

29.23. Market risk is the risk that UNDP is exposed to potential financial losses due to unfavourable movements in market prices of financial instruments, including movements in interest rates, exchange rates and equity price risk.

29.24. Interest rate risk arises from the effects of market interest rates fluctuations on:

- (a) Fair value of financial assets and liabilities;
- (b) Future cash flows.

29.25. A portion (12.5 per cent) of the UNDP investment portfolio is classified as available-for-sale investments that are carried at fair value through net assets/equity, which expose UNDP to interest rate risk. However, a significant portion (87.5 per cent) of the portfolio is classified as held to maturity, which is not marked to market and therefore net assets and surplus or deficit reported in the UNDP financial statements are not significantly affected by changes in interest rates.

Classification of investments

(Thousands of United States dollars)

	<i>Book value basis</i>	<i>31 December 2021</i>	<i>31 December 2020</i>
Held-to-maturity investments	Amortized cost	6 552 525	6 851 758
Available-for-sale investments	Fair value	935 973	1 041 049
Total investments		7 488 498	7 892 807

29.26. In the held-to-maturity portfolio, UNDP invests in United States dollar-denominated certificates of deposits, commercial paper, time deposits and interest bearing or discounted bonds, including fixed-rate, floating-rate and callable notes. As at 31 December 2022, UNDP had \$25.00 million (2021: \$110.89 million) in outstanding floating rate fixed-income securities, with maturities ranging from one month to three years.

29.27. The table below presents the interest sensitivity of UNDP investments based on the duration of its securities. The sensitivity is limited to the fixed-income investments classified as available for sale, which are marked to market through net assets/equity, and changes in interest rates would therefore have no impact on the UNDP surplus and deficit.

Available-for-sale fixed-income investments interest rate sensitivity analysis

(Thousands of United States dollars)

<i>31 December 2022</i>	<i>Sensitivity variation</i>	<i>Impact on the financial statements</i>	
		<i>Net assets</i>	<i>Surplus and deficit</i>
376 060	100 basis point increase	7 009	–
376 060	50 basis point decrease	(3 504)	–

Note: Bond instruments only, excluding equity investments (see table in para. 29.11 above).

Foreign exchange risk

29.28. While UNDP transactions are denominated primarily in United States dollars, the Programme is exposed to currency risk arising from financial assets that are denominated in foreign currency and financial liabilities that must be settled in foreign currency.

29.29. UNDP receives donor contributions primarily in United States dollars as well as in a number of major currencies, including the euro, the Swedish krona, special drawing rights, the Swiss franc, the British pound sterling, the Norwegian krone, the Australian dollar and the Danish krone. In addition, programme country Governments make contributions mainly in their national currency to programmes in their country. On an ongoing basis, UNDP evaluates its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations.

29.30. UNDP actively manages net foreign exchange exposure in 10 major currencies against the United States dollar using foreign exchange forward and option contracts. These currencies are: the Australian dollar, the British pound sterling, the Canadian dollar, the Danish krone, the euro, the Japanese yen, the New Zealand dollar, the Norwegian krone, the Swedish krona and the Swiss franc.

(a) Cash and cash equivalents, investments, and receivables, non-exchange

(Thousands of United States dollars)

	<i>United States dollar</i>	<i>Euro</i>	<i>Swedish krona</i>	<i>Other</i>	<i>31 December 2022 total</i>	<i>31 December 2021 total</i>
Cash and cash equivalents	396 295	79 820	192	144 680	620 987	566 485
Investments	7 233 450	126 959	4 921	123 168	7 488 498	7 892 807
Receivables, non-exchange	3 580 674	589 144	280 622	515 677	4 966 117	4 742 479
Total cash and cash equivalents, investments, and receivables: non-exchange	11 210 419	795 923	285 735	783 525	13 075 602	13 201 771

The above table depicts the top three currencies of the organization by volume.

(b) Foreign exchange sensitivity analysis

(Thousands of United States dollars)

	<i>Currency depreciation</i>		<i>Currency appreciation</i>	
	<i>Surplus/(deficit)</i>	<i>Net assets</i>	<i>Surplus/(deficit)</i>	<i>Net assets</i>
Euro (10 per cent change)	(60 684)	(11 672)	74 169	14 266
Swedish krona (10 per cent change)	(25 528)	(447)	31 201	547
Pound sterling (10 per cent change)	(7 707)	(4 318)	9 420	5 277

The above figures represent the sensitivity of cash and cash equivalents, investments and receivables: non-exchange to changes in foreign exchange rates.

29.31. At 31 December 2022, UNDP held investments and cash and cash equivalents balances in several non-United States dollar currencies. Cash and cash equivalents were held in non-United States dollar currencies primarily to support local operating activities in programme countries, where a large portion of payments are made in local currency. UNDP maintains a minimum level of assets in local currencies, and, whenever possible, converts excess local currency balances in bank accounts into United States dollars.

29.32. UNDP financial assets and financial liabilities are primarily denominated in United States dollars, thereby reducing its overall foreign currency exposure. Financial liabilities, including funds received in advance and funds held on behalf of donors, are carried in the UNDP ledger in United States dollars, although some portion may be refunded in local currency at the donor's request.

Equity price risk

29.33. In 2022, UNDP held equity investments in its externally managed after-service health insurance portfolio and end-of-service/repatriation portfolio. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNDP surplus and deficit.

Price sensitivity of equity investments

(Thousands of United States dollars)

31 December 2022	Sensitivity variation	Impact on the financial statements	
		Net assets	Surplus and deficit
559 912	5 per cent increase	27 996	–
559 912	5 per cent decrease	(27 996)	–

29.34. UNDP actively monitors ratings of its investment holdings and investment counterparties in accordance with its investment guidelines.

29.35. Any changes, due to market volatility, in the value of the UNDP after-service health insurance portfolio and end-of-service/repatriation portfolio, which is classified as available-for-sale, have no impact on the reported surplus and deficit. See note 20, Employee benefits, for additional disclosure on the changes to after-service health insurance and end-of-service/repatriation liabilities in 2022. An asset liability modelling study is performed periodically, at a minimum every three years, to independently evaluate the portfolio and its asset mix.

Note 30

Related parties

Key management personnel

30.1. The leadership structure of UNDP consists of an Executive Group, which, at the end of 2022, comprised 12 members (2021: 13 members). The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the mandate of UNDP. Collectively, the Executive Group has four tiers, comprising: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); and a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and the Chief of Staff and Director, Office of the Administrator (ex officio).

Remuneration

(Thousands of United States dollars)

Tier	Number of positions	Salary and post adjustment	Other entitlements	Total remuneration	After-service health insurance, repatriation, death benefit and annual leave liability
Key management personnel	12	3 214	1 065	4 279	2 936
Close family members of key management personnel	–	–	–	–	–
Total	12	3 214	1 065	4 279	2 936

30.2. The remuneration paid to key management personnel includes salary, post adjustment and other entitlements as applicable in accordance with the Staff Regulations and Rules of the United Nations.

30.3. Other entitlements include contributions by UNDP for key management personnel to the United Nations Joint Staff Pension Fund of \$0.64 million (2021: \$0.68 million).

Loans

30.4. Staff advances are available to UNDP staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations. As at 31 December 2022, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNDP staff.

United Nations system

30.5. UNDP is engaged in United Nations system initiatives such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations entities work together to implement activities and achieve results. Each of the participating United Nations entities assumes its share of responsibilities related to planning, implementing, monitoring, and evaluating those activities.

30.6. UNDP is a co-sponsoring organization of the Joint United Nations Programme on HIV/AIDS, an innovative joint effort of the United Nations system to respond in a coordinated manner on the issue of HIV/AIDS. UNDP participates in setting the financial and operating policies of the Programme Coordinating Board of UNAIDS, which is headquartered in Geneva.

Note 31**Commitments and contingencies****Open commitments**

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Property, plant and equipment	21 198	18 929
Goods	589 907	386 011
Services	579 588	494 902
Total open commitments	1 190 693	899 842

31.1. As at 31 December 2022, commitments of UNDP for the acquisition of various goods and services contracted but not received amounted to \$1.191 billion.

Lease commitments by term

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Obligations for property leases		
Less than 1 year	72 426	72 163
1–5 years	136 116	94 725
Beyond 5 years	31 967	23 367
Total property lease obligations	240 509	190 255

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Obligations for equipment leases		
Less than 1 year	62	90
1–5 years	–	65
Beyond 5 years	–	–
Total equipment lease obligations	62	155

31.2. The above tables represent future lease payment obligations during the contractual term of the lease. Typically, at inception, the duration of contractual leases for premises and equipment entered into by UNDP is between one and five years.

31.3. UNDP has approximately 461 operating lease agreements for land and buildings. The majority of lease agreements are under commercial terms. In 2022, approximately 101 agreements were for space provided to UNDP by host Governments on a free-of-charge basis and recorded as contributions in kind which primarily comprise donated use of land and buildings of \$15.198 million (2021: \$18.687 million) (see note 24, Voluntary contributions). Rent for all operating leases is reported within rent, leases and utilities expense (see note 28, Expenses).

Contingent assets

31.4. At 31 December 2022, UNDP has a contingent asset for a compound in South Sudan over which there is an ownership dispute. Owing to that dispute, UNDP has not recognized the land and buildings in the compound as property, plant and equipment. The fair value of the land and buildings was last assessed by independent valuers in 2018 at \$51.368 million.

Contingent liabilities

31.5. In the normal course of operations, UNDP is subject to claims that have been categorized as: (a) corporate and commercial claims; (b) administrative law claims; and (c) other claims.

31.6. As at 31 December 2022, corporate and commercial and administrative law claims totalled \$7.117 million. No impairment or allowance for loss has been recorded, as the occurrence, amount and timing of outflow is not certain. UNDP does not expect the ultimate resolution of any of the proceedings to which it is party to have a significant adverse effect on its financial position, performance or cash flows.

31.7. UNDP is a partner organization with the United Nations International Computing Centre, which is based in Geneva. The memorandum of understanding between the two organizations provides for the financial responsibility of both partner organizations should any third-party claim or liability arise within certain conditions. As at 31 December 2022, there were no such claims.

Note 32
Disaster Mitigation Fund

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Opening balance	23	23
Total revenue	1 181	1 019
Total expenses	(1 053)	(1 019)
Closing balance	151	23

32.1. The Disaster Mitigation Fund is classified under special activities and is funded predominantly from assessed contributions from the regular budget of the United Nations Secretariat to support the management and administration of operational activities relating to capacity-building for disaster mitigation.

Note 33
Events after reporting date

33.1. The reporting date for UNDP is 31 December of each year. The date of certification and transmittal of the financial statements is 30 April of the year after the financial year end (the date of signing of these financial statements).

33.2. There have been no events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 34
Additional disclosure**34.1**
Total expenses by cost classification

(Thousands of United States dollars)

	<i>2022</i>
Development	
Programme	4 632 197
Operational support to programme	31 884
Development effectiveness	188 253
United Nations development coordination ^a	(21)
Management	462 516
Independent oversight and assurance	32 962
Special purpose	51 774
Other	217 956
Elimination ^b	(269 969)
Total expenses	5 347 552

^a Includes reclassification of costs from United Nations development coordination activities to other funds.

^b This adjustment is required to remove the effect of internal UNDP cost recovery.

34.2

Programme expenses by executing entity/implementing partner and responsible party

34.2.1. The executing entity/implementing partner is the entity that has management responsibility and accountability for project implementation and results. The executing entity/implementing partner may contract with a responsible party to implement specific outputs.

34.2 (a)

Programme expenses by executing entity/implementing partner

(Thousands of United States dollars)

	<i>Regular resources</i>	<i>Cost-sharing</i>	<i>Trust funds</i>	<i>Reimbursable support services and miscellaneous activities</i>	<i>Total</i>
Governments	87 494	1 191 016	210 865	–	1 489 375
International non-governmental organizations	148	9 167	7 905	–	17 220
National non-governmental organizations	898	3 015	6 293	–	10 206
Food and Agriculture Organization of the United Nations	–	1	9	–	10
International Maritime Organization	–	–	972	–	972
United Nations Human Settlements Programme (UN-Habitat)	–	155	–	–	155
United Nations Educational, Scientific and Cultural Organization	–	–	389	–	389
United Nations Industrial Development Organization	–	–	657	–	657
United Nations Office for Project Services	158	4 057	54 255	–	58 470
United Nations Office on Drugs and Crime	–	856	–	–	856
United Nations Volunteers programme	–	–	–	20 033	20 033
United Nations Development Programme	344 929	2 434 695	254 230	–	3 033 854
Total programme expenses	433 627	3 642 962	535 575	20 033	4 632 197

34.2 (b)

Programme expenses by responsible party

34.2.2. “Responsible party” refers to the party responsible for contractual implementation of specific outputs.

(Thousands of United States dollars)

	<i>Regular resources</i>	<i>Cost-sharing</i>	<i>Trust funds</i>	<i>Reimbursable support services and miscellaneous activities</i>	<i>Total</i>
Governments	65 915	817 729	185 835	10	1 069 489
International non-governmental organizations	11 209	198 570	14 655	–	224 434
National non-governmental organizations	11 597	133 201	16 943	–	161 741
Food and Agriculture Organization of the United Nations	247	5 175	2 566	–	7 988
International Fund for Agricultural Development	–	–	370	–	370
International Labour Organization	64	855	177	–	1 096
International Maritime Organization	–	–	972	–	972

	<i>Regular resources</i>	<i>Cost-sharing</i>	<i>Trust funds</i>	<i>Reimbursable support services and miscellaneous activities</i>	<i>Total</i>
International Organization for Migration	398	1 002	649	–	2 049
International Trade Centre	234	–	–	–	234
International Training Centre of the International Labour Organization	21	–	–	–	21
Pan American Health Organization	–	1 170	–	–	1 170
United Nations Capital Development Fund	1 925	2 912	613	–	5 450
United Nations Children's Fund	527	10 012	248	–	10 787
United Nations Conference on Trade and Development	3 146	654	–	–	3 800
United Nations Convention to Combat Desertification secretariat	–	13	–	–	13
Department of Peacekeeping Operations of the United Nations Secretariat	–	531	254	–	785
Department of Political and Peacebuilding Affairs of the United Nations Secretariat	–	152	–	–	152
United Nations Educational, Scientific and Cultural Organization	13	381	758	–	1 152
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	84	7 481	3 044	–	10 609
United Nations Environment Programme	–	677	707	–	1 384
Office of the United Nations High Commissioner for Human Rights	–	228	–	–	228
Office of the United Nations High Commissioner for Refugees	–	510	–	–	510
United Nations Human Settlements Programme	24	10 200	–	–	10 224
United Nations Industrial Development Organization	149	768	657	–	1 574
United Nations Institute for Training and Research	337	1 955	47	–	2 339
United Nations Office for Disaster Risk Reduction	–	75	–	–	75
Office of Counter-Terrorism of the United Nations Secretariat	–	126	–	–	126
United Nations Office for Project Services	–	9 026	56 606	–	65 632
United Nations Office on Drugs and Crime	580	4 430	195	–	5 205
Office for the Coordination of Humanitarian Affairs of the United Nations Secretariat	–	284	–	–	284
United Nations Population Fund	252	5 192	308	–	5 752
United Nations Relief and Works Agency for Palestine Refugees in the Near East	–	1 288	–	–	1 288
United Nations System Staff College	20	103	–	–	123
United Nations University	73	306	242	–	621
United Nations Volunteers programme	–	–	–	20 023	20 023
World Food Programme	–	2 365	–	–	2 365
World Health Organization	75	14 603	1 341	–	16 019
World Tourism Organization	–	51	–	–	51
Other United Nations entities	–	215	–	–	215
United Nations Development Programme	336 737	2 410 722	248 388	–	2 995 847
Total programme expenses	433 627	3 642 962	535 575	20 033	4 632 197

34.3 Programme expenses by geographical region

(Thousands of United States dollars)

	<i>Africa</i>	<i>Arab States</i>	<i>Asia and the Pacific</i>	<i>Europe and Commonwealth of Independent States</i>	<i>Latin America and the Caribbean</i>	<i>Global and others</i>	<i>Total</i>
Expenses							
Contractual services	321 365	464 741	361 420	226 245	387 926	117 111	1 878 808
Staff costs	109 818	61 814	45 807	14 439	13 711	80 299	325 888
Supplies and consumables used	340 531	126 874	111 604	177 667	200 689	4 792	962 157
General operating expenses	381 041	188 705	153 238	83 590	153 198	54 442	1 014 214
Grants and other transfers	30 493	14 955	44 512	22 167	186 224	74 619	372 970
Other expenses	4 805	4 206	2 136	(93)	19 639	43 533	74 226
Depreciation and amortization	2 061	618	504	402	230	119	3 934
Total	1 190 114	861 913	719 221	524 417	961 617	374 915	4 632 197

34.4 Reimbursable support services and miscellaneous activities

34.4 (a) Statement of financial position

(Thousands of United States dollars)

	<i>Reimbursable support services</i>	<i>Management service agreements</i>	<i>United Nations Volunteers programme</i>	<i>Special activities</i>	<i>Junior Professional Officers Programme</i>	<i>Reserve for field accommodation</i>	<i>Government cash counterparts contributions</i>	<i>Total</i>
Assets								
Current assets								
Cash and cash equivalents	62 807	2 093	12 487	3 562	3 128	2 070	1 035	87 182
Investments	259 078	8 634	51 511	14 690	11 167	8 537	4 270	357 887
Receivables, non-exchange transactions	25 836	714	2 793	9 066	1 862	–	–	40 271
Receivables, other	522	–	–	118	1	8	–	649
Advances issued	463	–	48	71	–	–	–	582
Inventories	834	–	8	73	–	–	–	915
Total current assets	349 540	11 441	66 847	27 580	16 158	10 615	5 305	487 486
Non-current assets								
Investments	463 200	15 436	92 095	26 265	19 966	15 263	7633	639 858
Receivables, non-exchange transactions	4 500	84	1 748	–	–	–	–	6 332
Property, plant and equipment	49 426	–	808	3 334	–	8 252	–	61 820
Intangible assets	1 320	–	2 568	–	–	–	–	3 888
Receivables, other	21	–	–	2	–	–	–	23
Total non-current assets	518 467	15 520	97 219	29 601	19 966	23 515	7 633	711 921
Total assets	868 007	26 961	164 066	57 181	36 124	34 130	12 938	1 199 407

	<i>Reimbursable support services</i>	<i>Management service agreements</i>	<i>United Nations Volunteers programme</i>	<i>Special activities</i>	<i>Junior Professional Officers Programme</i>	<i>Reserve for field accommodation</i>	<i>Government cash counterparts contributions</i>	<i>Total</i>
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	2 102	27	12 773	4 253	14 104	(2)	–	33 257
Advances payable	706	14 974	–	110	–	–	–	15 790
Funds received in advance and deferred revenue	14 195	–	–	–	–	13	–	14 208
Funds held on behalf of donors	–	–	–	110	–	–	–	110
Employee benefits	13 693	–	(3)	7	(8)	–	–	13 689
Other current liabilities	705	–	2	43	1 906	12	–	2 668
Total current liabilities	31 401	15 001	12 772	4 523	16 002	23	–	79 722
Non-current liabilities								
Funds received in advance and deferred revenue	16 577	–	–	–	–	–	–	16 577
Employee benefits	186 901	–	–	–	(45)	–	–	186 856
Total non-current liabilities	203 478	–	–	–	(45)	–	–	203 433
Total liabilities	234 879	15 001	12 772	4 523	15 957	23	–	283 155
Net assets/equity								
Reserves	117 000	–	–	–	–	25 000	–	142 000
Accumulated surpluses	516 128	11 960	151 294	52 658	20 167	9 107	12 938	774 252
Total net assets/equity	633 128	11 960	151 294	52 658	20 167	34 107	12 938	916 252
Total liabilities and net assets/equity	868 007	26 961	164 066	57 181	36 124	34 130	12 938	1 199 407

34.4 (b) Statement of financial performance

(Thousands of United States dollars)

	<i>Reimbursable support services</i>	<i>Management service agreements</i>	<i>United Nations Volunteers programme</i>	<i>Special activities</i>	<i>Junior Professional Officers Programme</i>	<i>Reserve for field accommodation</i>	<i>Government cash counterparts contributions</i>	<i>Total</i>
Revenue								
Voluntary contributions	104 697	(12 513) ⁸⁵	29 947	7 306	16 262	–	–	145 699
Revenue, exchange transactions	84 524	1 932	2 070	27 108	–	1 854	–	117 488
Investment revenue	33 625	49	933	663	–	–	–	35 270
Other revenue	281 285	–	5 639	1 393	–	(15)	–	288 302
Total revenue	504 131	(10 532)	38 589	36 470	16 262	1 839	–	586 759
Expenses								
Contractual services	69 092	1 223	18 304	4 336	2	94	–	93 051
Staff costs	282 402	29	3 781	7 273	11 801	–	–	305 286

⁸⁵ This amount includes refunds of \$2.7 million and reclassifications of \$10.6 million.

	<i>Reimbursable support services</i>	<i>Management service agreements</i>	<i>United Nations Volunteers programme</i>	<i>Special activities</i>	<i>Junior Professional Officers Programme</i>	<i>Reserve for field accommodation</i>	<i>Government cash counterparts contributions</i>	<i>Total</i>
Supplies and consumables used	48 599	(1)	802	6 411	–	135	–	55 946
General operating expenses	91 140	292	6 551	16 780	2 313	30	–	117 106
Grants and other transfers	2 015	–	–	14	–	–	–	2 029
Other expenses	1 954	(222)	246	(10)	(1)	7	–	1 974
Depreciation and amortization	8 159	(2)	612	331	–	302	–	9 402
Total expenses	503 361	1 319	30 296	35 135	14 115	568	–	584 794
Surplus/(deficit) for the year	770	(11 851)	8 293	1 335	2 147	1 271	–	1 965

34.5

Cost-sharing: government, third-party and South-South: statement of financial performance

(Thousands of United States dollars)

	<i>Third-party cost-sharing</i>	<i>Government cost-sharing</i>	<i>South-South cost-sharing</i>	<i>Total</i>
Revenue				
Voluntary contributions	2 317 916	1 101 924	8 472	3 428 312
Revenue, exchange transactions	6 949	1 523	–	8 472
Investment revenue	9 888	132	–	10 020
Other revenue	3 041	459	390	3 890
Total revenue	2 337 794	1 104 038	8 862	3 450 694
Expenses				
Contractual services	1 016 702	424 339	3 254	1 444 295
Staff costs	206 836	18 135	375	225 346
Supplies and consumables used	522 658	318 947	3 442	845 047
General operating expenses	640 539	162 986	1 876	805 401
Grants and other transfers	150 289	156 017	21	306 327
Other expenses	7 171	18 983	48	26 202
Depreciation and amortization	2 022	410	6	2 438
Total expenses	2 546 217	1 099 817	9 022	3 655 056
Surplus/(deficit) for the year	(208 423)	4 221	(160)	(204 362)

34.6 (a)
Top three trust funds: statement of financial position⁸⁶

(Thousands of United States dollars)

	<i>Global Environment Facility</i>	<i>Multilateral Fund for the Implementation of the Montreal Protocol</i>	<i>United Nations Fund for South-South Cooperation</i>
Assets			
Current assets			
Cash and cash equivalents	34 022	4 627	3 502
Investments	140 269	19 086	14 444
Receivables, non-exchange transactions	59 184	13 572	–
Receivables, other	75	–	7
Advances issued	28 158	253	5 356
Total current assets	261 708	37 538	23 309
Non-current assets			
Investments	250 784	34 123	25 824
Receivables, non-exchange transactions	1 095 379	4 736	–
Property, plant and equipment	675	12	42
Receivables, other	15	–	–
Total non-current assets	1 346 853	38 871	25 866
Total assets	1 608 561	76 409	49 175
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	1 435	322	113
Advances payable	1 600	–	1 454
Funds held on behalf of donors	79	–	88
Other current liabilities	3	–	–
Total current liabilities	3 117	322	1 655
Total liabilities	3 117	322	1 655
Net assets/equity			
Accumulated surpluses/deficits	1 605 444	76 087	47 520
Total net assets/equity	1 605 444	76 087	47 520
Total liabilities and net assets/equity	1 608 561	76 409	49 175

⁸⁶ The selection criterion for the top three trust funds is total revenue.

34.6 (b)
Top three trust funds: statement of financial performance⁸⁷

(Thousands of United States dollars)

	<i>Global Environment Facility</i>	<i>Multilateral Fund for the Implementation of the Montreal Protocol</i>	<i>United Nations Fund for South-South Cooperation</i>
Revenue			
Voluntary contributions	539 421	15 262	16 985
Investment revenue	4 676	723	497
Other revenue	2 721	593	–
Total revenue	546 818	16 578	17 482
Expenses			
Contractual services	151 478	19 935	5 302
Staff costs	12 784	2 321	246
Supplies and consumables used	34 719	2 927	2 315
General operating expenses	56 995	4 772	2 595
Grants and other transfers	38 665	–	1 375
Other expenses	32 384	59	151
Depreciation and amortization	106	4	4
Total expenses	327 131	30 018	11 988
Surplus/(deficit) for the year	219 687	(13 440)	5 494

34.7 (a)
Funding windows: statement of financial position

34.7.1. The funding windows were established in 2016 as the Programme's pooled thematic funds, with four windows: (1) Sustainable development and poverty eradication; (2) Climate change and disaster risk reduction; (3) Governance for inclusive and peaceful societies; and (4) Emergency development response to crisis and recovery. In 2019, UNDP management approved the redesign of the funding windows to align more directly to its core mandate and the strategic plan, as well as donor priorities. Four new windows were created: (1) Poverty and inequality; (2) Governance, peacebuilding, crisis and resilience; (3) Nature, climate and energy; and (4) Gender equality and women's empowerment. The 2022 UNDP financial statements present each funding window separately, in view of their distinct nature, including each of the original four.

⁸⁷ The selection criterion for the top three trust funds is total revenue.

Funding windows: statement of financial position

(Thousands of United States dollars)

	<i>Sustainable development and poverty eradication</i>	<i>Governance for peaceful and inclusive societies</i>	<i>Climate change and disaster risk reduction</i>	<i>Emergency development response to crisis and recovery</i>	<i>Governance, peacebuilding, crisis and resilience</i>	<i>Nature, climate and energy</i>	<i>Poverty and inequality</i>	<i>Gender equality and women's empowerment</i>
Assets								
Current assets								
Cash and cash equivalents	481	354	774	100	15 155	8 325	1 573	146
Investments	1 985	1 455	3 165	411	62 515	34 341	6 488	603
Receivables, non-exchange transactions	–	(200)	–	–	99 251	53 982	213	213
Receivables, other	–	3	3	–	38	–	–	–
Advances issued	1	(5)	73	–	6 113	1 100	–	–
Inventories	–	–	–	–	–	1	–	–
Total current assets	2 467	1 607	4 015	511	183 072	97 749	8 274	962
Non-current assets								
Investments	3 549	2 600	5 658	734	111 770	61 397	11 600	1 077
Receivables, non-exchange transactions	–	–	–	–	25 323	–	–	–
Property, plant and equipment	–	131	–	46	527	76	–	–
Total non-current assets	3 549	2 731	5 658	780	137 620	61 473	11 600	1 077
Total assets	6 016	4 338	9 673	1 291	320 692	159 222	19 874	2 039
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	65	466	(21)	(1)	1 370	69	78	–
Advances payable	–	–	–	–	2	7 338	85	–
Total current liabilities	65	466	(21)	(1)	1 372	7 407	163	–
Total liabilities	65	466	(21)	(1)	1 372	7 407	163	–
Net assets/equity								
Accumulated surpluses	5 951	3 872	9 694	1 292	319 320	151 815	19 711	2 039
Total net assets/equity	5 951	3 872	9 694	1 292	319 320	151 815	19 711	2 039
Total liabilities and net assets/equity	6 016	4 338	9 673	1 291	320 692	159 222	19 874	2 039

34.7 (b)**Funding windows: statement of financial performance**

34.7.2. Included in Governance, peacebuilding, crisis and resilience, voluntary contributions of \$205 million are voluntary contributions of \$117 million from the funding windows related to the COVID-19 pandemic for the following funds: (a) COVID-19 pandemic – country response; (b) COVID-19 pandemic – regional response; (c) COVID-19 pandemic – development effectiveness; and (d) Crisis response – COVID-19 pandemic. In terms of expenses, the COVID-19 pandemic funding windows incurred \$87 million of the total expenses from the Governance, peacebuilding, crisis and resilience window of \$148 million.

Funding windows: statement of financial performance

(Thousands of United States dollars)

	<i>Sustainable development and poverty eradication</i>	<i>Governance for peaceful and inclusive societies</i>	<i>Climate change and disaster risk reduction</i>	<i>Emergency development response to crisis and recovery</i>	<i>Governance, peacebuilding, crisis and resilience</i>	<i>Nature, climate and energy</i>	<i>Poverty and inequality</i>	<i>Gender equality and women's empowerment</i>
Revenue								
Voluntary contributions	(91) ⁸⁸	(71) ⁸⁹	(49) ⁹⁰	(18) ⁹¹	203 234	74 856	2 044	1 429
Investment revenue	80	51	27	14	1 960	977	228	20
Other revenue	17	20	52	11	2	885	–	–
Total revenue	6	–	30	7	205 196	76 718	2 272	1 449
Expenses								
Contractual services	2 487	636	4 372	190	75 599	5 955	1 914	856
Staff costs	493	436	(1 060) ⁹²	15	15 039	1 071	140	61
Supplies and consumables used	182	1 649	262	16	20 678	140	81	30
General operating expenses	1 302	625	2 223	344	31 076	3 395	816	307
Grants and other transfers	–	124	650	218	4 641	6 093	119	3
Other expenses	9	(30)	27	(5)	1 212	200	10	3
Depreciation and amortization	–	20	–	5	24	1	–	–
Total expenses	4 473	3 460	6 474	783	148 269	16 855	3 080	1 260
Surplus/(deficit) for the year	(4 467)	(3 460)	(6 444)	(776)	56 927	59 863	(808)	189

⁸⁸ Includes transfers from older funding windows (sustainable development and poverty eradication; governance for peaceful and inclusive societies; climate change and disaster risk reduction; and emergency development response to crisis and recovery) to newer funding windows (governance, peacebuilding, crisis and resilience; nature, climate and energy; poverty and inequality; and gender equality and women's empowerment).

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Includes transfers of expenses to other cost-sharing projects.

34.8 All trust funds established by the United Nations Development Programme: schedule of financial performance

(Thousands of United States dollars)

<i>Name of the trust fund</i>	<i>Net assets 31 December 2021</i>	<i>Revenue</i>	<i>(Expenses)</i>	<i>Closing net assets 31 December 2022</i>
Fund manager: UNDP Africa				
African Peer Review Mechanism of the New Partnership for Africa's Development	18	(6)	34	46
Belgium: trust fund in support of the elections project in the Democratic Republic of the Congo	2	–	–	2
EEC: support for the national mine action strategy: support for the launch of the Mine Action Centre in Casamance	–	(8)	–	(8)
Justice and security trust fund for Liberia	170	(2)	28	196
Trust fund for democratization support and the electoral process in Guinea-Bissau	–	2	–	2
UNDP: trust fund for the Mozambique mine clearance programme	3	–	–	3
UNDP: trust fund for the United Nations Educational and Training Programme for Southern Africa	11	4	–	15
Total UNDP Africa	204	(10)	62	256
Fund manager: UNDP Arab States				
EEC/Sudan: post-conflict community-based recovery and rehabilitation programme	27	–	–	27
EEC: trust fund for interim disarmament, demobilization and reintegration programme in the Sudan	–	–	1	1
EEC/Sudan: promotion of equality, tolerance and peace through the dissemination of the Comprehensive Peace Agreement and of the Transitional Legal Framework in Southern Sudan	3	–	–	3
EEC: trust fund for local government and country recovery in South Sudan	28	–	2	30
Information and communication technology trust fund for Egypt	374	22	–	396
Trust fund for poverty alleviation in the Arab region	(7)	–	7	–
UNDP: trust fund for the Programme of Assistance to the Palestinian People	4 684	52	(36)	4 700
Total UNDP Arab States	5 109	74	(26)	5 157
Fund manager: UNDP Asia and the Pacific				
Law and order trust fund for Afghanistan	45 010	(35 076) ⁹³	(805)	9 129
Trust fund in support of the full implementation of the Convention on Cluster Munitions in the Lao People's Democratic Republic within the framework of the Vientiane Declaration on Aid Effectiveness	274	3	–	277
UNDP-Republic of Korea trust fund	6	(6)	–	–
UNDP-Republic of Korea trust fund in support of the Tumen River Area Development Programme	2 348	5 420	(452)	7 316
Total UNDP Asia and the Pacific	47 638	(29 659)	(1 257)	16 722
Fund manager: UNDP Bureau for Policy and Programme Support				
Forest Carbon Partnership Facility	3 603	35	(480)	3 158
Multilateral Fund for the Implementation of the Montreal Protocol	89 527	16 578	(30 018)	76 087

⁹³ Includes refunds to donors due to the winding down of the trust fund.

<i>Name of the trust fund</i>	<i>Net assets 31 December 2021</i>	<i>Revenue</i>	<i>(Expenses)</i>	<i>Closing net assets 31 December 2022</i>
Global Environment Facility trust fund	1 385 757	546 818	(327 131)	1 605 444
UNDP Energy Account	90	1	–	91
UNDP: thematic trust fund for crisis prevention and recovery	6 042	(5 931) ⁹⁴	(86)	25
UNDP: democratic governance thematic trust fund	922	(755) ⁹⁵	(1)	166
UNDP: thematic trust fund on energy for sustainable development	18	(18)	–	–
UNDP: thematic trust fund on environment	4 141	(21)	(958)	3 162
UNDP: thematic trust fund on gender	–	4	(4)	–
UNDP: thematic trust fund on information and communications technology for development	211	(244)	33	–
UNDP: thematic trust fund on poverty reduction for sustainable development	243	(160)	3	86
UNDP: thematic trust fund on HIV/AIDS	83	(83)	1	1
UNDP: trust fund for public-private partnerships for the urban environment	26	–	–	26
UNDP: trust fund for sustainable social development, peace and support to countries in special situations	1 543	14	(327)	1 230
Total UNDP Bureau for Policy and Programme Support	1 492 206	556 238	(358 968)	1 689 476
Fund manager: UNDP Bureau of External Relations and Advocacy				
UNDP-Republic of Korea: Sustainable Development Goals trust fund	1 218	1 317	(1 229)	1 306
UNDP: trust fund for international partnership	145	176	(76)	245
UNDP: trust fund for the private sector in development	1 008	1 011	(572)	1 447
UNDP-Republic of Korea: Millennium Development Goals trust fund for programming fund-based cooperation	672	(496) ⁹⁶	2	178
Total UNDP Bureau of External Relations and Advocacy	3 043	2 008	(1 875)	3 176
Fund manager: UNDP Bureau for Management Services				
UNDP/Swedish International Development Cooperation Agency: trust fund for assistance to UNDP-specific activities	–	–	4	4
Total UNDP Bureau for Management Services	–	–	4	4
Fund manager: UNDP Europe and the Commonwealth of Independent States				
UNDP-Russian Federation: trust fund for development	58 623	(3 674) ⁹⁷	(13 799)	41 150
EEC trust fund for integrated support for decentralization in Albania	2	–	–	2
Total UNDP Europe and Commonwealth of Independent States	58 625	(3 674)	(13 799)	41 152
Fund manager: UNDP Geneva				
UNDP: trust fund for innovative partnerships with national Governments, local authorities, the private sector, non-governmental organizations, academic institutions and foundations	2 752	25	(582)	2 195
Total UNDP Geneva	2 752	25	(582)	2 195

⁹⁴ Includes transfers of resources from the thematic trust fund to funding windows.

⁹⁵ Ibid.

⁹⁶ Includes a refund to donor.

⁹⁷ Reclassification of revenue from trust funds to cost-sharing projects.

<i>Name of the trust fund</i>	<i>Net assets 31 December 2021</i>	<i>Revenue</i>	<i>(Expenses)</i>	<i>Closing net assets 31 December 2022</i>
Fund manager: UNDP Latin America and the Caribbean				
International Commission against Impunity in Guatemala	51	1	–	52
UNDP-Spain: trust fund for integrated and inclusive development	288	3	1	292
Total UNDP Latin America and the Caribbean	339	4	1	344
Fund manager: UNDP Technical Cooperation among Developing Countries				
India, Brazil and South Africa Facility for Poverty and Hunger Alleviation	12 344	1 137	(1 171)	12 310
Pérez-Guerrero Trust Fund for South-South Cooperation	8 164	370	(339)	8 195
United Nations Fund for South-South Cooperation	42 026	17 482	(11 988)	47 520
Total UNDP Technical Cooperation among Developing Countries	62 534	18 989	(13 498)	68 025
Fund Manager: UNDP Bureau for Policy and Programme Support/UNDP Bureau for Management Services				
Climate change and disaster risk reduction	16 138	30	(6 474)	9 694
Emergency development response to crisis and recovery	2 068	7	(783)	1 292
Gender equality and women's empowerment	1 850	1 449	(1 260)	2 039
Governance for peaceful and inclusive societies	7 332	–	(3 460)	3 872
Governance, peacebuilding, crisis and resilience	262 393	205 196	(148 269)	319 320
Nature, climate and energy	91 952	76 718	(16 855)	151 815
Poverty and inequality	20 519	2 272	(3 080)	19 711
Sustainable development and poverty eradication	10 418	6	(4 473)	5 951
Total UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services	412 670	285 678	(184 654)	513 694
Total trust funds	2 085 120	829 673	(574 592)	2 340 201

Abbreviations: EEC, European Economic Commission; UNDP, United Nations Development Programme.

