United Nations

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2018

and

Report of the Board of Auditors

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

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A/74/5/Add.1

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United Nations • New York, 2019

Note

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

ISSN 0251-8198

[24 July 2019]

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Letters of transmittal and certification

Letter dated 30 April 2019 from the Administrator, the Assistant Secretary-General 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 2018, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

(*Signed*) Susan **McDade**
Assistant Secretary-General and Director
Bureau for Management Services

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

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

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Development Programme for the year ended 31 December 2018.

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

Chapter I

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

Opinion

We have audited the accompanying financial statements of the United Nations Development Programme (UNDP), which comprise the statement of financial position (statement I) as at 31 December 2018 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the 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 2018, and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

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

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

The Administrator is responsible for the other information, which comprises the financial report for the year ended 31 December 2018, contained in chapter III below, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is appropriate and sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UNDP.

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

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNDP to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNDP to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

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

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

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

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

24 July 2019

Chapter II
Long-form report of the Board of Auditors

Summary

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

The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2018. The audit was carried out at headquarters in New York, at the offices of the Global Shared Service Unit in Copenhagen and in Kuala Lumpur, as well as through visits to country offices in Colombia, Ethiopia, Lebanon and Myanmar and the regional hub in Addis Ababa.

Scope of the report

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

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

The Board also reviewed UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNDP operations. The report also includes comments on the status of implementation of recommendations made in previous years.

Audit opinion

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

Overall conclusion

The finances of UNDP remain sound with high levels of liquid assets. In 2018, UNDP also achieved a high level of revenues. At the same time, the financial resources include $4.13 billion in funding partners' commitments and agreements made for future years.

Voluntary contributions to regular resources increased slightly and amounted to $662.40 million. However, these contributions comprise only 12.8 per cent of the Programme's total voluntary contributions. The high level of tightly earmarked donations for specific programmes, projects or themes brings challenges for management to focus on priorities and to meet the demand for reforms and investments

in processes, human resources and information technology brought about by the changing business environment in which UNDP operates. The Board expects this pressure to continue in 2019 and beyond.

The Board encourages UNDP to further explore areas for working more cost-effectively and to prioritize necessary investments, while at the same time striving for well-documented, transparent and high-quality processes that foster accountability. For instance, the Board noted opportunities to refine the internal control framework and policies related to workforce/personnel management. In addition, the Board noted that UNDP has potential to further enhance its processes and procedures to ensure the effective use of the resources received from funding partners to deliver on projects.

Key findings

Treatment of non-exchange transactions

In response to discussions with the Board, UNDP refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNDP recognized receivables for non-exchange transactions in full at the time the agreement was signed, except for agreements that have performance conditions beyond the control of UNDP. UNDP deferred revenue associated with receivables expected to be received in future periods on the statement of financial position until the conditions in contribution agreements, if any, were met or when funds were to be transferred to UNDP and intended to be utilized.

The Board holds that UNDP should continue to review the substance and form of contribution agreements to conclude if there should be any further refinements to the non-exchange transactions accounting policy. The Board also holds that UNDP should use all available information to further enhance the assessment of contribution agreements in accordance with IPSAS 23: Revenue from non-exchange transactions, in particular with regard to the substance-over-form criteria. The Board trusts that UNDP will take action if the analysis reveals that a further refinement of policies and procedures is needed.

Internal control framework

Pursuant to its financial regulations and rules, UNDP must maintain an internal financial control mechanism. The Board's audit did not highlight any significant weaknesses in the financial controls examined and tested. At the same time, the Board noted some matters of non-compliance with regard to the UNDP internal control framework. For instance, requisitions and purchase orders had been approved by the same person acting as first and second authority in the same transaction, which is not permitted for transactions exceeding $2,500, according to the operational guide of the internal control framework.

With regard to bank signatories, the Board noted a signatory who also held the vendor approver role, which is not permitted according to the operational guide. Furthermore, the Board noted that service contract holders performed internal control functions, including reviews as second level of authority for transactions such as payroll, which is not in line with the Programme's current policy on service contracts.

The Board also noted that the UNDP enterprise resource planning system logs every transaction at every stage with the user identity (ID) and a time stamp, but does not provide any automated control or indicate that the same person was acting as first and second authority in the same transaction.

The Board acknowledges that in some cases UNDP took immediate action to remove conflicting levels of authority when the Board informed UNDP of its observations during the audit process. At the same time, the Board is of the opinion that the findings revealed different levels of maturity and awareness among bureaux and country offices with regard to the corporate internal control framework. Therefore, the Board holds that further enhancement is necessary.

Project management: harmonized approach to cash transfers

The harmonized approach to cash transfers is a common operational framework for transferring cash to government and non-governmental implementing partners. Implementation of the framework includes, among other things, microassessments of the implementing partners' financial management capacity, as well as assurance activities to determine whether funds transferred have been used for their intended purpose and in accordance with the workplan.

Each agency using the microassessment has to document its understanding of the assessment and the overall risk rating and its recognition of the identified risks and effects specific to the agency, including any impact of those risks on programme design. The Board noted that the country offices did not document their understanding of the assessment and the overall risk rating. Also, country offices did not document recognition of the identified risks and effects specific to UNDP for any of the microassessments reviewed.

The coverage, type and frequency of assurance activities are guided by the overall risk rating associated with the implementing partner, as determined by means of the microassessment. According to the harmonized approach to cash transfers framework and the corresponding UNDP policy on the approach, each country office prepares an assurance activity plan at the beginning of the programme cycle and updates it annually. The plan sets out the required assurance activities for each implementing partner.

The Board's analysis revealed that assurance activity plans did not in all cases include all necessary assurance activities. The analysis also revealed that assurance activities planned were not always in line with requirements of the harmonized approach to cash transfers framework. The Board also noted that assurance activity plans did not consistently include information on whether planned assurance activities had been carried out. The Board further noted that country offices did not include such verification of the completeness of assurance activities carried out in any other reporting.

Workforce/personnel management

The contractual reform that came into effect in 2009 provided for a new set of staff rules. The reform introduced the P-6 and P-7 grades in the Professional category. These grades are used for experienced technical experts in certain fields, who can lead specific projects to which they can contribute their expertise. UNDP policies do not further clarify the requirements for using the P-6 and P-7 grades. Remuneration for the P-6 and P-7 grades is identical to that for the D-1 and D-2 grades, respectively.

The Board noted cases in which UNDP staff members at the P-6 or P-7 level had directorial or representational responsibilities. However, staff members at these grades are not supposed to perform extensive managerial or directorial tasks for UNDP as a whole. The Board further noted that, in some cases, staff members held positions as Resident Coordinators/Resident Representatives and Country Directors a.i. that were allocated to the P-6 or P-7 level instead of the D-1 or D-2 level.

The UNDP policy on service contracts guides country offices on how to manage the service contract modality, while the individual contract modality is governed by the individual contract policy. UNDP uses service contracts in country offices and regional centres to hire national personnel for non-core support services at the UNDP office or for development projects. Individual contracts are used to hire personnel to perform time-bound and non-staff tasks aimed at delivering clear and quantifiable outputs. The Board found that UNDP did not always use the two contract modalities as intended in accordance with the respective policies.

The Board further noted that, under the policy on service contracts, regional bureaux directors were authorized to grant a waiver of competitive recruitment for up to 20 service contracts per annum. The Board noted that, in several cases, country offices used the opportunity of waiving competitive bidding to fast-track deployment.

The Board holds that without competition in the recruitment process and by not comparing candidates, UNDP might not be able to ensure that a suitable candidate is the best qualified person for the job. The Board therefore holds that competitiveness in a recruitment process should not be waived as it bears the risk that candidates might join UNDP and the United Nations system without having gone through a regular competitive recruitment process.

The Board further noted various matters of non-compliance with requirements established in the individual contract policy, including improper use of exceptions for direct contracting, limited effective competition, not awarding the contract to the best qualified candidate and not documenting value-for-money considerations. The Board also sees room for enhancing contract drafting and management.

Recommendations

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

Treatment of non-exchange transactions

(a) **Continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on the recognition of non-exchange transactions in line with IPSAS 23;**

Internal control framework

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

(c) **Consider the feasibility of incorporating more automated controls into its enterprise resource planning system or supplementary related information technology systems to enhance compliance with the corporate internal control framework;**

Project management: harmonized approach to cash transfers

(d) **Ensure that country offices document the review of and conclusions drawn from microassessments;**

(e) **Revise its policy on the harmonized approach to cash transfers and clarify that management in country offices is required to conduct a control designed to review the completeness of assurance activities performed and the completeness of follow-up actions taken;**

Workforce/personnel management

(f) **Enhance its policies and guidelines with regard to the use of the P-6 and P-7 grades in order to provide guidance on the circumstances in which these grades may be used;**

(g) **Review the policies on service contracts and individual contracts in order to establish clear criteria for assessing what constitutes a staff task and function and which tasks and functions may be transferred to contractual modalities other than regular staff contracts;**

(h) **Review its policy on service contracts, including the requirements for waiving competitive recruitment and the use of such waivers;**

(i) **Ensure that country offices and units with identified cases of non-compliance provide on-the-job training so that personnel have the sustainable awareness required to properly procure and manage individual contracts in accordance with the policy on individual contracts.**

Previous recommendations

As at 31 May 2019, of the 49 recommendations made for 2017 and previous years, 17 (35 per cent) had been implemented, 23 (47 per cent) remained under implementation and three recommendations (6 per cent) had not been implemented. Six recommendations (12 per cent) had been overtaken by events (see annex).

Key facts	
170	Countries and territories in which UNDP operates
$660 million	Budget for 2018 approved by the Executive Board for regular resources.[a] 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.
$5.52 billion	Total revenue
$5.10 billion	Total expenses
$12.11 billion	Total assets
$6.73 billion	Total liabilities

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

A. Mandate, scope and methodology

1. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly 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 2018 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 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing 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 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 2018.

6. During the course of the audit, the Board visited UNDP headquarters in New York, four country offices (Colombia, Ethiopia, Lebanon and Myanmar), one regional hub (Addis Ababa) and the offices of the Global Shared Service Unit in Copenhagen and Kuala Lumpur. The Board continued working collaboratively with the Office of Audit and Investigations to provide coordinated coverage.

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

B. Findings and recommendations

1. Follow-up of recommendations from previous years

8. The Board noted that there were 49 recommendations outstanding when its report for the financial year ended 31 December 2017 was issued. The Board considered 17 recommendations (34.7 per cent) to have been implemented, 23 recommendations (47.0 per cent) to remain under implementation and three recommendations (6.1 per cent) not to have been implemented. Six recommendations (12.2 per cent) have been overtaken by events. Details of the status of implementation of the recommendations are shown in the annex to the present report.

9. The Board acknowledges management's efforts towards implementation of its recommendations, but considers that further efforts are needed to address the recommendations, with an emphasis on recurring recommendations. The Board addressed the matter of recurring audit recommendations and discussed options to limit the risk of recurring audit issues. Details are included in the Board's observations concerning the internal control framework and workforce management.

10. One recommendation from 2015 has remained pending, although progress has been made. That recommendation relates to the follow-up mechanisms for project closure of the Multi-Partner Trust Fund Office. The Board noted some progress since the balance had been reduced in prior years, but two main agencies still have large balances to clear.

11. The Board had consistently brought to the Programme's attention the fact that combined delivery reports had not been signed on time. The Board's reports for the years ending 31 December 2013 to 31 December 2017 included findings on delays in the signing of combined delivery reports. In 2018, the Board again confirmed this observation. The Board noted that in the majority of the cases in the sample reviewed, combined delivery reports were signed more than 45 days after the end of the respective period. The Board holds that this is an indicator that UNDP has not taken sufficient action to enhance the timeliness of signing combined delivery reports. The Board therefore decided to reiterate three open recommendations that have not been implemented.

2. Changing business environment, UNDP strategic plan and reform processes

United Nations development system reform process

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

13. As from 1 January 2019, the resident coordinator function was separated from the UNDP resident representative function and became an independent full-time position. The newly established Development Coordination Office in the Secretariat, headed by an Assistant Secretary-General, is charged with managing the reinvigorated and independent resident coordinator system. In 2018, UNDP had conducted a number of activities to prepare for the separation of these functions, including developing a country office checklist for the delinking process and recruiting new UNDP resident representatives.

14. Under the new management structure of the resident coordinator system and the recently agreed management and accountability framework, Resident Coordinators have been allocated new areas of authority. With the new accountability framework, heads of agencies (including Resident Representatives of UNDP) have dual accountability lines. They are accountable to their agencies on agency-specific activities and to the Resident Coordinator and the United Nations country team on system-wide results. UNDP intends to closely monitor the implementation of the management and accountability framework.

15. Another key element of the reform is the United Nations Sustainable Development Cooperation Framework (formerly the United Nations Development Assistance Framework). This is the most important instrument for the planning and implementation of development activities at the country level. Guidance on the new Framework was issued. Key changes include a shorter design period, a stronger link between the Framework and agency programme documents, explicit recognition of regional and transboundary issues and a focus on economic transformation. UNDP is considering revising its country programme documents to put more focus on its contribution to the Frameworks and to better articulate the comparative advantage and value added of UNDP contributing to the results of the United Nations Sustainable Development Cooperation Frameworks.

16. Another key element is to take forward common business operations and premises. This element includes a target of 50 per cent of common premises for United Nations agencies by 2021. To improve the business operations strategies of the United Nations country teams, a project team of the Business Innovations Group is revising the business operations strategy guidance. The new guidance is expected to be rolled out in the coming months. UNDP has seconded staff to the project team of the Business Innovations Group. Furthermore, a mutual recognition statement that allows entities to use or rely on other entities' policies, procedures and related operational mechanisms has been signed by 14 entities, including UNDP.

17. In resolution 72/279, Member States also called for a funding compact to improve the level, predictability and sustainability of funding for the United Nations development system. As part of the funding compact, Member States and agencies have developed a 1 per cent levy as a funding source. The levy shall be applied to

tightly earmarked third-party non-core contributions. Twelve funding partners have already confirmed the applicability of the 1 per cent levy. UNDP has developed guidance on how to identify, activate and manage the levy.

18. A joint Sustainable Development Goals fund is also part of the Secretary-General's proposal to reposition the United Nations development system. Resident Coordinators are to be invited to apply for the funds on behalf of the United Nations country teams. Funds are to be distributed according to selected themes supported by joint programmes at the country level. UNDP may benefit from these funds when implementing joint programmes.

UNDP strategic plan, 2018–2021

19. In anticipating the changes arising from the United Nations development system reform process, UNDP has taken steps to ensure that UNDP repositions itself within the changed United Nations development system. The UNDP strategic plan, 2018–2021, serves as the guiding document for these repositioning efforts.

20. In the strategic plan, UNDP focuses on poverty eradication as the highest priority, but also covers thematic development areas such as governance, resilience, nature-based solutions, energy, gender equality and the empowerment of women. Given the complexity and interconnectedness of development challenges, UNDP applies its six signature solutions in varying combinations depending on the specific development settings in each country.

21. UNDP intends to increase its work through country support platforms, global advisory and implementation platforms and acceleration labs. By the means of these platforms, UNDP aims to combine systems, services, knowledge and skills. The goal is to achieve greater integration and to improve efficiency and development effectiveness by modifying how UNDP organizes and deploys its assets and capabilities. The UNDP country accelerator labs are focused on country-based solutions that are built jointly with governments and other partners.

UNDP internal reform processes

22. In order to implement the strategic plan, UNDP has initiated three major reform processes covering programmatic and operational activities. These reform processes began in 2018 and are to continue throughout 2019.

23. In 2018, UNDP established a Global Policy Network, which aims at providing support to country offices and programme countries to achieve development goals. The Network draws on expertise globally to provide more effective responses to the complex development challenges that countries face in achieving the Sustainable Development Goals and in responding to crisis in an integrated and coherent manner.

24. In addition, UNDP initiated the review of management services and business processes. The objective of this review is to provide timely, cost-effective and efficient services to internal and external clients in a risk-informed and adaptable manner. The review entails building on and completing relevant elements of earlier reform initiatives and the intent to provide digital solutions.

25. The review of management services and business processes serves to contextualize operational challenges that may exist and understand where there is "unfinished business" that is still relevant to complete. This includes the horizontal and vertical alignment of operational functions, the clustering of services, the provision of agency services at the country, regional and global levels, and looking into corporate financial planning, budgeting and performance roles and risk management functions.

26. At the end of 2018, UNDP initiated a third review process covering its partnerships, resource mobilization, United Nations system affairs and communication functions.

27. The Board expects the United Nations development system reform process and the three internal reform processes, which were initiated to position UNDP within the new system, to have an impact on the Programme's way of working in 2019 and beyond.

28. The preparations for the separation of the resident coordinator function from the UNDP resident representative function had already had an impact on UNDP operations in 2018. The Board holds that in order to obtain a more complete picture of the separation activities, 2019 data are needed, as the year 2019 constitutes a transition phase. Therefore, the Board holds that it would be premature to comment in the present report on the Programme's management of the separation process.

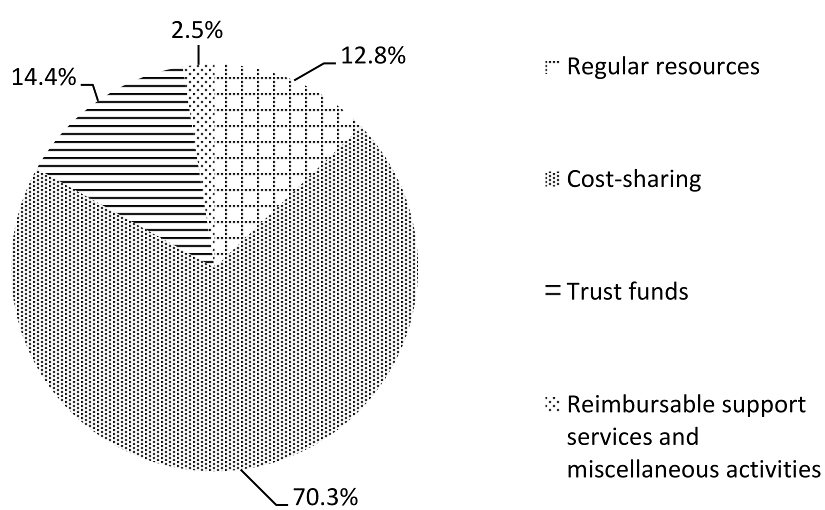
3. Financial overview

Revenue and expenses

29. UNDP revenue includes voluntary contributions, revenue from exchange transactions, investment revenue and other revenue. During 2018, total revenue amounted to $5.52 billion (2017: $5.24 billion) and total expenses amounted to $5.10 billion (2017: $5.09 billion), resulting in a surplus of $420.20 million (2017: $141.65 million).

30. The total voluntary contributions to UNDP were $5,185.30 million (2017: $4,892.10 million), equivalent to 94.0 per cent (2017: 93.4 per cent) of total revenue. Voluntary contributions increased by $293.20 million (6.0 per cent) compared with contributions in 2017. The amount of voluntary contributions comprised regular resources of $662.40 million (12.8 per cent), cost-sharing of $3,644.37 million (70.3 per cent), trust funds of $745.95 million (14.4 per cent) and reimbursable support services and miscellaneous activities of $132.58 million (2.5 per cent). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions for regular and other resources



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2018.

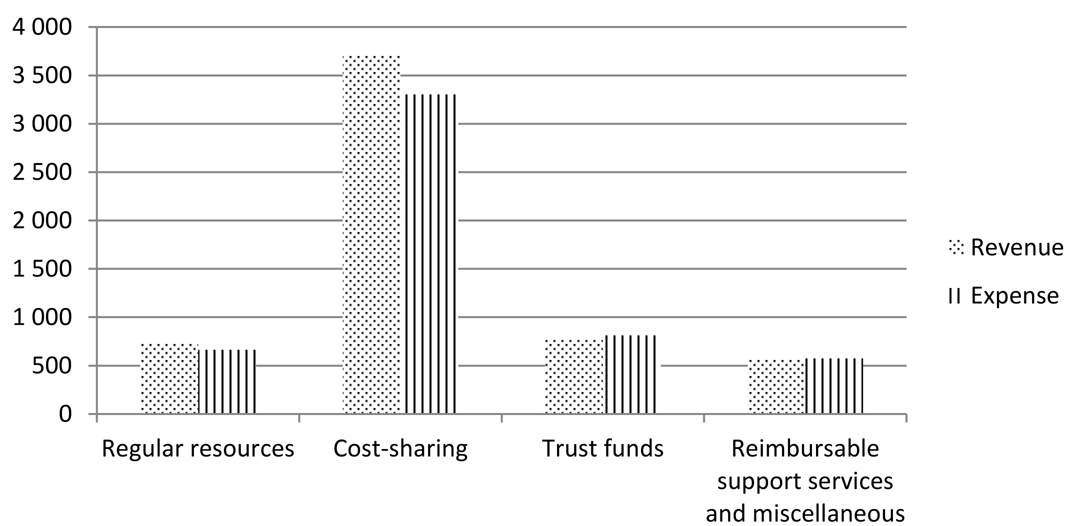
31. Total expenses in 2018 ($5.10 billion) were almost the same as in 2017 ($5.09 billion). The breakdown by segment was: regular resources expenses of $664.23 million (12.4 per cent), cost-sharing expenses of $3,302.59 million (61.7 per cent), trust fund expenses of $814.21 million (15.2 per cent) and expenses on reimbursable support services and miscellaneous activities of $573.44 million (10.7 per cent). The breakdown of expenses by segment excludes an elimination of $257.64 million to remove the effect of internal UNDP cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source.

32. The classification of the expenses by nature indicates that the largest expense category continued to be contractual services, with expenses of $1,967.50 million (38.6 per cent of overall expenses). An amount of $1,058.87 million (20.8 per cent) was spent on supplies and consumables used, 871.64 million (17.1 per cent) on general operating expenses net of $257.64 million on internal cost recovery, $865.06 million (17.0 per cent) on staff costs, $233.92 million (4.6 per cent) on grants and other transfers and $99.83 million (1.9 per cent) on other expenses, depreciation and amortization, as well as bank fees.

33. Total expenses by cost classification indicate that $4,408.96 million (82.3 per cent) was spent on programme, $166.79 million (3.1 per cent) on development effectiveness, $124.80 million (2.3 per cent) on United Nations development coordination, $368.21 million (6.9 per cent) on management, $57.04 million (1.1 per cent) on special purpose activities and $228.67 million (4.3 per cent) on other costs. The breakdown of expenses by cost classification excludes an elimination of $257.64 million to remove the effect of internal UNDP cost recovery.

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

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



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2018.

Ratio analysis

35. The analysis by the Board of the main financial ratios of UNDP (see table II.1 below) shows a slight decrease in the current ratio, the cash ratio and the quick ratio

in 2018 as compared with 2017. The decline in the ratios is a result of a relatively higher increase in current liabilities to liquid assets as compared with 2017.

Table II.1
Ratio analysis

Ratio	*31 December 2018*	*31 December 2017 (restated)*
Current ratio[a]		
Current assets: current liabilities	2.08	2.29
Total assets: total liabilities[b]	1.80	1.77
Cash ratio[c]		
Cash plus investments: current liabilities	1.33	1.60
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	2.02	2.22

Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2018.

[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.

36. The current assets of UNDP as at 31 December 2018 were $6,874.96 million, or 2.08 times the current liabilities of $3,297.58 million, which indicates the Programme's ability to meet its short-term obligations. Similarly, total assets of $12,110.52 million exceeded total liabilities of $6,732.28 million, which indicates a healthy financial position. The decrease in the cash ratio and the quick ratio is attributed mainly to an increase in funds received in advance and deferred revenue by $647.73 million.

37. Reserves consist of the operational reserve, the endowment fund and the reserve for special initiatives. UNDP calculated its operational reserve in compliance with the methodology approved by the Executive Board. The operational reserve consists of the operational reserve for regular resources and the operational reserve for other resource activities. As at 31 December 2018, UNDP held a reserve of $292.2 million compared with a reserve of $302.2 million reported on 31 December 2017. The difference of $10.0 million represents an operational reserve transfer to the accumulated surplus of the year.

4. Financial statements and accounting related matters

Treatment of non-exchange transactions

38. During its audit of the 2018 financial statements, the Board discussed policies for the accounting of non-exchange transactions pursuant to IPSAS 23: Revenue from non-exchange transactions with UNDP. UNDP agreed to refine its policies and procedures on non-exchange transactions in order to increase the comparability of the financial statements of UNDP with the financial statements of other United Nations organizations.

39. In response to the discussions, UNDP refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNDP recognized

receivables for non-exchange transactions in full at the time the agreement was signed, except for agreements that have performance conditions that are beyond the control of UNDP. UNDP deferred revenue associated with receivables expected to be received in future periods on the statement of financial position until the conditions in contribution agreements, if any, were met or when funds were to be transferred to UNDP and intended to be utilized.

40. The Board holds that UNDP should continue to review the substance and form of contribution agreements to conclude if there needs to be any further refinements to the non-exchange transactions accounting policy. The Board further holds that UNDP should use all available information to further enhance the assessment of contribution agreements, in accordance with IPSAS 23, in particular with regard to the substance-over-form criteria. The Board trusts that UNDP will take action if the analysis reveals that a further refinement of policies and procedures is needed.

41. **The Board recommends that UNDP continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on recognition of non-exchange transactions in line with IPSAS 23.**

42. UNDP agreed with the recommendation.

Exchange transactions

43. UNDP uses two different processes when collecting revenue for services provided to other United Nations entities. The first process uses an inter-agency clearing account based on universal price lists. In the second process, country offices invoice other United Nations entities manually for the services provided based on local price lists. The Board made a number of observations with regard to the invoicing process, as outlined in the paragraphs below.

44. The Board noted several manually recorded cases where revenue for exchange transactions was recorded in 2018 for services rendered by country offices in prior periods. The Board holds that country offices must record and bill services in the period in which they have been provided to ensure correct asset and revenue recognition in line with IPSAS 9: Revenue from exchange transactions.

45. UNDP informed the Board that the late revenue recognition was mainly caused by late billing of UNDP country offices and weak follow-up procedures on outstanding payments with other United Nations entities. The Board holds that it is in the interest of UNDP to collect payments for services provided to other agencies in a timely manner. Payments received in a timely manner have a positive effect on the resources available to country offices.

46. The Board further noted that several manually recorded exchange revenue transactions at the country office level contained errors. For instance, an outdated price list had been used to calculate prices for services. In another case, a country office had used the price list for 2018 to calculate prices for services provided in periods prior to 2018. In a further example, a country office used different prices for the same services provided in the same year. The Board holds that such errors could be avoided by on-the-job training and enhanced supervision of the personnel concerned.

47. **The Board recommends that UNDP enhance the process for manual recording of exchange transactions at the country office level in order to ensure that revenue is recorded in the period in which UNDP rendered the services, as required under an accrual basis of accounting.**

48. **The Board recommends that UNDP ensure that country offices enhance the process for collecting payments so that payments are collected in a timely manner.**

49. **The Board recommends that UNDP ensure that country offices provide on-the-job training so that personnel have the sustainable awareness required to accurately record exchange transactions in accordance with UNDP policies and instructions.**

50. UNDP agreed with the recommendations.

Property, plant and equipment: threshold

51. Pursuant to the UNDP policy on property, plant and equipment, the threshold for recognition of property, plant and equipment as an asset is $1,500 or more per unit. UNDP immediately expenses property, plant and equipment items below this threshold. The Board noted various cases in which subsequent costs of acquisition for assets that had not been recognized (for example freight costs) led to reverse postings of the expenses and an additional asset recognition posting when the threshold had been exceeded. The Board also noted that the UNDP threshold for recognition of property, plant and equipment as an asset is rather low compared with the thresholds of other United Nations entities.

52. The Board further noted that the UNDP capitalization ratio of property, plant and equipment has been stable at a low percentage during the past five years. Therefore, the overall property, plant and equipment had a limited effect on the financial statements of UNDP. The Board also holds that property, plant and equipment have a limited relevance for financial reporting because UNDP has no intensive business activity in the fields of property, plant and equipment.

53. The Board is of the opinion that a higher threshold facilitates the transactional work and avoids certain processing steps for items that are not particularly material and relevant. The Board holds that UNDP should consider raising the threshold for the recognition of property, plant and equipment. The Board further holds that an increase in the threshold should be based on an analysis. UNDP should analyse the effects of applying different thresholds on the financial statements before taking the decision on an updated threshold in order to ensure that its financial statements provide relevant and material information to users.

54. **The Board recommends that UNDP, on the basis of an analysis of the effects on the financial statements, raise the threshold for the recognition of property, plant and equipment as an asset in order to reduce the administrative burden.**

55. UNDP agreed with the recommendation.

Bank signatories reported by banks at year end

56. In June 2019, the UNDP Office of Audit and Investigations issued an internal audit report on UNDP treasury management. The report noted weaknesses in the area of risk management, cash management and treasury operations. The findings in the report are supported by the Board's own analysis.

57. For instance, the Board had requested written confirmation of UNDP bank accounts from the relevant banks. The banks were asked to include the names of the signatories in their reports.

58. The Board noted that the reports included a few signatories who no longer worked for UNDP at the date of the confirmation. According to information provided by UNDP, banks had been requested to change bank signatories, but had not updated the information. UNDP undertook follow-up actions, which were delayed.

59. The Board holds that UNDP should follow up with banks that were requested to change signatory information to ensure the timely removal of unauthorized persons from the signatory panel. In the view of the Board, this is necessary to minimize risks for UNDP.

60. **The Board recommends that UNDP ensure that required changes of signatories are followed up with banks.**

61. UNDP agreed with the recommendation.

5. Internal control framework and internal controls

Internal control framework

62. Pursuant to its financial regulations and rules, UNDP needs to maintain an internal financial control mechanism. In order to implement this requirement, UNDP has issued programme and operations policies and procedures. Among these policies and procedures, the corporate accountability framework and the operational guide of the internal control framework provide an overview of the roles and responsibilities allocated to the headquarters bureaux and country offices that shape the internal control framework.

63. The corporate accountability framework outlines the roles and responsibilities of each headquarters bureau within UNDP. The roles and responsibilities of country offices concerning internal controls are set out in the operational guide of the internal control framework. At the country office level, the head of office has overall responsibility for establishing and maintaining adequate internal controls at the office.

64. In addition, the corporate accountability framework allocates ultimate accountability for all country office support, including financial policy application, to the regional bureaux. Regional bureaux serve as the principal interface with country offices on service delivery support and engage with other bureaux, as applicable, to provide support. Accountability for oversight of country offices also resides with the regional bureaux.

65. The Bureau for Management Services is responsible for policy development in finance areas such as accounting and internal controls. Financial transactions are performed within each headquarters bureau. Regional bureaux support the implementation of corporate policies at the country office or regional level. The Bureau for Management Services is accountable for corporate financial advisory.

Segregation of duties

66. Financial regulation 20.02 sets forth three separate levels of authority, which relate to incurring commitments, verifying that payments may be made and disbursing payments. The operational guide of the internal control framework for UNDP describes the responsibilities of individual staff members and references these responsibilities to financial regulation 20.02. The operational guide is structured around significant roles assigned to personnel holding various positions. For instance, three of the roles exercise authority for UNDP procurement, commitments, expenses and disbursement transactions. These three roles are assigned to the project manager (first level of authority), the approving manager (second level of authority) and the disbursing officer (third level of authority). Pursuant to the operational guide, these three roles are especially important for internal control functions.

Matters of non-compliance identified

67. The Board's audit did not highlight any significant weaknesses in the financial controls examined and tested. At the same time the Board noted some matters of non-compliance with regard to the UNDP internal control framework. For instance, requisitions and purchase orders had been approved by the same person exercising both first and second levels of authority in the same transaction, which is not permitted, according to the operational guide, for transactions exceeding $2,500. With regard to bank signatories, the Board further noted a signatory who also held the vendor approver role, which is not permitted according to the operational guide.

68. At the country office level and the regional level, the Board additionally noted that local implementation of the internal control framework did not always include all roles and profiles assigned to staff members. The Board also found roles and profiles assigned to staff members that did not always match the job descriptions and actual tasks of the respective staff member. The Board further noted that transactions such as requisitions and purchase orders had been created and approved by the same person, even though these tasks should be performed by different individuals according to the internal control framework.

69. Furthermore, the Board noted that service contract holders performed internal control functions, including reviews as second level of authority for transactions such as payroll, which was not in line with the Programme's current policy on service contracts.

70. The Board found that the situations outlined in the above paragraphs may be attributed to the fact that some country offices and bureaux assigned conflicting roles and levels of authority to individuals without following the requirements established in the operational guide. Also, some offices and units had limited awareness and acceptance of the requirements and underestimated the risks attached to the lack of a segregation of duties. Furthermore, some offices and units had established inappropriate controls as safeguards when assigning conflicting levels of authority to the same person. In one case, the office was aware of the need for compensating controls but did not perform the detective controls periodically.

71. The Board also noted that the UNDP enterprise resource planning system logs every transaction at every stage with the user identity (ID) and a time stamp, but does not provide any automated control or restriction to prevent the same person from acting as first and second authority in the same transaction.

72. The Board acknowledges that in some cases, UNDP took immediate action to remove conflicting levels of authority when the Board informed UNDP of its observations during the audit process. At the same time, the Board is of the opinion that the above findings reveal different levels of maturity and awareness of bureaux and country offices with regard to the corporate internal control framework. Therefore, the Board holds that more could be done. The Board further holds that there are a number of good practices that could be adopted to address the matters of non-compliance that the Board found.

73. Such good practices include inbuilt automated controls to ensure that the internal control framework is implemented at the level of the entity's enterprise resource planning system. In general, such automated controls are a very effective instrument to ensure compliance with the internal control framework. Other good practices include oversight feedback, which can lead to behavioural changes, and clustered processes. The Board holds that clustered processes, in particular, may reduce non-compliance with regard to the segregation of duties because another unit is involved.

74. The Board encourages UNDP to further strive to enhance compliance with its internal control framework and for a refined framework and oversight process related to the internal control framework.

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

76. **The Board recommends that UNDP, on the basis of the above analysis, further refine its internal control framework to strengthen its implementation.**

77. **The Board recommends that UNDP consider the feasibility of incorporating more automated controls into its enterprise resource planning system or supplementary related information technology systems to enhance compliance with the corporate internal control framework.**

78. UNDP agreed with the recommendations.

Internal controls and clustering

79. In addition, the Board identified room for enhancement in various areas of internal control. For instance, no control was in place at country office level to verify whether all revenue from exchange transactions was recorded as exchange revenue. The Board also noted erroneous recognition of property, plant and equipment assets. The Board observed the double recognition of partial invoices. The Board also noted disposals of assets that had been recorded as property, plant and equipment in prior years but were not under the control of UNDP. These errors had not been detected by any control mechanism at the time of the initial property, plant and equipment recognition.

80. Furthermore, the Board noted that the technical settings in the UNDP enterprise resource planning system did not require a second person to approve the initial entries of or changes made to staff data relevant for payroll. The programme and operations policies and procedures of UNDP did not include a policy on the initial entry of staff data or amendments to those data. Therefore, the Board observed different practices at the level of the global shared services unit and at the country office level. In particular, the Board noted weak documentation of the review of data entries or the lack of such a preventive control step at the country office level.

81. As part of its internal review process UNDP intends to further cluster services in the offices of the Global Shared Service Unit in Copenhagen and Kuala Lumpur. UNDP has been providing human resources and procurement services from Copenhagen since the early 2000s and global financial services from Kuala Lumpur since 2012.

82. UNDP intends to achieve qualitative and quantitative benefits through the extended clustering of services. The clustering of services is therefore not limited to cost-saving considerations. UNDP also intends to provide services more efficiently. As a result of the current clustering, UNDP experienced an improved and more stable financial performance in the Asia-Pacific region.

83. Against this background and bearing in mind its observation on segregation of duties, the Board welcomes the efforts made by UNDP to cluster additional services within the Global Shared Service Unit. The Board holds that clustering has the potential to improve the quality of data recognition by having specialized personnel for certain tasks. The Board also holds that clustered services support standardized data recognition since they help to avoid variations in interpretation by country offices when entering data into the system.

84. The Board further holds that optimizing controls would also add value to and improve the quality of refined business processes. Optimized controls may take the form of more effective controls built into a business process (e.g. for recorded data) or of detective controls. The Board holds that a combination of these two forms of controls usually improves the quality of data sets that are fed into risk assessments and management decisions.

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.**

86. UNDP agreed with the recommendation.

6. Project management

87. UNDP supports countries in their development activities via country, regional and global programmes. In order to implement programmes, UNDP designs projects. Development projects are an instrument to deliver outputs that contribute to outcome-level development change reflected in the programmes along with the results delivered by other projects and instruments. UNDP projects are implemented by implementing partners. One implementing partner is selected for each project. Possible implementing partners include government entities, United Nations agencies and civil society, including non-governmental organizations.

88. In 2018, expenses on programme activities amounted to $4,409 million (87 per cent of overall expenses). Of that amount, $1,981 million was spent on projects implemented through partners (governments and non-governmental organizations) and $2,428 million was spent on projects implemented by UNDP.

Monitoring of projects: minimum documentation requirements for programmatic output verification

89. For each project, UNDP regularly performs programmatic output verification. The purpose of conducting programmatic output verification is to provide stakeholders with evidence and assurance regarding the status of programme implementation as compared with the workplan.

90. The monitoring policy does not explicitly establish documentation requirements for programmatic output verification. UNDP has published a template for the documentation of programmatic output verification. The template includes information on outcomes and outputs, reasons if progress is behind schedule, recommendations and proposed actions. The template also includes information on implementation issues, progress towards results and lessons learned. The use of the template is not mandatory for country offices.

91. The Board reviewed programmatic output verification performed for a sample of projects in country offices visited and noted that no standardized set of procedures was performed by the country offices. Different procedures were performed at each country office and also for separate projects within the same country office. The Board noted that the conclusions reached from programmatic output verification were not always easy to trace. The Board could not always track whether follow-up actions had been taken on all issues.

92. In the view of the Board, a more standardized documentation process could enhance knowledge-sharing among programme staff and could make it possible for the results of programmatic output verification to be used more easily for further progress evaluation. Standardized documentation requirements would also ensure that

procedures performed, conclusions reached and any necessary follow-up actions were documented.

93. **The Board recommends that UNDP ensure that country offices either establish their own standard template with minimum documentation requirements for programmatic output verification or use the template provided by UNDP.**

94. UNDP agreed with the recommendation.

Combined delivery reports

95. Combined delivery reports constitute the official report of expenditures of any project for a given period. They are prepared at the end of the second and third quarters and at the end of the year. Combined delivery reports are generated from the enterprise resource planning system. Expenditure included in the enterprise resource planning system had previously been reported by the implementing partner (if applicable) and was reviewed and approved by country offices.

96. Combined delivery reports are signed by UNDP and (if applicable) the authorized official of the implementing partner to confirm the validity of expenses. According to the programme and operations policies and procedures, UNDP verifies that all financial information is complete and accurate and consistent with the annual workplan and the project budget.

97. According to the policy, the combined delivery report must be sent to the implementing partner with a request for certification within 15 calendar days after the end of the respective quarter. If no response is received, a follow-up request must be sent. The certified combined delivery report is to be uploaded to the corporate planning system no later than 45 calendar days after the end of the respective quarter. Where no response is received from the implementing partner, the follow-up request should be uploaded. At year-end, country offices should have combined delivery reports signed by all parties.

98. The Board has consistently brought to the attention of UNDP that combined delivery reports have not been signed on time. Reports for the years ending 31 December 2013 to 31 December 2017 included findings on delays in the signing of combined delivery reports. In 2018, the Board again confirms this observation and noted that in the majority of the cases in the sample reviewed, combined delivery reports had been signed more than 45 days after the end of the respective period. The Board holds that this is an indicator that UNDP has not taken adequate action to enhance the timeliness of signing combined delivery reports.

99. UNDP stated that the certification of combined delivery reports was considered to be an important control point that offers the implementing partners accountable for delivery of the project an opportunity to confirm the expenditures reflected in the UNDP records. In some instances, the combined delivery report certification process had identified some differences that had resulted in adjustments. This illustrates that the process is crucial for establishing the reliability of expenses reported by implementing partners.

100. **The Board recommends that UNDP (a) analyse policy options to ensure timely certification of combined delivery reports and (b) ensure that country offices and implementing partners sign combined delivery reports within the given time limit.**

101. UNDP agreed with the recommendation.

Harmonized approach to cash transfers

102. The harmonized approach to cash transfers is a common operational framework for transferring cash to government and non-governmental implementing partners, irrespective of whether these partners work with one or multiple United Nations entities. The objective of the framework is to support a closer alignment of development aid with national priorities. The framework seeks to strengthen national capacities for management and accountability, with the ultimate objective of gradually shifting to national systems. The framework is intended to serve as a simplified set of procedures for requesting, disbursing, providing assurance and reporting on funds as a way to effectively manage risks, reduce transaction costs and promote sustainable development in a coordinated manner.

103. Implementation of the harmonized approach to cash transfers framework comprises the following four main processes: (a) macroassessments of the public financial management environment; (b) microassessments of the implementing partners' financial management capacity; (c) cash transfers, disbursement and reporting; and (d) assurance activities to determine whether funds transferred were used for their intended purpose and in accordance with the workplan.

104. The harmonized approach to cash transfers framework was adopted by UNDP, the United Nations Children's Fund and the United Nations Population Fund in 2005 and updated in 2014. UNDP developed specific policy guidelines for its implementation of the framework. UNDP used a SharePoint intranet site to document macroassessments, the planning and carrying out of microassessments and the planning and carrying out of assurance activities. During the course of the audit, the site was gradually expanded to include more information and documentation.

105. The Board reviewed how the harmonized approach to cash transfers framework was implemented.

Microassessments: the harmonized approach to cash transfers SharePoint site

106. Microassessments are used to reduce the risks associated with the transfer of cash to implementing partners. They are carried out by a third-party service provider. Microassessment plans are prepared in advance of each programme cycle and updated annually. Within the microassessment plan, all implementing partners that require microassessments are selected and an assessment date is scheduled. The UNDP policy on the harmonized approach to cash transfers includes such a requirement for mandatory planning of microassessments.

107. The Board's analysis revealed that microassessment plans were not documented fully in all cases. Not all microassessment plans included all implementing partners of the programme cycle. In some cases, the microassessment plans did not show how implementing partners had been selected for microassessment. A few microassessment plans were not updated in 2018.

108. The Board noticed that a complete assessment of all relevant partners is necessary for the orderly functioning of the harmonized approach to cash transfers framework. The Board holds that country offices should clearly document and include in the microassessment plans whether a microassessment is considered necessary for all implementing partners with whom the country office intends to work during the respective programme cycle. In the view of the Board, this practice will help to ensure that all implementing partners subject to microassessments are identified.

109. A microassessment plan that includes all implementing partners can best be drawn up using the harmonized approach to cash transfers SharePoint site. The site contains information on which implementing partners the country office is planning

to work with. The site also contains information on the planned budget per programme cycle for each implementing partner. The site also includes a functionality to select implementing partners for microassessment. Using the data from the enterprise resource planning system on implementing partners would ensure that all implementing partners of a country office are considered for a microassessment. Using data on the planned budget for each implementing partner from the enterprise resource planning system would further support a consistent and documented use of the applicable threshold. In the view of the Board, the required review of the microassessment plan could also be documented on the site.

110. According to information provided by UNDP, country offices are required to use the harmonized approach to cash transfers SharePoint site for generating microassessment plans for 2019 and future periods. However, the current programme and operations policies and procedures do not include such a requirement.

111. **The Board recommends that UNDP update its policy on the harmonized approach to cash transfers to specify that the harmonized approach to cash transfers SharePoint site should be used for the mandatory planning of all microassessments and assess options for including the documentation of the required review of microassessment plans on the SharePoint site.**

112. UNDP agreed with the recommendation.

Microassessments: documentation of review and conclusions drawn

113. According to the harmonized approach to cash transfers framework and the corresponding UNDP policy on the approach, each agency using the microassessment documents its understanding of the assessment and the overall risk rating and its recognition of the identified risks and effects specific to the agency, including any impact of those risks on programme design.

114. During the project visits, the Board reviewed microassessments for selected projects. The Board noted that the country offices did not document their understanding of the assessment and the overall risk rating. They did not document recognition of the identified risks and effects specific to the agency for any of the microassessments reviewed. The Board noted that in some microassessments, issues had been raised within specific areas of the assessment. These issues were not further explained by either the third-party service provider or the country office. The country offices did not document whether the identified risks were relevant to the project or how the country office intended to address these risks.

115. To ensure that risks have been properly assessed, the Board holds that UNDP should ensure that country offices document their understanding of the issues identified and the conclusions reached. In the view of the Board, such documentation should include measures to be taken together with the implications for planned assurance activities.

116. **The Board recommends that UNDP ensure that country offices document the review of and conclusions drawn from microassessments.**

117. UNDP agreed with the recommendation.

Assurance activities

118. The coverage, type and frequency of assurance activities is guided by the overall risk rating associated with the implementing partner, as determined through the microassessment. According to the harmonized approach to cash transfers framework and the corresponding UNDP policy on the approach, every country office is required to prepare an assurance activity plan at the beginning of the programme cycle and to

update it annually. The plan is to set out the required assurance activities for each implementing partner.

119. The Board's analysis revealed that assurance activity plans did not in all cases include all necessary assurance activities. The analysis also revealed that assurance activities planned were not always in line with the requirements of the harmonized approach to cash transfers framework. The Board also noted that assurance activity plans did not consistently include information on whether planned assurance activities had been carried out. UNDP pointed out that assurance activity plans were prepared before performing assurance activities and could therefore not adequately include the completion dates of all planned activities. However, the Board noted that verification of the completion of assurance activities was not included in any other reporting of the country offices.

120. The Board further noted that, according to information provided by UNDP, country offices were required to use the harmonized approach to cash transfers SharePoint site for generating assurance activity plans for 2019 and future periods. On the basis of the partner's risk rating, the site automatically populates the required number of spot checks and programme visits. Country offices are to enter the dates for which an activity is scheduled and the dates when it was carried out. However, country offices can edit the data, including with regard to the number of activities. The Board is of the opinion that decisions to change the required number of assurance activities need to be supplemented by a justification and that the annual plan should be reviewed.

121. The Board also noted that the current programme and operations policies and procedures (which include the policy on the harmonized approach to cash transfers) did not include a requirement that the harmonized approach to cash transfers SharePoint site be used to generate assurance activity plans.

122. The Board holds that it is important for the functioning of the harmonized approach to cash transfers framework to perform all assurance activities in full in accordance with the risk rating of the implementing partner. In the view of the Board, this is necessary to assess and reduce the risk arising from the transfer of funds to partners.

123. The Board also holds that a review of the assurance activity plans should focus on the completeness of assurance activities planned and that the review should be documented. In the view of the Board, a review limited to planned assurance activities does not provide enough information. Country offices should also review and document that assurance activities were conducted as planned or explain deviations from the plan.

124. **The Board recommends that UNDP update its policy on the harmonized approach to cash transfers to specify that the harmonized approach to cash transfer SharePoint site should be used for the mandatory planning of all assurance activities and that UNDP ensure the review of annual assurance activity plans.**

125. **The Board recommends that UNDP revise its policy on the harmonized approach to cash transfers and clarify that management in country offices is required to conduct a control designed to review the completeness of assurance activities performed and the completeness of follow-up actions taken.**

126. UNDP agreed with the recommendations.

Organizational structure for the harmonized approach to cash transfers

127. Key roles and responsibilities for implementation of the harmonized approach to cash transfers framework are carried out at different levels at headquarters, regional bureaux and country offices. In country offices, a harmonized approach to cash transfers focal point is appointed. Oversight functions are carried out by the regional bureaux. The Bureau for Management Services is responsible for policy development and advisory. The Board noted that the focal point usually carried out other functions in addition to acting as focal point. The Board also noted that, given the current level of staffing, oversight and monitoring functions seemed to have already reached the limit of their capacity.

128. In the light of the observations above, the Board holds that oversight and monitoring functions for the harmonized approach to cash transfers framework should be strengthened. In the view of the Board, oversight should also include reviews of whether key processes of the framework are carried out correctly and completely.

129. **The Board recommends that UNDP strengthen oversight and monitoring functions for the harmonized approach to cash transfers framework.**

130. UNDP agreed with the recommendation.

7. Workforce/personnel management

131. The UNDP workforce includes personnel engaged under staff and non-staff contract modalities. Some 65 per cent of the total UNDP workforce is currently working under non-staff contract modalities. This trend is not likely to reverse owing to the nature of the Programme's work, which is related to time-bound projects. The non-staff contracts cover the modalities of service contracts, individual contracts and United Nations Volunteers.

132. In 2018, UNDP had not designated a function for workforce planning. However, the UNDP Office of Human Resources launched the "People for 2030" strategy in June 2019. The strategy aims at ensuring that the Programme's personnel and managers meet the vision of UNDP as a whole. The strategy also intends to enhance the Programme's workforce planning. Furthermore, the strategy uses the term "personnel" to include all those who work for UNDP: staff, consultants, service contractors, Junior Professional Officers, United Nations Volunteers and interns.

133. UNDP envisages implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. The Board welcomes this initiative. The Board holds that the implementation of this strategy constitutes a good opportunity to address recurring matters of non-compliance found in the area of workforce/personnel management.

Management of P-6 and P-7 staff grades and strategic placements

Use of P-6 and P-7 staff grades

134. UNDP applies the Staff Regulations and Rules of the United Nations. In addition, UNDP has established its own human resources programme and operations policies and procedures to further guide implementation of the Staff Regulations and Rules. The system is based on a standardized classification of jobs.

135. A contractual reform that came into effect on 1 July 2009 streamlined the contract arrangements within the Secretariat and provided for a new set of staff rules. The reform introduced the P-6 and P-7 grades. The intention behind the introduction of these grades was to distinguish between posts that are considered to be purely technical in nature (P-6 and P-7) for project areas and posts with directorial functions

(D-1 and D-2). Posts with directorial functions cover managerial and representational responsibilities for the organization as a whole. The remuneration for the P-6 level is identical to that for the D-1 level and the remuneration for the P-7 level is identical to that for the D-2 level.

136. The Board further noted that, in general, the International Civil Service Commission refers to five professional grades (P-1 to P-5) and two director levels (D-1 and D-2). Its scales do not include the P-6 and P-7 grades. The Board further noted that, apart from the guidance given in the paragraph above, there are no additional policies or guidelines available. Also, UNDP policies do not further clarify the requirements for allocating the P-6 and P-7 grades.

137. The Board noted cases in which UNDP staff members at the P-6 or P-7 level had directorial or representational responsibilities. Staff members at these levels are supposed to be experienced technical experts in their fields, who can lead specific projects to which they can contribute their expertise, but they are not supposed to perform extensive managerial or directorial tasks for UNDP as a whole. The Board further noted that, in 2018, a number of staff members held positions as Resident Coordinators/Resident Representatives and Country Directors a.i. that were allocated to the P-6 or P-7 level instead of the D-1 or D-2 level. Some of those staff members held posts that were classified at the D-1 level, but the staff members were assigned P-7 staff grades. UNDP justified the higher job/remuneration level citing the policy on minimum academic and relevant work experience requirements for recruiting staff.

138. The Board holds that for the time being UNDP has no proper policy in place to guide the use of the P-6 and P-7 grades. In the view of the Board, such a policy should clarify the use of the P-6 and P-7 grades for the recruitment of specialists performing tasks and functions with limited or minor managerial responsibilities. The employment of these specialists should be related to work on specific, time-bound projects. The Board finds such clarification essential in order to ensure that P-6 and P-7 grades are not used extensively since these grades are not recommended by the International Civil Service Commission.

139. The Board further holds that clear guidance on the use of these grades will prevent these grades from being used for positions other than as originally intended.

140. **The Board recommends that UNDP review its policies and guidelines with regard to the use of P-6 and P-7 grades in order to provide guidance on the circumstances in which these grades may be used.**

141. UNDP agreed with the recommendation.

P-6 staff grade used in combination with a strategic placement

142. UNDP usually applies a competitive selection process for recruitment through the advertisement of vacancies. UNDP may use the instrument of strategic placements pursuant to its policy. UNDP may use strategic placements to fill posts in exceptional circumstances when the needs of the organization are so urgent or the situation is so critical or sensitive that carrying out a competitive process to fill a specific post would not be reasonable.

143. The Board noted that UNDP used a strategic placement to assign a staff member holding a P-6 grade to a P-5 position for a period of 30 months, which resulted in higher staff expenses. UNDP did not document the urgency or sensitivity of the situation, nor any value for money considerations justifying the placement.

144. The Board further noted that, currently, UNDP regulations and rules on strategic placements do not govern key aspects of strategic placements, such as the maximum

length of a strategic placement or the need for transparency by imposing a documentation requirement.

145. The Board holds that UNDP needs to consider other options in line with the current policy before using strategic placements. The Board also holds that it is good management practice to document the reasons for dispensing with a fair, transparent and competitive selection process in a particular case. Furthermore, the Board holds that UNDP should document that the applicable requirements of the current policy (urgency and sensitivity of the situation) applied to the case.

146. **The Board recommends that UNDP enhance its policies and guidelines on strategic placements in order to require adequate documentation when using strategic placements.**

147. UNDP agreed with the recommendation.

Administration and management of service contracts and individual contracts

148. In 2018, UNDP incurred expenses on staff costs of about $865 million, while expenses on service contracts were about $631 million and expenses on individual contractors (international and local) were $532 million. Through its new "People for 2030" strategy, UNDP intends, among other things, to revise and streamline its current workforce contract modalities. For instance, UNDP plans to identify criteria to ensure the appropriate use of contract modalities and intends to cover individual contracts, service contracts and other flexible contract approaches.

Current use of service contracts and individual contracts

149. The UNDP policy on service contracts guides country offices on how to administer and manage the service contract modality, while the individual contract modality is governed by the individual contract policy. UNDP uses service contracts at country offices and regional centres to hire national personnel. Individual contracts are used to hire personnel to perform time-bound and non-staff tasks aimed at delivering clear and quantifiable outputs. This modality may also be used by headquarters bureaux. The Board found instances of non-compliance with the two policies.

150. Pursuant to the current policy on service contracts, a service contract is intended to engage individuals for non-core support services at a country office that would normally be outsourced to a company, for example, custodial, security and information technology services. Furthermore, service contracts may be issued for development project personnel. In these cases, the policy requires UNDP to issue service contracts that are limited to services for one project only. The policy further defines certain situations as improper use of the service contract modality. Such situations include hiring local office personnel for functions that are of a continuing nature and that are part of the central work of UNDP. In addition, annex VI of the policy lists the minimum control functions to be held by staff members only.

151. The Board noted that some country offices did not fully comply with the above requirements. Some country offices also issued service contracts for tasks that are not covered by the policy, for example, a service contract was issued for the head of a local communications unit and an entire local human resources unit consisted only of service contract holders because the national staff positions in the unit were vacant.

152. The Board found similar issues with the policy on individual contracts at the headquarters bureaux and the country office level. Pursuant to the policy, a number of circumstances indicate that an individual contract is not the appropriate contract modality and other modalities need to be considered. For instance, if the terms of reference or the job title is similar to any of those in the generic terms of reference

for UNDP staff an individual contract is not the appropriate modality. Also, the policy provides that if it is difficult to quantify or identify the outputs because the tasks are of an ongoing nature or need to be performed on a continuous basis an individual contract should not be used. In addition, the policy stipulates that an individual contract is specifically designed for engaging individuals who are paid on the basis of the outputs that they produce for UNDP. As such, individual contractors may be paid a fixed and identical amount every calendar month only in exceptional cases. Fixed-term appointments, temporary assignments and service contracts are the appropriate contract modality if monthly payments are required.

153. The Board noted that UNDP did not fully comply with the above requirements and also issued individual contracts for tasks not covered by the policy. For instance, UNDP contracted individuals to conduct operational and programme staff tasks and functions of an ongoing nature in roles such as Livelihood Recovery Specialist, Deputy Country Director, Executive Administrative Support, Senior Economic Adviser (Sustainable Development Goals policy) and Procurement Services Unit Consultant (field support headquarters) at the bureaux and the country office level.

154. In addition, the Board noted a lack of documentation on the assessment of all available modalities before deciding that an individual contract was the appropriate modality. Such an assessment is required pursuant to the policy on individual contracts.

155. The Board found that country offices and bureaux justified their non-compliance with operational or programmatic requirements by referring to the inflexibility of staff modalities (for example, with regard to part-time contracts) and funding constraints. In the view of the Board, such practice might also be attributed to limited acceptance of the requirements and underestimation of the risks posed by an inappropriate use of the modalities.

156. The Board holds that UNDP needs to take a strategic decision regarding to what extent ongoing tasks and functions may be transferred to contract modalities other than staff contracts. In the view of the Board, that decision should be based on an analysis of risks and benefits from the perspective of the UNDP business model. The implementation of the "People for 2030" strategy might be an opportunity to address the results of such an analysis. The Board further holds that clear criteria for making a distinction between staff and non-staff tasks and functions and the introduction of other flexible contract approaches may also enhance compliance with the appropriate use of both of the contract modalities that have been reviewed.

157. **The Board recommends that UNDP, as part of its "People for 2030" strategy, review the policies on service contracts and individual contracts in order to establish clear criteria for assessing what constitutes a staff task and function and which tasks and functions may be transferred to contractual modalities other than regular staff contracts.**

158. UNDP agreed with the recommendation.

Other matters of non-compliance with the policy for service contracts

159. The Board noted that the service contract policy defined distinct and comprehensive requirements for the recruitment and monitoring of service contract holders. These requirements include several features typical to a procurement process. The Board further noted that compliance with these requirements was limited in practice. Areas of non-compliance included, for instance, the use of terms of reference that were partial and in many cases did not include clear outputs and reporting lines. Often country offices did not document the preparation of individual workplans within one month after signing the contract, including quantified indicators for

service delivery, despite the requirement to do so under the policy. The Board further noted room for enhancement with regard to the justifications given for contract extensions during the service evaluation process and the use of the standardized costing sheets to justify the setting of remuneration at a given level.

160. The Board noted that country offices handled the service contract modality as a workforce element under the human resources unit. The Board also noted that the country offices visited were not fully aware of all the requirements stipulated in the policy. The Board further noted that the ambiguity in the language of the policy led to diverging views and levels of compliance at the country office level.

161. **The Board recommends that UNDP review its policy on service contracts in order to clarify recurring matters of non-compliance and consider amending the requirements defined in the policy that UNDP does not intend to implement.**

162. UNDP agreed with the recommendation.

Waiving competition in the recruitment processes for service contracts

163. The Board further noted that, under the policy on service contracts, regional bureaux directors are authorized to grant a waiver of competitive recruitment for up to 20 service contracts per annum per country office. According to the process defined in the policy, country offices have to select the best qualified candidate to perform the tasks and functions in a fully satisfactory manner.

164. The Board noted that country offices used the opportunity of waiving competitive bidding to fast-track deployment in several cases. The Board holds that without competition in the recruitment process and by not comparing candidates, UNDP is not able to ensure that a suitable candidate is the best qualified person for the job. In the Board’s view the two requirements contradict each other.

165. The Board therefore holds that competitiveness in a recruitment process should not be waived as it bears the risk that candidates might join UNDP and the United Nations system without having gone through a regular competitive recruitment process. That outcome is inconsistent with the principles of fairness, transparency and competition.

166. UNDP stated that the waiver process was an acceleration measure approved by the UNDP Operational Performance Group. UNDP further stated that there had been no evidence of abuse of this waiver facility. However, UNDP agreed that, from a policy perspective, the measure could be troublesome in the long run. Therefore, UNDP suggested allowing country offices to use the waiver facility when needed, but directing them to regularize those recruitments after 12 months.

167. The Board is still of the opinion that a recruitment process should be competitive and transparent from the beginning. The Board does not see the benefits of a subsequent “regularization”. There is no retroactively remedying the limitation of waiving transparency and competition at the time of the recruitment. While crisis situations might require exceptional regulations for quick deployments, those requirements should not be taken as a general rule to be followed in a non-crisis development setting.

168. **The Board recommends that UNDP review its policy on service contracts, including the requirements for waiving competitive recruitment and the use of such waivers.**

169. UNDP agreed with the recommendation.

Monitoring function for the service contract modality

170. The Director of the Office of Human Resources delegated the responsibility and accountability for issuing and managing service contracts to the Resident Representatives, who may further delegate the responsibility to the "responsible officer" at the country level. The Office of Human Resources remains responsible for providing advisory support and guidance, as well as supporting the country offices in setting the remuneration. The Office of Human Resources is further responsible for monitoring the correct and appropriate use of service contracts and taking necessary action to prevent misuse.

171. The Board noted that not all country offices had clearly included the term "responsible officer" in their standard operating procedures. The Board noted that as a common practice the tasks and functions relating to the issuing and management of service contracts were split among the hiring units, the project management teams and local human resource units. The Board holds that the responsible officer has essential functions in overseeing the process as a whole and should be appointed when the Resident Representative decides to delegate his or her authority. Such clear structures enhance transparency and make the assigned officer accountable for the actions taken.

172. The Board further noted that UNDP had engaged approximately 11,000 service contract holders in 2018, while only two staff members have been appointed by the Office of Human Resources to conduct general monitoring of the implementation of the service contract modality. The Board holds that carrying out effective monitoring and providing advisory services under these circumstances might be rather challenging.

173. **The Board recommends that UNDP review the responsibilities and monitoring function for the service contract modality as part of implementing the "People for 2030" strategy and define how much monitoring or oversight from headquarters is feasible and reasonable.**

174. UNDP agreed with the recommendation.

Further matters of non-compliance with the policy on individual contracts

175. With regard to the individual contract policy, the Bureau for Management Services is responsible for policy development in areas such as finance and procurement. The implementation of the individual contract policy is mainly a joint effort of the requesting units (bureaux and country offices) and the decentralized procurement and finance functions. The Bureau for Management Services is accountable for corporate procurement advisory. In addition, headquarters bureaux may use the procurement support services of the central procurement unit for procuring individual contracts.

176. The Board noted various matters of non-compliance with the requirements established in the individual contract policy. These matters are detailed below.

Direct contracting and effective competition

177. On a positive note, the Board observed that, in the majority of cases in the sample, UNDP awarded contracts on the basis of a competitive process using the procurement methods of open international competition or limited national and/or international competition.

178. Paragraph 121.05 of the Financial Regulations and Rules of UNDP establishes exceptions under which direct contracting is allowed. In these cases, UNDP does not need to follow a competitive procurement method. The Board's analysis revealed that

UNDP has room for enhancement when applying the exceptions and documenting the justifications for direct contracting. For instance, business units used the argument of budget constraints for staff positions, which is not an acceptable justification according to the Financial Regulations and Rules.

179. Country offices also awarded contracts to individuals directly on the basis of a specific recommendation from a government for a particular individual, which was also not in line with the Financial Regulations and Rules. The Board further noted that business units misinterpreted existing exceptions, such as the need for standardization or the existence of an exigency.

180. Furthermore, the Board noted one case in which the threshold for awarding a direct contract required the review of the advisory committee on procurement, but the business unit had not referred the case for review and approval. The Board also noted cases in which direct contracting was the result of inefficient contract management.

181. In addition, one country office did not adequately compute cumulative contract amounts. As a result, the office sourced several contracts from rosters, even though the relevant threshold had been reached and other procurement methods should have been applied. In some of these cases, the required committee approval was lacking owing to erroneous calculation.

182. The Board holds that competitive, fair and transparent processes lead to a fair market price and value for money. The Board holds that it is in the interest of UNDP to comply with these principles in order to obtain a good balance between price and the technical expertise required. The Board considers transparency and competition to be especially important for UNDP as an organization that is financed mainly by funds from public sources.

183. The Board further noted that business units had amended contracts, for example, by processing up to seven contract extensions and occasionally raising the original contract value. For instance, in one case the original contract value was raised by 800 per cent. UNDP explained that the organization was continuously receiving funding from partners. These funds enabled UNDP to extend certain projects to more countries and the need for amendments had not been foreseeable in the cases identified by the Board.

184. In such cases, UNDP should consider that additional needs that call for substantial contract revision require a new competitive process. The Board is of the opinion that UNDP should strengthen the instrument of procurement planning (forecasting and quantification) to ensure that business units realistically determine the need and value of a contract before sourcing.

Contract award to the best qualified candidate and value for money considerations

185.The Board further noted that country offices did not always award contracts to the best qualified, highest ranking candidate after the final evaluation. While in one case, the justification for doing so was lacking completely, in another case, UNDP allowed a government to conduct a security clearance after finalizing the competitive process, even though this process step was not mentioned when initiating the procurement process. This additional step resulted in the contract being awarded to the candidate who ranked second. In another case the country office selected the candidate who ranked first, but also contracted the candidate who ranked second. The value of the contract awarded to the second-ranked candidate was later extended by 400 per cent through several contract amendments.

186. Furthermore, the Board noted that one country office did not document the reasons why the office had selected specific candidates with proposed fees, when other options to save money were available. The office could have saved money in

one case by selecting other technically qualified and available candidates or in another case by avoiding awarding contracts with professional fees exceeding the fee with which the selected candidate was enrolled in the roster.

187. The Board holds that the above observations are not in line with the principles of value for money, fairness, transparency and competition. UNDP should make the best possible use of all options to save money within the scope of value for money considerations. The Board also holds that enhanced documentation of the benefits and the best interest of UNDP might foster awareness and improve transparency in this respect.

Other matters identified for enhanced contract administration and management

188. The Board noted that in several cases terms of reference did not include tangible and measurable outputs and time frames for service delivery. In addition, the Board also found room for enhancement in documenting the justifications and obtaining the required approvals for monthly equal payment schemes, utilizing lump-sum contracts, enhancing the quality of documentation in the certification of payments forms and the related payments process (including ensuring the availability and enhanced quality of service evaluations).

Causes of non-compliance with the policy

189. The Board identified a number of causes behind the above observations. Some country offices and units showed limited acceptance of applicable requirements. Some offices and units underestimated the risks posed by direct contracting, limiting competition and not paying attention to value for money considerations. Furthermore, the procurement committees did not always act as the custodian of the policy, which would foster behavioural change as a result of oversight feedback. At the same time, the Board wishes to acknowledge that some country offices recognized their weaknesses and started to enhance processes and personnel competencies through on-the-job training.

190. The Board holds that many of the matters of non-compliance observed could be avoided through on-the-job training and enhanced supervision of the personnel concerned. The Board wishes to encourage UNDP to further strive for enhanced compliance with its policy on individual contracts and to refine its policy, where needed. In addition, oversight by the procurement committees should be strengthened.

191. **The Board recommends that UNDP review its policy on individual contracts in order to clarify recurring matters of non-compliance and strengthen oversight by the procurement committees.**

192. **The Board recommends that UNDP ensure that country offices and units with identified cases of non-compliance provide on-the-job training so that personnel have the sustainable awareness required to properly procure and manage individual contracts in accordance with the policy on individual contracts.**

193. UNDP agreed with the recommendations. The individual contract policy will be reviewed as part of the “People for 2030” strategy.

C. Disclosures by management

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

194. The Administration informed the Board, in accordance with UNDP financial rule 126.17, that UNDP had write-offs of $41,860.18 in the year 2018.

2. Ex gratia payments

195. As required by UNDP financial rule 123.01, the Administration reported ex gratia payments for the period under review amounting to $1,540.

3. Cases of fraud and presumptive fraud

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

197. 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 inquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Office of Audit and Investigations.

198. In 2018, UNDP reported 58 cases of fraud or presumptive fraud to the Board, with an estimated loss of $215,079. Of the 58 cases, UNDP had already resolved five cases, while 53 cases were still pending. The cases involved misrepresentation, forgery and false certification, misuse of official resources, procurement fraud, entitlements fraud, improper recruitment, theft and embezzlement and other failures to comply with obligations.

D. Acknowledgement

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

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

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

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

24 July 2019

Annex

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

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
1.	2017	A/73/5/Add.1, chap. II, para. 23	UNDP agreed with the Board's recommendations that the Resident Coordinator Office in the UNDP Paraguay country office should liaise with the United Nations country team and the implementing partners to: (a) develop the monitoring and evaluation plan for the United Nations Development Assistance Framework covering the remaining period of the programme cycle 2015–2019; (b) ensure that Development Assistance Framework monitoring and evaluation activities are done on time for the remaining period of the Framework; and (c) ensure the completeness and updating of all the information in the Development Assistance Framework and the country programme document, that is, the matrix of results and resources framework (2015–2019).	According to the understanding of UNDP, the General Assembly, in its resolution 72/279, adopted on 31 May 2018, decided to create a dedicated, independent, impartial, empowered and sustainable development-focused coordination function for the United Nations development system by separating the functions of the resident coordinator from those of the resident representative of UNDP.	The Board reviewed the UNDP preparations for implementing resolution 72/279 and noted that an important element of this resolution was to separate the functions of the United Nations resident coordinator from those of the UNDP resident representative. The Board further noted that, owing to this separation, UNDP lacked the mandate to coordinate the United Nations Development Assistance Framework process on behalf of the United Nations as from 1 January 2019. Thus, UNDP is not able to implement the Board's recommendations, which were addressed to the coordination function of the Resident Coordinator Office. Therefore, the Board closed this recommendation as it has been overtaken by events.				X
2.	2017	A/73/5/Add.1, chap. II, para. 24	UNDP also agreed with the Board's recommendation that the UNDP Egypt and South Africa country offices: (a) continue to liaise with the key counterparts consisting of implementing partners and the United Nations country team so that the counterparts are	In South Africa, the United Nations Development Assistance Framework is referred to as the Strategic Cooperation Framework. The current Framework was extended from December 2017 until 31 March 2020 to align with the Government's five-year national development plan. The	The Board reviewed the UNDP preparations for implementing resolution 72/279 and noted that an important element of this resolution was to separate the functions of the United Nations resident coordinator from those of the UNDP resident representative. The Board further		X		

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
			fully engaged in the United Nations Development Assistance Framework process to smooth implementation of the Framework by conducting annual reviews and responding on time to recommendations of evaluations; (b) formulate strategies to ensure that the results of current Development Assistance Framework evaluations and reviews are used to design the next Framework; and (c) ensure that the conclusions and recommendations from annual and midterm reviews of country programmes enable timely updating and revision of the country programme documents.	process of developing the Strategic Cooperation Framework for 2020–2025 began in 2017, through the commissioning of a joint evaluation and common country analysis of the Strategic Cooperation Framework, 2013–2017 (extended to 2020), both of which resulted in recommendations for the next strategic cooperation framework between the Government of South Africa and the United Nations. On part (a), UNDP continues to cooperate with all counterparts in the development of a new strategic cooperation framework. Draft terms of reference for a steering committee for the new strategic cooperation framework were finished in March 2019. A road map for the development of the strategic cooperation framework has also been drafted and a long-awaited invitation for the kick-off of the new strategic cooperation framework with the Government of South Africa has also been received recently. On parts (b) and (c), evaluations of the country programme document and the strategic cooperation framework were conducted and will inform the development of the new strategic cooperation framework and subsequent country programme document. A good representation of the evaluation community on the steering committee is ensured through the involvement of the national	noted that, owing to this separation, UNDP lacked the mandate to coordinate the United Nations Development Assistance Framework or United Nations Strategic Cooperation Framework processes on behalf of the United Nations as from 1 January 2019. Thus, UNDP is not able to implement the Board's recommendations, which were addressed to the coordination function of the Resident Coordinator Office. Therefore, the Board closed parts (a) and (b) of this recommendation as they have been overtaken by events. For part (c) the Board noted that the country office in Egypt had not done a formal midterm evaluation of the country programme document for 2013–2017, but had conducted an assessment of the country programme document for 2013–2017 in 2017 to prepare the country programme document for 2018–2021. This assessment included lessons learned. Also, other evaluations conducted during the cycle 2013–2017 had informed the development of the country programme document for 2018–2021. Furthermore, the Board noted that the country office in Egypt planned to conduct a midterm evaluation in 2020. The country office's annual reporting reflected on performance and lessons learned in 2018 and identified actions for the integrated workplan for 2019.				

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment Implemented	Under implementation	Not implemented	Overtaken by events
				Department of Planning, Monitoring and Evaluation and the United Nations monitoring and evaluation working group.	The Board trusts that the country office in Egypt will continue to strive to conduct annual and midterm reviews of country programmes that will inform updated integrated workplans and subsequent country programme documents. Therefore, the Board considers this part of the recommendation for the country office in Egypt to be implemented. For part (c), the Board further noted the progress made by the country office in South Africa by liaising with counterparts in order to prepare the next country programme document and by evaluating the country programme document for 2013–2017. However, the Government of South Africa decided to extend the strategic cooperation framework from December 2017 until 31 March 2020 to align it with the Government's five-year national development plan. The development of the subsequent country programme document for South Africa has therefore been delayed in order to align the subsequent country programme document with the new strategic cooperation framework. Therefore, the Board considers part (c) of the recommendation to be under implementation for the country office in South Africa.				

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
3.	2017	A/73/5/Add.1, chap. II, para. 30	UNDP agreed with the Board's recommendation that in future: (a) the UNDP Turkey, Egypt and Turkmenistan country offices update information in the Evaluation Resource Centre in a timely manner; and (b) UNDP headquarters establish controls to ensure that all country offices update information in the Centre, including setting time frames for completion of updates after an evaluation has been completed.	For part (a), the document entitled "Timeliness of recent evaluations in Turkey, Egypt and Turkmenistan" indicates that the most recent evaluations in Egypt, Turkey and Turkmenistan were uploaded in a timely manner to the Evaluation Resource Centre. For part (b), the new UNDP evaluation guidelines provide guidance on the timelines for uploading to the Evaluation Resource Centre. Timelines for the completion of management actions are included. Performance in decentralized evaluations is reported annually in the annual report on evaluations (the most recent report covers 2017, as the report for 2018 is still in production). In addition, the Evaluation Resource Centre provides several analysis tools, which can be used to assess performance in evaluations. An overview of UNDP efforts to improve the quality of UNDP-led evaluations is included in document DP/2019/6, which was presented to the Executive Board in January 2019.	For part (a), UNDP provided the Board with an overview evidencing that six out of seven evaluations conducted for the UNDP country offices in Turkey, Egypt and Turkmenistan in 2018 were uploaded in the same month in which they were completed or one month after. The one evaluation report that was uploaded after a longer period originated from early 2018, before the previous report of the Board was issued. The Board holds that the criterion of being uploaded was met and, hence, the information was updated in a timely manner. The Board therefore considers part (a) of the recommendation to be implemented. For part (b), the Board acknowledges in addition to the observation above that UNDP established and documented a process for posting terms of reference, final evaluation reports and management responses in the Evaluation Resource Centre. UNDP documented the process in the new UNDP evaluation guidelines. This process also includes timelines and assigns the responsibility for these postings to specific functions. Furthermore, the Board noted that the Independent Evaluation Office conducted additional monitoring for country offices and reminded regional bureaux of	X			

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment Implemented	Under implementation	Not implemented	Overtaken by events
					the following with regard to decentralized evaluations: • Evaluations due in the next three months • Evaluations that are overdue • Evaluations waiting for management response • Key actions that are overdue and due in the next three months • Evaluations that were quality assessed in the last three months The Board holds that the measures noted above are generally sufficient to ensure that country offices upload and, hence, update the information in the Evaluation Resource Centre. Therefore, the Board also considers part (b) of the recommendation to be implemented.				
4.	2017	A/73/5/Add.1, chap. II, para. 35	UNDP agreed with the Board's recommendations that country offices: (a) continue consultation with implementing partners such that combined delivery reports are signed on time by UNDP and the implementing partners in compliance with the programme and operations policies and procedures; (b) ensure the follow-up requests to the implementing partners are conducted on time and evidence of the follow-up is uploaded to the combined delivery report library in the	Regarding part (a), UNDP will continue to consult with implementing partners to improve combined delivery report timeliness. Regarding part (b), UNDP will enhance efforts to ensure that follow-up requests are sent on time and evidence is uploaded to the combined delivery report library on time. Regarding part (c), UNDP has issued a policy for combined delivery report closure in cases of non-responding implementing partners in 2017 and will monitor compliance.	The Board noted the Programme's intent to address this recommendation as part of the current root cause analysis. However, UNDP has not yet provided any documents on the intended root cause analysis. The Board again paid attention to the date of the signatures of the combined delivery reports for 2018. The findings were reaffirmed. Given that the recommendation has been reiterated for a number of years, the Board considers the recommendation to be not implemented.			X	

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment Implemented	 Under implementation	 Not implemented	 Overtaken by events
			corporate planning system; and (c) certify the combined delivery reports on time when implementing partners are not responding after a reasonably extended period.	This recommendation will be addressed as part of the current root cause analysis. It is a long-term issue. An expected implementation date could not be set.					
5.	2017	A/73/5/Add.1, chap. II, para. 41	UNDP agreed with the Board's recommendation to ensure that country offices review and update project risks, issues and monitoring logs and document information in Atlas on time as the primary source of project information.	UNDP will continue to monitor compliance with these requirements through its annual project quality analysis process. This recommendation will be addressed as part of the current root cause analysis. It is a long-term issue. An expected implementation date could not be set.	The Board acknowledges the planned root cause analysis to address this recommendation. The Board reviewed UNDP documentation in the Atlas enterprise resource planning system for eight projects and found further insufficient updating and maintaining of project risks and monitoring logs in 2018. The Board considers the recommendation to be under implementation.		X		
6.	2017	A/73/5/Add.1, chap. II, para. 47	The Board recommends that the UNDP country offices, in consultation with the implementing partners: (a) analyse the project documents with respect to their relevance and timing and consider revising them owing to the lapse of time; and (b) consider setting the time frame for implementing partners to approve the project documents.	Regarding part (a), UNDP agrees on the need to closely manage pipelines and to develop project documents within a stipulated time frame agreeable to funding partners and implementing partners. UNDP will consider additional efforts to improve pipeline management, including a review of the specification of pipeline maturity periods and recording of agreeable time frames for the signature of project documents Regarding part (b), UNDP will analyse the potential effects of setting a time frame for implementing partners. This recommendation will be addressed as part of the current root cause analysis. It is a long-term issue. An expected implementation date could not be set.	The Board acknowledges the planned root cause analysis to address this recommendation. The Board will review this issue as further documents are submitted by UNDP for analysis. The Board considers the recommendation to be under implementation.		X		

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7.	2017	A/73/5/Add.1, chap. II, para. 52	UNDP agreed with the Board's recommendation to: (a) provide further guidance to the country office concerning implementation of the harmonized approach to cash transfers framework; and (b) continue to advocate to the Government and development partners on the importance of implementing the framework in the country office.	UNDP will provide further guidance on the harmonized approach to cash transfers to the country office in Turkmenistan and continue to advocate to the Government and development partners as suggested.	The Board understood the difficulties in advocating implementation to the Government and acknowledges the efforts undertaken by UNDP. However, the Board holds that the country office should proceed with the further implementation of the other components of the harmonized approach to cash transfers framework. The Board considers this recommendation to be under implementation.		X		
8.	2017	A/73/5/Add.1, chap. II, para. 57	UNDP agreed with the Board's recommendation that the Turkmenistan, South Africa, Turkey and Paraguay country offices encourage the working groups on the harmonized approach to cash transfers to be active and perform their duties to facilitate planning and implementation of the harmonized approach to cash transfers framework in the respective countries through regular meetings and activities, which should be documented.	The country offices will reactivate their working groups on the harmonized approach to cash transfers. Evidence of the reinstatement of the working group for the South Africa country office has been uploaded in the form of the working group's annual workplan for 2019, as well as meeting minutes from September 2018 and February 2019. Information from the Turkey country office is pending.	The Board noted that UNDP had addressed the recommendation. The South Africa country office had prepared an annual workplan for 2019 for the harmonized approach to cash transfers working group, which had held meetings and prepared minutes in September 2018 and February 2019. The Turkmenistan country office reinstated the harmonized approach to cash transfers working group in an email to the agencies involved. The working group held a meeting in February 2019, for which it prepared minutes. The Paraguay country office held a meeting of its working group in August 2018. No information on activities was received from the working group of the Turkey country office. The Board will follow-up on the reinstatement of the harmonized approach to cash transfers working group of the Turkey country office and on whether		X		

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					activity by the other working groups will be continued. The Board considers this recommendation to be under implementation.				
9.	2017	A/73/5/Add.1, chap. II, para. 61	UNDP agreed with the Board's recommendation that the South Africa country office use public expenditure and financial accountability reports as a source of information and liaise with other United Nations agencies to conduct macroassessments for the harmonized approach to cash transfers to align with their country office programme cycles, as required by the programme and operations policies and procedures on the harmonized approach to cash transfers and the United Nations Development Group harmonized approach to cash transfers framework.	The implementation of the harmonized approach to cash transfers framework in the country office is being revived. It is encouraging that the United Nations system in South Africa is geared towards implementing the "Delivering as one" approach and that the harmonized approach to cash transfers will be strengthened by United Nations reform, which requires United Nations agencies to increase cooperation.	The Board noted that UNDP had addressed the recommendation. The South Africa country office is in the process of establishing a new United Nations Development Assistance Framework and plans to conduct a macroassessment in coordination with the Government. The Board considers this recommendation to be under implementation.		X		
10.	2017	A/73/5/Add.1, chap. II, para. 66	The Board recommends that, in future, the UNDP Paraguay and Egypt country offices conduct microassessments of implementing partners and determine the appropriate cash transfer modality before engaging them to perform programme activities in line with the programme and operations policies and procedures on the harmonized approach to cash transfers.	The country offices will conduct microassessments or establish compensating controls. The country office in Paraguay has conducted all required microassessments of its implementing partners. The country office in Egypt was certified as fully compliant with the harmonized approach to cash transfers by the Office of Audit and Investigations on 16 January 2019. It has conducted microassessments of implementing partners that account for 75 per	The Board noted that UNDP had addressed the recommendation. The Board noted that the Paraguay country office had conducted microassessments for all implementing partners above the threshold. The Board noted that the Egypt country office conducted microassessments for implementing partners accounting for 75 per cent of the budgeted programme cycle funding. The Board understood that the Egypt country office faced difficulties in arranging microassessments with some of the partners and was	X			

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				cent of the budgeted programme cycle funding between 2018 and 2022.	putting much effort into resolving the difficulties. The Board trusts that the Egypt country office will continue to resolve the difficulties and continue to conduct microassessments. The Board considers this recommendation to be implemented.				
11.	2017	A/73/5/Add.1, chap. II, para. 73	The Board recommends that in future UNDP update in a timely manner the contents of the programme and operations policies and procedures on the harmonized approach to cash transfers, related guidance notes and the methodology (checklist) to accommodate and harmonize changes pursuant to UNDP requirements before country offices start implementation of those changes.	Recent revisions to the harmonized approach to cash transfers programme and operations policies and procedures guidance have been uploaded and included in the "What's new" section of the programme and operations policies and procedures. An explanatory email has been sent to all stakeholders. UNDP noted an email of October 2018 from headquarters to all country offices on the updated harmonized approach to cash transfers programme and operations policies and procedures guidance. In addition, UNDP reviewed the harmonized approach to cash transfers programme and operations policies and procedures and found that the contents had been updated accordingly.	The Board noted that UNDP had addressed the recommendation. In 2018 the harmonized approach to cash transfers policy was revised and updated. The policy was effective on 10 May 2018 and uploaded to the programme and operations policies and procedures website on 11 May 2018. Information on changes was included in the summary of changes on the programme and operations policies and procedures website. In October 2018 the Office of Financial Resources Management sent an email to all country offices and harmonized approach to cash transfers focal points with information on the revised harmonized approach to cash transfers policy and templates. The Board also noted that UNDP produces a newsletter ("Streamlining business services") that contains all changes to UNDP policies and procedures. The Board considers this recommendation to be implemented.	X			

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12.	2017	A/73/5/Add.1, chap. II, para. 79	The Board recommends that UNDP document its annual process performed to evidence the review of useful lives of assets, and specify in the policy guidelines the manner in which the review of the useful lives of assets will be performed and documented.	UNDP will document the process of the annual useful life review and address policy guidelines, as specified. A draft policy document has been prepared and is being cleared by the Office of Financial Resources Management before being officially released.	The Board noted that UNDP had addressed the recommendation internally. However, a documented review of the useful lives of assets and updated policy guidelines had not been conducted at the time of the audit. The Board considers this recommendation to be under implementation.		X		
13.	2017	A/73/5/Add.1, chap. II, para. 83	The Board recommends that UNDP establish a mechanism such as timesheets to capture time spent by UNDP staff in order to improve the determination of staff costs for internally developed software.	The Office of Information Management and Technology has established timesheets for its developers working on software development projects. The contracted developers do complete timesheets for software coding, which are then used to help value the intangible software that results from their work. The vendor relationship managers compile the timesheets and submit them quarterly. Staff are involved in various stages of projects (development, testing and roll-out). Project managers report the staff time allocation quarterly. UNDP staff working on information technology development projects are not paid on an hourly basis. They receive a salary under their fixed-term contract. However, fixed-term staff rarely perform coding on development projects. Their work is primarily project management and supervising the work of contracted developers. UNDP therefore does not keep timesheets for their development work.	The Board noted that timesheets for consultants had been established. The content seemed to be sufficient to give valid information about the time spent. The Board also noted that internal staff were mostly deployed in development projects for project management and supervision and not for software development. The Board understood that time sheets for internal staff are not necessary. Therefore, the Board considers this recommendation to be implemented.	X			

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14.	2017	A/73/5/Add.1, chap. II, para. 88	UNDP agreed with the Board's recommendation that the Malawi, Paraguay and South Africa country offices ensure that, in future, evaluations of service contractors are completed on time, ideally one month prior to the expiration of contracts in accordance with policy, to give reasonable time for the office to make relevant and timely decisions regarding service contracts.	The country offices have stepped up their efforts to ensure that service contract evaluations are done on time. Such efforts include sending reminders to project and programme managers.	During its audit of the UNDP 2018 financial statements the Board reviewed the processes and procedures of four country offices concerning the use of service contracts. In addition, the Board reviewed two samples for each of the country offices mentioned in the recommendation. During its review the Board noted that country offices had reminded staff members and supervisors of their duties with regard to service evaluations. In addition, the Board noted that service evaluations of the service contract holders for most samples had been conducted shortly before expiry of the contract. However, the Board also noted two cases in which the service evaluation had been done after the expiry date of the respective contracts. The Board therefore considers this recommendation to be under implementation.		X		
15.	2017	A/73/5/Add.1, chap. II, para. 92	UNDP agreed with the Board's recommendation that the Turkmenistan country office: (a) align the job descriptions for the hired service contract individuals with the service contract user guide; and (b) ensure that the service contract holders do not perform internal control functions to compensate for the absence of staff.	The country office in Turkmenistan will review its usage of service contracts giving due consideration to the alignment of job descriptions.	The Board noted the Programme's intent to implement the recommendation by the end of June 2019. However, the Turkmenistan country office has not yet provided any documents on its review of the use of service contractors or on the alignment of job descriptions. Therefore, the Board considers the recommendation to be under implementation.		X		

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16.	2017	A/73/5/Add.1, chap. II, para. 97	The Board reiterates its previous recommendation that UNDP ensure all staff members complete mandatory training courses on time.	UNDP management will review compliance with the completion of mandatory training on an annual basis and will send reminders to offices with low completion rates. UNDP has invested significant efforts in its mandatory courses and has managed to increase the share of personnel who have completed the entire mandatory learning plan (i.e., all mandatory courses) from 36 per cent on 31 December 2017 to 71 per cent on 31 December 2018. For the individual mandatory courses, the completion rates are much higher, ranging from 85 per cent to 93 per cent. In the light of the addition of new mandatory courses on fraud prevention and security (a revised course on basic security in the field), UNDP is expecting a decline in completion rates in 2019. However, several interventions are planned during the year to increase participation rates again towards and beyond the current rate of 71 per cent.	The Board reviewed the overall mandatory course completion statistics for 2017 and 2018 and recognized the efforts made by management to achieve higher completion rates, as well as the positive trend evidenced by the statistics. However, UNDP also acknowledged that the trend shown had not yet stabilized. Therefore, the Board considers this recommendation to be under implementation.		X		
17.	2017	A/73/5/Add.1, chap. II, para. 102	UNDP agreed with the Board's recommendations that country offices: (a) encourage staff to exercise their leave within the period in which leave is earned; and (b) ensure the implementation of the leave plan so that the office operates efficiently at all times and ultimately to reduce cases of forfeited untaken leave days.	UNDP will continue to remind staff to take leave. This recommendation will be addressed as part of the current root cause analysis. It is a long-term issue. An expected implementation date could not be set.	The Board noted the Programme's intent to address this recommendation as part of the current root cause analysis. Furthermore, the Board noted that reminders were sent to staff, but that despite the reminders, a rather high number of leave days was not taken. However, UNDP has not yet provided any documents on the intended root cause analysis and actions to be taken in response to such an		X		

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					analysis. Therefore, the Board considers the recommendation to be under implementation.				
18.	2017	A/73/5/Add.1, chap. II, para. 108	The Board recommends that UNDP: (a) conduct an asset and liability management study to review the appropriateness of the funding plan and other valuation assumptions; and (b) update its policy for funding of end-of-service liabilities to specify the frequency of asset and liability management studies as the current policy is silent in this area.	UNDP will conduct the assets and liabilities monitoring study in 2018 and update its policy accordingly. The request for proposal process concluded in the fourth quarter of 2018 with the selection of a consultancy firm to perform the assets and liabilities monitoring study. A coordinated work effort is in process.	The Board noted that a consultancy firm was selected at the end of 2018 to perform the assets and liabilities monitoring study. The completion and delivery of the assets and liabilities monitoring study is expected in the second quarter of 2019. UNDP intends to update the policy on the funding of end-of-service liabilities subsequently. The Board considers this recommendation to be under implementation.		X		
19.	2017	A/73/5/Add.1, chap. II, para. 113	The Board recommends that UNDP: (a) specify in the investment guidelines the manner in which the review of the guidelines will be performed and documented; and (b) in future, annual reviews of the investment guidelines will be performed and documented.	UNDP will update the investment guidelines accordingly and conduct annual reviews going forward. The new investment guidelines have been issued and include language on the mandatory annual review.	The Board well noted that UNDP had published the updated investment policy and guidelines in June 2018. According to section VII of the updated policy, a mandatory review of the investment guidelines is to be performed by the Treasury Division annually with any recommendations for change presented to the Investment Committee. The annual review of the guidelines will be a formal meeting of the Treasury Division or investment unit and will have formal minutes. The Board also noted that the review of the investment guidelines was performed in a separate meeting of the Investment Committee on	X			

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					12 June 2018. Minutes of the meeting were presented. The Board considers the recommendation to be implemented.				
20.	2017	A/73/5/Add.1, chap. II, para. 117	UNDP agrees with the Board's recommendation that the country office liaise with the Government, the regional bureau and UNDP headquarters regarding the fate of the aged outstanding government contribution for the local office cost in order to report such balances which are current and collectible.	The country office in Paraguay will continue to follow up with the Minister for Foreign Affairs until the government contribution for the local office cost has been paid. The country office continues to follow up on the outstanding government contribution to local office cost balances.	The Board well noted that the country office continued to follow up on outstanding balances. The Board encourages UNDP to continue to also liaise with governments in cases of outstanding balances in the future. However, the Board took note that the recovery is unlikely because the balance dates back to the period between 1998 and 2011. Therefore, the Board considers that the recommendation has been overtaken by events.				X
21.	2017	A/73/5/Add.1, chap. II, para. 123	UNDP agreed with the Board's recommendation that country offices ensure: (a) that United Nations agencies sign the memorandum of understanding for the occupancy and use of United Nations common premises; and (b) that all amounts due for payments or refunds between agencies are settled on time in accordance with the memorandum of understanding.	UNDP will negotiate with the United Nations agencies to sign memorandums of understanding on time. UNDP will also follow up on payments and refunds.	The Board noted that UNDP had addressed the recommendation to negotiate with agencies to sign memorandums of understanding on time and to follow up on payments and refunds between agencies internally. However, the process has not been finalized yet. The Board considers this recommendation to be under implementation.		X		
22.	2017	A/73/5/Add.1, chap. II, para. 128	The Board recommends that UNDP: (a) use the industry best practices (Prince2, Agile, return on investment) in preparing annual evaluations of information and communications technology	The Office of Information Management and Technology conducts ICT road map project evaluations for each calendar year. The road map assessments are done annually and shared with the ICT Governance Group and the	The Board understood that the intangible benefits of projects cannot be measured with figures and algorithms alone. The Board noted that the Office of Information Management and Technology set up the quality,	X			

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			(ICT) road maps to ensure that project deliverables are measurable and linked to the organization's strategic outputs/priorities; and (b) update the ICT project management guidelines such that they stipulate the need for assessing projects to ensure that projects achieve strategic outputs based on defined metrics as required in the Prince2 benefit review plan and quality criteria.	Operational Performance Group for review and follow-up actions. For project evaluation, project managers are tasked with closing the projects (end project report) once the product or service is created or delivered. As best practice, project managers are expected to conduct project assessments (post-implementation review) within three to six months of closing a project. Project management and closure guidelines specify the following as the project management deliverables: end project report by project manager (project management guideline, project closure guideline) and post-implementation review by the project manager or by a person designated by the project board. The preparation of the report is not required under the guidelines, but it is encouraged as best practice in Prince2 methodology.	cost and innovation cycle to identify the achievement of project targets. This cycle measures the overall investments and compares them with the achievements. The Board noted that the achievement of project targets was reported monthly in the logistics, expectations, numbers and status report and at the end of each year in the ICT road map review. The Board also noted that every project must be in line with the UNDP strategic plan and will be reviewed by the ICT Governance Group. Therefore, the Board considers this recommendation to be implemented.				
23.	2017	A/73/5/Add.1, chap. II, para. 132	The Board recommends that UNDP: (a) specify materiality criteria and thresholds for developed applications that require formal source code review; and (b) conduct applicable source code reviews and establish a mechanism to track comments from the reviews to ensure developers correct all noted issues.	The Cybersecurity Unit of the Office of Information Management and Technology has updated its procedures to indicate that, in some cases, the complexity of in-house developed software and limitations of related security controls may necessitate a code review of the software being developed. The decision to perform code review is made by the project board in consultation with Chief Information Security Officer on the basis of the risks identified for the project. The	The Board noted that every project had to pass a security assessment before it received a security sign-off to proceed. If the assessment shows suspicious issues such as software vulnerabilities a code review will be initiated. The decision will be documented. The Board noted the actions and closes this recommendation as it has been implemented.	X			

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				results of the code review are reported to the Change Control Board for final approval of software deployment.					
24.	2017	A/73/5/Add.1, chap. II, para. 136	UNDP agreed with the Board's recommendation that: (a) country offices implement the design of the electronic fund transfer interface in accordance with Atlas banking system guidelines to eliminate manual intervention and prevent unauthorized access to electronic fund transfer files residing in the network by encryption; and (b) establish a mechanism of keeping backups of electronic fund transfer files for reconciliation of records.	UNDP headquarters is developing a project for a corporate solution to address the data security issues. The Malawi country office established a business process for using an e-banking facility for the purpose of transmitting pre-approved universal flat file payment. For the South Africa office, a Host2Host solution is expected to be implemented by the end of 2019.	While the recommendation has been implemented by the Malawi country office, it is still in progress at the South Africa office and the Board therefore considers this recommendation to be under implementation.		X		
25.	2017	A/73/5/Add.1, chap. II, para. 142	UNDP agreed with the Board's recommendation that the South Africa and Egypt country offices: (a) strengthen controls over information security to ensure that the disaster recovery and business continuity plans are tested on time and test results are documented; and (b) review and update the business continuity plan on time.	The country offices will update and test their disaster recovery and business contingency plans. The business contingency plan and disaster recovery plan of the South Africa country office had been finalized and approved at 22 February 2019. A test of the disaster recovery plan was run successfully in May 2019. The results are documented. The Egypt country office had updated its business contingency and disaster recovery plan. After finalization of the business contingency plan, the Egypt country office will be able to prepare a scenario and conduct a test in July 2019.	The Board noted the country disaster recovery and business contingency plan of the South Africa country office. It also noted that a disaster recovery test had been successful. Therefore, the Board closes the recommendation for the South Africa country office as it has been implemented. Owing to the outstanding test of the business contingency and disaster recovery plan of the Egypt country office, the Board considers this recommendation to be under implementation.		X		

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26.	2017	A/73/5/Add.1, chap. II, para. 143	In addition, the Board recommends that the Malawi country office prepare and use approved versions of the business continuity and disaster recovery plans.	The business contingency plan of the Malawi country office was approved by the Resident Representative a.i. in October 2018. The disaster recovery plan was approved in November 2017.	The Board closes the recommendation as, with the approved plans, it has been implemented.	X			
27.	2017	A/73/5/Add.1, chap. II, para. 147	UNDP agreed with the Board's recommendation to ensure that the South Africa country office: (a) speed up the process of establishing a recovery site; and (b) renew the memorandum of understanding with the company that is providing the off-site storage facility.	The alternative location agreements with the Office of the United Nations High Commissioner for Refugees in Pretoria and the UNDP country office in Mozambique were countersigned in February 2019 by the partners.	The Board noted the alternative location agreement and closes this recommendation as it has been implemented.	X			
28.	2017	A/73/5/Add.1, chap. II, para. 148	UNDP also agreed with the Board's recommendation to ensure that the Malawi country office: (a) establish a documented agreement with the other United Nations agency for the provision of the off-site facility; and (b) store off-site the infrastructural documentation, administrative credentials for all critical ICT systems and the software required for recovery procedures with its licence keys.	(a) A memorandum of understanding between UNDP and the United Nations Children's Fund was signed in November 2017 to formalize the establishment of an off-site storage facility at the Malawi country office. (b) The office uses a software that requires only an email address and password for activation, with monthly activation prompts. For operating systems, the office buys pre-activated software.	The Board noted the signed memorandum of understanding between UNDP and the United Nations Children's Fund. The Board also noted the management response regarding off-site storage for infrastructural documentation, administrative credentials for all critical ICT systems and the software required for recovery procedures with its licence keys. Therefore, the Board closes this recommendation as it has been implemented.	X			
29.	2017	A/73/5/Add.1, chap. II, para. 151	UNDP agreed with the Board's recommendation that the South Africa country office: (a) update the ICT workplan to include important key items like timelines and assigned activities to staff; and (b) perform periodic reviews and monitoring on the implementation of the ICT workplan.	The country office had already updated the ICT workplan and conducted periodic reviews. The ICT workplan for 2019 had been finalized.	The Board noted that the South Africa country office had established an ICT workplan for 2019 and had reviewed the targets. Therefore, the Board closes this recommendation as it has been implemented.	X			

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30.	2017	A/73/5/Add.1, chap. II, para. 156	The Board recommends that the UNDP country offices in Turkey, Turkmenistan and South Africa consider introducing a mechanism to receive and record ICT support requests in accordance with the requirements of the Information Technology Infrastructure Library.	The country office in Turkmenistan considered a tool for receiving and recording ICT support requests. However, from the user perspective and in the local context of a small office, the tool would delay service provision since it is quicker to obtain a service either by telephoning or approaching the information technology associate in person. Note that the office has one information technology associate and the whole team shares a single floor, which is not very large. Hence UNDP considered and did not put it into practice. Until further directive from UNDP headquarters for the country office in Turkey, the country office ICT unit has started utilizing a help desk portal to record ICT support requests.	The Board understood the difficulties in implementing formal tools in small offices. The Board noted the progress the Turkmenistan country office has made. Nevertheless, the Board holds that implementation of a tool to formalize the receipt and recording of ICT support requests would be beneficial. Without recording ICT support requests an overview on the requests cannot be provided in a secure manner. The Turkmenistan country office should verify if a suitable tool is available for its requirements. The Board noted that the Turkey country office had implemented a tool. The Board also noted that in South Africa, a software solution is currently being run as a test version. The country office plans to buy this software in 2019. Overall, the Board closes this recommendation as it has been implemented.	X			
31.	2017	A/73/5/Add.1, chap. II, para. 160	UNDP agreed with the Board's recommendation to ensure that the South Africa country office establish a backup Internet link and increase Internet bandwidth.	The country office is in the process of establishing a backup link and increasing bandwidth. Discussions with regard to a secondary Internet link are ongoing with other agencies, among others.	The Board noted the progress on this recommendation and considers this recommendation to be under implementation.		X		
32.	2016	A/72/5/Add.1, chap II, para. 29	The Board recommends that UNDP, in consultation with the actuary: (a) determine the threshold for significant change in the population of the after-service health insurance	UNDP raised the issues before the United Nations system at the task force meeting in Rome (where the Board was in attendance) and has requested the United Nations to include the necessary information	The Board acknowledges that UNDP has established a threshold (232 retirees) above which it will require a full census of staff for valuation of the after-service health insurance liability at year-	X			

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
			enrolment records which would require performance of a full census of staff for the valuation of after-service health insurance liability at year end; and (b) include in the actuarial report the estimated change in population as a part of the key information.	and thresholds in the 2017 valuation. The following was presented and has been communicated to the United Nations directly: (a) With regard to the actuarial valuation in roll-forward years, the need to define a threshold for what constitutes a significant change in population. Without this, the Board has called into question the ability of UNDP to use and rely on the roll-forward approach, given that UNDP has not determined the threshold for a significant change in the population in the after-service health insurance enrolment records, which would trigger/ require the performance of a full valuation of after-service health insurance liability at year-end (i.e., a threshold determined before confirmation of a change in population); (b) The request to the United Nations to work with the UNDP actuaries to include in the actuarial report the estimated change in population as part of the key information. Owing to the fact that UNDP is doing a full demographic update for 2018 and 2019, the valuation will be based on actual numbers and hence no projection is required. Therefore, UNDP requests a withdrawal of this recommendation.	end. Therefore, the Board considers part (a) of the recommendation to have been implemented. With regard to recommendation (b), the Board reviewed the actuarial reports for the years ended 31 December 2017 and 31 December 2018. The reports did not include information specifying an estimated change in population that would require a full census of staff for valuation of the after-service health insurance liability at year-end. However, the actuary conducted a full valuation for the after-service health insurance liability in 2017 and 2018. UNDP informed the Board that a full census valuation will also be conducted in 2019. The valuations for 2017, 2018 and 2019 are therefore based on actual numbers. The Board considers part (b) of the recommendation to have been overtaken by events. There is no need to include the estimated change in population as a part of the key information in the actuarial report, when a full valuation is conducted.				

						Board's assessment			
Number	*Audit report year*	*Report reference*	*Recommendations of the Board of Auditors*	*UNDP response as at 30 April 2019*	*Assessment by the Board as at 31 May 2019*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
33.	2016	A/72/5/Add.1, chap II, para. 39	The Board recommends that UNDP ensure that the Honduras and Bangladesh country offices (a) continue to liaise with implementing partner counterparts so that those offices fully own the United Nations Development Assistance Framework process and thereby facilitate timely Development Assistance Framework implementation, annual reviews and progress reviews and (b) consider adopting strategies to enable the United Nations Development Assistance Framework annual reviews and progress reports in the next programme cycle to be completed on time.	(a) UNDP shared the current United Nations Development Assistance Framework for Bangladesh, as well as minutes from a United Nations country team retreat in Bangladesh in January 2018 as evidence of the active management of the Framework in Bangladesh. The Honduras country office had meetings (e.g. on 23 July 2017) of the national steering committee between the Government and the United Nations system where the United Nations Development Assistance Framework workplan was presented and approved. (b) UNDP will follow up with the United Nations country team and the Resident Coordinator Office to enable timely United Nations Development Assistance Framework annual reviews in the next programme cycle.	In its previous audit report the Board noted the progress made by the Bangladesh country office in the development of a new United Nations Development Assistance Framework. The Board also acknowledged actions taken by the Honduras country office by having meetings of the national steering committee between the Government of Honduras and the United Nations system. Since then UNDP has not provided updates on the progress made by the two country offices to the Board. However, the Board reviewed the UNDP preparations for implementing General Assembly resolution 72/279 and noted that an important element of this resolution was to separate the functions of the United Nations resident coordinator from those of the UNDP resident representative. The Board further noted that, owing to this separation, UNDP lacked the mandate to coordinate the United Nations Development Assistance Framework process on behalf of the United Nations as from 1 January 2019. Thus, UNDP is not able to implement the Board's recommendations, which were addressed to the coordination function of the Resident Coordinator Office. Therefore, the Board closed this recommendation as it has been overtaken by events.				X

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	*Board's assessment*			
						Implemented	Under implementation	Not implemented	Overtaken by events
34.	2016	A/72/5/Add.1, chap II, para. 44	The Board recommends that UNDP (a) introduce a clause in the cooperation agreements on the communication obligations of all parties involved in programme implementation, including measures for motivating implementation of those obligations, and (b) increase follow-up with counterparts so as to ensure that appropriate measures are taken to address the recurrence of delayed certification of combined delivery reports by both UNDP and implementing partners.	In 2017, the programme and operations policies and procedures on combined delivery reports were updated to reflect the following: (a) Combined delivery reports will be sent to implementing partners for verification and signature only for the second, third and fourth quarters of the year. The combined delivery report for the second quarter will cover expenses incurred from January to June. (b) Combined delivery reports should be sent to the implementing partner with a request for certification within 15 calendar days. If no response is received within 30 days, a follow-up request should be sent indicating that the combined delivery report will be deemed accepted by the implementing partner if a response is not received within 15 calendar days from the date of the follow-up request. (c) The combined delivery report, certified by the authorized official of the implementing partner or evidence of follow-up where no responses are received, should be uploaded to the combined delivery reports library (in the UNDP corporate planning system) immediately upon receiving the certification from the implementing partner but no later than 45 calendar days after the end of each quarter.	The Board noted that UNDP had updated the programme and operations policies and procedures on combined delivery reports to reflect policies for follow-up on outstanding combined delivery reports. However, the updated policies do not fully address the matter and during the 2018 audit the findings of late certification of combined delivery reports were reaffirmed. The Board therefore considers part (a) of the implementation to have been overtaken by events. Given that part (b) of the recommendation has been reiterated for a number of years, the Board considers this part of the recommendation to be not implemented.			X	

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
35.	2016	A/72/5/Add.1, chap II, para. 51	The Board recommends that UNDP ensure (a) timely review and updating of project risks, issues and monitoring logs and document this in Atlas as the primary source of project information and (b) that project boards conduct regular meetings as a means of continuously monitoring project implementation.	This is an important recommendation that will require consistent reinforcement in such a large and decentralized development organization. To systematically address this, UNDP incorporated the core requirements of effective project management, including risk management, monitoring and project governance, into the new quality standards for programming and quality assurance rating tools. These elements were added to the quality system in direct response to audit findings. The quality standards provide clear expectations on requirements for high-quality project implementation, including the need for rigorous risk management, active monitoring, the use of evidence and lessons learned in decision-making and functioning project boards. A recent evaluation on the quality standards found that the system has led to a shift in awareness of the requirements necessary for high-quality project management, as 76 per cent of quality assessors have used the tool for learning in its first year. Programming staff with a quality assurance function rated the quality of the 3,500 UNDP active development projects for the first time, and UNDP now has data on the performance of all development projects. Regarding risks, monitoring and governance, the data show that 16.8 per cent of projects have not adequately	The Board noted that UNDP had included risk management, monitoring and project governance into the quality standards for programming. The standards also include the requirement of monitoring programmes and projects through quality assurance assessments. However, the evaluation mentioned by UNDP shows that there are still a number of projects lacking well-functioning project boards or active monitoring of project results. Also, the data show that risk logs are not completed for all projects. The Board reviewed the UNDP documentation in the Atlas enterprise resource planning system for eight projects and found further insufficient updating and maintenance of project risks and monitoring logs in 2018. The Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
				completed their risk logs, 11.7 per cent of projects do not have well-functioning project boards and 15.2 per cent are not actively monitoring project results.					
36.	2016	A/72/5/Add.1, chap II, para. 69	UNDP agreed with the Board recommendation that it (a) take proactive measures to ensure that all operationally closed projects are financially closed within 12 months, in accordance with the programme and operations policies and procedures, which would entail obtaining in a timely manner donors' approvals on refunds or reprogramming of unspent amounts; and thoroughly review and effect all transactions related to projects before they are financially closed; and (b) ensure that all asset balances are cleared before projects are financially closed.	UNDP will: (a) obtain funding partners' approvals in line with standard funding agreement stipulations on refunds and reprogramming of unspent balances; and (b) continue to ensure that asset balances are cleared before projects are financially closed.	The Board noted that UNDP had addressed this recommendation. However, the Board again paid attention to the issue for 2018 and still found delays in closing projects financially. Regarding part (b) of the recommendation, the Board noted that UNDP had updated the requirements in the programme and operations policies and procedures on the closure of projects to include a requirement to complete a checklist in the enterprise resource planning system. The checklist includes confirmation that all assets are disposed of or transferred before the project is financially closed. The Board considers this recommendation to be under implementation.		X		
37.	2016	A/72/5/Add.1, chap II, para. 77	UNDP agrees with the Board's recommendation that it (a) review the basis, criteria and guidelines used for determining the percentage of administrative agent fees apportioned to central services; and (b) also review the Multi-Partner Trust Fund Office policy (on administrative agent fee income) and the justification for the basis and criteria for apportioning the	To assess the overall cost-recovery practice for service provision to all agencies, including the Multi-Partner Trust Fund Office, the UNDP Bureau for Management Services commissioned a study in 2017. The study recommended that the Bureau apply the full-cost methodology. To implement the full-cost methodology, the Bureau has developed a project initiation document. As indicated in that	The Board verified that an agreement between the UNDP Bureau for Management Services and the Multi-Partner Trust Fund Office on the recovery of costs of services provided by the various units of the Bureau to the Office had been signed in April 2019. The Board noted that the agreement was based on the principles established in a study on the application of cost accounting principles for services to United Nations entities. The	X			

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
			administrative agent fees between the Trust Fund Office and UNDP country offices that have received a delegation of authority from the Trust Fund Office Executive Coordinator.	document, the whole plan is still being finalized and is expected to be implemented only by December 2018. The adoption of a full-cost methodology will help the Bureau to ensure that all costs are fully recovered for all service provision by applying a standardized methodology and providing a clear rationale for each cost component, while ensuring that the Multi-Partner Trust Fund Office, as a recipient of services, has a transparent overview of the costs of services being provided and the criteria and guidelines that determine the costs of these services. In November 2017, the Multi-Partner Trust Fund Office communicated its decision to recentralize all administrative agent functions and informed all concerned UNDP country offices that as from 31 December 2017 the existing delegation of authority would be considered to be revoked. As a result of this policy decision, as from 1 January 2018 there is no justification for any further apportionment of administrative agent fees to UNDP country offices, and the earlier practice has ceased.	Board holds that the signed agreement is a sufficient framework for the recovery of costs. Therefore, the recommendation is classified as having been implemented.				
38.	2016	A/72/5/Add.1, chap II, para. 82	The Board recommends that the Bangladesh, Honduras and Uruguay country offices (a) liaise with other United Nations agencies using the harmonized approach to cash transfers to resolve the	The three country offices, through the joint harmonized approach to cash transfers committee, will (a) accelerate preparation of the 2017 joint harmonized approach to cash transfers assurance plans in line with the programme and	The Board noted that harmonized approach to cash transfers assurance plans were prepared for the Bangladesh, Honduras and Uruguay country offices. The plans were signed by the Resident Representatives/Resident	X			

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment Implemented	 Under implementation	 Not implemented	 Overtaken by events
			challenges noted and prepare joint harmonized approach to cash transfers assurance plans for shared implementation partners; and (b) ensure that those assurance plans are both endorsed by the country representatives and implemented.	operations policies and procedures; and these will (b) be endorsed by the country representatives of relevant agencies.	Coordinators. The Board considers this recommendation to be implemented.				
39.	2016	A/72/5/Add.1, chap II, para. 101	The Board recommends that UNDP strengthen reviews and monitoring of the purchase orders and accounts payable to ensure that (a) expenses recorded in the general ledger, commitment control and projects are accurate, complete and recorded in the correct accounting period; and (b) pending transactions (i.e., purchase orders, vouchers and general ledger journal entries with an accounting date on or before the last day of the month being closed) are cleared in accordance with year-end closure instructions.	In progress. There has been substantial progress, as follows: the number of pending general ledger journal entries has been reduced from 17 ($6.78 million) at the end of 2016 to zero at the end of 2017 and they are reviewed regularly as part of the quarterly and year-end financial closure processes. Accounts payable vouchers with errors are monitored on the financial performance dashboard, which is reflected in the country office corporate planning indicator rating issued and followed up with country offices on a quarterly basis. The number of outstanding accounts payable vouchers with errors decreased from 420 at the end of 2016 to 112 at the end of 2017. Payments on hold are now being monitored by the Treasury Division and followed up with country offices on a regular basis.	The Board noted that UNDP had addressed the recommendation and that progress had been made. The Board considers this recommendation to be under implementation.		X		
40.	2016	A/72/5/Add.1, chap II, para. 107	The Board recommends that UNDP ensure that future service contract evaluations are completed on time, ideally one month prior to the contract's expiration, pursuant to policy, so as to provide	The Office of Human Resources has sent a reminder to human resources practitioners regarding the requirement to complete service contract evaluations on time, with a note attached containing frequently asked	During its audit of the UNDP 2018 financial statements the Board also reviewed the processes and procedures of four country offices concerning the use of service contracts. In addition, the Board reviewed two		X		

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	*Board's assessment* Implemented	Under implementation	Not implemented	Overtaken by events
			offices with a reasonable amount of time for decision-making.	questions. A message from the Director of Human Resources was sent that includes a reminder on the timely completion of service evaluations, as well as an update to the frequently asked questions on service contracts.	samples for each of the country offices (Malawi, Paraguay and South Africa) mentioned in the recommendation contained in chapter II, paragraph 88, of its report for 2017 (A/73/5/Add.1). During its review the Board noted that country offices reminded staff members and supervisors of their duties with regard to service evaluations. The Board also acknowledged the efforts made by the Office of Human Resources. In addition, the Board noted that service evaluations of the service contract holders for most samples were conducted shortly before the expiry of the contract. However, the Board also noted two cases in which the service evaluation was done after the expiry date of the respective contracts. The Board therefore considers this recommendation to be under implementation.				
41.	2016	A/72/5/Add.1, chap II, para. 111	The Board recommends that UNDP consider updating and enforcing the human resources policy to restrict the number of years during which a person can serve under a service contract, after which time a post should be established and filled by a person on a fixed-term appointment.	The Office of Human Resources will address this matter in the context of the talent management strategy. The development of the talent management strategy will include, among other priorities, a comprehensive review of the current types of appointments and other contractual modalities. The launch of the talent management strategy, which will holistically integrate these human resources instruments with all the other cornerstones of people management, was scheduled for	The Board noted that, in March 2019, the Office of Human Resources had introduced the "People for 2030" strategy. This strategy also deals with matters of talent management. Under focus area 8, UNDP is planning to revise and streamline its current contractual modalities. The proposed actions under the "People for 2030" strategy include to: • Complete the review of the current contractual modalities framework				X

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				1 January 2019. Therefore, UNDP kindly ask for this recommendation to be marked as implemented, or preferably withdrawn.	• Introduce a more flexible modality to engage talent for non-core project work • Align contract modalities with the new career framework at UNDP It is anticipated that the strategy will be implemented over a three-year period covering 2019–2021. The Board holds that the strategy addresses the subject matter of this recommendation in a more holistic manner and, therefore, considers this recommendation to have been overtaken by events.				
42.	2016	A/72/5/Add.1, chap II, para. 116	The Board recommends that UNDP ensure that all staff members complete mandatory training courses on time.	Accountability for completion of mandatory courses lies with the head of office. The role of the Office of Human Resources is to ensure that the courses are available to staff on demand, track completion rates and troubleshoot problems staff may have in completing courses. The Office has established a mechanism to enable staff to complete the mandatory courses. The Office of Human Resources sends regular reminders concerning completion of mandatory course to managers worldwide. In 2018, UNDP invested significant efforts in its mandatory courses and increased the share of personnel who have completed the entire mandatory learning plan (i.e., all mandatory courses) from 36 per cent on 31 December 2017 to 71 per cent on 31 December 2018. For the individual mandatory courses, the completion	The Board reviewed the overall mandatory course completion statistics for 2017 and 2018 and recognized the efforts made by management to achieve higher completion rates, as well as the positive trend evidenced by the statistics. However, UNDP also acknowledged that the trend shown had not yet stabilized. Therefore, the Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				rates are much higher, ranging from 85 per cent to 93 per cent. In the light of the addition of new mandatory courses on fraud prevention and security (a revised course on basic security in the field), UNDP is expecting a decline in completion rates in 2019. However, several interventions are planned during the year to increase participation rates again towards and beyond the current rate of 71 per cent.					
43.	2016	A/72/5/Add.1, chap II, para. 120	UNDP agreed with the Board's recommendation that it introduce a schedule that ensures easy reconciliation of the differences in respect of individual assets additions between the note in the financial statements on property, plant and equipment; and the in-service report.	Following the Board's recommendation to introduce a schedule to reconcile the in-service report with the note to the financial statements on property, plant and equipment, the General Operations Unit has prepared a business requirement document and initiated the project with colleagues of the Office of Information Management and Technology. However, owing to the extremely large volume of property, plant and equipment general ledger data that are generated in a fiscal year, it became apparent that Atlas was not a platform that could cope with the data involved in producing the reconciliation. In order to proceed with the project, an alternative option of producing the report outside Atlas is being pursued, which is ongoing. In addition, it should be noted that, at the request of the Audit and Evaluation Advisory Committee, the 2017 financial statements were reported	The Board noted that UNDP had addressed the recommendation to reconcile the in-service report with the note to the financial statements on property, plant and equipment internally. However, the Board did not receive documentation that the reconciliation had been carried out by the scheduled finalization date in June 2019. The Board considers this recommendation to be under implementation.		X		

						Board's assessment			
Number	*Audit report year*	*Report reference*	*Recommendations of the Board of Auditors*	*UNDP response as at 30 April 2019*	*Assessment by the Board as at 31 May 2019*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				in a different format to previous years, which presents challenges to the design and implementation of the report and could prolong the process. Owing to the above factors, implementation is expected in June 2019.					
44.	2015	A/71/5/Add.1, chap. II, para. 35	UNDP agreed with the Board's recommendation that it ensure that operating units: (a) prepare accounts payable vouchers before the deadline, as stipulated in the year-end closure instructions, so as to liquidate corresponding aged prepayments; and (b) regularly monitor and perform prepayment spot checks so as to verify and clear aged prepayments in a timely manner.	Concerning part (a), UNDP would like to emphasize that accounts payable vouchers that clear prepaid amounts can be raised only when the goods are received – an issue that has been closely monitored through the certification process. The existing aged prepaid amounts are valid and are related mainly to pharmaceutical products (70 per cent of the prepayments in total are related to the Global Fund to Fight AIDS, Tuberculosis and Malaria, while close to 80 per cent of the prepayments outstanding for more than 180 days concern Global Fund-related pharmaceutical products) with a longer lead time and a voucher cannot be raised in accounts payable unless the goods have been received. The December 2015 status as at 5 January 2017 was shared with the Board. Concerning part (b), prepayments, irrespective of their age, were regularly monitored throughout 2016. Particular attention was paid to aged prepayments in the periodic certification process and quarterly one-page notes are sent out to country offices on key areas that are monitored by the Office of Financial Resources Management.	The Board noted that UNDP had addressed the recommendation and tracked aged prepayments via the financial performance dashboard. The Board also noted that, as at 31 December 2018, more than 50 per cent of overdue prepayments related to prepayments made to other United Nations agencies, thus reducing the risk from these prepayments. The Board also noted that, in addition, UNDP had followed up on aged prepayments on a regular basis. UNDP contacted the five country offices with the highest amounts of prepayments for purchase orders older than 30 days, representing regularly over 80 per cent of the total aged prepayments. Country offices need to review and, where appropriate, liquidate the aged prepayments before closing quarterly financial statements. The Board considers the recommendation to be implemented.	X			

Number	*Audit report year*	*Report reference*	*Recommendations of the Board of Auditors*	*UNDP response as at 30 April 2019*	*Assessment by the Board as at 31 May 2019*	*Board's assessment* *Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				Vigorous follow-up with offices that had aged items was carried out to ensure that the aged items are receipted and immediately liquidated in line with programme and operations policies and procedures requirements for receipting (a sample of actions was shared with the Board). As at 31 December 2016, approximately 70 per cent of the prepayments were related to the Global Fund, which usually has a much longer lead time for delivery than 180 days – the dashboard cut-off for the red rating. Hence, the existing aged prepaid amounts are valid and a voucher cannot be raised in accounts payable unless the goods are received.					
45.	2015	A/71/5/Add.1, chap. II, para. 41	UNDP agreed with the Board's recommendation that: (a) in future, UNDP plan ahead regarding the changes needed in project settings, such as the rates of the general management support fee, to minimize delays in signing quarterly combined delivery reports; (b) it submit the combined delivery reports in a timely manner, duly signed by UNDP and implementing partners, in compliance with the programme and operations policies and procedures; and (c) it liaise with implementing partners on their accountability regarding the timely signing of combined	System changes regarding general management support can only commence after the executive group makes its final decision. The Executive Board decision regarding changes to internal general management support distribution was made at a meeting in February 2016 and officially communicated in March 2016, after which the changes to general management support testing in line with system change procedures commenced. All offices were informed of the delay in monthly posting of general management support during the first quarter and the first posting in May 2016. This is timely, as UNDP targets closure of quarters two and a half months after the end of every quarter.	The Board noted that part (a) of the recommendation was implemented in 2016. Regarding parts (b) and (c) of the recommendation, the Board again paid attention to the date of the signatures of the combined delivery reports for 2018. The findings were reaffirmed. Given that the recommendation has been reiterated for a number of years, the Board considers the recommendation to be not implemented.			X	

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
			delivery reports when delays are encountered.	Being able to post first-quarter general management support changes two months after the quarter is an achievement. Concerning parts (b) and (c), a combined delivery report repository was launched to enable country offices to upload signed combined delivery reports and a reminder message was sent out in accordance with the agreed management action. Management considers this recommendation fully implemented.					
46.	2015	A/71/5/Add.1, chap. II, para. 72	UNDP agreed with the Board's recommendations that it (a) enhance and document the follow-up mechanisms, including feedback from all delayed participating organizations, for future improvements; (b) introduce measures to accelerate the operational and financial closure of all overdue projects; and (c) as the largest United Nations fund administration service provider, propose the idea of common policies and procedures around inter-agency pooled funding mechanisms to harmonize practices so as to enhance accuracy in reporting and timing of issuing reports.	The Multi-Partner Trust Fund Office has continued to implement the enhanced follow-up mechanisms from all delayed participating organizations for project closure as noted in 2017. As at 10 April 2018, only two main agencies remained with large balances to clear. The balance had been substantially reduced in prior years. UNDP continues to implement routine follow-up on project closure to reduce the rates.	The Board noted that UNDP had addressed the recommendation and that balances had been reduced. The Board considers parts (a) and (b) of this recommendation to be under implementation. Part (c) of the recommendation was withdrawn by the Board in 2017.		X		
47.	2015	A/71/5/Add.1, chap. II, para. 91	UNDP agreed with the Board recommendation that it (a) strengthen controls in reviewing the harmonized approach to cash transfers microassessment plan for	On part (a), the regional bureaux reviewed the harmonized approach to microassessment plans, sample review messages were sent to a country office and training was rolled out as agreed. On parts (b)	The Board well noted the progress made by UNDP on the implementation of this recommendation. The Board noted that training had been rolled out and country offices had				X

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
			completeness and accuracy; (b) prioritize the microassessment activities relating to implementing partners, based on an assessment plan; and (c) monitor implementation and conduct an annual update of the assessment plan.	and (c), prioritization and monitoring is carried out by the regional bureaux through the harmonized approach to cash transfers monitoring dashboard. Revisions were made to the microassessment methodology at the inter-agency level.	been informed of changes made to the methodology. The Board also noted that the harmonized approach to cash transfers dashboard and the harmonized approach to cash transfers SharePoint had been further developed in 2018. However, the Board still noted deficiencies in the regular update and monitoring of microassessment and assurance plans in the 2018 audit. The Board holds that the harmonized approach to cash transfers dashboard and the harmonized approach to cash transfers SharePoint – when used consistently – constitute a more holistic instrument to monitor compliance with the requirements. Therefore, the Board considers this recommendation to have been overtaken by events.				
48.	2015	A/71/5/Add.1, chap. II, para. 98	UNDP agreed with the Board's recommendation that it ensure country offices (a) prepare the complete set of harmonized approach to cash transfers assurance activities plan in line with the harmonized approach to cash transfers assurance template and include all the required information; (b) conduct all assurance activities as planned; and (c) monitor and improve annual assurance plans from the lessons learned from harmonized approach to cash transfers	The regional bureaux monitor the preparation and implementation of assurance activity plans and are expected to update the corporate dashboard that was recently launched to monitor implementation partner spot checks. As this process is ongoing and being permanently updated, the dashboard is not complete with respect to its current status.	The Board well noted the progress made by UNDP on the implementation of this recommendation. The Board also noted that the harmonized approach to cash transfers dashboard and the harmonized approach to cash transfers SharePoint were further developed in 2018. However, the Board still noted deficiencies in the regular updating and monitoring of assurance activity plans in the 2018 audit. The Board holds that the harmonized approach to cash transfers dashboard and the harmonized				X

Number	Audit report year	Report reference	Recommendations of the Board of Auditors	UNDP response as at 30 April 2019	Assessment by the Board as at 31 May 2019	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
			transitional assurance activities plans of 30 April 2015.		approach to cash transfers SharePoint – when used consistently – constitute a more holistic instrument to monitor compliance with the requirements. Therefore, the Board considers this recommendation to have been overtaken by events.				
49.	2015	A/71/5/Add.1, chap. II, para. 138	UNDP agreed with the Board's recommendation that it: (a) provide regular updates on the non-Atlas procurement indicators for more accuracy, completeness and reliability of information; (b) ensure requesters at country offices input reasonable delivery due dates in the e-requisition, in such a way as to reduce the workload of data clean-up of delivery dates for purchase orders indicated in red in the International Public Sector Accounting Standards (IPSAS) dashboard; and (c) enhance follow-up with vendors such that goods or services are delivered within the scheduled period.	The Procurement Services Unit has removed some of the indicators that provide inaccurate information. As an alternative, the relaunched financial performance dashboard now includes indicators that are related to purchase orders; receipt and payment activities; past due milestones; delayed Atlas receipts; approved purchase orders not dispatched; purchase orders with no Atlas receipts; and monitoring of purchase orders without a receipt. A procedure is now in place to update the certification indicator in the procurement dashboard. The data are provided by the Learning Management System on a regular basis and the Office of Information Management and Technology updates the indicator in the procurement dashboard. Regarding parts (b) and (c), country offices have been reminded to indicate reasonable delivery dates at the requisition stage.	The Board well noted the progress made by the Procurement Service Unit to address this recommendation and had acknowledged significant improvements in comparison with the previous version of non-Atlas procurement indicators. Therefore, the Board had closed in its previous report parts (b) and (c) of the recommendation but continued to note weaknesses concerning inconsistency of information on staff procurement certifications. During the audit for 2018 the Board reviewed a sample of information on staff procurement certifications in order to ensure that the dashboard data were accurate and noted no deviation in the dashboard data from the underlying supporting documents. Thus, the Board considers the recommendation to be implemented.	X			
Total						**17**	**23**	**3**	**6**
Percentage						**35**	**47**	**6**	**12**

Chapter III
Financial report for the year ended 31 December 2018

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 2018. 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 2018 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the financial performance and position of UNDP.

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

About the United Nations Development Programme

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

What the United Nations Development Programme offers

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

5. In addition, UNDP administers:

- *United Nations Volunteers programme*. The United Nations Volunteers programme is an organization that promotes volunteerism to support peace and development worldwide. The operations of United Nations Volunteers are reflected in the financial statements of UNDP. During 2018, 7,201 United Nations Volunteers from 161 countries supported partner United Nations entities in their peace and development activities in 146 countries of assignment.

- *Junior Professional Officers programme*. UNDP manages the Junior Professional Officers programme on behalf of 13 United Nations entities, as well as other programmes.

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

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

Financial objectives

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

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

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

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

(d) Producing annual IPSAS-compliant financial statements.

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

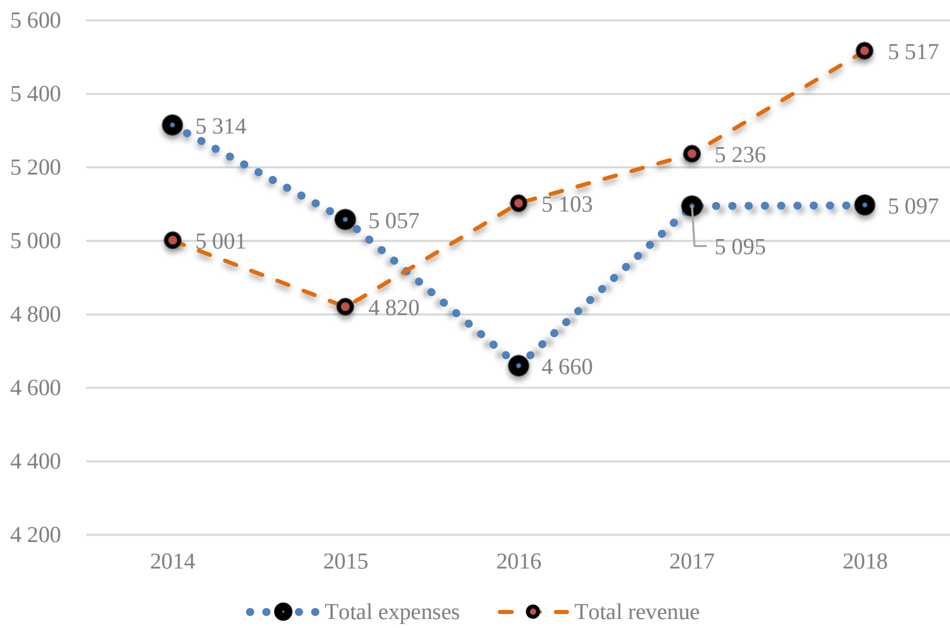
B. Summary of financial results and highlights

8. In 2018, UNDP reported total annual revenues of $5,517 million (2017: $5,236 million) and managed total assets of $12,111 million (2017 (restated): $10,663 million). UNDP received total contributions of $5,185 million (2017: $4,892 million), comprising $662 million (2017: $647 million) in regular resources and $4,523 million (2017: $4,245 million) in other resources.

Highlights from fiscal year 2018 compared with 2017 include:

- Increase in non-exchange receivables by $802 million
- Increase in total revenue by $281 million (or 5 per cent)
- Increase in programme expenses by $21 million (or 0.5 per cent)
- Increase in total assets by $1,448 million (or 14 per cent)
- Decrease in staff costs by $18 million (or 2 per cent)
- Decrease in contractual services by $63 million (or 3 per cent), taking into account that 96 per cent of contractual services are programme-related
- Increase in investments, excluding investments for the Multi-Partner Trust Fund Office, of $442 million (or 8 per cent)
- Decrease in the after-service health insurance liability by $280 million (or 21 per cent)

Figure III.I
Total revenue and expenses in 2014–2018
(Millions of United States dollars)



C. Financial performance[1]

Revenue analysis

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

10. The total revenue in 2018 was $5,517 million, an increase of $281 million, or 5 per cent, from the total revenue of $5,236 million in 2017.

11. The main sources of revenue of UNDP in 2018 were as follows:

- $5,185 million, or 94 per cent, from voluntary contributions ($4,892 million, or 93 per cent, in 2017)
- $332 million, or 6 per cent, from exchange, investment and other revenue ($344 million, or 7 per cent, in 2017)

Revenue by segment

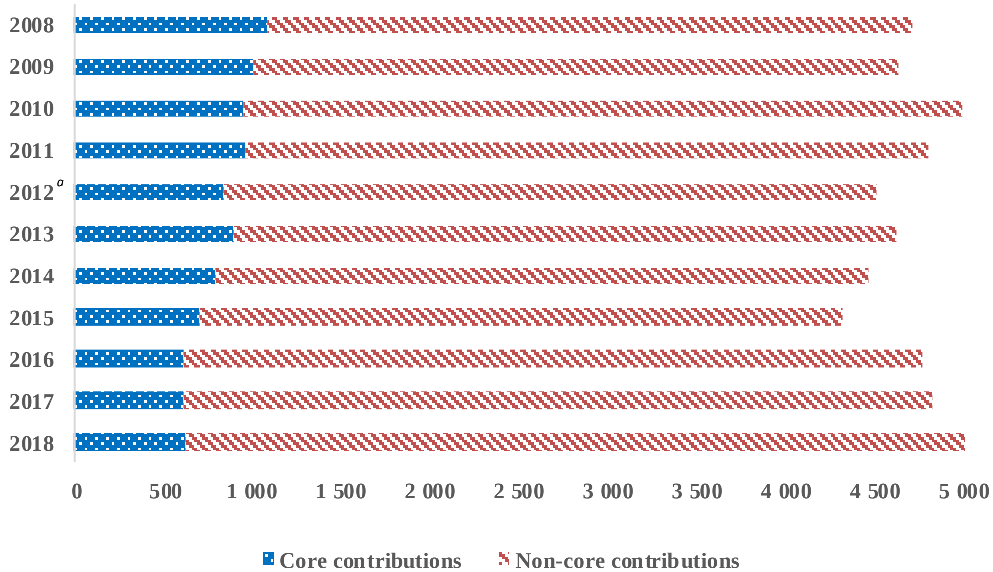
12. The proportion of the Programme's non-core contributions to core contributions has gradually increased over time. In 2018, UNDP total revenue from regular resources was $737 million (representing 13 per cent of the total revenue) and other revenue, excluding elimination, was $5,038 million (representing 87 per cent of the total contributions). The proportion in 2018 was similar to that reported in 2017.

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

Figure III.II

Trend of core and non-core contributions, 2008–2018[a]

(Millions of United States dollars)



[a] On 1 January 2012, UNDP adopted IPSAS reporting standards. Prior to 1 January 2012, UNDP prepared its financial statements in accordance with the United Nations system accounting standards, which prescribed the use of a modified accrual basis of accounting.

13. Within cost-sharing revenue totalling $3,705 million, third-party cost-sharing provided 71 per cent of the revenue and government cost-sharing provided 29 per cent of the revenue. South-South cooperation continued to provide less than 1 per cent of total cost-sharing revenue.

14. Both the core and non-core funding base are concentrated in a few funding partners (i.e., donors). In 2018, 89 per cent of core revenue was received from 15 partners, which is consistent with the prior year (2017: 89 per cent) (see figure III.III). In 2018, the largest donor for core funding accounted for 12.0 per cent (2017: 12.3 per cent) of total core contributions. For non-core revenue, the concentration of contributions from the largest 15 partners increased from 56 per cent in 2017 to 60 per cent in 2018 (see figure III.IV). In 2018, the largest donor for non-core funding accounted for 9 per cent (2017: 9 per cent) of total non-core contributions.

Figure III.III
Core revenue concentration, 2017–2018
(Percentage)

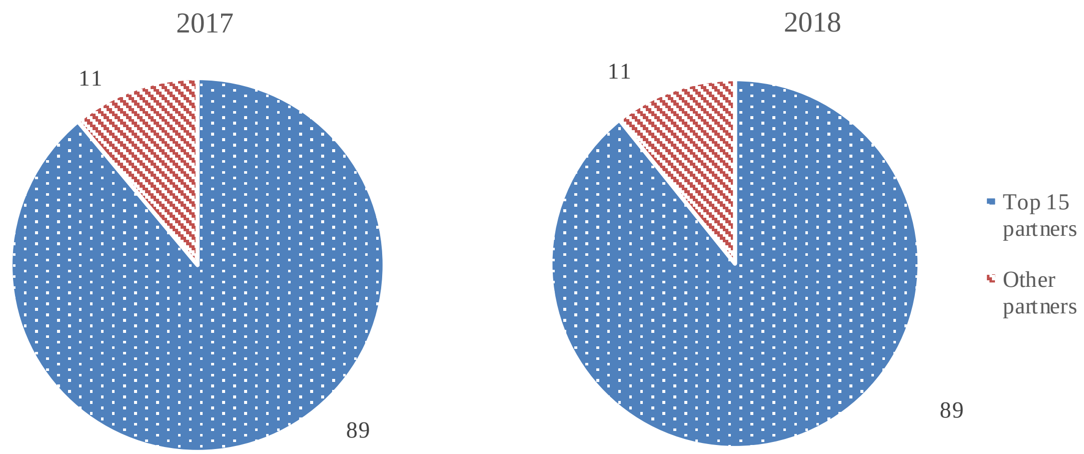
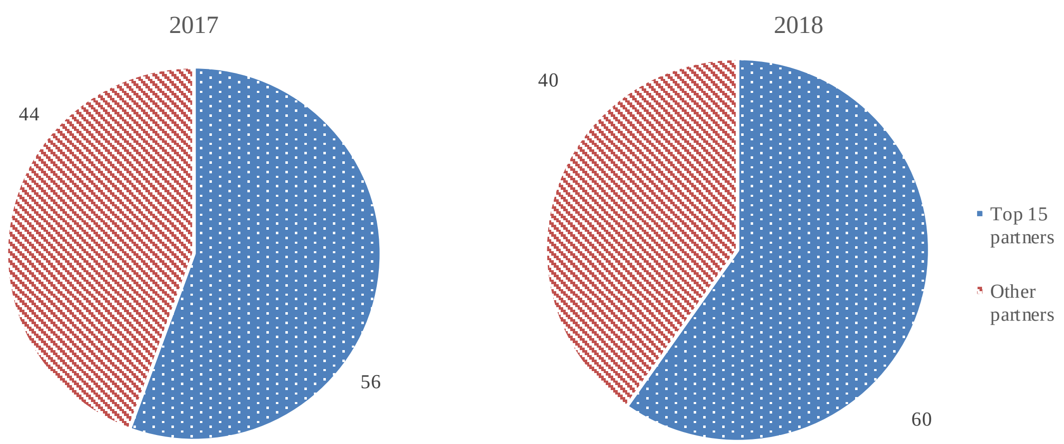


Figure III.IV
Non-core revenue concentration, 2017–2018
(Percentage)



15. 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 64 per cent of the revenue of UNDP in 2018, followed by trust funds (13 per cent), regular resources (13 per cent) and reimbursable support services and miscellaneous activities (10 per cent).

16. Overall, 2018 revenue proportions by segment were relatively consistent with the prior year, with a slight increase in cost-sharing (non-core) (3 per cent) offset by the decrease in trust funds (2 per cent) from 2017.

Figure III.V
Composition of total revenue in 2017–2018 by segment
(Percentage)

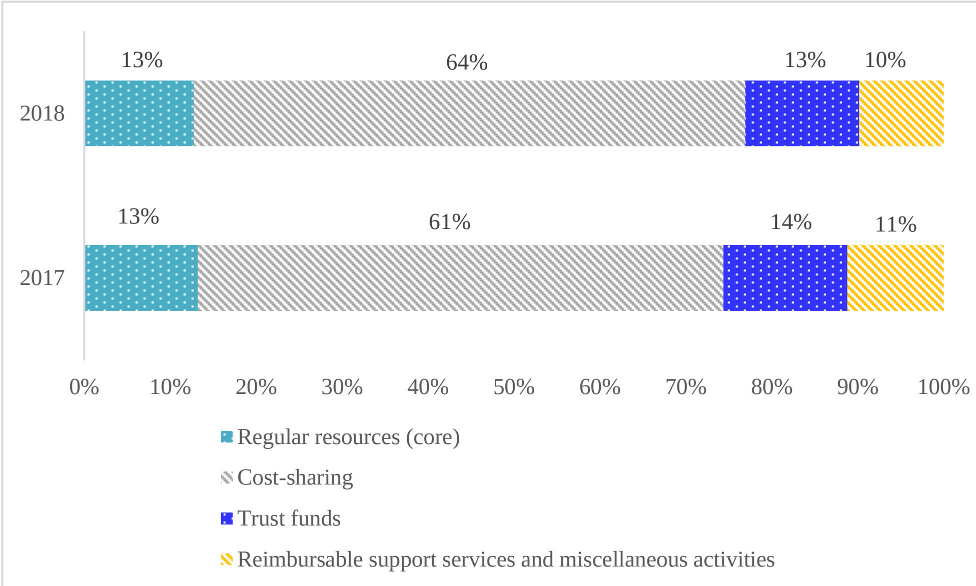
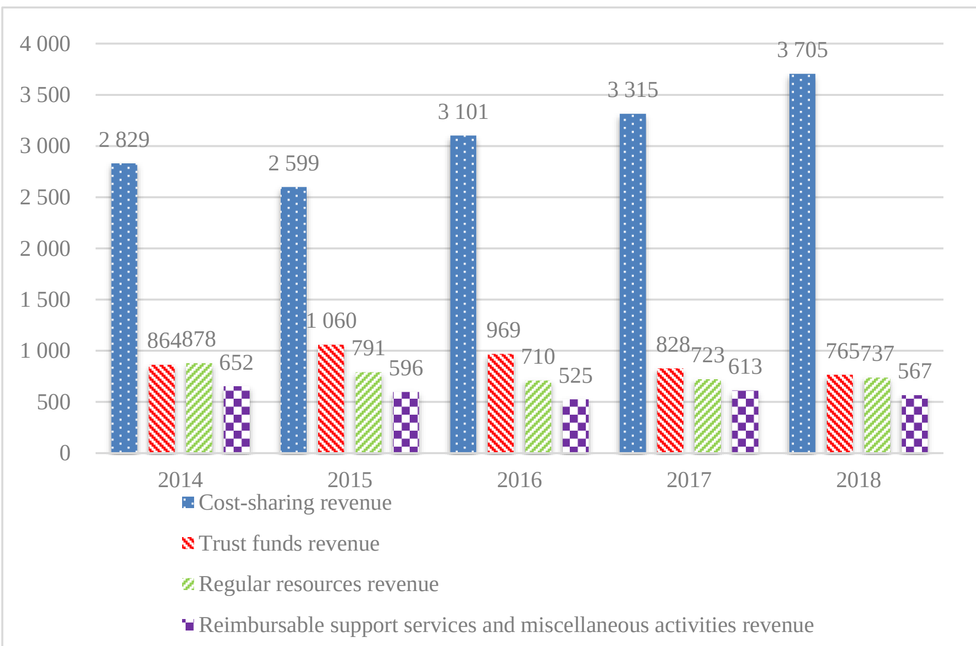


Figure III.VI
Composition of total revenue in 2018 by segment
(Millions of United States dollars)



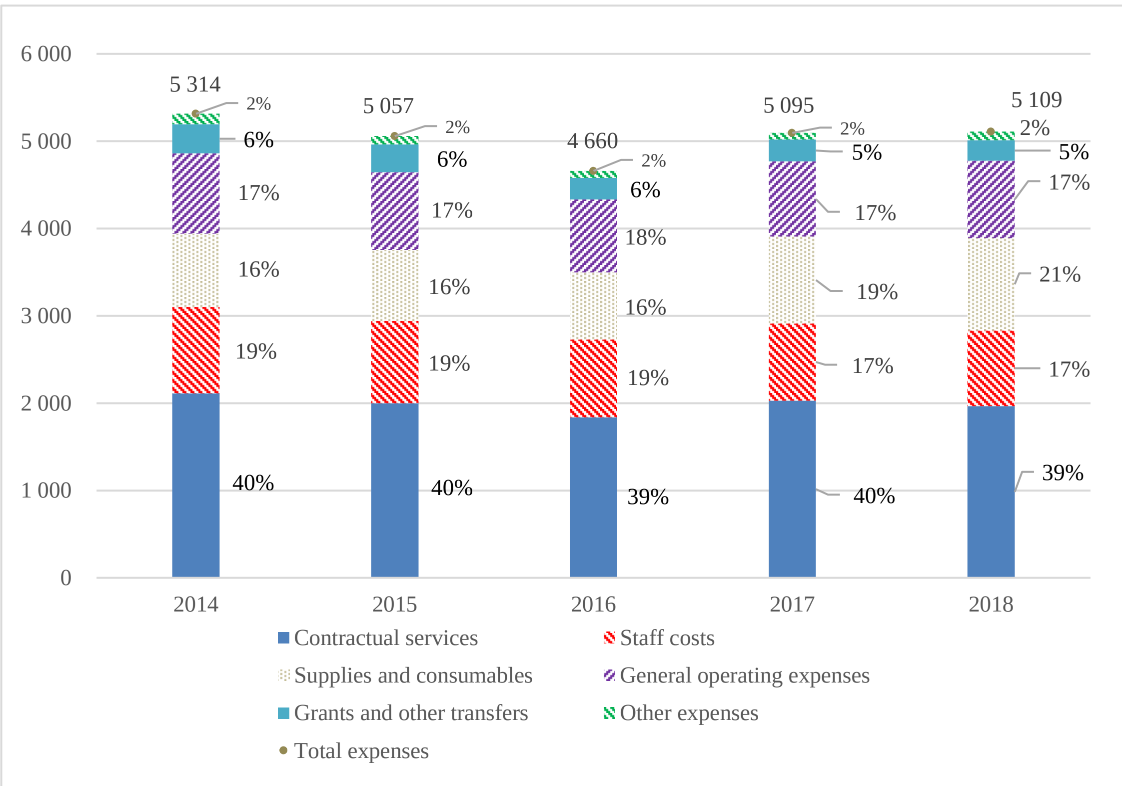
Expense analysis

17. In 2018, UNDP expenses were $5,097 million ($5,355 million excluding eliminations of internal UNDP cost recovery[2]), an increase of $2 million, or less than 1 per cent, from 2017 (2017: $5,095 million).

18. The largest expense category by nature continues to be contractual services, which totalled $1,968 million in 2018 (2017: $2,030 million), representing 39 per cent of total expenses. The remaining expenses in 2018 by nature are: supplies and consumables totalling $1,059 million (2017: $994 million); general operating expenses totalling $872 million (2017: $861 million); staff costs totalling $865 million (2017: $883 million); expenses for grants and other transfers totalling $234 million (2017: $250 million); and other expenses totalling $100 million (2017: $77 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 $1,883 million (2017: $1,890 million) of total programme expenditures incurred in 2018.

Figure III.VII
Composition of total expenses in 2014–2018 by nature
(Millions of United States dollars)



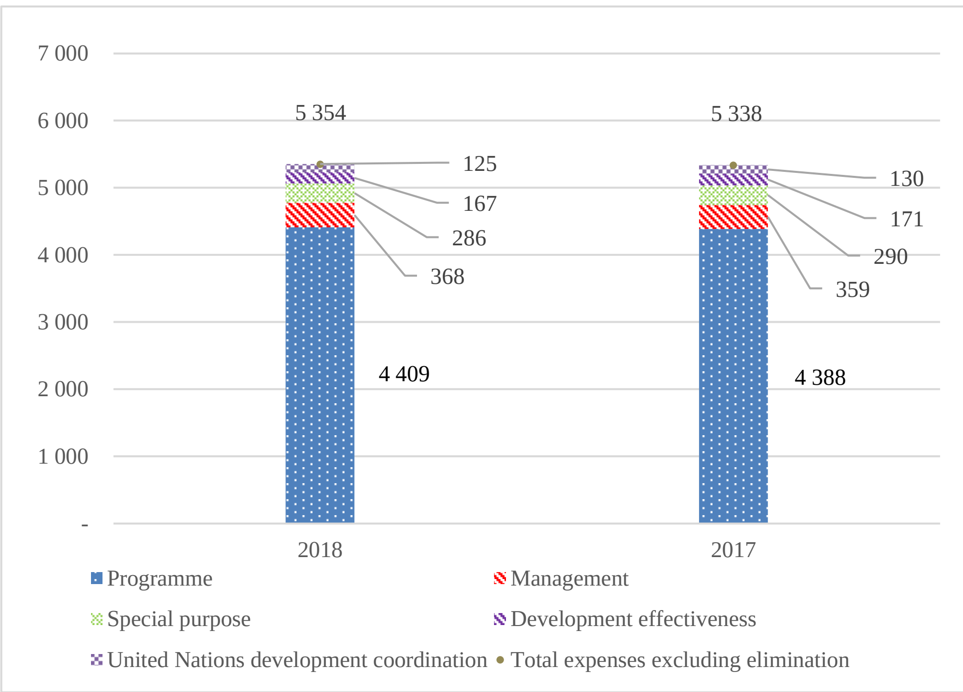
[2] Cost-recovery revenue relates to: (a) general management services charges on bilateral, multilateral and programme-country government resources; and (b) other cost recovery-related income for direct services provided to United Nations organizations.

Expenses by cost classification

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

21. In 2018, of total UNDP expenses of $5,354 million (excluding the effect of the eliminations of internal cost recovery; 2017: $5,338 million), $4,409 million (82.3 per cent; 2017: $4,388 million) was spent on programme activities, $167 million (3.1 per cent; 2017: $171 million) was spent on development effectiveness, $125 million (2.3 per cent; 2017: $130 million) was spent on United Nations development coordination, $368 million (6.9 per cent; 2017: $359 million) was spent on management and $286 million (5.3 per cent; 2017: $290 million) was spent on special purpose and other activities to support operations administered by UNDP. There was an increase in resources spent on programme activities and a slight decrease in resources spent on development effectiveness activities, resulting in the overall increase in resources spent on development activities.

Figure III.VIII
Composition of total expenses in 2017–2018 by cost classification
(Millions of United States dollars)



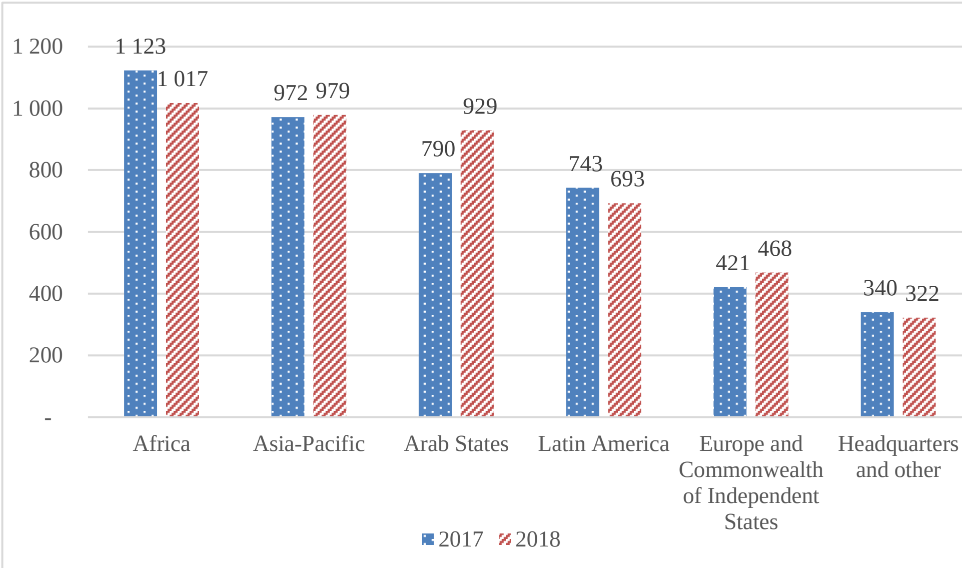
Programme expenses by geographical region

22. In 2018, of total UNDP programme expenses of $4,409 million (excluding the effect of eliminations), the African region continues to have the largest proportion, amounting to $1,017 million (23 per cent), as shown in figure III.IX.

Figure III.IX

Programme expenses in 2017–2018 by geographical region

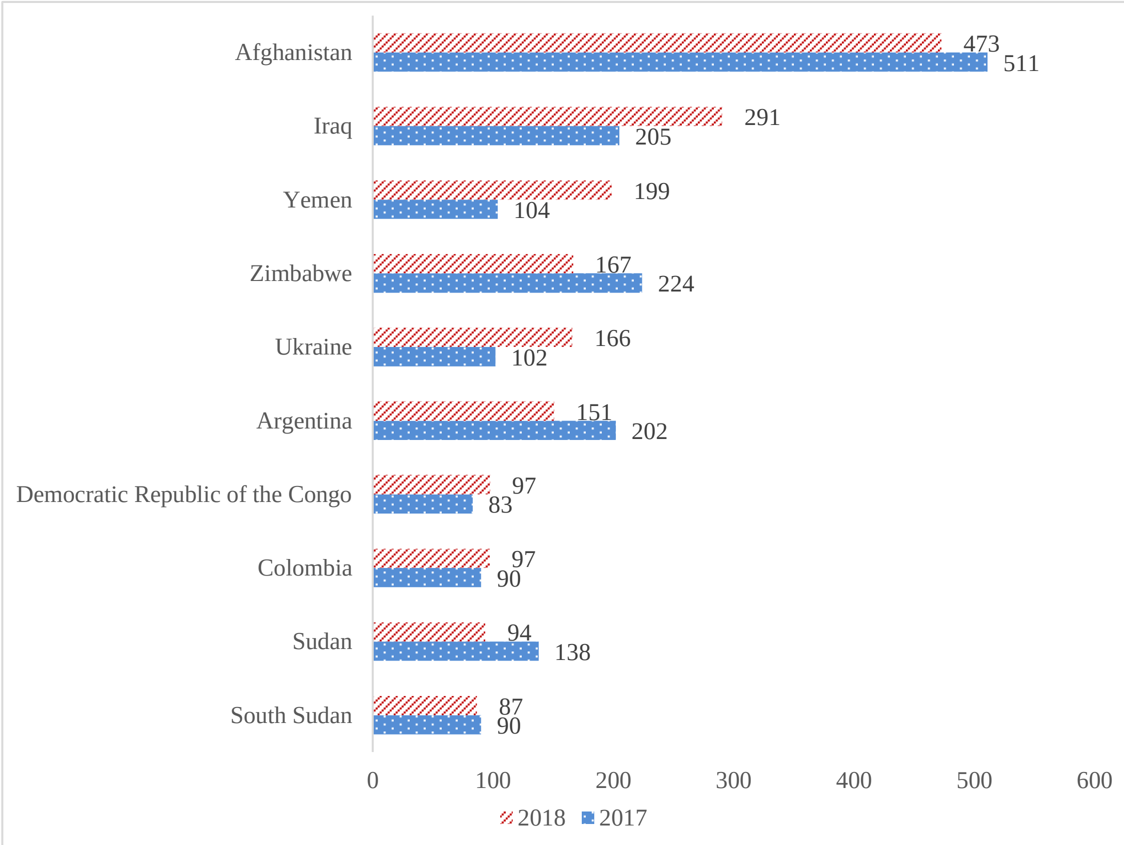
(Millions of United States dollars)



Programme expenses by country office

23. A total of 41 per cent of UNDP programme expenses ($1,822 million) was attributed to the 10 largest country offices. These comprise the offices in Afghanistan, Iraq, Yemen, Zimbabwe, Ukraine, Argentina, the Democratic Republic of the Congo, Colombia, the Sudan and South Sudan.

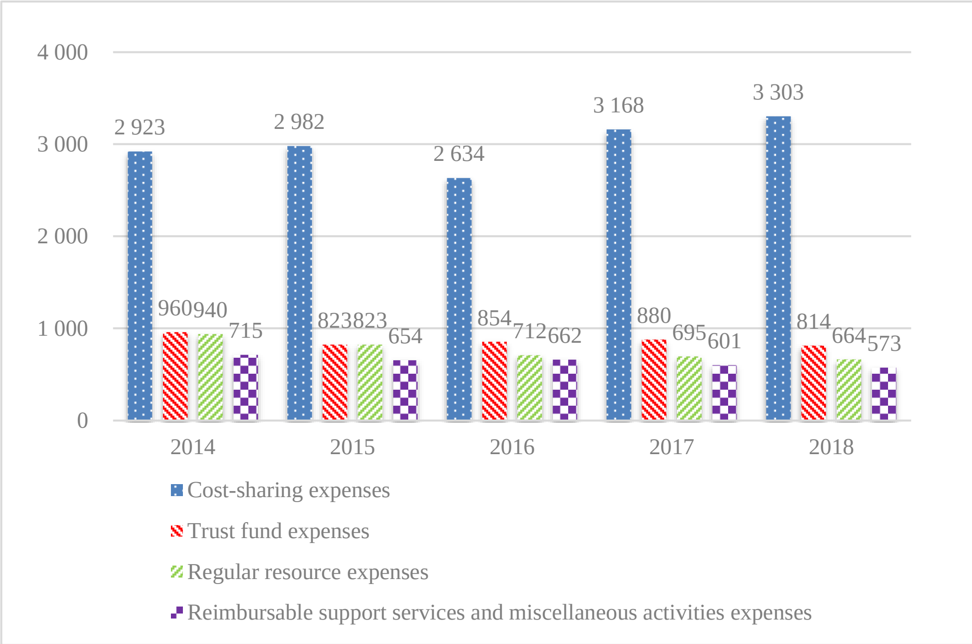
Figure III.X
Programme expenses in 2017–2018 by the top 10 country offices
(Millions of United States dollars)



Expenses by segment

24. Of the total expenses for 2018, 62 per cent was funded from cost-sharing, 12 per cent from regular resources, 15 per cent from trust funds and 11 per cent from reimbursable support services and miscellaneous activities.

Figure III.XI
Total expenses in 2018 by segment
(Millions of United States dollars)



25. Within cost-sharing expenses, totalling $3,303 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

26. In 2018, UNDP had a surplus of revenue over expenses of $420 million, compared with a surplus of $142 million in 2017. The increase of $278 million reflects primarily an increase in total revenue of $281 million (or 5 per cent), from $5,236 million in 2017 to $5,517 million in 2018, offset by an increase in spending of $2 million, from $5,095 million in 2017 to $5,097 million in 2018.

E. Budgetary performance

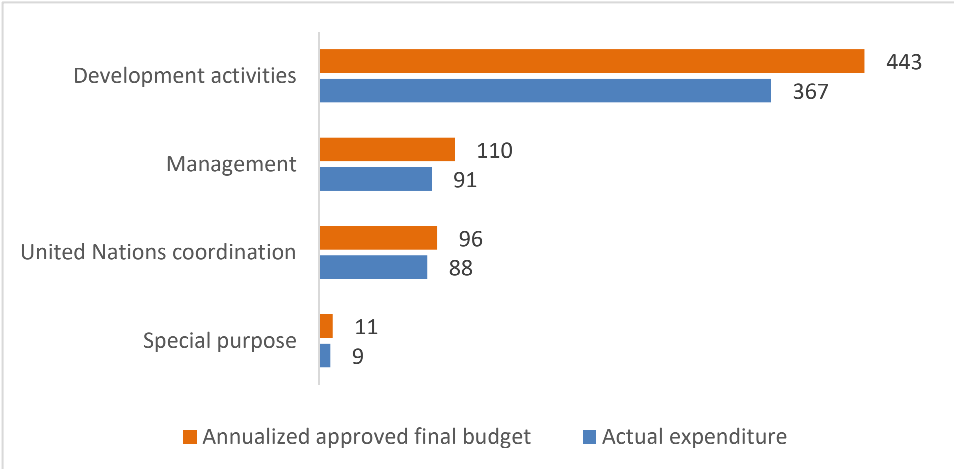
27. The integrated resources plan and the integrated budget set out the estimated financial resources for the new strategic plan, covering both regular (core) and other (non-core) resources for 2018–2021. The integrated resources plan includes regular and other resources and encompasses the integrated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

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

29. The budget of UNDP is prepared on a modified cash basis and is presented in the financial statements as statement V, comparison of budget and actual amounts (regular resources). In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is also included in note 7.

Figure III.XII
Budget utilization rates for 2018

(Millions of United States dollars)

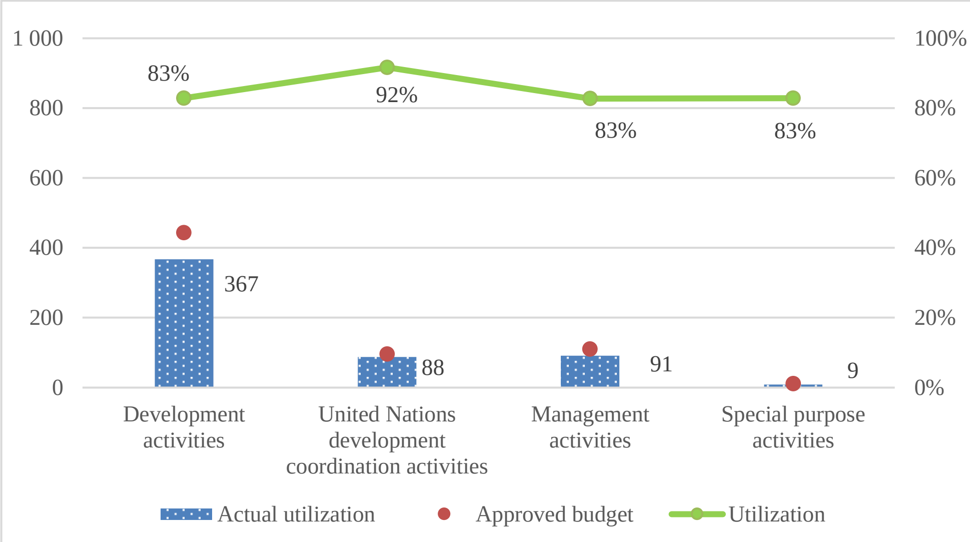


30. Actual utilizations are lower than the annualized budget for 2018, as UNDP revised the annual spending limits. The lower utilization was due largely to pending programming of TRAC-2 resources[3] and a deliberate decision of the Administrator to avoid the use of $29 million in 2018, approved by the Executive Board for management activities in the institutional budget, for the transition period to new cost recovery rates.

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

[3] UNDP regular resource allocations for country-level programme activities are made within the framework of targets for resource assignments from the core (TRAC).

Figure III.XIII
2018 budget versus actual utilization
(Millions of United States dollars and utilization in percentages)



F. Financial position

Assets

32. At year-end 2018, UNDP held assets of $12,110 million (2017 (restated): $10,663 million), which were composed largely of investments and investments for the Multi-Partner Trust Fund Office of $6,237 million (2017: $5,666 million), cash and cash equivalents of $1,067 million (2017: $1,046 million) and non-exchange receivables of $4,329 million (2017 (restated): $3,527 million). The majority of investments and cash and cash equivalents will be used for development activities funded via cost-sharing and trust funds.

33. Overall, assets increased by $1,447 million, or 14 per cent, over the prior year. The change is attributable primarily to an increase in net investments and investments for the Multi-Partner Trust Fund Office ($571 million) and in receivables, non-exchange transactions ($802 million).

Liabilities

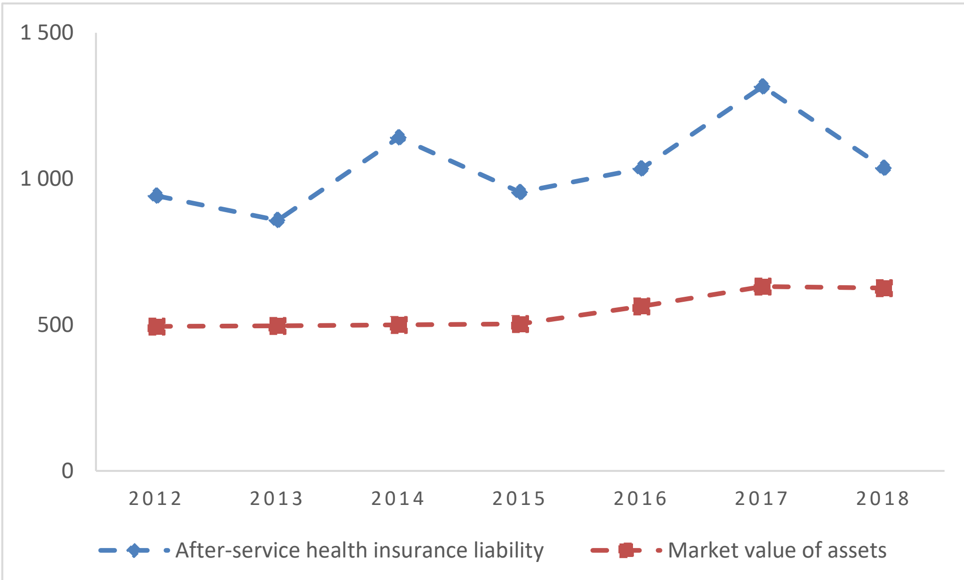
34. The total liabilities of UNDP increased by $711 million, or 12 per cent, from $6,021 million in 2017 to $6,732 million in 2018. The most significant increase was in funds received in advance and deferred revenue, which increased by $753 million, or 22 per cent, owing to additional multi-year agreements signed with funding partners in 2018.

35. The after-service health insurance benefit is valued at $1,036 million (2017: $1,316 million). The decrease of $280 million in the after-service health insurance liability in 2018 is largely due to the increase in valuation discount rates because of improved market yields during the year and a decrease in UNDP head count (net change of 157 participants since 2017).

36. UNDP holds $626 million in cash and investments and $27 million additional assets on hand and earmarked to fund after-service health insurance liabilities (63 per cent funded). The Programme's 15-year full funding strategy is informed by a periodic asset-liability study. Given the significant change in the liability, a 2019

asset-liability study has been commissioned, the results of which will inform the Programme's future full funding strategy.

Figure III.XIV[4]
After-service health insurance liability and market values of earmarked assets in investments
(Millions of United States dollars)



Liquidity

37. UNDP exceeded the minimum liquidity requirement for regular resources mandated by the Executive Board with 7.61 months of average expenditures (2017: 5.26 months). The increase is primarily a result of the slowdown in delivery in the fourth quarter and pending programming of TRAC-2 resources.

Net assets/equity

38. Net assets/equity reached $5,378 million, comprising accumulated surpluses of $5,086 million and reserves of $292 million, of which the operational reserve represents $289 million.

39. Within the operational reserves, the non-core operational reserves accounted for $139 million and the core management reserves accounted for $150 million.

40. In 2018, a further $10 million (2017: $23 million) was released to the accumulated surpluses from the operational reserve, in accordance with the operational reserve formula approved by the Executive Board in decision 1999/9.

41. During 2018, net assets/equity increased by $737 million as a result of the combined effect of the following factors: (a) a surplus of $420 million; and (b) actuarial gains of $370 million resulting from a decrease in the actuarial discount rate.

[4] At the end of 2018, cash and investments to fund the after-service health insurance liability totalled $625.822 million and additional assets on hand and earmarked for the after-service health insurance liability amounted to $27.224 million. The total after-service health insurance assets were $653.046 million, yielding a funded ratio of the after-service health insurance liability of 63 per cent (2017: 50 per cent).

42. In 2018, the total accumulated resource balance stood at $5,086 million (2017: $4,339 million). Of that total, $4,366 million represented the accumulated non-core programme resource balance,[5] which increased by 18 per cent from 2017 (2017: $3,774 million). The accumulated resource balance results from revenue received by UNDP for multi-year programmes and projects that will be implemented in future periods.

Financial position by segment

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

Table III.1
Summary financial position by segment as at 31 December 2018
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total UNDP*
Total assets	2 765.5	6 030.3	2 240.7	1 074.0	12 110.5
Percentage of total UNDP assets	23	50	18	9	100
Total liabilities	2 360.9	2 674.2	1 227.2	470.0	6 732.3
Percentage of total UNDP liabilities	35	40	18	7	100
Net assets/equity	404.6	3 356.1	1 013.5	604.0	5 378.2
Percentage of total UNDP net assets/equity	8	62	19	11	100

Summary financial position by segment as at 31 December 2017 (restated)
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total UNDP*
Total assets	2 170.7	5 069.6	2 405.5	1 016.8	10 662.6
Percentage of total UNDP assets	20	47	23	10	100
Total liabilities	1 984.2	2 115.7	1 343.2	577.8	6 021.0
Percentage of total UNDP liabilities	33	35	22	10	100
Net assets/equity	186.5	2 953.8	1 062.3	439.0	4 641.6
Percentage of total UNDP net assets/equity	4	64	23	9	100

G. Accountability, governance and risk management

44. 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;

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

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

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

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

45. 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

46. 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.

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

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

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

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

(d) Monitor the effectiveness of internal controls.

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

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

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

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

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

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

Enterprise risk management

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

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

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

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

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

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

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

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

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

Financial risk management

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

52. 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.

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

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

Accounting matters

Critical accounting estimates

55. 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

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

Changes in accounting policies in 2018

57. IPSAS 23: Revenue from non-exchange transactions: In 2018, UNDP refined its accounting policy for receivables from non-exchange transactions. Under the new policy, provided that inflows of resources meet the definition of an asset, receivables from non-exchange transactions are recognized in full, including for multi-year contributions, at the time the agreement is signed, except for agreements that have performance conditions beyond the control of UNDP. The revenue associated with receivables expected to be received in future periods is deferred on the statement of financial position until the conditions in contribution agreements, if any, are met or when funds are to be transferred to UNDP and intended to be utilized. The change in accounting policy, including the impact on 2017 comparatives, is disclosed in note 5, Change in accounting policy and reclassifications, to the 2018 financial statements. UNDP is continuing to examine the substance and form of its non-exchange agreements to ensure alignment with IPSAS 23, as requested by the Board of Auditors.

58. IPSAS 39: Employee benefits, which was issued by the IPSAS Board in July 2016 to replace IPSAS 25, came into effect on 1 January 2018. The new accounting standard was issued to align with International Accounting Standard (IAS) 19 and did not have any significant impact on the Programme's financial statements.

Adoption of new accounting standards

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

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

61. As at 31 December 2018, the ongoing projects included in the IPSAS Board workplan that could have a significant impact on UNDP include:

- Revenue – exchange and non-exchange: The aim of the project is to replace the existing standards for exchange revenue (IPSAS 9 and 11), and update IPSAS 23 for non-exchange revenue.

- Non-exchange expenses, grants and other transfers: The aim of this project is to address the lack of international guidance on the recognition and measurement of non-exchange expenses, which creates a public interest deficit through the potential for inconsistent reporting.

62. Although these projects are currently active, they have yet to result in exposure drafts and, therefore, implementation dates have not been specified and it is unlikely that the projects will be finalized before 2020.

Transactions with related parties

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

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

Audit services and fees

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

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

	2018	*2017*
Audit fees	1 259	1 259

H. Achievements in 2018 and future developments

Strategic plan, 2018–2021

65. Anchored in the 2030 Agenda for Sustainable Development and committed to the principles of universality, equality and leaving no one behind, the UNDP vision for the strategic plan, 2018–2021,[6] 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.

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

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

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

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

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

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

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

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

(i) Keeping people out of poverty;

(ii) Strengthening effective, inclusive and accountable governance;

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

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

(v) Closing the energy gap;

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

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

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

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

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

Reflecting on the achievements of 2018

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

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

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

71. Prompted by the United Nations reform process, in 2018 UNDP restaffed its country-level leadership team in minimal time, recruiting a new gender and geographically balanced cohort of 140 resident representatives to lead its work in countries. Half of the senior leadership team are now women. This exercise was the largest and most complex recruitment in UNDP history, for which the UNDP human resources team was awarded a prize for innovation in recruitment by human resources professionals across international organizations.

72. Beyond reform, UNDP continued to be the operational backbone of the United Nations system in 2018. It disbursed $1.45 billion in 113 currencies through its payroll system, nearly half of which was on behalf of partner United Nations organizations. UNDP supported $2.26 billion in financial transactions for 118 United Nations and other agencies in over 170 countries. UNDP provided common premises for other agencies in 126 countries, where they could avail of common services, including travel management.

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

Looking forward to 2019

74. UNDP identified three global issues central to development for 2019, which, if tackled in an integrated way, will scale up and accelerate progress towards the Sustainable Development Goals: inequality; climate change; and migration and displacement. Through the implementation of its strategic plan, UNDP will examine and catalyse its local action with partners on these issues to help drive global progress. This is in line with UNDP efforts to deepen integrated results as part of United Nations development system reform. UNDP will continue to look for new and better ways of doing business, increasing efficiency and effectiveness to free up resources for development results and work with funding partners to rebuild fiscal space to invest and grow.

Chapter IV

Financial statements for the year ended 31 December 2018

United Nations Development Programme

I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Reference	*31 December 2018*	*31 December 2017 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 8	737 005	837 339
Cash and cash equivalents, Multi-Partner Trust Fund Office	Note 8	329 550	208 597
Investments	Note 9	3 028 641	2 670 610
Investments, Multi-Partner Trust Fund Office	Note 9	298 363	264 707
Receivables, non-exchange transactions	Note 10	2 166 871	1 468 896
Receivables, other	Note 11	95 777	77 584
Advances issued	Note 12	210 078	160 723
Loans to Governments	Note 15	507	507
Inventories	Note 13	6 639	13 652
Other current assets	Note 14	1 524	689
Total current assets		**6 874 955**	**5 703 304**
Non-current assets			
Investments	Note 9	2 752 927	2 669 034
Investments, Multi-Partner Trust Fund Office	Note 9	157 226	61 360
Loans to Governments	Note 15	4 025	4 564
Receivables, non-exchange transactions	Note 10	2 162 211	2 058 310
Property, plant and equipment	Note 16	149 415	156 490
Intangible assets	Note 17	9 697	9 504
Other non-current assets	Note 14	64	26
Total non-current assets		**5 235 565**	**4 959 288**
Total assets		**12 110 520**	**10 662 592**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 18	189 088	213 825
Advances payable	Note 19	33 957	31 449
Funds received in advance and deferred revenue	Note 20	2 011 522	1 363 795
Funds held on behalf of donors	Note 20	14 422	18 103
Payables, Multi-Partner Trust Fund Office and United Nations entities	Note 21	824 744	639 293
Employee benefits	Note 22	219 655	214 485
Other current liabilities	Note 23	4 190	9 873
Total current liabilities		**3 297 578**	**2 490 823**

United Nations Development Programme

I. Statement of financial position as at 31 December 2018 (continued)

	Reference	*31 December 2018*	*31 December 2017 (restated)*
Non-current liabilities			
Payables, Multi-Partner Trust Fund Office	Note 21	157 226	61 360
Funds received in advance and deferred revenue	Note 20	2 171 256	2 065 781
Employee benefits	Note 22	1 105 863	1 402 305
Other non-current liabilities	Note 23	354	722
Total non-current liabilities		**3 434 699**	**3 530 168**
Total liabilities		**6 732 277**	**6 020 991**
Net assets/equity			
Reserves	Note 24	292 160	302 160
Accumulated surpluses	Note 25	5 086 083	4 339 441
Total net assets/equity		**5 378 243**	**4 641 601**
Total liabilities and net assets/equity		**12 110 520**	**10 662 592**

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 2018

(Thousands of United States dollars)

	Reference	*2018*	*2017*
Revenue			
Voluntary contributions	Note 26	5 185 295	4 892 099
Revenue, exchange transactions	Note 27	145 647	175 399
Investment revenue	Note 28	134 206	88 402
Other revenue	Note 29	51 879	80 524
Total revenue		**5 517 027**	**5 236 424**
Expenses			
Contractual services	Note 30	1 967 504	2 030 227
Staff costs	Note 30	865 059	882 598
Supplies and consumables used	Note 30	1 058 874	994 196
General operating expenses	Note 30	871 641	861 408
Grants and other transfers	Note 30	233 922	249 456
Other expenses	Note 30	74 967	54 554
Depreciation and amortization	Note 30	19 506	18 668
Bank fees	Note 30	5 354	3 668
Total expenses		**5 096 827**	**5 094 775**
Surplus/(deficit) for the year		**420 200**	**141 649**

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 2018

(Thousands of United States dollars)

	Reserves	*Accumulated surpluses*	*Total net assets/equity*
Balance at 31 December 2017	**302 160**	**4 339 441**	**4 641 601**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(10 000)	10 000	–
Funds with specific purposes (note 25)	–	9 414	9 414
Changes in fair value of available-for-sale investments	–	(63 085)	(63 085)
Actuarial gains/(losses)	–	370 113	370 113
Surplus/(deficit) for the year	–	420 200	420 200
Total changes in net assets/equity	**(10 000)**	**746 642**	**736 642**
Balance at 31 December 2018	**292 160**	**5 086 083**	**5 378 243**

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 2018

(Thousands of United States dollars)

	Reference	*2018*	*2017 (restated)*
Cash flows from operating activities			
Surplus/(deficit) for the year		420 200	141 649
Adjustments to reconcile deficit for the year to net cash flows			
Depreciation and amortization		19 506	18 668
Impairment		(53)	185
In-kind contributions (donated goods)		(42)	(129)
Amortization of premium/(discount) on investments		(11 115)	4 013
(Gains)/losses on foreign exchange translation		17 450	(6 986)
Losses on disposal of property, plant and equipment		4 617	4 294
Changes in assets			
(Increase)/decrease in receivables, non-exchange transactions		(802 008)	(3 402 285)
(Increase)/decrease in receivables, other[a]		(119 598)	(114 482)
(Increase)/decrease in advances issued		(58 148)	39 947
(Increase)/decrease in inventories		7 013	(6 088)
(Increase)/decrease in other current assets		(870)	461
Changes in liabilities, net assets/equity			
(Decrease)/increase in accounts payable and accrued liabilities		(22 217)	18 599
(Decrease)/increase in advances payable		2 508	10 176
(Decrease)/increase in funds received in advance and deferred revenue		753 202	3 321 701
(Decrease)/increase in funds held on behalf of donors		(3 681)	(2 360)
(Decrease)/increase in payables, Multi-Partner Trust Fund Office and United Nations entities		281 317	142 259
(Decrease)/increase in employee benefits		79 537	50 567
(Decrease)/increase in other current liabilities		(5 672)	2 231
(Decrease)/increase in provision for restructuring		–	(147)
(Decrease)/increase in funds with specific purposes		9 414	9 210
Cash flows from/(used in) operating activities		**571 360**	**231 483**
Cash flows from investing activities			
Purchases of investments		(4 885 431)	(4 924 600)
Maturities of investments		4 584 937	5 046 085
(Increase)/decrease in investments, Multi-Partner Trust Fund Office		(129 059)	(31 961)
(Increase)/decrease in investments managed by external investment manager		(193 859)	(261 691)
Interest and dividends received		101 143	83 157
(Increase)/decrease in loans to Governments		539	1 532
Purchases of property, plant and equipment		(18 454)	(24 473)
Disposals of property, plant and equipment		4 043	3 035
Purchases of intangible assets		(2 565)	(4 352)
Disposal of intangible assets		(229)	57
Cash flows from/(used in) investing activities		**(538 935)**	**(113 211)**

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2018 (continued)

	Reference	*2018*	*2017 (restated)*
Cash flows from financing activities			
Finance lease repayment		(10)	(43)
Cash flows from/(used in) financing activities		**(10)**	**(43)**
Increase/(decrease) in cash and cash equivalents, including Multi-Partner Trust Fund Office		**32 415**	**118 229**
Effect of exchange rate changes on cash and cash equivalents		**(11 796)**	**10 256**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: beginning of year		**1 045 936**	**917 451**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: end of year	Note 8	**1 066 555**	**1 045 936**

[a] This amount includes an adjustment for interest and dividends received of $101.143 million in cash as well as an adjustment for foreign exchange translation of $(0.262) million.

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

The cash flow statement for the 2017 comparative year has been restated as a result of the change in the Programme’s accounting policy in 2018 on the recognition of receivables from non-exchange transactions (see note 5).

United Nations Development Programme

V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2018

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	351 499	351 499	303 307	48 192
Development effectiveness	91 481	91 481	63 725	27 756
Subtotal	**442 980**	**442 980**	**367 032**	**75 948**
United Nations development coordination activities	**95 866**	**95 866**	**87 784**	**8 082**
Management activities				
Recurring	103 110	103 110	87 046	16 064
Non-recurring	7 000	7 000	4 389	2 611
Subtotal	**110 110**	**110 110**	**91 435**	**18 675**
Special purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	11 048	11 048	9 184	1 864
Subtotal	**11 048**	**11 048**	**9 184**	**1 864**
Total	**660 004**	**660 004**	**555 435**	**104 569**

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

United Nations Development Programme
Notes to the financial statements 2018

Note 1
Reporting entity

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

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

1.3. UNDP helps to achieve the eradication of poverty, and the reduction of inequalities and exclusion, and assists countries in developing policies, leadership skills, partnering abilities and institutional capabilities and in building resilience in order to sustain development results. UNDP is continuing its work to support the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals, as they help to shape global sustainable development efforts for the next 12 years. UNDP helps developing countries to attract and use development cooperation and domestic resources effectively and encourages, in all its activities, the protection of human rights, capacity development and the empowerment of women.

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

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

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

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

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

Basis of measurement

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

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

Foreign currency

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

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

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

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

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

Critical accounting estimates

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

Future accounting changes

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

Authorization to submit financial statements for audit

3.10. These financial statements are approved and certified by the Administrator, the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer/Comptroller of UNDP. In accordance with the Financial Regulations and Rules of UNDP, these financial statements are authorized to be submitted for audit on 30 April 2019.

Note 4
Significant accounting policies

Financial assets classification

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

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables

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

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

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

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

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

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

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

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

Fair value through surplus or deficit

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

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

Inventories

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

Property, plant and equipment

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

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

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

4.19. Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (refer to the section on "leases" below).

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

Estimated useful lives of property, plant and equipment

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

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

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

Intangible assets

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

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

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

Estimated useful lives of intangible assets

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

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

Impairment of non-cash generating assets

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

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

Financial liabilities classification

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

Other financial liabilities

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

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

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

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

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

Fair value through surplus or deficit

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

Funds received in advance and deferred revenue

4.35. Funds received in advance represent contributions received for future periods specified in donor contribution agreements. The funds are recognized as revenue and applied to the earmarked activities at the beginning of the specified future period. Deferred revenue represents non-exchange contributions receivable that have been recognized but relate to future years specified in donor contribution agreements.

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

4.41. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual participating organizations. UNDP and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Programme's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNDP has treated this plan as if it were a defined contribution plan, in line with the requirements set out in IPSAS 25: Employee benefits. UNDP contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

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

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

Defined benefit plans

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

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

Other long-term employee benefits

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

Termination benefits

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

Leases

Operating lease

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

Finance lease

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

Right-to-use arrangements

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

Revenue recognition

Contributions

4.51. Voluntary contributions are non-exchange transactions that are recognized as revenue when contribution agreements become enforceable, or in some instances when cash is received in accordance with the Financial Regulations and Rules of UNDP. UNDP recognizes assets when control over the resources is established as a result of past events. Receivables resulting from non-exchange transactions are recognized as assets when it is probable that the future economic benefits or service potential associated with the assets will flow to UNDP and when the fair value can be measured reliably. The receivables from non-exchange transactions are recognized in full, including for multi-year contributions, at the time the agreement is signed, except for agreements that have performance conditions beyond the control of UNDP. The revenue associated with receivables expected to be received in future periods is deferred on the statement of financial position until the conditions in contribution agreements, if any, are met or when funds are to be transferred to UNDP and intended to be utilized.

4.52. Depending on the agreements, enforceability occurs upon signature alone, signature and receipt of deposit, when conditions, if any, in contribution agreements are met, or when funds are to be transferred to UNDP and intended to be utilized. Revenue is shown net of returns of unused funds to donors and impairment of receivables.

4.53. 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

4.54. 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

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

4.56. 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.

4.57. 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.

4.58. 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

4.59. 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

4.60. 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.

Contingencies

Contingent assets

4.61. 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

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

Note 5
Change in accounting policy and reclassifications

Change in accounting policy

5.1. The policy for recognizing revenues from voluntary contributions (non-exchange transactions) described in note 4, Significant accounting policies, was refined in 2018. Under the previous policy, UNDP recognized receivables from non-exchange transactions based on payment plan due dates included in the donor agreements, which served as a proxy for identifying the period in which programmatic activities were being carried out. Under the new policy, provided inflows of resources meet the definition of an asset, receivables from non-exchange transactions are recognized in full, including for multi-year contributions, at the time the agreement is signed, except for agreements that have performance conditions beyond the control of UNDP. The revenue associated with receivables expected to be received in future periods is deferred on the statement of financial position until conditions in contribution agreements, if any, are met or when funds are to be transferred to UNDP and intended to be utilized.

5.2. This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. The new policy provides more reliable and relevant information since it simplifies the accounting by recording all future year receivables from non-exchange transactions in the statement of financial position, many of which were previously disclosed as contingent assets in note 33, Commitments and contingencies.

5.3. For the prior-period adjustment, the 2017 comparative balances at the individual financial statement lines were restated, as summarized in the table below. The impact on the 2017 financial position includes a $3.390 billion increase in contributions receivable from voluntary contributions ($1.332 billion in current and $2.058 billion in non-current assets), with a corresponding increase in deferred revenue. The adjustment represents corresponding increases in segment assets and liabilities as follows: a $61.35 million increase in regular resources, a $1.972 billion increase in cost-sharing, a $1.325 billion increase in trust funds and a $31.33 million increase in reimbursable support services and miscellaneous activities.

5.4. The impact on the 2017 cash flow statement was a $3.390 billion increase in receivables from non-exchange transactions and a corresponding increase in funds received in advance and deferred revenue reflected in cash flows from operating activities. This had no impact on the overall cash and cash equivalents balance.

5.5. Previously, UNDP disclosed multi-year contributions from donors (excluding contributions from programme country Governments for development activities in their country offices) for which revenue was to be recorded in future accounting periods. As a result of the change in accounting policy, UNDP now recognizes these multi-year contributions on the statement of financial position and, therefore, multi-year contributions are no longer disclosed in note 33, Commitments and contingencies, under “contingent assets”.

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

Impact on statement of financial position

(Thousands of United States dollars)

	31 December 2017 (audited)	*Restatement*	*31 December 2017 (restated)*
Statement of financial position extract			
Receivables, non-exchange transactions	136 721	1 332 175	1 468 896
Total current assets	**4 371 129**	**1 332 175**	**5 703 304**
Receivables, non-exchange transactions	–	2 058 310	2 058 310
Total non-current assets	**2 900 978**	**2 058 310**	**4 959 288**
Total assets	**7 272 107**	**3 390 485**	**10 662 592**
Funds received in advance and deferred revenue	31 620	1 332 175	1 363 795
Total current liabilities	**1 158 648**	**1 332 175**	**2 490 823**
Funds received in advance and deferred revenue	7 471	2 058 310	2 065 781
Total non-current liabilities	**1 471 858**	**2 058 310**	**3 530 168**
Total liabilities	**2 630 506**	**3 390 485**	**6 020 991**
Accumulated surpluses			
Total net assets/equity	**4 641 601**	**–**	**4 641 601**
Total liabilities and net assets/equity	**7 272 107**	**3 390 485**	**10 662 592**

Impact on cash flow statement

(Thousands of United States dollars)

	31 December 2017 (audited)	*Restatement*	*31 December 2017 (restated)*
Cash flow extract			
(Increase)/decrease in receivables, non-exchange transactions	(11 800)	(3 390 485)	(3 402 285)
Increase/(decrease) in funds received in advance and deferred revenue	(68 784)	3 390 485	3 321 701

Reclassification of comparatives

5.7. In 2018, the Green Climate Fund was reclassified from the trust funds segment to the cost-sharing segment in note 6, Segment reporting, in order to better reflect the nature of the contributions. Accordingly, the 2017 comparatives in the statement of financial position and in the 2017 statement of financial performance in note 6 have been reclassified from the trust funds segment to the cost-sharing segment. There were no changes to any of the 2017 Green Climate Fund balances other than the change in segment, and the reclassification had no impact on the total balances in note 6. In addition, as a result of the reclassification, the Green Climate Fund has been excluded from note 36.8, All trust funds established by the United Nations Development Programme: schedule of financial performance. The following table outlines the changes to note 6.

Impact on statement of financial position

(Thousands of United States dollars)

	Cost-sharing	*Trust funds*		*Cost-sharing*	*Trust funds*
	31 December 2017 (audited)	*31 December2017 (audited)*	*Restatement*	*31 December 2017 (restated)*	*31 December 2017 (restated)*
Cash and cash equivalents	389 937	151 776	4 558	394 495	147 218
Investments	1 196 445	465 597	14 002	1 210 447	451 595
Receivables, non-exchange transactions	127 513	2 588	–	127 513	2 588
Receivables, other	1 310	302	–	1 310	302
Advances issued	120 369	14 938	146	120 515	14 792
Loans to Governments	–	–	–	–	–
Inventories	12 560	5	–	12 560	5
Other current assets	19	45	–	19	45
Total current assets	**1 848 153**	**635 251**	**18 706**	**1 866 859**	**616 545**
Investments	1 196 445	472 422	14 002	1 210 447	458 420
Loans to Governments	–	–	–	–	–
Property, plant and equipment	20 000	5 006	24	20 024	4 982
Intangible assets	–	6	–	–	6
Other non-current assets	7	–	–	7	–
Total non-current assets	**1 216 452**	**477 434**	**14 026**	**1 230 478**	**463 408**
Total assets	**3 064 605**	**1 112 685**	**32 732**	**3 097 337**	**1 079 953**
Liabilities					
Accounts payable and accrued liabilities	99 124	7 905	186	99 310	7 719
Advances payable	20 268	9 808	–	20 268	9 808
Funds received in advance and deferred revenue	23 276	–	–	23 276	–
Funds held on behalf of donors	468	79	–	468	79
Employee benefits	45	6	–	45	6
Other current liabilities	146	28	–	146	28
Total current liabilities	**143 327**	**17 826**	**186**	**143 513**	**17 640**
Total liabilities	**143 327**	**17 826**	**186**	**143 513**	**17 640**
Reserves	–	3 000	–	–	3 000
Accumulated surpluses	2 921 278	1 091 859	32 546	2 953 824	1 059 313
Total net assets/equity	**2 921 278**	**1 094 859**	**32 546**	**2 953 824**	**1 062 313**
Total liabilities and net assets/equity	**3 064 605**	**1 112 685**	**32 732**	**3 097 337**	**1 079 953**

Impact on statement of financial performance

(Thousands of United States dollars)

	Cost-sharing	Trust funds		Cost-sharing	Trust funds
	31 December 2017 (audited)	31 December 2017 (audited)	Restatement	31 December 2017 (restated)	31 December 2017 (restated)
Revenue					
Voluntary contributions	3 227 815	814 196	37 126	3 314 940	777 071
Revenue from exchange transactions	1 123	4	–	1 123	4
Investment revenue	31 924	11 916	234	32 158	11 682
Other revenue	3 989	2 028	–	3 989	2 028
Total revenue	**3 314 851**	**828 144**	**37 360**	**3 352 210**	**790 785**
Expenses					
Contractual services	1 241 592	582 450	3 564	1 245 155	578 887
Staff costs	170 929	46 356	237	171 167	46 118
Supplies and consumables used	868 039	55 219	154	868 193	55 065
General operating expenses	662 127	146 331	1 237	663 365	145 093
Grants and other transfers	192 470	45 979	972	192 442	45 007
Other expenses	23 937	2 673	(1)	23 935	2 675
Depreciation and amortization	2 798	687	1	2 799	687
Bank fees	98	227	1	97	228
Total expenses	**3 161 990**	**879 922**	**6 164**	**3 168 153**	**873 759**
Surplus/(deficit) for the year	**152 861**	**(51 778)**	**31 196**	**184 057**	**(82 974)**

Note 6
Segment reporting

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

Regular resources

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

Cost-sharing

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

Trust funds

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

Reimbursable support services and miscellaneous activities

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

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

Segment reporting: statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2018	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*
Assets										
Current assets										
Cash and cash equivalents	184 670	173 532	345 877	394 496	106 256	147 217	100 202	122 094	737 005	837 339
Cash and cash equivalents, Multi-Partner Trust Fund Office	329 550	208 597	–	–	–	–	–	–	329 550	208 597
Investments	721 861	633 636	1 445 326	1 210 446	445 385	451 596	416 069	374 932	3 028 641	2 670 610
Investments, Multi-Partner Trust Fund Office	298 363	264 707	–	–	–	–	–	–	298 363	264 707
Receivables: non-exchange transactions	197 231	27 535	1 347 302	980 720	589 722	440 177	32 616	20 464	2 166 871	1 468 896
Receivables, other	93 761	75 369	1 271	1 310	261	302	484	603	95 777	77 584
Advances issued	29 294	23 125	151 446	120 516	25 491	14 792	3 847	2 291	210 078	160 723
Loans to Governments	–	–	–	–	–	–	507	507	507	507
Inventories	227	213	5 654	12 560	28	5	730	874	6 639	13 652
Other current assets	1 476	621	–	19	44	45	4	4	1 524	689
Total current assets	**1 856 433**	**1 407 335**	**3 296 876**	**2 720 066**	**1 167 187**	**1 054 134**	**554 459**	**521 769**	**6 874 955**	**5 703 304**
Non-current assets										
Investments	591 659	625 235	1 351 065	1 210 446	421 269	458 421	388 934	374 932	2 752 927	2 669 034
Investments, Multi-Partner Trust Fund Office	157 226	61 360	–	–	–	–	–	–	157 226	61 360
Loans to Governments	–	–	–	–	–	–	4 025	4 564	4 025	4 564
Receivables, non-exchange transactions	118 443	33 812	1 362 427	1 119 023	647 634	887 986	33 707	17 489	2 162 211	2 058 310
Property, plant and equipment	41 716	42 751	19 926	20 024	4 618	4 982	83 155	88 733	149 415	156 490
Intangible assets	11	228	–	–	7	6	9 679	9 270	9 697	9 504
Other non-current assets	40	3	6	6	–	–	18	17	64	26
Total non-current assets	**909 095**	**763 389**	**2 733 424**	**2 349 499**	**1 073 528**	**1 351 395**	**519 518**	**495 005**	**5 235 565**	**4 959 288**
Total assets	**2 765 528**	**2 170 723**	**6 030 300**	**5 069 565**	**2 240 715**	**2 405 529**	**1 073 977**	**1 016 774**	**12 110 520**	**10 662 592**

Segment reporting: statement of financial position as at 31 December 2018 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2018	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2018*	*31 December 2017 (restated)*
Liabilities										
Current										
Accounts payable and accrued liabilities	81 001	78 978	75 114	99 310	9 076	7 718	23 897	27 819	189 088	213 825
Advances payable	777	840	18 686	20 268	13 887	9 808	607	533	33 957	31 449
Funds received in advance and deferred revenue	199 345	27 651	1 217 310	876 483	556 505	437 589	38 362	22 072	2 011 522	1 363 795
Funds held on behalf of donors	13 769	17 454	474	468	79	79	100	102	14 422	18 103
Payables, Multi-Partner Trust Fund Office and United Nations entities	824 744	639 293	–	–	–	–	–	–	824 744	639 293
Employee benefits	200 569	194 784	40	45	7	6	19 039	19 650	219 655	214 485
Other current liabilities	3 361	8 132	134	146	26	28	669	1 567	4 190	9 873
Total current liabilities	**1 323 566**	**967 132**	**1 311 758**	**996 720**	**579 580**	**455 228**	**82 674**	**71 743**	**3 297 578**	**2 490 823**
Non-current liabilities										
Payables, Multi-Partner Trust Fund Office	157 226	61 360	–	–	–	–	–	–	157 226	61 360
Funds received in advance and deferred revenue	118 443	33 812	1 362 427	1 119 021	647 634	887 988	42 752	24 960	2 171 256	2 065 781
Employee benefits	761 298	921 198	–	–	–	–	344 565	481 107	1 105 863	1 402 305
Other non-current liabilities	354	722	–	–	–	–	–	–	354	722
Total non-current liabilities	**1 037 321**	**1 017 092**	**1 362 427**	**1 119 021**	**647 634**	**887 988**	**387 317**	**506 067**	**3 434 699**	**3 530 168**
Total liabilities	**2 360 887**	**1 984 224**	**2 674 185**	**2 115 741**	**1 227 214**	**1 343 216**	**469 991**	**577 810**	**6 732 277**	**6 020 991**
Net assets/equity										
Reserves	150 159	160 159	–	–	3 000	3 000	139 001	139 001	292 160	302 160
Accumulated surpluses/(deficits)	254 482	26 341	3 356 115	2 953 824	1 010 501	1 059 313	464 985	299 963	5 086 083	4 339 441
Total net assets/equity	**404 641**	**186 500**	**3 356 115**	**2 953 824**	**1 013 501**	**1 062 313**	**603 986**	**438 964**	**5 378 243**	**4 641 601**
Total liabilities and net assets/equity	**2 765 528**	**2 170 724**	**6 030 300**	**5 069 568**	**2 240 715**	**2 405 529**	**1 073 977**	**1 016 774**	**12 110 520**	**10 662 592**

Segment reporting: statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total UNDP*	
	2018	*2017*	*2018*	*2017 (reclassified)*	*2018*	*2017 (reclassified)*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
Revenue												
Voluntary contributions	662 397	647 298	3 644 368	3 314 940	745 952	777 071	132 578	152 790	–	–	5 185 295	4 892 099
Revenue, exchange transactions	13	102	534	1 123	8	4	145 092	174 170	–	–	145 647	175 399
Investment revenue	50 313	36 708	56 009	32 158	17 089	11 682	10 795	7 854	–	–	134 206	88 402
Other revenue	24 267	39 204	3 969	3 989	2 351	2 028	278 929	278 538	(257 637)	(243 235)	51 879	80 524
Total revenue	**736 990**	**723 312**	**3 704 880**	**3 352 210**	**765 400**	**790 785**	**567 394**	**613 352**	**(257 637)**	**(243 235)**	**5 517 027**	**5 236 424**
Expenses												
Contractual services	112 311	131 969	1 287 246	1 245 155	495 936	578 887	72 011	74 216	–	–	1 967 504	2 030 227
Staff costs	319 426	315 790	179 134	171 167	54 335	46 118	312 164	349 523	–	–	865 059	882 598
Supplies and consumables used	35 794	42 074	933 622	868 193	56 004	55 065	33 454	28 864	–	–	1 058 874	994 196
General operating expenses	146 367	167 432	688 894	663 365	153 861	145 093	140 156	128 753	(257 637)	(243 235)	871 641	861 408
Grants and other transfers	6 551	9 035	176 996	193 442	48 809	45 007	1 566	1 972	–	–	233 922	249 456
Other expenses	35 495	21 561	32 747	23 935	4 467	2 675	2 258	6 383	–	–	74 967	54 554
Depreciation and amortization	4 738	4 547	2 799	2 799	624	686	11 345	10 636	–	–	19 506	18 668
Bank fees	3 543	2 888	1 151	97	176	228	484	455	–	–	5 354	3 668
Total expenses	**664 225**	**695 296**	**3 302 589**	**3 168 153**	**814 212**	**873 759**	**573 438**	**600 802**	**(257 637)**	**(243 235)**	**5 096 827**	**5 094 775**
Surplus/(deficit) for the year	**72 765**	**28 016**	**402 291**	**184 057**	**(48 812)**	**(82 974)**	**(6 044)**	**12 550**	**–**	**–**	**420 200**	**141 649**

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

Note 7
Comparison to budget

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

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

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

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

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

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

- Development activities: actual utilization of $367.0 million, representing 82.9 per cent of the annualized approved budget of $443.0 million.

- United Nations development coordination activities: actual utilization of $87.8 million, representing 91.6 per cent of the annualized approved budget of $95.9 million.
- Management activities: actual utilization of $91.4 million, representing 83.0 per cent of the annualized approved budget of $110.1 million.
- Special purpose activities: actual utilization of $9.2 million, representing 83.6 per cent of the annualized approved budget of $11.0 million.

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

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual budget expenditure on comparable basis as presented in statement V	**(549 554)**	**(5 881)**	**–**	**(555 435)**
Basis differences	3 808	1 681	–	5 489
Entity differences	1 117 106	(534 735)	(10)	582 361
Increase/(decrease) in cash and cash equivalents from statement IV	**571 360**	**(538 935)**	**(10)**	**32 415**

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

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

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

Note 8
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
United Nations Development Programme		
Cash held in bank accounts	440 643	567 019
Cash held by an external investment manager	16 714	15 853
Petty cash and project cash	324	424
Money market funds	261 036	77 691

	31 December 2018	*31 December 2017*
Money market instruments	1 528	150 945
Bonds	42 337	51 081
Impairment	(25 577)	(25 674)
Total cash and cash equivalents	**737 005**	**837 339**
Held in trust for multi-donor trust funds		
Cash held in bank accounts	4 966	1 720
Money market funds	84 721	131 877
Money market instruments	239 863	75 000
Bonds	–	–
Total held in trust for multi-donor trust funds	**329 550**	**208 597**
Total cash and cash equivalents and held in trust for multi-donor trust funds	**1 066 555**	**1 045 936**

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

8.2. The decrease in impairment of $0.097 million recognized in the statement of financial performance (refer to note 29, Other revenue) relates to the valuation of certain non-convertible currency held by UNDP.

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

Note 9
Investments

9.1
Total investments

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current investments		
Investments managed by UNDP	3 027 682	2 669 372
Investments managed by an external investment manager	959	1 238
Total current investments	**3 028 641**	**2 670 610**
Non-current investments		
Investments managed by UNDP	2 144 778	2 191 787
Investments managed by an external investment manager	608 149	477 247
Total non-current investments	**2 752 927**	**2 669 034**
Total investments	**5 781 568**	**5 339 644**

Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current investments		
Investments, Multi-Partner Trust Fund Office	298 363	264 707
Total current investments, Multi-Partner Trust Fund Office	**298 363**	**264 707**
Non-current investments		
Investments, Multi-Partner Trust Fund Office	157 226	61 360
Total non-current investments, Multi-Partner Trust Fund Office	**157 226**	**61 360**
Total investments, Multi-Partner Trust Fund Office	**455 589**	**326 067**

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

9.2

Total investments managed by UNDP: held-to-maturity and available-for-sale financial assets

(Thousands of United States dollars)

	1 January 2018	*Purchases*	*Maturities*	*Amortization*	*Unrealized gains/(losses)*	*Fair value increase/ (decrease)*	*Reclassification non-current to current*	*31 December 2018*
Investments								
Current investments								
Money market instruments	759 994	2 717 051	(2 574 933)	2 820	–	–	108 683	1 013 615
Bonds	1 909 534	279 803	(2 009 635)	461	–	–	1 833 904	2 014 067
Bonds, fair value adjustments	(155)	–	–	–	–	155	–	–
Total current investments	**2 669 373**	**2 996 854**	**(4 584 568)**	**3 281**	**–**	**155**	**1 942 587**	**3 027 682**
Non-current investments								
Money market instruments	–	107 342	–	1 710	(369)	–	(108 683)	–
Bonds	2 191 787	1 781 235	–	5 660	–	–	(1 833 904)	2 144 778
Bonds, fair value adjustments	–	–	–	–	–	–	–	–
Total non-current investments	**2 191 787**	**1 888 577**	**–**	**7 370**	**(369)**	**–**	**(1 942 587)**	**2 144 778**
Total investments held to maturity and available for sale	**4 861 160**	**4 885 431**	**(4 584 568)**	**10 651**	**(369)**	**155**	**–**	**5 172 460**

As at 31 December 2018, UNDP did not have any impairment on investments.

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

9.2 (a)
Total investments managed by UNDP: held-to-maturity financial assets

(Thousands of United States dollars)

	1 January 2018	*Purchases*	*Maturities*	*Amortization*	*Unrealized gains/(losses)*	*Fair value increase/ (decrease)*	*Reclassification non-current to current*	*31 December 2018*
Investments held to maturity								
Current investments								
Money market instruments	759 994	2 717 051	(2 574 933)	2 820	–	–	108 683	1 013 615
Bonds	1 784 464	279 803	(1 884 645)	541	–	–	1 833 904	2 014 067
Total current investments	**2 544 458**	**2 996 854**	**(4 459 578)**	**3 361**	**–**	**–**	**1 942 587**	**3 027 682**
Non-current investments								
Money market instruments	–	107 342	–	1 710	(369)	–	(108 683)	–
Bonds	2 191 787	1 781 235	–	5 660	–	–	(1 883 904)	2 144 778
Total non-current investments	**2 191 787**	**1 888 577**	**–**	**7 370**	**(369)**	**–**	**(1 942 587)**	**2 144 778**
Total investments held to maturity	**4 736 245**	**4 885 431**	**(4 459 578)**	**10 731**	**(369)**	**–**	**–**	**5 172 460**

As at 31 December 2018, UNDP did not have any impairment on investments.

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

9.2 (b)
Total investments managed by UNDP: available-for-sale financial assets

(Thousands of United States dollars)

	1 January 2018	*Purchases*	*Maturities*	*Amortization*	*Fair value increase/ (decrease)*	*Reclassification non-current to current*	*31 December 2018*
Investments available for sale							
Current investments							
Money market instruments	–	–	–	–	–	–	–
Bonds	125 070	–	(124 990)	(80)	–	–	–
Bonds, fair value adjustments	(155)	–	–	–	155	–	–
Total current investments	**124 915**	**–**	**(124 990)**	**(80)**	**155**	**–**	**–**
Total non-current investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total investments managed by UNDP available for sale	**124 915**	**–**	**(124 990)**	**(80)**	**155**	**–**	**–**

The available-for-sale portfolio represents investments managed by UNDP for after-service health insurance. In addition to the above investments, $0 million (2017: $12 million) in after-service health insurance investments has been classified under cash and cash equivalents.

As at 31 December 2018, UNDP did not have any impairment on investments.

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

In 2018, UNDP fully outsourced the management of its after-service health insurance portfolio, which was previously managed in-house, to external investment managers.

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

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Investments available for sale		
Current investments		
Bonds	961	1 239
Bonds, fair value adjustments	(2)	(1)
Total current investments	**959**	**1 238**
Non-current investments		
Equities	394 553	270 723
Equities: fair value adjustments	(26 594)	32 638
Bonds	246 103	172 564
Bonds, fair value adjustments	(5 913)	1 322
Total non-current investments	**608 149**	**477 247**
Total investments managed by an external investment manager available for sale	**609 108**	**478 485**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $16.7 million (2017: $15.9 million) in after-service health insurance investments has been classified under cash and cash equivalents.

Total after-service health insurance investments, including cash and cash equivalents, amounted to $625.8 million (2017: $631.3 million).

As at 31 December 2018, UNDP did not have any impairment on investments.

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

9.4
Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	1 January 2018	Purchases	Maturities	Amortization	Reclassification non-current to current	31 December 2018
Investments, Multi-Partner Trust Fund Office						
Current investments						
Money market instruments	70 010	340 000	(270 000)	(10)	–	140 000
Bonds	194 697	30 133	(194 692)	66	128 159	158 363
Total current investments	**264 707**	**370 133**	**(464 692)**	**56**	**128 159**	**298 363**
Non-current investments						
Bonds	61 360	223 618	–	407	(128 159)	157 226
Total non-current investments	**61 360**	**223 618**	**–**	**407**	**(128 159)**	**157 226**
Total investments, Multi-Partner Trust Fund Office	**326 067**	**593 751**	**(464 692)**	**463**	**–**	**455 589**

As at 31 December 2018, UNDP did not have any impairment on investments for the Multi-Partner Trust Fund Office.

Note 10
Receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (restated)*
Contributions receivable, current	2 166 871	1 468 896
Contributions receivable, non-current	2 162 211	2 058 310
Total receivables, non-exchange transactions	**4 329 082**	**3 527 206**

Ageing of receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (restated)*
Past due	198 132	136 721
Due in future periods	4 130 950	3 390 485
Total receivables, non-exchange transactions	**4 329 082**	**3 527 206**

Contributions receivable included $4.13 billion (2017: $3.39 billion) committed to UNDP by donors in signed agreements for future periods. This amount includes $315.67 million (2017: $61.34 million) in receivables from regular resources.

The $198.132 million (2017: $136.721 million) in past due contributions receivable represents the amount that is already due to UNDP based on signed donor agreements.

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

As at 31 December 2018, UNDP did not have any impairment on receivables from non-exchange transactions.

Note 11
Receivables: other

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Receivables from United Nations entities	22 164	60
Investment receivables	27 439	55 731
Receivables from third parties	22 232	21 685
Receivables from staff	867	903
Other financial assets	23 908	–
Total receivables: other, gross	**96 610**	**78 379**
Impairment	(833)	(795)
Total receivables: other, net	**95 777**	**77 584**

Ageing of receivables: other

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Less than or equal to 6 months	87 084	71 372
Over 6 months	9 526	7 007
Total receivables: other, gross	**96 610**	**78 379**

Receivables: United Nations entities

(Thousands of United States dollars)

	31 December 2018	31 December 2017
United Nations Population Fund	7 160	–
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	13 957	–
Receivables from other entities for reserve for field accommodation	37	60
United Nations University	406	–
United Nations Institute for Training and Research	133	–
United Nations System Staff College	471	–
Total receivables, other from United Nations entities	**22 164**	**60**

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

Note 12
Advances issued

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Operating funds issued to Governments and non-governmental organizations not yet implemented	113 228	78 667
Operating funds issued to United Nations entities not yet implemented	46 362	31 116
Prepayments	36 363	31 933
Advances to staff	15 455	20 467
Total advances issued, gross	**211 408**	**162 183**
Impairment	(1 330)	(1 460)
Total advances issued, net	**210 078**	**160 723**

Ageing of advances

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Less than or equal to 6 months	205 839	152 700
Over 6 months	5 569	9 483
Advances issued	**211 408**	**162 183**

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Medical supplies and equipment	4 409	11 428
Information technology supplies and consumables	627	76
Office supplies	91	70
Fuel	11	97
Publications	31	32
Human development reports	32	48
Crisis supplies and equipment	12	12
Other project-related inventories	1 426	1 889
Total inventories	**6 639**	**13 652**

Note 14
Other assets

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current		
Dispensary, medical and other receivables	1 561	730
Impairment	(37)	(41)
Total current other assets	**1 524**	**689**
Non-current		
Security deposit and other receivables	64	26
Total non-current other assets	**64**	**26**
Total other assets	**1 588**	**715**

Note 15
Loans to Governments

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current		
Loans to Governments	507	507
Total current loans to Governments	**507**	**507**
Non-current		
Loans to Governments	4 025	4 564
Total non-current loans to Governments	**4 025**	**4 564**
Total loans to Governments	**4 532**	**5 071**

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

15.2. As at 31 December 2018, loans to Governments consisted of loans issued to the Governments of Cabo Verde, the Comoros, Guinea-Bissau and Sao Tome and Principe.

Note 16
Property, plant and equipment

16.1. UNDP has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which comprise 23 per cent of property, plant and equipment assets, are utilized in the delivery of UNDP programmes and projects. Management assets, which comprise 77 per cent of property, plant and equipment assets, are used for non-project specific operations at UNDP country offices and headquarters. As at 31 December 2018, UNDP had a gross carrying amount of $17.772 million of fully depreciated property, plant and equipment that is still in use.

Property, plant and equipment

(Thousands of United States dollars)

	Land	*Buildings*	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Leasehold improvements*	***Total***
Balance at 1 January 2018								
Cost	7 175	44 763	7 602	59 314	95 068	15 115	24 446	**253 483**
Accumulated depreciation	–	(5 250)	(4 167)	(29 358)	(47 188)	(4 739)	(6 291)	**(96 993)**
Carrying amount as at 1 January 2018	**7 175**	**39 513**	**3 435**	**29 956**	**47 880**	**10 376**	**18 155**	**156 490**
Year ended 31 December 2018								
Additions and adjustments	–	128	203	5 300	7 723	1 650	3 486	**18 490**
Disposals, cost	–	(71)	(2 603)	(6 245)	(10 720)	(1 270)	(767)	**(21 676)**
Depreciation	–	(1 328)	(299)	(4 886)	(6 895)	(695)	(2 802)	**(16 905)**
Disposals, accumulated depreciation/depreciation	–	47	1 516	4 209	6 657	377	210	**13 016**

	Land	*Buildings*	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Leasehold improvements*	***Total***
Recategorization	–	169	–	–	–	–	(169)	**–**
Carrying amount as at 31 December 2018	**7 175**	**38 458**	**2 252**	**28 334**	**44 645**	**10 438**	**18 113**	**149 415**
Balance at 31 December 2018								
Cost	7 175	44 989	5 202	58 369	92 071	15 495	26 996	**250 297**
Accumulated depreciation	–	(6 531)	(2 950)	(30 035)	(47 426)	(5 057)	(8 883)	**(100 882)**
Carrying amount as at 31 December 2018	**7 175**	**38 458**	**2 252**	**28 334**	**44 645**	**10 438**	**18 113**	**149 415**

As at 31 December 2018, assets under construction of $1.7 million were included under leasehold improvements.

Note 17
Intangible assets

(Thousands of United States dollars)

	Software internally developed	*Software acquired*	*Trademarks, copyrights and licences*	*Assets under development*	***Total***
Balance as at 1 January 2018					
Cost	14 470	72	258	3 800	**18 600**
Accumulated amortization	(8 819)	(62)	(215)	–	**(9 096)**
Carrying amount as at 1 January 2018	**5 651**	**10**	**43**	**3 800**	**9 504**
Year ended 31 December 2018					
Additions and adjustments	820	280	66	1 399	**2 565**
Disposals	(761)	(13)	(16)	–	**(790)**
Amortization	(2 309)	(253)	(39)	–	**(2 601)**
Adjustments to accumulated amortization/depreciation	718	287	14	–	**1 019**
Recategorization	3 461	(278)	–	(3 183)	**–**
Carrying amount as at 31 December 2018	**7 580**	**33**	**68**	**2 016**	**9 697**
Balance as at 31 December 2018					
Cost	17 990	61	308	2 016	**20 375**
Accumulated amortization	(10 410)	(28)	(240)	–	**(10 678)**
Carrying amount as at 31 December 2018	**7 580**	**33**	**68**	**2 016**	**9 697**

As at 31 December 2018, UNDP did not have any impairment on intangible assets.

Note 18
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Accruals	55 841	68 498
Payables to United Nations entities	30 255	40 263

	31 December 2018	31 December 2017
Payables to third parties	75 388	63 106
Other financial liabilities	24 283	1 188
Payables to staff	3 321	4 216
Investment settlements payable	–	36 554
Total accounts payable and accrued liabilities	**189 088**	**213 825**

Payables to United Nations entities

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Payables to United Nations current account	10 605	14 720
World Health Organization	4 822	5 313
United Nations Relief and Works Agency for Palestine Refugees in the Near East	3593	3 528
Joint United Nations Programme on HIV/AIDS	2 511	2 308
United Nations Capital Development Fund	7 914	5 910
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	–	3 525
United Nations Population Fund	–	1 361
Payables to other United Nations entities	810	3 598
Total payables to United Nations entities	**30 255**	**40 263**

Note 19
Advances payable

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Operating funds payable to Governments and non-governmental organizations	183	384
Operating funds payable to executing entities/implementing partners	33 774	31 065
Total advances payable	**33 957**	**31 449**

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

(a) Funds received in advance and deferred revenue

(Thousands of United States dollars)

	31 December 2018	31 December 2017 (restated)
Current		
Funds received in advance	32 192	24 269
Deferred revenue, Department of Safety and Security	1 269	–
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	9 310	7 334

	31 December 2018	31 December 2017 (restated)
Deferred revenue, non-exchange transactions	1 968 751	1 332 192
Total current funds received in advance and deferred revenue	**2 011 522**	**1 363 795**
Non-current		
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	9 045	7 471
Deferred revenue, non-exchange revenue	2 162 211	2 058 310
Total non-current funds received in advance and deferred revenue	**2 171 256**	**2 065 781**
Total funds received in advance and deferred revenue	**4 182 778**	**3 429 576**

(b) Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2018	31 December 2017 (restated)
Refunds to donors	14 422	18 103
Total funds held on behalf of donors	**14 422**	**18 103**

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

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

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Current		
Multi-Partner Trust Fund Office	626 544	469 042
Clearing accounts with United Nations entities	122 908	93 970
Payables for common services	75 292	76 281
Total current payables, Multi-Partner Trust Fund Office and United Nations entities	**824 744**	**639 293**
Non-current		
Multi-Partner Trust Fund Office	157 226	61 360
Total non-current payables, Multi-Partner Trust Fund Office and United Nations entities	**157 226**	**61 360**
Total payables, Multi-Partner Trust Fund Office and United Nations entities	**981 970**	**700 653**

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

21.2. With regard to the Multi-Partner Trust Fund Office, the funds payable represent funds provided by donors to the Office for future disbursement. In 2018, UNDP, in its role as administrative agent, received net cash inflows from donors of $1,061.264 million and released $814.978 million. The increase in payables, Multi-Partner Trust Fund Office and United Nations entities, for multi-donor trust funds of $253.368 million also includes $9.519 million of interest and investment income and a net movement of other assets and liabilities of $2.437 million.

Note 22
Employee benefits

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current		
Annual leave	66 696	68 435
Medical insurance plan	103 709	96 724
After-service health insurance	32 224	29 486
Repatriation entitlements	7 951	9 075
Home leave	7 124	7 472
Termination benefits	368	1 773
Workers' compensation	919	959
Contribution payable to the United Nations Joint Staff Pension Fund	276	27
Death benefits	207	201
Other employee benefits	181	333
Total current employee benefit liabilities	**219 655**	**214 485**
Non-current		
After-service health insurance	1 004 623	1 286 921
Repatriation entitlements	85 322	96 600
Workers' compensation	12 401	14 501
Home leave	2 297	2 400
Death benefits	1 220	1 883
Total non-current employee benefit liabilities	**1 105 863**	**1 402 305**
Total employee benefit liabilities	**1 325 518**	**1 616 790**

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

22.2. As at 31 December 2018, liabilities for after-service health insurance, repatriation entitlements, workers' compensation and death benefits were determined by the actuarial valuation conducted as at 31 December 2018.

Defined benefit plans

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Defined benefit obligation as at 31 December 2017	**1 316 407**	**105 675**	**2 084**	**15 460**	**1 439 626**
Increase of the obligation					
Current service cost	36 876	6 976	106	512	44 470
Interest cost	50 093	3 564	69	716	54 442
Actuarial losses from change in financial assumptions	–	–	–	–	–
Actuarial losses from change in demographic assumptions	–	–	–	–	–
Actuarial losses due to experience adjustments	–	–	–	–	–
Decrease of the obligation					
Actual benefits paid	(14 695)	(7 858)	(106)	(900)	(23 559)
Actuarial (gains) on disbursements	(15 926)	(1 538)	(102)	–	(17 566)
Actuarial (gains) from change in financial assumptions	(147 783)	(6 359)	(53)	(943)	(155 138)
Actuarial (gains) from change in demographic assumptions	–	–	–	(128)	(128)
Actuarial (gains) due to experience adjustments	(188 125)	(7 187)	(571)	(1 398)	(197 281)
Recognized liability as at 31 December 2018	**1 036 847**	**93 273**	**1 427**	**13 319**	**1 144 866**

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Current service cost	36 876	6 976	106	512	44 470
Interest cost	50 093	3 564	69	716	54 442
Total employee benefits expenses recognized	**86 969**	**10 540**	**175**	**1 228**	**98 912**

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Actuarial gains/(losses) from change in assumptions and experience adjustments	335 908	13 546	624	2 469	352 547
Actuarial gains/(losses) on disbursement	15 926	1 538	102	–	17 566
Total actuarial gains/ (losses) recognized	**351 834**	**15 084**	**726**	**2 469**	**370 113**

22.8. In 2018, of the net actuarial gains of $370.11 million, the actuarial gain relating to after-service health insurance from a change in actuarial assumptions was $335.91 million.

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

(Thousands of United States dollars)

	2018	*2017*	*2016*	*2015*	*2014*
After-service health insurance					
Defined benefits obligation	1 036 847	1 316 407	1 034 861	954 121	1 141 510
Experience adjustment on plan liabilities	(188 125)	118 690	–	(35 400)	32 804
Repatriation					
Defined benefits obligation	93 273	105 675	98 913	97 687	98 939
Experience adjustment on plan liabilities	(7 187)	7 892	–	1 345	(4 624)
Death benefits					
Defined benefits obligation	1 427	2 084	2 412	2 456	2 855
Experience adjustment on plan liabilities	(571)	(143)	–	(261)	120
Workers' compensation					
Defined benefits obligation	13 319	15 460	16 457	–	–
Experience adjustment on plan liabilities	(1 398)	1 488	2 184	–	–

22.10. At the end of 2018, UNDP had $625.822 million in cash and investments to fund the after-service health insurance liability and a 15-year funding strategy has been formulated to fund the gap between the historical liability and the amount funded.

22.11. The next actuarial valuation will be conducted as at 31 December 2019.

Actuarial assumptions

22.12. The last actuarial valuation for after-service health insurance, repatriation, workers' compensation and death benefits was completed as at 31 December 2018.

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:

	2018	*2017*
Discount rate:		
(a) After-service health insurance	4.55 per cent	3.85 per cent
(b) Repatriation benefits	4.20 per cent	3.53 per cent
(c) Death benefits	4.03 per cent	3.48 per cent
(d) Workers' compensation	4.44 per cent	3.85 per cent
Health-care cost-trend rates:		
(a) United States, non-Medicare plans	5.57, grading down to 3.85 per cent after 14 years	5.7, grading down to 3.85 per cent after 15 years
(b) United States, Medicare plans	5.38, grading down to 3.85 per cent after 14 years	5.5, grading down to 3.85 per cent after 15 years
(c) United States, dental plans	4.73, grading down to 3.85 per cent after 14 years	4.8, grading down to 3.85 per cent after 15 years
(d) Non-United States, Switzerland	3.89, grading down to 3.05 per cent after 9 years	4.0, grading down to 3.05 per cent after 10 years
(e) Non-United States, eurozone	3.91, grading down to 3.65 per cent after 4 years	4.0, grading down to 3.65 per cent after 5 years
Salary scale (varies by age and staff category)	3.47–9.27 per cent	3.47–9.27 per cent
Rate of inflation	2.20 per cent	2.2 per cent
Per capita medical claim cost (varies by age)	$1,142–$17,276	$1,089–$16,345
Actuarial method	Projected unit credit method	Projected unit credit method

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

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

	2018		*2017*	
Mortality rate, active employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00056	0.00718
Female	0.00031	0.00435	0.00031	0.00435

	2018		*2017*	
Mortality rate, retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.00913	0.00062	0.00913
Female	0.00035	0.00561	0.00035	0.00561

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

Rate of retirement: staff in the Professional and higher categories with 30 or more years of service	*2018*		*2017*	
	At age 55	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.70	0.16	0.70
Female	0.20	0.80	0.20	0.80

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

Rate of marriage at retirement for active beneficiaries	*2018*	*2017*
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

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

(Thousands of United States dollars)

	+1 per cent	*-1 per cent*
Effect of discount rate change on end-of-year liability	(163 551)	213 093
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	217 036	(169 118)

United Nations Joint Staff Pension Fund

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

22.19. The plan 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 plan. 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 plan during the financial period are recognized as expenses in the statement of financial performance.

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

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

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

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

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

22.25. Should article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the Pension Fund pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2015, 2016 and 2017) amounted to $6,931.39 million, of which 7 per cent was contributed by UNDP.

22.26. During 2018, the contributions of UNDP to the Pension Fund amounted to $151 million (2017: $157 million). The amounts include the organizational share as well as the contributions made by the participants. Contributions due in 2019, dependent on staffing levels and changes in the pensionable remuneration, are expected to be around $157 million.

22.27. Membership of the Pension Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed upon by the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets that are in excess of the liabilities is included in the amount.

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

Note 23
Other liabilities

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current		
Unapplied deposits	1 640	5 770
Other payables	2 550	4 093
Finance lease	–	10
Total other current liabilities	**4 190**	**9 873**
Non-current		
Reimbursable deposits	354	722
Total other non-current liabilities	**354**	**722**
Total other liabilities	**4 544**	**10 595**

Note 24
Reserves

(Thousands of United States dollars)

	31 December 2017	*Movements*	*31 December 2018*
Endowment fund	3 000	–	3 000
Operational reserve	299 001	(10 000)	289 001
Reserve for special initiatives	159	–	159
Total reserves	**302 160**	**(10 000)**	**292 160**

24.1. The endowment fund reserve is a contribution of $3.0 million in 1998 from the Government of Japan to strengthen the planning and managerial capacities of Palestinian institutions in order to promote sustainable socioeconomic development. Under the fund's mechanism and implementation arrangements, the principal amount will not be available for programming until such time as the Government of Japan and/or UNDP agree to terminate the fund. However, interest earned on the fund is available for programming.

24.2. The operational reserve was established in 1979 by the Governing Council (now the Executive Board) of UNDP to ensure adequate liquidity of UNDP by funding such reserve through a defined formula that is calculated yearly. The operational reserve is made up of the operational reserve for regular resources and the operational reserve for other resources.

24.3. At 31 December 2018, the balance in the operational reserve for regular resources was $150.0 million. At its annual session in 1999, the Executive Board approved a change of basis for the calculation of the operational reserve for regular resources, which is the sum of the following components:

(a) Income: the equivalent of 10 per cent of the average of the annual voluntary contributions received over the three most recent years, rounded to the nearest $1 million;

(b) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the three most recent years, rounded to the nearest $1 million;

(c) Liability and structural: the equivalent of 10 per cent of the sum of the income and expenditure components, rounded to the nearest $1 million;

(d) Cash flow: the equivalent of the cash needs for one month, calculated as one twelfth of the total expenditure of the most recent year, rounded to the nearest $1 million.

24.4. In addition, the Executive Board approved the establishment of an operational reserve for other resource activities. At 31 December 2018, the balance of the operational reserve for other resource activities was $139.0 million. The basis for the calculation of the operational reserve for other resources is the sum of the following components:

(a) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the most recent three years under cost-sharing, trust funds and reimbursable support services and miscellaneous activities, rounded to the nearest $1 million;

(b) Liability and structural: the equivalent of one year of administrative costs, currently estimated at $30 million.

24.5. While the reserve calculation for other resources is based on cost-sharing, trust funds and reimbursable support services and miscellaneous activities, the operational reserve for other resources is only presented as part of net assets/equity for reimbursable support services and miscellaneous activities in the table in note 6 entitled “Segment reporting: statement of financial position as at 31 December 2018”.

24.6. The operational reserve for other resource activities includes the reserve for field accommodation. The reserve for field accommodation was established in 1979 at a maximum level of $25 million to construct housing for United Nations international staff at the country offices. In 1989, the Governing Council authorized UNDP to expand the scope of the reserves to include financing for United Nations system common premises, intended to accommodate the office needs of the agencies of the Joint Consultative Group on Policies. The financial position and performance of the reserve for field accommodation is presented in note 36.4, Reimbursable support services and miscellaneous activities.

24.7. The reserve for special initiatives was first approved by the Executive Board in 2000 to establish a capital reserve as a charge from UNDP general resources. The remaining balance is being held to cover relocation costs such as renovations, furniture, fittings and moving costs.

Note 25
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2018	*Movements*	*31 December 2018*
Accumulated surpluses[a]	4 360 317	430 200	4 790 517
Funds with specific purposes[b]	111 193	9 414	120 607
Actuarial gains/(losses)	(163 519)	370 113	206 594
Changes in fair value of available-for-sale investments	31 450	(63 085)	(31 635)
Total accumulated surpluses	**4 339 441**	**746 642**	**5 086 083**

[a] The movement in accumulated surpluses of $430.200 million consists of the surplus for the year of $420.200 million and a transfer from the operational reserve of $10 million.
[b] The funds with specific purposes include: security; information and communications technology; United Nations Volunteers; learning; and personnel and other.

Note 26
Voluntary contributions

(Thousands of United States dollars)

	2018	*2017*
Contributions	5 219 575	4 936 067
Government contributions to local office costs	24 535	19 742
Contributions in kind	15 542	16 729
Less: returns to donors of unused contributions	(74 357)	(80 439)
Total voluntary contributions	**5 185 295**	**4 892 099**

26.1. Contributions in kind primarily comprise donated use of land and buildings of $15.477 million (2017: $16.6 million), as well as donated goods, such as computer equipment and supplies received from donors, of $0.065 million (2017: $0.129 million).

Note 27
Revenue: exchange transactions

(Thousands of United States dollars)

	2018	*2017*
Department of Safety and Security	57 784	90 613
Reimbursement for management and support services	55 080	53 668
United Nations Volunteers programme	3 220	501
Implementation support services fees	3 323	4 778
Payroll management services fees	8 693	8 660
Procurement handling fees	3 015	4 105
Training fees	3 390	2 385
Rental revenue	3 091	2 924
Multi-Partner Trust Fund Office administrative agent fees	7 909	7 731

	2018	2017
Sales and royalties from sale of publications	13	–
Other exchange revenue	129	34
Total revenue from exchange transactions	**145 647**	**175 399**

Note 28
Investment revenue

(Thousands of United States dollars)

	2018	2017
Investment revenue	134 206	88 402
Total investment revenue	**134 206**	**88 402**

Investment revenue represents interest plus amortized discount, net of amortized premium including interest earned on bank account balances (2018: $108.018 million; 2017: $72.301 million), dividends earned on the UNDP investment portfolio (2018: $6.599 million; 2017: $3.899 million) and realized gain on sale of investments (2018: $19.589 million; 2017: $12.202 million).

Note 29
Other revenue

(Thousands of United States dollars)

	2018	2017
Foreign exchange gains	19 835	27 344
Common system and miscellaneous revenue	27 093	50 046
General management services fees	4 951	3 134
Total other revenue	**51 879**	**80 524**

Note 30
Expenses

(Thousands of United States dollars)

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2018	*2018*	*2017*	*2017*
30.1 Contractual services				
Contractual services	1 858 052	1 929 201	1 925 125	1 995 028
United Nations Volunteers expenses for contractual services	33 353	38 303	29 374	35 199
Total contractual services	**1 891 405**	**1 967 504**	**1 954 499**	**2 030 227**
30.2 Staff costs				
Salary and wages	185 231	566 097	187 292	589 799
Pension benefits	31 251	100 493	31 457	104 545
Post-employment and termination	19 430	114 133	20 169	101 643
Appointment and assignment	9 029	20 562	10 154	23 993

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2018	*2018*	*2017*	*2017*
Leave benefits	5 937	14 119	5 686	14 244
Other staff benefits	55 750	49 655	47 334	48 374
Total staff costs	**306 628**	**865 059**	**302 092**	**882 598**
30.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	521 834	538 697	437 946	453 294
Medical, pharmaceutical and agricultural supplies	358 407	362 130	376 361	379 631
Information technology supplies and software maintenance	34 951	43 612	28 476	34 691
Information and communications technology equipment	54 919	59 397	71 564	76 703
Security and office supplies	51 471	54 960	46 036	49 766
Other consumables used	28	78	83	111
Total supplies and consumables used	**1 021 610**	**1 058 874**	**960 466**	**994 196**
30.4 General operating expenses				
Travel	179 844	212 961	183 375	214 891
Learning and recruitment	232 848	250 074	203 990	223 132
Rent, leases and utilities	93 001	168 362	87 321	157 639
Communications	76 925	100 865	84 471	112 093
Freight	37 232	38 113	35 544	36 600
Professional services	31 409	34 584	36 977	39 820
Security	17 989	33 005	18 718	33 794
Reimbursement	1 492	2 918	2 360	3 301
Contribution to jointly financed United Nations activities	4 063	13 893	4 044	13 889
Contribution to information and communications technology	1 996	4 588	1 991	4 131
Insurance/warranties	4 783	5 675	8 881	9 876
Management service agreement fees	149	149	363	363
Miscellaneous operating expenses	229 565[b]	6 454[c]	220 364	11 879
Total general operating expenses	**911 296**	**871 641**	**888 399**	**861 408**
30.5 Grants and other transfers				
Grants	226 032	226 781	244 852	246 100
Transfers	6 018	7 141	2 056	3 356
Total grants and other transfers	**232 050**	**233 922**	**246 908**	**249 456**
30.6 Other expenses				
Sundries	20 852	22 632	20 018	24 292
Foreign exchange losses[d]	15 207	47 769	7 008	25 710
Losses on sale of fixed assets and intangible assets	2 809	4 617	2 865	4 294
Ex gratia payments[e]	–	2	–	3

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2018	*2018*	*2017*	*2017*
Impairment[f]	27	(53)	–	255
Total other expenses	**38 895**	**74 967**	**29 891**	**54 554**
30.7 Depreciation and amortization				
Depreciation	5 237	16 905	5 349	16 248
Amortization	92	2 601	75	2 420
Total depreciation and amortization	**5 329**	**19 506**	**5 424**	**18 668**
30.8 Bank fees				
Bank fees	1 750	5 354	596	3 668
Total bank fees	**1 750**	**5 354**	**596**	**3 668**
Total expenses	**4 408 963**	**5 096 827**	**4 388 275**	**5 094 775**

[a] Of the total expenses, $4.409 billion represents programme expenses and the remaining $687.864 million represents development effectiveness, United Nations development coordination, management, special purpose and other. Refer to note 36.1, “Total expenses by cost classification”, for details.

[b] Included in the $229.565 million of total miscellaneous operating expenses, $201.092 million represents internal UNDP cost recovery, which is eliminated from total expenses which includes non-programme expenses.

[c] Of the total miscellaneous operating expenses, $4.624 million represents administrative service fees for United Nations agencies.

[d] Foreign exchange losses of $47.769 million include the effect of exchange rate changes on cash and cash equivalents of ($11,797) million.

[e] Ex gratia payments were approved and paid by UNDP in accordance with UNDP financial regulation 23.01 and UNDP financial rule 123.01.

[f] In 2018, UNDP recognized $0.042 million in impairments, which was offset by the reversal of impairments of $0.095 million that were previously recognized in the statement of financial performance in prior years.

Note 31
Financial instruments and risk management

31.1. The risk management policies of UNDP, along with its investment policy and guidelines and Financial Regulations and Rules, aim to minimize potential adverse effects on the resources available to UNDP to fund its activities.

In its operations, UNDP is exposed to a variety of financial risks, including:

(a) Credit risk: the risk of financial loss to UNDP may arise from the failure of an entity or counterparty to meet its financial/contractual obligations to UNDP;

(b) Liquidity risk: the risk that UNDP might not have adequate funds to meet its obligations as they fall due;

(c) Market risk: the risk that UNDP might incur financial losses on its financial assets due to unfavourable movements in foreign currency exchange rates, interest rates and/or prices of investment securities.

31.2. UNDP has an Investment Committee, comprising senior management, which meets quarterly to review its investment portfolio performance and to ensure that investment decisions are in compliance with the established investment policy and guidelines. The principal investment objectives as stated in the UNDP investment policy and guidelines are:

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

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

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

31.3. The Financial Regulations and Rules of UNDP govern the financial management of UNDP. The regulations and rules are applicable to all funds and programmes administered by UNDP and establish the standard of internal control and accountability within the organization.

31.4. In 2017, UNDP outsourced a portion of the investment management of its after-service health insurance funds to two external investment managers. During 2018, UNDP outsourced the remaining portion of its after-service health insurance funds and the funds are now fully managed by the external fund managers. This was done in order to ensure an adequate level of investment return given the longer-term nature of the liabilities. As at 31 December 2018, the after-service health insurance portfolio was classified as available for sale. Holdings include cash and cash equivalents, equities and fixed-income securities.

31.5. The external investment managers are governed by the after-service health insurance investment guidelines. The guidelines ensure that all of 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.

31.6. The following tables show the value of UNDP financial assets and financial liabilities outstanding at year-end based on the IPSAS classifications adopted by UNDP.

(a) Financial assets

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus or deficit*	*31 December 2018 Book value*	*31 December 2017 (restated)*
Cash and cash equivalents	–	–	737 005		737 005	837 339
Investments	5 172 460	609 108	–	–	5 781 568	5 339 644
Receivables, non-exchange transactions	–	–	4 329 082	–	4 329 082	3 527 206
Receivables, other	–	–	95 777	–	95 777	77 584
Advances issued	–	–	210 078	–	210 078	160 723
Loans to Governments	–	–	4 532	–	4 532	5 071
Total financial assets	**5 172 460**	**609 108**	**5 376 474**	**–**	**11 158 042**	**9 947 567**

(b) Financial liabilities classification

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus or deficit*	*31 December 2018*	*31 December 2017*
Accounts payable and accrued liabilities	188 666	422	189 088	213 825
Advances payable	33 957		33 957	31 449
Payables, Multi-Partner Trust Fund Office and United Nations entities	981 970		981 970	700 653
Funds held on behalf of donors	14 422		14 422	18 103
Other liabilities	4 544		4 544	10 595
Total financial liabilities	**1 223 559**	**422**	**1 223 981**	**974 625**

31.7. Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2018, the book value exceeded the market value of those assets by $10.547 million (2017: $14.426 million). Available-for-sale assets are carried at fair market value based on quoted prices obtained from knowledgeable third parties. The carrying values for loans and receivables are a reasonable approximation of their fair value.

31.8. As at 31 December 2018, UNDP had $0.422 million (2017: $1.188 million) in financial liabilities recorded at fair value through surplus or deficit arising from forward foreign exchange contracts in various currencies and notional amounts managed by external investment managers. As at 31 December 2018 and 31 December 2017, UNDP did not have any financial assets recorded at fair value through surplus or deficit.

31.9. For the year ended 31 December 2018, net gains of $3.994 million (2017: $1.273 million) related to financial assets and liabilities recorded at fair value through surplus or deficit were recognized in the statement of financial performance.

Valuation

31.10. 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 2018.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	367 959			367 959
Bonds	241 149			241 149
Total	**609 108**			**609 108**

31.11. The three fair value hierarchies are defined by IPSAS based on the significance of the inputs used in the valuation as:

(a) Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices);

(c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Analysis of UNDP credit risk

31.12. UNDP is exposed to credit risk on its outstanding financial asset balances, primarily cash and cash equivalents, investments and receivables (non-exchange).

31.13. 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 credit worthiness of financial institutions before new bank accounts are opened and limits of local currency holdings are approved and monitored centrally by the UNDP Treasury Division. In addition, UNDP, using zero-balance accounts, permits local offices to draw funds in United States dollars and euros from a headquarters-managed master account to periodically replenish local currency accounts. Zero-balance accounts are designed to automatically transfer excess balances to the master account for investment in short-term money market instruments. The arrangement minimizes excess balances in local bank accounts.

31.14. With regard to its financial instruments, the UNDP investment policy and guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the investment policy and guidelines include conservative minimum credit criteria for all issuers, with maturity and counterparty limits by credit rating. The investment policy and guidelines also require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments for UNDP-managed funds are limited to fixed-income instruments of sovereign, supranational, governmental or federal agencies and banks.

31.15. UNDP utilizes credit ratings from the three leading credit rating agencies, Moody's, S&P Global and Fitch, to categorize and monitor credit risk on its financial instruments. As at 31 December 2018, investments managed by UNDP were in high-quality, fixed-income instruments as shown in the table below (presented using S&P Global's rating convention).

Concentration by credit rating: UNDP managed investments

(Thousands of United States dollars)

31 December 2018	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*Not rated*	*Total*
Money market instruments	198 443	49 819	365 000	320 000	80 000	354	1 013 616
Bonds	2 294 916	782 151	875 115	206 662	–	–	4 158 844
Total	**2 493 359**	**831 970**	**1 240 115**	**526 662**	**80 000**	**354**	**5 172 460**

31 December 2017	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*Not rated*	*Total*
Money market instruments	99 664	79 891	234 717	135 000	210 000	722	759 994
Bonds	2 322 827	524 062	998 266	217 007	39 003	–	4 101 165
Total	**2 422 491**	**603 953**	**1 232 983**	**352 007**	**249 003**	**722**	**4 861 159**

Note: Excludes investments classified as cash equivalents and Multi-Partner Trust Fund Office.

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2018	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*BBB-*	*United States Treasury*	*Not rated*	*Total*
Bonds	2 512	2 985	2 149	7 574	2 362	1 688	3 174	6 962	864	30 569	180 310	241 149
Total	**2 512**	**2 985**	**2 149**	**7 574**	**2 362**	**1 688**	**3 174**	**6 962**	**864**	**30 569**	**180 310**	**241 149**

31 December 2017	*AAA*	*AA+*	*AA-*	*A+*	*A*	*BBB +*	*BBB*	*BBB-*	*United States Treasury*	*Not rated*	*Total*
Bonds	2 204	3 183	2 313	5 036	2 460	10 443	3 230	483	22 944	122 828	175 124
Total	**2 204**	**3 183**	**2 313**	**5 036**	**2 460**	**10 443**	**3 230**	**483**	**22 944**	**122 828**	**175 124**

Note: The externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of $156.575 million (2017: $108.653 million), with the remaining balance of $23.734 million (2017: $14.175 million), comprising government bonds.

31.16. The investment management function is centralized at UNDP headquarters, and country offices are not permitted in normal circumstances to engage in investing unless they receive exceptional approval from the UNDP Treasury Division when conditions warrant investing locally within specified parameters.

31.17. The credit risk exposure of UNDP on outstanding non-exchange receivables is mitigated by the Financial Regulations and Rules of UNDP, which require that, for non-regular resources, expenses be incurred after receipt of funds from donors. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk assessment criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities (as shown in the table below), that do not have significant credit risk.

Receivables: non-exchange transactions by entity type

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (restated)*
Government entities	1 393 226	961 907
Non-governmental entities	2 935 856	2 565 299
Total receivables, non-exchange transactions	**4 329 082**	**3 527 206**

Note: Non-governmental entities mainly comprise supranational and international entities.

31.18. The top three donors accounted for 48 per cent (2017: 57 per cent (restated)) of the outstanding non-exchange receivable balances and comprise three multilateral donors as shown in the table below. Based on historical payment patterns, UNDP believes that all non-exchange receivable balances are collectable.

Non-exchange receivables: top three outstanding balances

(Thousands of United States dollars)

No.	*Balance*	*Percentage of total*	*Entity type*
1	1 120 918	26	Multilateral agency
2	484 797	11	Multilateral agency
3	469 608	11	Multilateral agency
Subtotal	**2 075 323**	**48**	
Total	**4 329 082**	**100**	

Analysis of UNDP liquidity risk

31.19. Liquidity risk is the risk that UNDP might be unable to meet its obligations, including accounts payable, accrued liabilities, refunds to donors and other liabilities, as they fall due.

31.20. Investments are made with due consideration of the Programme's cash requirements for operating purposes based on cash flow forecasting of future funding needs. As shown in the table below, UNDP maintains a portion of its cash and investments in cash and cash equivalents and current investments, which is sufficient to cover its commitments as and when they fall due.

Liquidity analysis

(Thousands of United States dollars)

	31 December 2018	*Percentage*	*31 December 2017*	*Percentage*
Cash balances	432 104	7	557 622	9
Cash equivalents	304 901	5	279 717	5
Total cash and cash equivalents	**737 005**	**12**	**837 339**	**14**
Current investments	3 028 641	46	2 670 610	43
Non-current investments	2 752 927	42	2 669 034	43
Total current and non-current investments	**5 781 568**	**88**	**5 339 644**	**86**
Total investments, cash and cash equivalents	**6 518 573**	**100**	**6 176 983**	**100**

Note: Excludes Multi-Partner Trust Fund Office; investments classified as cash equivalents have a maturity of three months or less from the date of purchase.

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Money market funds	261 036	77 691
Money market instruments	1 528	150 945
Bonds	42 337	51 081
Cash equivalents	**304 901**	**279 717**

Note: Excludes Multi-Partner Trust Fund Office.

31.21. UNDP further mitigates its liquidity risk through its Financial Regulations and Rules, which prohibit offices from entering into commitments, including purchase commitments, unless a budget already exists. Spending is possible after funds are received and budgets are updated. Spending ability is constantly revised as commitments are made and expenditures incurred. Spending in the absence of receipted funds has to comply with UNDP risk management guidelines.

Analysis of market risk to UNDP

31.22. Market risk is the risk that UNDP is exposed to potential financial losses due to unfavourable movements in market prices of financial instruments, including movements in interest rates, exchange rates and equity price risk.

31.23. Interest rate risk arises from the effects of market interest rates fluctuations on:

(a) Fair value of financial assets and liabilities;

(b) Future cash flows.

31.24. A portion (10.5 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 (89.5 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 Programme's financial statements are not significantly affected by changes in interest rates.

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2018*	*31 December 2017*
Held-to-maturity investments	Amortized cost	5 172 460	4 736 245
Available-for-sale investments	Fair value	609 108	603 399
Total investments		**5 781 568**	**5 339 644**

31.25. In the held-to-maturity portfolio, UNDP invests in United States dollar-denominated floating rate debt. These debt securities have a variable coupon that periodically resets to the prevailing market rate. As at 31 December 2018, UNDP had $371.912 million (2017: $392.489 million) in outstanding floating rate fixed-income securities, with maturities ranging from three months to five years.

31.26. 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 or deficit.

Available-for-sale fixed-income investments interest rate sensitivity analysis

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2018	*Sensitivity variation*	*Net assets*	*Surplus/(deficit)*
241 149	100 basis point increase	(3 811)	–
241 149	50 basis point decrease	1 906	–

Note: Excludes investments classified as cash and cash equivalents.

Foreign exchange risk

31.27. The Programme's transactions are primarily denominated in United States dollars but UNDP is exposed to currency risk arising from financial assets that are denominated in foreign currency and financial liabilities that have to be settled in foreign currency.

31.28. UNDP receives donor contributions primarily in United States dollars and also in a number of major currencies, including the euro, the pound sterling, the Norwegian krone, the Canadian dollar, the Japanese yen, the Swiss franc and the Australian dollar. In addition, programme country Governments make contributions mainly in their national currencies to programmes in their countries. On an ongoing basis, UNDP evaluates its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations.

31.29. UNDP actively manages net foreign exchange exposure in eight major currencies against the United States dollar using foreign exchange forward and option contracts.

(c) Cash and cash equivalents, investments and receivables: non-exchange

(Thousands of United States dollars)

	United States dollar	*Euro*	*Pound sterling*	*Other*	*31 December 2018 total*	*31 December 2017 total (restated)*
Cash and cash equivalents	469 806	108 114	20 162	138 923	737 005	837 339
Investments	5 601 080	96 484	16 457	67 547	5 781 568	5 339 644
Receivables, non-exchange	3 203 362	447 803	208 076	469 841	4 329 082	3 527 206
Total cash and cash equivalents, investments and receivables: non-exchange	**9 274 248**	**652 401**	**244 695**	**676 311**	**10 847 655**	**9 704 189**

(d) Foreign exchange sensitivity analysis

(Thousands of United States dollars)

	Currency depreciation		*Currency appreciation*	
	Surplus/(deficit)	*Net assets*	*Surplus/(deficit)*	*Net assets*
Euro (10 per cent change)	(59 432)	–	72 339	–
Pound sterling (10 per cent change)	(22 355)	–	27 054	–

Note: The above figures represent the sensitivity of cash and cash equivalents, investments and receivables, non-exchange, to changes in foreign exchange rates.

31.30. At 31 December 2018, UNDP held investments and cash and cash equivalents balances in several non-United States dollar currencies. Cash and cash equivalents were held in non-United States dollar currencies primarily to support local operating activities in programme countries, where a large portion of payments are made in local currency. UNDP maintains a minimum level of assets in local currencies, and, whenever possible, converts excess local currency balances in bank accounts into United States dollars.

31.31. The Programme's financial assets and financial liabilities are primarily denominated in United States dollars, thereby reducing its overall foreign currency exposure. Financial liabilities, including funds received in advance and funds held on behalf of donors, are carried in the UNDP ledger in United States dollars, although some portion may be refunded in local currency at the donor's request.

Equity price risk

31.32. In 2018, UNDP held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNDP surplus or deficit.

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2018	*Sensitivity variation*	*Net assets*	*Surplus/(deficit)*
367 959	5 per cent increase	18 398	–
367 959	5 per cent decrease	(18 398)	–

Note 32
Related parties

Key management personnel

32.1. The leadership structure of UNDP consists of an Executive Group of 13 members. The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the UNDP mandate. Collectively the Executive Group comprises four tiers: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and the Chief of Staff and Director, Office of the Administrator (ex officio).

Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	13	2 813	500	3 313	5 175
Close family members of key management personnel	1	34	39	73	224
Total	**14**	**2 847**	**539**	**3 386**	**5 399**

32.2. The remuneration paid to key management personnel includes salary, post adjustment and other entitlements as applicable in accordance with the Staff Regulations and Rules of the United Nations.

Loans

32.3. Staff advances are available to UNDP staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations. As at 31 December 2018, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNDP staff.

United Nations system

32.4. UNDP is engaged in United Nations system initiatives such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations entities work together to implement activities and achieve results. Each of the participating United Nations entities assumes its share of responsibilities related to planning, implementing, monitoring and evaluating those activities.

32.5. UNDP is a co-sponsoring organization of the Joint United Nations Programme on HIV/AIDS (UNAIDS), an innovative joint effort of the United Nations system to respond in a coordinated manner on the issue of HIV/AIDS. UNDP participates in setting the financial and operating policies of the Programme Coordinating Board of UNAIDS, which is headquartered in Geneva.

Note 33
Commitments and contingencies

Open commitments

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Property, plant and equipment	5 843	6 268
Goods	486 439	334 126
Services	289 139	263 186
Total open commitments	**781 421**	**603 580**

33.1. As at 31 December 2018, commitments of UNDP for the acquisition of various goods and services contracted but not received amounted to $781.421 million.

Lease commitments by term

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Obligations for property leases		
Less than 1 year	65 393	67 757
1–5 years	68 848	72 339
Beyond 5 years	16 766	16 522
Total property lease obligations	**151 007**	**156 618**

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Obligations for equipment leases		
Less than 1 year	19	35
1–5 years	44	45
Beyond 5 years	90	90
Total equipment lease obligations	**153**	**170**

33.2. The above tables represent future lease payment obligations during the contractual term of the leases. Typically, at the inception, the duration of contractual leases for premises entered into by UNDP is between 1 and 5 years.

Contingent assets

33.3. At 31 December 2018, UNDP had a contingent asset for a compound in South Sudan over which there is an ownership dispute. Owing to that dispute, UNDP has not recognized the land and buildings in the compound as property, plant and equipment. The fair value of the land and buildings was last assessed by independent valuators in 2011 at $8.9 million.

Contingent liabilities

33.4. In the normal course of operations, UNDP is subject to claims that have been categorized as: (a) corporate and commercial claims; (b) administrative law claims; and (c) other claims.

33.5. As at 31 December 2018, corporate and commercial and administrative law claims totalled $2,750 million. No impairment or allowance for loss has been recorded as the occurrence, amount and timing of outflow is not certain. UNDP does not expect the ultimate resolution of any of the proceedings to which it is party to have a significant adverse effect on its financial position, performance or cash flows.

33.6. UNDP is a partner organization with the International Computing Centre, which is based in Geneva. The memorandum of understanding between the two organizations provides for financial responsibility of both partner organizations should any third-party claim or liability arise within certain conditions. As at 31 December 2018, there were no such claims.

Note 34
Disaster Mitigation Fund

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Opening balance	246	111
Total revenue	1 006	1 016
Total expenses	(1 278)	(881)
Closing balance/(deficit)	**(26)**	**246**

The Disaster Mitigation Fund is classified under special activities and is predominantly funded from assessed contributions from the regular budget of the United Nations Secretariat to support the management and administration of operational activities relating to capacity-building for disaster mitigation.

Note 35
Events after reporting date

The reporting date for these financial statements is 31 December 2018. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 36
Additional disclosure

36.1
Total expenses by cost classification

(Thousands of United States dollars)

	2018
Development	
Programme	4 408 963
Development effectiveness	166 787
United Nations development coordination	124 797
Management	368 214
Special purpose	57 038
Other	228 665
Elimination[a]	(257 637)
Total expenses	**5 096 827**

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

36.2
Programme expenses by executing entity/implementing partner and responsible party

The executing entity/implementing partner is the entity that has management responsibility and accountability for project implementation and results. The executing entity/implementing partner may contract with a responsible party to implement specific outputs.

36.2 (a)
Programme expenses by executing entity/implementing partner

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	114 461	1 146 788	547 452	2 386	1 811 087
International non-governmental organizations	1 560	36 253	11 839	–	49 652
National non-governmental organizations	284	17 211	4 791	72	22 358
Food and Agriculture Organization of the United Nations	–	(5)	–	–	(5)
Department of Economic and Social Affairs	(51)	–	–	–	(51)
International Civil Aviation Organization	–	–	1 438	–	1 438
International Maritime Organization	–	–	755	–	755
United Nations Industrial Development Organization	–	–	34	–	34
United Nations Human Settlements Programme (UN-Habitat)	71	1 168	–	–	1 239
United Nations Institute for Training and Research	–	–	264	–	264
United Nations Office for Project Services	117	4 548	60 009	3 247	67 921
United Nations Educational, Scientific and Cultural Organization	–	–	2 656	–	2 656

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
United Nations Volunteers programme	–	–	304	20 682	20 986
World Health Organization	–	2 709	–	–	2 709
United Nations Development Programme	186 030	2 091 426	137 661	12 803	2 427 920
Total programme expenses	**302 472**	**3 300 098**	**767 203**	**39 190**	**4 408 963**

36.2 (b)
Programme expenses by responsible party

"Responsible party" refers to the party responsible for contractual implementation of specific outputs.

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	86 034	1 056 499	461 159	2 032	1 605 724
International non-governmental organizations	2 237	137 410	15 986	–	155 633
National non-governmental organizations	4 067	131 015	15 301	727	151 110
Department of Economic and Social Affairs	212	17	–	–	229
Economic and Social Commission for Asia and the Pacific	–	303	9	–	312
Economic Commission for Europe	–	151	126	–	277
Food and Agriculture Organization of the United Nations	–	830	3 079	–	3 909
International Bank for Reconstruction and Development	–	–	128	–	128
International Civil Aviation Organization	–	–	1 438	–	1 438
International Fund for Agricultural Development	–	–	452	–	452
International Labour Organization	–	233	–	–	233
International Maritime Organization	–	–	755	–	755
International Organization for Migration	226	2 104	–	–	2 330
Joint United Nations Programme on HIV/AIDS	–	118	–	–	118
United Nations Capital Development Fund	120	352	123	–	595
United Nations Children's Fund	30	6 775	378	–	7 183
United Nations Conference on Trade and Development	–	155	–	–	155
Department of Peacekeeping Operations	–	30	–	–	30
United Nations Educational, Scientific and Cultural Organization	–	1 229	2 673	–	3 902
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	638	5 196	27	–	5 861
United Nations Environment Programme	–	744	293	–	1037
Office of the United Nations High Commissioner for Refugees	–	299	–	–	299
United Nations Human Settlements Programme (UN-Habitat)	76	3 229	–	–	3 305
United Nations Industrial Development Organization	4	1 239	34	–	1 277
United Nations Institute for Training and Research	–	1 471	269	–	1 740
United Nations Joint Human Rights Office	(4)	46	–	–	42
United Nations Office for Project Services	(9)	11 930	60 572	3 247	75 740

	Regular resources	Cost-sharing	Trust funds	Reimbursable support services and miscellaneous activities	Total
Office for the Coordination of Humanitarian Affairs	–	44	–	–	44
United Nations Office on Drugs and Crime	–	268	–	–	268
United Nations Population Fund	157	3 181	–	–	3 338
United Nations Volunteers programme	5	–	304	20 782	21 091
World Food Programme	65	1 109	–	–	1 174
World Health Organization	–	2 412	468	–	2 880
World Tourism Organization	–	518	–	–	518
United Nations Development Programme	208 614	1 931 191	203 629	12 402	2 355 836
Total programme expenses	**302 472**	**3 300 098**	**767 203**	**39 190**	**4 408 963**

36.3
Programme expenses by geographical region

(Thousands of United States dollars)

	Africa	Arab States	Asia and the Pacific	Europe and Commonwealth of Independent States	Latin America and the Caribbean	Global and others	Total
Expenses							
Contractual services	304 250	359 342	636 846	158 478	310 086	122 403	1 891 405
Staff costs	89 856	53 270	54 275	13 631	25 693	69 903	306 628
Supplies and consumables used	309 872	268 295	91 546	208 401	134 341	9 155	1 021 610
General operating expenses	267 155	195 383	177 039	68 753	133 234	69 732	911 296
Grants and other transfers	35 318	41 261	13 794	17 163	75 185	49 329	232 050
Other expenses	7 493	11 084	3 652	917	14 751	998	38 895
Depreciation and amortization	1 842	697	1 539	601	359	291	5 329
Bank fees	788	71	539	223	103	26	1 750
Total	**1 016 574**	**929 403**	**979 230**	**468 167**	**693 752**	**321 837**	**4 408 963**

36.4
Reimbursable support services and miscellaneous activities

36.4 (a)
Statement of financial position

(Thousands of United States dollars)

	Reimbursable support services	Management service agreements	United Nations Volunteers programme	Special activities	Junior Professional Officers programme	Reserve for field accommodation	Government cash counterparts contributions	Total
Assets								
Current assets								
Cash and cash equivalents	72 425	3 958	10 042	6 618	4 133	1 603	1 423	100 202
Investments	302 808	16 551	41 950	27 667	14 438	6 703	5 952	416 069

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Receivables, non-exchange transactions	7 216	5 861	1 385	17 343	811	–	–	32 616
Receivables, other	230	–	196	18	–	40	–	484
Advances issued	387	2 619	111	730	–	–	–	3 847
Loans to Governments	–	–	–	–	–	507	–	507
Inventories	730	–	–	–	–	–	–	730
Other current assets	–	–	–	1	–	3	–	4
Total current assets	**383 796**	**28 989**	**53 684**	**52 377**	**19 382**	**8 856**	**7 375**	**554 459**
Non-current assets								
Investments	283 060	15 472	39 214	25 862	13 497	6 266	5 563	388 934
Loans to Governments	–	–	–	–	–	4 025	–	4 025
Receivables, other	9 206	6 876	1 625	16 000	–	–	–	33 707
Property, plant and equipment	66 677	–	1 674	5 352	2	9 450	–	83 155
Intangible assets	8 240	–	1 439	–	–	–	–	9 679
Other non-current assets	17	–	–	1	–	–	–	18
Total non-current assets	**367 200**	**22 348**	**43 952**	**47 215**	**13 499**	**19 741**	**5 563**	**519 518**
Total assets	**750 996**	**51 337**	**97 636**	**99 592**	**32 881**	**28 957**	**12 938**	**1 073 977**

36.4
Reimbursable support services and miscellaneous activities

36.4 (a)
Statement of financial position (continued)

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	3 899	39	7 500	807	11 652	–	–	23 897
Advances payable	141	–	–	449	17	–	–	607
Funds received in advance and deferred revenue	13 762	5 861	1 385	17 343	–	11	–	38 362
Funds held on behalf of donors	–	–	–	100	–	–	–	100
Employee benefits	18 997	–	17	25	–	–	–	19 039
Other current liabilities	195	–	–	59	389	26	–	669
Total current liabilities	**36 994**	**5 900**	**8 902**	**18 783**	**12 058**	**37**	**–**	**82 674**
Non-current liabilities								
Funds received in advance and deferred revenue	18 251	6 876	1 625	16 000	–	–	–	42 752

	Reimbursable support services	Management service agreements	United Nations Volunteers programme	Special activities	Junior Professional Officers programme	Reserve for field accommodation	Government cash counterparts contributions	Total
Employee benefits	344 565	–	–	–	–	–	–	344 565
Total non-current liabilities	**362 816**	**6 876**	**1 625**	**16 000**	**–**	**–**	**–**	**387 317**
Total liabilities	**399 810**	**12 776**	**10 527**	**34 783**	**12 058**	**37**	**–**	**469 991**
Net assets/equity								
Reserves	114 001	–	–	–	–	25 000	–	139 001
Accumulated surpluses	237 185	38 561	87 109	64 809	20 823	3 560	12 938	464 985
Total net assets/equity	**351 186**	**38 561**	**87 109**	**64 809**	**20 823**	**28 560**	**12 938**	**603 986**
Total liabilities and net assets/equity	**750 996**	**51 337**	**97 636**	**99 592**	**32 881**	**28 597**	**12 938**	**1 073 977**

36.4 (b)
Statement of financial performance

(Thousands of United States dollars)

	Reimbursable support services	Management service agreements	United Nations Volunteers programme	Special activities	Junior Professional Officers programme	Reserve for field accommodation	Total
Revenue							
Voluntary contributions	49 280	7 455	23 361	32 869	19 613	–	132 578
Revenue, exchange transactions	72 455	–	8 121	64 076	–	440	145 092
Investment revenue	8 976	588	1 060	171	–	–	10 795
Other revenue	265 868	–	6 540	6 521	–	–	278 929
Total revenue	**396 579**	**8 043**	**39 082**	**103 637**	**19 613**	**440**	**567 394**
Expenses							
Contractual services	37 305	1 491	14 909	18 282	–	24	72 011
Staff costs	229 109	208	7 383	61 691	13 773	–	312 164
Supplies and consumables used	23 452	2 919	1 616	5 398	1	68	33 454
General operating expenses	95 067	1 685	9 147	31 043	3 206	8	140 156
Grants and other transfers	1 200	–	98	268	–	–	1 566
Other expenses	1 725	16	136	379	1	1	2 258
Depreciation and amortization	10 032	–	529	503	–	281	11 345
Bank fees	440	–	6	37	1	–	484
Total expenses	**398 330**	**6 319**	**33 824**	**117 601**	**16 982**	**382**	**573 438**
Surplus/(deficit) for the year	**(1 751)**	**1 724**	**5 258**	**(13 964)**	**2 631**	**58**	**(6 044)**

36.5
Cost-sharing: government, third-party and South-South cooperation cost-sharing: statement of financial performance

(Thousands of United States dollars)

	Third-party cost-sharing	*Government cost-sharing*	*South-South cooperation*	*Total*
Revenue				
Voluntary contributions	2 607 253	1 034 652	2 463	3 644 368
Revenue, exchange transactions	108	426	–	534
Investment revenue	12 943	43 066	–	56 009
Other revenue	2 024	1 945	–	3 969
Total revenue	**2 622 328**	**1 080 089**	**2 463**	**3 704 880**
Expenses				
Contractual services	893 233	390 310	3 703	1 287 246
Staff costs	160 061	18 693	380	179 134
Supplies and consumables used	551 617	375 372	6 633	933 622
General operating expenses	548 436	138 022	2 436	688 894
Grants and other transfers	118 319	58 592	85	176 996
Other expenses	17 917	14 775	55	32 747
Depreciation and amortization	2 518	280	1	2 799
Bank fees	1 029	122	–	1 151
Total expenses	**2 293 130**	**996 166**	**13 293**	**3 302 589**
Surplus/(deficit) for the year	**329 198**	**83 923**	**(10 830)**	**402 291**
Net assets/equity				
Closing net assets/equity as at 31 December 2017	2 015 192	926 625	12 007	2 953 824
Closing net assets/equity as at 31 December 2018	**2 344 390**	**1 010 548**	**1 177**	**3 356 115**

36.6 (a)
Top five trust funds: statement of financial position

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP thematic trust fund on environment*	*International Commission against Impunity in Guatemala*
Assets					
Current assets					
Cash and cash equivalents	48 706	17 500	8 566	3 100	962
Investments	203 522	73 183	35 821	12 963	4 022
Receivables, non-exchange transactions	525 873	23 868	33 321	–	47
Receivables, other	112	–	6	1	–
Advances issued	11 007	11 996	188	6	658
Inventories	25	–	–	–	–
Other current assets	–	–	–	40	–
Total current assets	**789 245**	**126 547**	**77 902**	**16 110**	**5 689**

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP thematic trust fund on environment*	*International Commission against Impunity in Guatemala*
Non-current assets					
Investments	190 249	68 410	33 485	12 118	3 761
Receivables, non-exchange transactions	611 769	28 002	1 177	–	55
Property, plant and equipment	2 201	1 374	58	24	–
Intangible assets	5	–	–	–	–
Total non-current assets	**804 224**	**97 786**	**34 720**	**12 142**	**3 816**
Total assets	**1 593 469**	**224 333**	**112 622**	**28 252**	**9 505**
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	6 277	96	1 738	128	–
Advances payable	6 861	25	–	3 380	–
Funds received in advance and deferred revenue	525 873	23 868	1 003	–	47
Funds held on behalf of donors	79	–	–	–	–
Employee benefits	1	–	2	–	–
Other current liabilities	1	–	–	1	–
Total current liabilities	**539 092**	**23 989**	**2 743**	**3 509**	**47**
Non-current liabilities					
Funds received in advance and deferred revenue	611 768	28 002	1 177	–	55
Total non-current liabilities	**611 768**	**28 002**	**1 177**	**–**	**55**
Total liabilities	**1 150 860**	**51 991**	**3 920**	**3 509**	**102**

36.6 (a)
Top five trust funds: statement of financial position (continued)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP thematic trust fund on environment*	*International Commission against Impunity in Guatemala*
Net assets/equity					
Accumulated surpluses	442 609	172 342	108 702	24 743	9 403
Total net assets/equity	**442 609**	**172 342**	**108 702**	**24 743**	**9 403**
Total liabilities and net assets/equity	**1 593 469**	**224 333**	**112 622**	**28 252**	**9 505**

36.6 (b)
Top five trust funds: statement of financial performance

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP thematic trust fund on environment*	*International Commission against Impunity in Guatemala*
Revenue					
Voluntary contributions	438 677	133 970	48 775	12	17 592
Investment revenue	7 666	3 004	1 635	551	125
Other revenue	1 370	–	911	6	–
Total revenue	**447 713**	**136 974**	**51 321**	**569**	**17 717**
Expenses					
Contractual services	229 665	199 855	36 602	7 338	343
Staff costs	23 937	3 205	2 352	1 426	12 143
Supplies and consumables used	44 263	1 830	3 064	216	577
General operating expenses	103 620	11 742	6 753	5 111	1 761
Grants and other transfers	44 129	28	41	1 392	–
Other expenses	3 332	–	76	108	38
Depreciation and amortization	263	238	9	4	–
Bank fees	146	2	–	2	–
Total expenses	**449 355**	**216 900**	**48 897**	**15 597**	**14 862**
Surplus/(deficit) for the year	**(1 642)**	**(79 926)**	**2 424**	**(15 028)**	**2 855**

36.7 (a)
Funding windows: statement of financial position

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Assets				
Current assets				
Cash and cash equivalents	2 857	4 627	4 644	1 867
Investments	11 946	19 323	19 418	7 704
Receivables, non-exchange transactions	–	–	–	–
Receivables, other	1	–	–	2
Advances issued	–	93	38	567
Total current assets	**14 804**	**24 043**	**24 100**	**10 140**
Non-current assets				
Investments	11 167	18 062	18 153	7 200
Receivables, non-exchange transactions	–	–	–	–

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Property, plant and equipment	4	260	4	119
Total non-current assets	**11 171**	**18 322**	**18 157**	**7 319**
Total assets	**25 975**	**42 365**	**42 257**	**17 459**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	29	245	61	308
Advances payable	–	–	5	200
Funds received in advance and deferred revenue	–	–	–	–
Total current liabilities	**29**	**245**	**66**	**508**
Non-current liabilities				
Funds received in advance and deferred revenue	–	–	–	–
Total non-current liabilities	–	–	–	–
Total liabilities	**29**	**245**	**66**	**508**
Net assets/equity				
Accumulated surpluses	25 946	42 120	42 191	16 951
Total net assets/equity	**25 946**	**42 120**	**42 191**	**16 951**
Total liabilities and net assets/equity	**25 975**	**42 365**	**42 257**	**17 459**

36.7 (b)
Funding windows: statement of financial performance

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Revenue				
Voluntary contributions	1 505	27 820	23 100	13 173
Investment revenue	485	635	103	302
Other revenue	–	9	–	–
Total revenue	**1 990**	**28 464**	**23 203**	**13 475**
Expenses				
Contractual services	609	3 300	2 045	3 003
Staff costs	43	3 510	1 643	887
Supplies and consumables used	39	722	99	2 143
General operating expenses	546	3 294	1 680	2 419
Grants and other transfers	–	853	–	1 044
Other expenses	1	46	62	4
Depreciation and amortization	–	6	1	4

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Bank fees	–	1	–	12
Total expenses	**1 238**	**11 732**	**5 530**	**9 516**
Surplus/(deficit) for the year	**752**	**16 732**	**17 673**	**3 959**

36.8
All trust funds established by the United Nations Development Programme: schedule of financial performance

(Thousands of United States dollars)

Name of the trust fund	*Net assets 31 December 2017 (restate[a])*	*Revenue/ transfer*	*(Expenses)*	*Closing net assets 31 December 2018*
Fund manager: UNDP Africa				
African Peer Review Mechanism of the New Partnership for Africa's Development	778	(762)	–	16
Belgium: trust fund in support of the elections project in the Democratic Republic of the Congo	–	–	(2)	2
Belgium: trust fund for trade capacity development for poverty reduction and human development for sub-Saharan Africa	5	(5)	–	–
EEC: support for the national mine action strategy: support for the launch of the Mine Action Centre in Casamance	(10)	–	–	(10)
EEC: support for the legislative elections in 2007 (phase 1)	5	(36)	–	(31)
EEC: programme in support of good governance in Chad	1	–	–	1
EEC: support for the implementation of the Integrated Drylands Development Programme	3	–	–	3
Justice and security trust fund for Liberia	370	4	(162)	212
Support for capacity-building for the National Demining Institute in Mozambique	2	(2)	–	–
UNDP trust fund for Namibia	(9)	–	–	(9)
UNDP trust fund for the Mozambique mine clearance programme	265	5	–	270
UNDP trust fund for the United Nations Educational and Training Programme for Southern Africa	403	(434)	(3)	(34)
UNDP: support for the electoral process in Guinea	3	(3)	–	–
EEC: trust fund for building strong, efficient and capable national arms commissions in the Economic Community of West African States subregion	–	(30)	30	–
Total UNDP Africa	**1 816**	**(1 263)**	**(133)**	**420**
Fund manager: UNDP Arab States				
Arab Human Development Report	44	–	(38)	6
EEC–Sudan: post-conflict community-based recovery and rehabilitation programme	27	–	–	27
Information and communications technology trust fund for Egypt	806	52	(74)	784
UNDP: trust fund for the Programme of Assistance to the Palestinian People	8 434	(806)	558	8 186
Total UNDP Arab States	**9 311**	**(754)**	**446**	**9 003**

Name of the trust fund	*Net assets 31 December 2017 (restate[a])*	*Revenue/ transfer*	*(Expenses)*	*Closing net assets 31 December 2018*
Fund manager: UNDP Asia and the Pacific				
Law and order trust fund for Afghanistan	252 268	136 974	(216 901)	172 341
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	339	102	(181)	260
UNDP–Republic of Korea trust fund	172	519	(144)	547
UNDP–Republic of Korea trust fund in support of the Tumen River Area Development Programme	991	621	(546)	1 066
Total UNDP Asia and the Pacific	**253 770**	**138 216**	**(217 772)**	**174 214**
Fund manager: UNDP Bureau for Policy and Programme Support				
Capacity 21 trust fund	–	–	(1)	(1)
EC–UNDP collaboration to advance the post-crisis needs assessment and early recovery agendas	3	(3)	–	–
Forest Carbon Partnership Facility	21 454	5 720	(7 796)	19 378
Global Capacity Development Facility	4	(4)	–	–
Multilateral Fund for the Implementation of the Montreal Protocol	106 278	51 321	(48 898)	108 701
Netherlands: trust fund for Special Action Programme for Public Administration and Management	(1)	1	–	–
Global Environment Facility trust fund	444 251	447 713	(449 359)	442 605
Trust fund to combat desertification and drought	545	(49)	(301)	195
UNDP Energy Account	597	(120)	(241)	236
UNDP: thematic trust fund for crisis prevention and recovery	13 037	(893)	(2,679)	9 465
UNDP: democratic governance thematic trust fund	3 687	1 345	(3 427)	1 605
UNDP: thematic trust fund on energy for sustainable development	136	2	(267)	(129)
UNDP: thematic trust fund on environment	39 771	569	(15 596)	24 744
UNDP: gender thematic trust fund	312	5	(266)	51
UNDP: thematic trust fund on information and communications technology for development	404	–	(282)	122
UNDP: thematic trust fund on poverty reduction for sustainable development	582	8	(399)	191
UNDP: thematic trust fund on HIV/AIDS	(1)	19	64	82
UNDP: trust fund for crisis, post-conflict and recovery situations	–	391	–	391
UNDP: trust fund for public-private partnerships for the urban environment	25	–	–	25
UNDP: trust fund for sustainable social development, peace and support for countries in special situations	2 244	43	–	2 287
UNDP: trust fund for the World Summit on Social Development	–	–	–	–
Total UNDP Bureau for Policy and Programme Support	**633 328**	**506 068**	**(529 448)**	**609 948**
Fund manager: UNDP Bureau of External Relations and Advocacy				
UNDP–Republic of Korea: Sustainable Development Goals trust fund	1 699	2 271	(3 092)	878
UNDP trust fund for international partnership	296	255	(241)	310
UNDP trust fund for the private sector in development	683	1 012	(565)	1 130
UNDP–Italy: trust fund for anti-poverty partnership initiatives	9	–	–	9

Name of the trust fund	*Net assets 31 December 2017 (restate[a])*	*Revenue/ transfer*	*(Expenses)*	*Closing net assets 31 December 2018*
UNDP–Republic of Korea: Millennium Development Goals trust fund for programming fund-based cooperation	561	11	73	645
Total UNDP Bureau of External Relations and Advocacy	**3 248**	**3 549**	**(3 825)**	**2 972**
Fund manager: UNDP Europe and the Commonwealth of Independent States				
UNDP–Russian Federation: trust fund for development	27 699	15 555	(8 485)	34 769
UNDP trust fund for urgent human needs in Uzbekistan	111	(108)	(2)	1
EEC trust fund for the enhancement of living standards in Uzbekistan	–	(18)	18	–
Total UNDP Europe and the Commonwealth of Independent States	**27 810**	**15 429**	**(8 469)**	**34 770**
Fund manager: UNDP Geneva				
UNDP trust fund for advocacy	–	1 151	(1 927)	(776)
UNDP trust fund for innovative partnerships with national Governments, local authorities, the private sector, non-governmental organizations, academic institutions and foundations	5 996	–	–	5 996
Total UNDP Geneva	**5 996**	**1 151**	**(1 927)**	**5 220**
Fund manager: UNDP Latin America and the Caribbean				
International Commission against Impunity in Guatemala	6 548	17 717	(14 863)	9 402
UNDP–Spain: trust fund for integrated and inclusive development	2 211	(794)	(735)	682
Total UNDP Latin America and the Caribbean	**8 759**	**16 923**	**(15 598)**	**10 084**
Fund manager: UNDP Technical Cooperation among Developing Countries				
India, Brazil and South Africa Facility for Poverty and Hunger Alleviation	9 928	2 202	(2 454)	9 676
Pérez-Guerrero Trust Fund for South-South Cooperation	8 193	461	(357)	8 297
United Nations Fund for South-South Cooperation	12 062	16 282	(6 658)	21 686
Total UNDP Technical Cooperation among Developing Countries	**30 183**	**18 945**	**(9 469)**	**39 659**
Fund manager: UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services				
Climate change and disaster risk reduction	24 518	23 205	(5 531)	42 192
Emergency development response to crisis and recovery	12 992	13 476	(9 515)	16 953
Governance for peaceful and inclusive societies	25 388	28 465	(11 733)	42 120
Sustainable development and poverty eradication	25 194	1 990	(1 238)	25 946
Total UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services	**88 092**	**67 136**	**(28 017)**	**127 211**
Total trust funds	**1 062 313**	**765 400**	**(814 212)**	**1 013 501**

Abbreviations: EC, European Commission; EEC, European Economic Commission; UNDP, United Nations Development Programme.

[a] Net assets as at 31 December 2017 have been restated to exclude the Green Climate Fund. Refer to note 5, Change in accounting policy and reclassifications, for further details.

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