A/76/5/Add.1

United Nations

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2020

and

Report of the Board of Auditors

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

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

A/76/5/Add.1

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2020

and

Report of the Board of Auditors

United Nations • New York, 2021

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

[22 July 2021]

Contents

Letters of transmittal and certification

Letter dated 30 April 2021 from the Administrator, the Assistant Secretary-General/Assistant Administrator and Director, Bureau for Management Services, and the Chief Finance Officer and Comptroller of the United Nations Development Programme addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the year ended 31 December 2020, 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:

The 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 the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

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

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

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

(*Signed*) George **Kyriacou**
Chief Finance Officer/Comptroller, a.i.
Bureau for Management Services

Letter dated 22 July 2021 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors, together with the financial report and audited financial statements of the United Nations Development Programme for the year ended 31 December 2020.

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

Chapter I

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

Opinion

We have audited the accompanying financial statements of the United Nations Development Programme (UNDP), which comprise the statement of financial position (statement I) as at 31 December 2020 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 2020, 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 2020, 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:

(a) Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is 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;

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

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

(d) Draw conclusions 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;

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

22 July 2021

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 2020. The audit was carried out at headquarters in New York and at the Global Shared Services Unit in Copenhagen and Kuala Lumpur, as well as in country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of). The Board conducted the audit of the financial statements remotely owing to the travel restrictions associated with the coronavirus disease (COVID-19) pandemic.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNDP as at 31 December 2020 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. Total revenue increased by $1.8 billion in 2020, compared with 2019. As in the prior years, revenue includes funding partners’ contributions made for future years.

The major part of donations is tightly earmarked and can be used only for certain projects. In 2020, voluntary contributions to regular resources decreased in both absolute and relative terms compared with 2019 and represented 8.8 per cent of total

voluntary contributions to UNDP. This high level of tightly earmarked contributions continues to pose challenges for management's efforts to focus on priorities and to deploy resources flexibly in order to meet demand across all areas of activity.

The emergency situation brought about by the COVID-19 global pandemic highlighted the importance of unearmarked resources. Unearmarked resources were crucial for the response of UNDP to the pandemic and allowed for a prompt response to the most urgent needs.

Key findings

Financial statements and accounting-related matters

The Board noted that in 2020, the UNDP Global Shared Services Unit had received 49 documents relevant for revenue recognition of voluntary contributions signed in prior years with an overall amount of $66.0 million. In 2021, as of 28 June 2021, the Global Shared Services Unit received 44 documents relevant for revenue recognition of voluntary contributions signed in 2020 with an overall amount of $81.0 million. UNDP adjusted five documents relevant for revenue recognition of voluntary contributions signed in 2020 with the overall amount of $70.8 million in the financial statements 2020 to avoid the risk of a material misstatement and to recognize donors' voluntary contributions in the correct period. The Board holds that UNDP should increase awareness among country offices and headquarters units to ensure timely submission of documents relevant for revenue recognition of voluntary contributions.

The Board found that UNDP had decided on a roll forward of the after-service health insurance liability in 2020 based on census data at the end of October 2020 which was within its acceptable threshold. The Board reviewed the census data at 31 December 2020 and noted that the change in staff in 2020 exceeded the threshold set by UNDP. As a result, the Board holds that UNDP should have decided for a full validation based on the census data as at 31 December 2020. Compared with a revised calculation by the actuary, the after-service health insurance liability is overstated by $13.9 million.

The Board noted several manually recorded cases where revenue for exchange transactions was recorded in 2020 for services rendered by country offices in prior periods. The Board holds that country offices need to 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.

United Nations development system reform

The Board noted that during the year 2020, UNDP resident representatives in 10 countries served temporarily as resident coordinators at the same time. In one country, the UNDP resident representative acted also as resident coordinator for the whole of 2020 and retained this function in 2021. The Board noted that UNDP did not receive cost recovery for UNDP resident representatives serving also as resident coordinators from the United Nations Secretariat. The Board holds that UNDP should liaise with the United Nations Secretariat and assess the feasibility of a reimbursement process for UNDP resident representatives also serving temporarily as resident coordinators.

Internal controls

The Board followed up on matters of non-compliance identified in its previous reports (A/74/5/Add.1 and A/75/5/Add.1). The Board noted that in response to previous findings of the Board, UNDP had enhanced the Atlas Role Generation and

User-provisioning System (ARGUS) to further automate preventive controls on the assignment of staff functions to non-staff. Although assignment of staff functions to non-staff is not permitted pursuant to the UNDP internal control framework, the Board identified 101 cases where non-staff were performing internal control functions related to human resources. The Board found that all country offices where instances of non-compliance had occurred still confirmed compliance with related requirements under the UNDP internal control framework.

Pursuant to the UNDP internal control framework, each head of office has overall responsibility for maintaining documentation of the office's internal control procedures. The Board noted that documentation requirements for an office's control procedures were interpreted differently by heads of office, especially with regard to what details beyond authorities delegated, designations made and Atlas profiles authorized needed to be documented.

The UNDP policy on delegation of authorities sets out various guiding principles that govern the policies and procedures for the delegation of authority in UNDP. The Board noted that UNDP managed delegations of authority and related profiles in the enterprise resource planning system on paper, outside the Atlas Role Generation and User-provisioning System. The Board selected samples of user profiles such as approving manager and requested the respective written delegations of authority. The Board was provided with 152 out of the 172 requested delegations of authority and noted that 23 per cent of the delegations received did not meet the criteria outlined for delegations of authority in the respective policy and the UNDP internal control framework.

Enterprise risk management

The UNDP enterprise risk management policy states that directors of bureaux were, inter alia, responsible for ensuring that country offices under their supervision kept their risk registers up to date. The same policy also states that heads of office were ultimately responsible for enterprise risk management and accountable to the relevant bureau director for ensuring that the unit's risk register was regularly monitored and updated and that risks were managed.

Based on a newly launched project risks dashboard, the Board reviewed the project risks documented and the completeness of the risk entries recorded. The Board found that in December 2020, 34 per cent of projects did not record any risks and that for 55 per cent of the risks, the recorded information was incomplete. The Board noted that the oversight of regional bureaux as regards enterprise risk management showed varying degrees of effectiveness. The Board found that country offices with the highest numbers of projects without risk entries and high numbers of projects with incomplete risk entries had still confirmed that they maintained and updated project risks in Atlas.

Harmonized approach to cash transfers

The harmonized approach to cash transfers is a common operational (harmonized) framework for transferring cash to partners. The approach is intended to offer a simplified set of procedures for managing risks effectively, reducing transaction costs and promoting sustainable development in a coordinated manner.

The Board noted that UNDP had engaged in continuous improvement of the implementation of the harmonized approach to cash transfers framework and associated documentation. The Board, however, also noted a number of cases of non-compliance with the applicable requirements. These included lack of valid assessments of the partner's financial management capacity and lack of assurance activities carried out to determine whether funds transferred were used for their intended purpose and in accordance with the workplan.

The Board further noted that the resident representatives were accountable to the Administrator for applying the harmonized approach to cash transfer procedures at country level with regional headquarters' oversight and support. The Board noted that regional bureaux carried out oversight based mainly on corporate monitoring procedures. The Board holds that the identified cases of non-compliance with the framework show that a strengthened control environment is necessary.

Human resources

The Board found that an increasing number of UNDP staff had very high accumulated annual leave balances. The Board noted that annual leave is intended for recuperation as well as preserving staff productivity. A key task of management is to control and monitor the appropriate use of annual leave during the year to prevent constant stress and situations of permanent or sole responsibilities of staff to mitigate fraud risks. The Board holds that the fact that the total number of staff members with 60 or more accumulated annual leave days stands at 2,842 shows that UNDP did not effectively control and monitor the use of annual leave by its staff. This will impact future budgets and may entail risks with respect to the availability of staff resources for programmes.

The Board holds that UNDP should review home leave policy to ensure that staff members inform UNDP immediately of changes in approved home leave-related travel. For this purpose, UNDP needs to establish applicable obligations and timelines for entitled staff members as well as effective reminders. The Board found that UNDP had no effective process in place for timely recovery and deduction. The Board holds that UNDP should define the recovery process and implement an effective sanction mechanism to ensure timely settlements and evidence checks.

The Board holds that UNDP should grant advance salary payments to staff only in exceptional and unexpected circumstances when additional moneys were needed. The Board observed that in more than 50 per cent of the requests reviewed, the applicants had not provided evidence that the attempt to secure financing from local lending institutions or from the United Nations Federal Credit Union was unsuccessful. Moreover, the Board noted that granting multiple advance salary payments to the same staff within a 12-month period did not comply with the applicable regulation for advance salary payments. The Board holds that UNDP should exclude multiple advance salary payments to the same staff because cumulated advances may increase the potential risk of underrecoveries or defaults in receivables from staff.

Contractual services

The Board noted the continuing inclusion of ineligible vendors in vendor master files. The Board identified the inclusion of three ineligible vendors in the vendor master file of the country office in Pakistan. The Board found five ineligible vendors in the vendor master file of the country office in Iraq. The Board noted that all of these ineligible vendors had been debarred by UNDP and included in a UNDP intranet list.

The Board reviewed vendor master files and noted duplicate vendor records and duplicate bank accounts. During its audits of the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of), the Board noted various data quality issues associated with vendor records, such as incomplete address data, obvious errors in spelling of city names and invalid data entries such as for numbers in address fields.

The Board holds that accurate, complete and reliable vendor master data not only contributes to the efficient processing of procurement- and payment-related transactions, but also reduces the risks of fraudulent acts. The Board was informed that UNDP intended to implement a new supplier portal which would include enhancements to ensure that data were complete and that all essential vendor information was properly and accurately captured.

The Board noted that the UNDP Programme and Operations Policies and Procedures required the development of procurement plans for projects and consolidated procurement plans for country offices on an annual basis. The Board found that the country office in Iraq did not use the corporate procurement management platform that had been established in response to the Board's earlier findings related to procurement planning. The Board was informed that a mandatory procurement plan for the largest project in the country office in Iraq had not been submitted in 2019 or 2020.

The Board reviewed the procurement actions processed by the country office in Iraq in 2020 and noted several opportunities to consolidate procurement actions such as for minor construction works related to rehabilitations of schools. The Board holds that better consolidation of procurement requests would enhance the efficiency of the procurement function, as it reduces the administrative burden imposed by the conducting of multiple solicitations.

Information and communications technology

In March 2020, UNDP launched its new information technology strategy to lay the operational foundation for delivering on the digital transformation of UNDP. The accompanying information technology standards for infrastructure and services were renewed in March 2021. UNDP uses long-term agreements with suppliers for the delivery of laptops and computers. The Board noted that only one third of all purchases were based on these agreements which offer cost savings and facilitate standardizations. The Board holds that UNDP should include mandatory specifications and the mandatory use of long-term agreements with the new information technology standards for infrastructure and services.

Main recommendations

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

Financial statements and accounting-related matters

(a) **Increase awareness among country offices and headquarters units to ensure timely submission of documents relevant for revenue recognition of voluntary contributions and continue to monitor the late submission of such documents to determine whether additional guidance is needed;**

(b) **Take into account the changes in respect of eligible persons for the full period from 1 January to 31 December when making the necessary estimation for its decision on a roll forward or a full validation of the benefit obligation for after-service health insurance;**

(c) **Record revenue from exchange transactions in the period in which services were rendered and assess how the enterprise resource planning system could support this accounting approach to ensure an appropriate process and follow-up and complete recovery of revenue from exchange transactions;**

United Nations development system reform

(d) **Liaise with the United Nations Secretariat to assess the feasibility of a reimbursement process for UNDP resident representatives also serving temporarily as resident coordinators to recover costs;**

Internal controls

(e) **Further automate preventive controls with respect to assigning staff functions to non-staff and include all minimum control functions that must be held by staff;**

(f) **Streamline in what detail and how country offices' internal control procedures need to be documented and inform heads of office accordingly;**

(g) **Explore possibilities for integration of the delegation of authority process, which is currently paper-based, into its enterprise resource planning system;**

Enterprise risk management

(h) **Ensure that country offices record project-related risks for all of their projects and that risk entries are complete;**

Harmonized approach to cash transfers

(i) **Analyse possibilities for implementing a threshold above which regional bureaux review microassessments and assurance activities carried out for individual partners;**

Human resources

(j) **Enhance the monitoring of annual leave taken and annual leave balances of its staff to ensure that staff use annual leave for necessary recreation as well as to prevent expiration of annual leave;**

(k) **Develop an overall strategy to reduce high annual leave balances to an appropriate level within a foreseeable period;**

(l) **Review the home leave process, including regulations, to clearly determine the obligations of entitled staff, implement an effective reminder with deadlines and consequences and implement an effective recovery process;**

(m) **Document the provision of evidence, in all applications for salary advances, that the attempt to secure emergency financing from local lending institutions or the United Nations Federal Credit Union was unsuccessful;**

(n) **Enhance compliance with the policy regarding the frequency of salary advances for emergencies or special conditions;**

Contractual services

(o) **Enhance its efforts to regularly review its vendor databases so as to exclude ineligible vendors debarred by UNDP itself;**

(p) **Explore possibilities for robust data input controls and regular data maintenance mechanisms in the new supplier portal which ensure accurate, complete and reliable vendor master data;**

(q) **Strengthen procurement planning for all projects in the country office in Iraq and consolidate procurement plans in the corporate procurement management platform;**

Information and communications technology

(r) **Include the mandatory use of long-term agreements and mandatory specifications for purchases in the UNDP Standards for IT Infrastructure and Services guideline.**

Follow-up of previous recommendations

As at 31 May 2021, out of the 57 recommendations made for 2019 and previous years, 40 (70 per cent) had been implemented and 13 (23 per cent) remained under implementation. One recommendation (2 per cent) had not been implemented and three (5 per cent) had been overtaken by events (see annex).

Key facts	
170	Countries and territories where UNDP operates
$699 million	Budget for 2020 approved by the Executive Board for regular resources.[1] 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
$6.62 billion	Total revenue
$5.05 billion	Total expenses
$14.30 billion	Total assets
$3.03 billion	Total liabilities

A. Mandate, scope and methodology

1. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly of the United Nations. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York but works primarily through its offices in about 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 2020 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 2020 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

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

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 2020.

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

7. The audit was carried out remotely in three country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of) in February 2021, at headquarters in New York and at the Global Shared Services Unit in Copenhagen and Kuala Lumpur in November 2020 and April and May 2021. The travel restrictions in place owing to the coronavirus disease (COVID-19) global pandemic in 2020 and 2021 affected the complete audit of the financial statements.

8. Recommendations based on findings in country offices were issued to country offices and followed up at headquarters. They have been integrated into accounting related areas, namely, exchange revenue, internal controls, delegation of authority, human resources, annual leave, contractual services, vendor management, procurement planning and efficiency, construction, and information and communications technology.

9. Along with adopting the new information technology and digital strategy, UNDP decided in 2020 to replace the current enterprise resource planning system Atlas with a modern cloud-based system, the Next Generation Enterprise Resource Planning (NextGenERP) system. The Board recommends that while the implementation of this cloud-based system is phased in 2021 and 2022, UNDP should enhance related business processes in order to prevent users from approving payments for themselves; include documentation of the implementation of the harmonized approach to cash transfers (HACT); ensure compliance with HACT policies: integrate the currently paper-based delegation of authority process into the enterprise resource planning system; and integrate input controls in the new supplier portal for effective vendor management.

10. The auditors have engaged in discussions with UNDP management on the need for continuous assessment of the impacts of the coronavirus disease (COVID-19) global pandemic on UNDP. The present report examines the financial impact of the COVID-19 pandemic on UNDP and the response of the Programme at operational and organizational levels. UNDP disclosed the main impacts of COVID-19 in note 36 to the financial statements for 2020 and in paragraphs 9-28 of the financial report.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

11. As at 31 May 2021, out of the 57 outstanding recommendations up to the financial year ended 31 December 2019, 40 (70 per cent) had been fully implemented, 13 (23 per cent) were under implementation, 1 (2 per cent) had not been implemented and 3 (5 per cent) had been overtaken by events. Details of the status of implementation of the recommendations are provided in the annex to the present report. The Board acknowledges the efforts of UNDP directed towards

implementation of its recommendations, especially with regard to recurring recommendations.

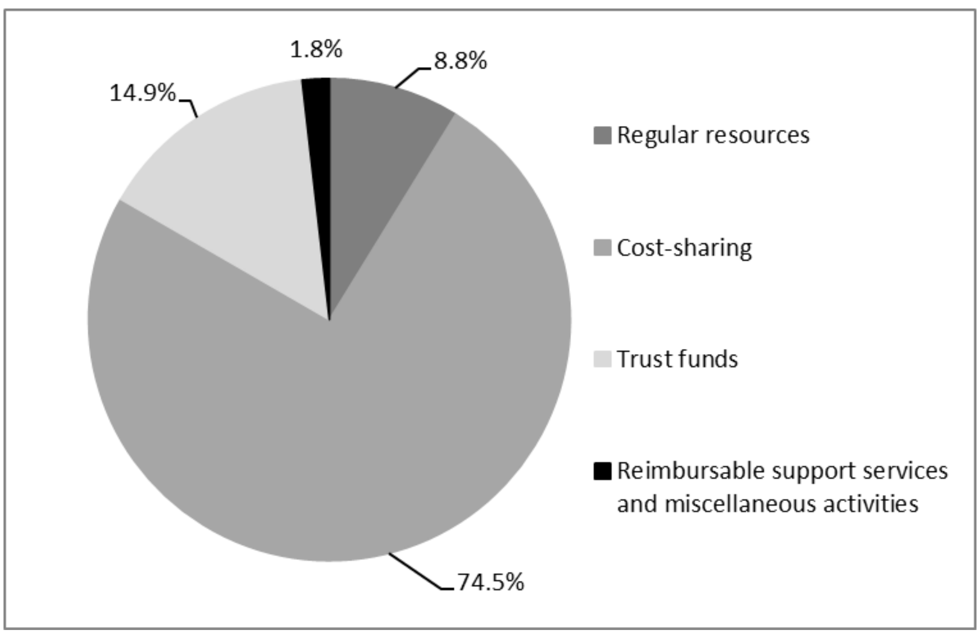
2. Financial overview

Revenue and expenses

12. UNDP revenue includes voluntary contributions, revenue from exchange transactions, investment revenue and other revenue. During 2020, total revenue amounted to $6.62 billion (in 2019: $4.83 billion) and total expenses amounted to $5.05 billion (in 2019: $4.92 billion), resulting in a surplus of $1.57 billion (in 2019: deficit of $94.54 million). This increase was due mainly to the increase of voluntary contributions.

13. The total voluntary contributions to UNDP were $6.27 billion (in 2019: $4.47 billion), equivalent to 94.8 per cent (in 2019: 92.5 per cent) of total revenue. Voluntary contributions increased by $1.80 billion (40.2 per cent) compared with contributions in 2019. The increase stems partly from the fact that UNDP funding is received on a cyclical basis and revenue is recorded at the time the agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of $551.14 million (8.8 per cent), cost-sharing of $4,675.38 million (74.5 per cent), trust funds of $932.12 million (14.9 per cent) and reimbursable support services and miscellaneous activities of $113.86 million (1.8 per cent). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions to regular and other resources



Source: Analysis conducted by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2020.

14. Total expenses in 2020 ($5.05 billion) were slightly higher compared with 2019 ($4.92 billion). For the breakdown of expenses into segments, UNDP excludes an elimination of $255.84 million to remove the effect of internal UNDP cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source. Before elimination, expenses amounted to $5.31 billion and the

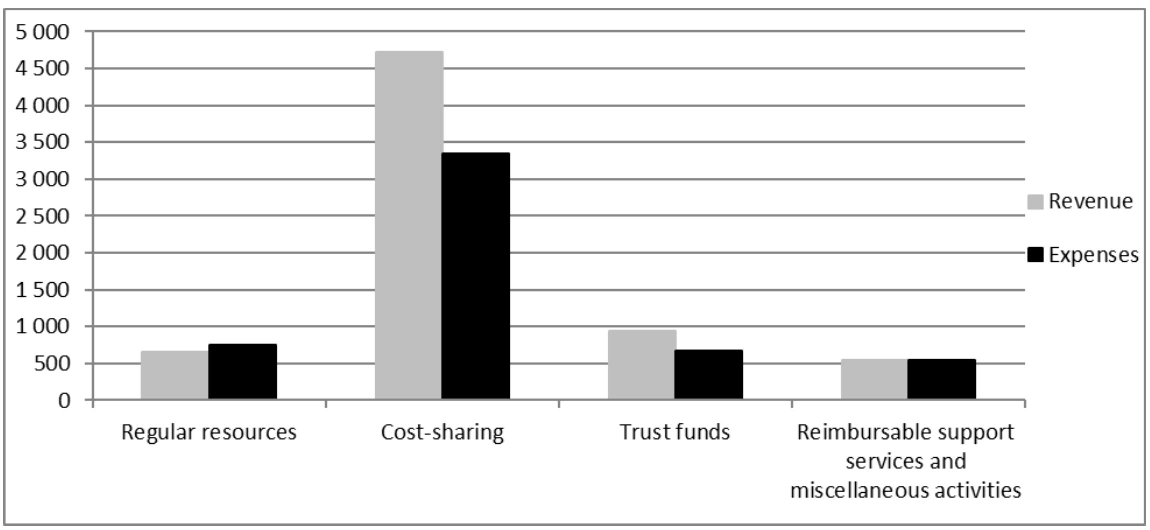
breakdown by segment is as follows: regular resources expenses of $756.80 million (14.2 per cent), cost-sharing expenses of $3,342.32 million (63.0 per cent), trust fund expenses of $667.63 million (12.6 per cent) and expenses on reimbursable support services and miscellaneous activities of $539.94 million (10.2 per cent).

15. The classification of the expenses by nature indicates that the largest expense category continued to be contractual services, with expenses of $1,956.85 million (38.7 per cent of overall expenses). An amount of $1,154.09 million (22.9 per cent) was spent on supplies and consumables used, $814.31 million (16.1 per cent) on staff costs, $773.96 million (15.3 per cent) on general operating expenses net of $255.84 million internal cost recovery, $287.89 million (5.7 per cent) on grants and other transfers and $63.75 million (1.3 per cent) on other expenses and on depreciation and amortization.

16. Total expenses by cost classification indicate that $4,388.77 million (82.7 per cent) were spent on programme, $180.90 million (3.4 per cent) on development effectiveness, $32.51 million (0.6 per cent) on United Nations development coordination, $445.78 million (8.4 per cent) on management, $48.44 million (0.9 per cent) on special purpose activities and $210.28 million (4.0 per cent) on other costs. The breakdown of expenses by cost classification excludes an elimination of $255.84 million to remove the effect of internal UNDP cost recovery.

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

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



Source: Analysis conducted by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2020.

Ratio analysis

18. The analysis conducted by the Board of the main financial ratios of UNDP (see table II.1 below) shows slight increases in all ratios in 2020 as compared with 2019. The increase results from an increase in cash, current investments and non-exchange receivables, which more than offset the slight increase in liabilities (current and non-current).

Table II.1
Ratio analysis

Ratio	*31 December 2020*	*31 December 2019*
Current ratio[a]		
Current assets: current liabilities	5.54	5.13
Total assets: total liabilities[b]	4.72	4.48
Cash ratio[c]		
Cash plus investments: current liabilities	3.55	3.32
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	5.39	4.95

Source: Analysis made by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2020.

[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.

19. The current assets of UNDP as at 31 December 2020 were $8,723.88 million, or 5.54 times the current liabilities of $1,575.22 million, which indicates the Programme's ability to meet its short-term obligations. Similarly, total assets of $14,298.58 million exceeded total liabilities of $3,028.76 million, which indicates a healthy financial position. Assets include contributions committed by donors for future periods.

20. 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 2020, UNDP held a reserve of $302.2 million compared with a reserve of $286.2 million reported on 31 December 2019. The difference of $16.0 million represents an operational reserve transfer from the accumulated surplus of the year.

3. Impact of the COVID-19 pandemic

Financial impact of the COVID-19 pandemic

21. In 2020, the COVID-19 pandemic became a global challenge which impacted the financial statements of UNDP. Most significantly, UNDP revenue from voluntary contributions increased by 40 per cent, compared with 2019, to $6,272 million, which was related partially to the impact of the COVID-19 pandemic. UNDP did not identify any voluntary contributions receivable that needed to be impaired as a result of the COVID-19 pandemic. However, it is currently not certain whether the COVID-19 pandemic might lead to funding reductions in future periods owing to the impact on the global economy.

22. UNDP investment income decreased by 29 per cent, compared with 2019, to $118 million. The decline was caused by lower interest rates in 2020. In addition, travel expenses decreased by 45 per cent, to $121 million. The decline resulted from

travel bans, lockdowns and restrictions, the cancellation or postponement of duty travel and changes in assignment and repatriation-related travel patterns.

23. The procurement of medical, pharmaceutical and agricultural supplies increased by 24 per cent, compared with 2019, to $464 million. UNDP procured medical equipment and supplies specifically for COVID-19 pandemic-related projects. This accounts for the major part of the increase.

24. Additional information on the impacts of the COVID-19 pandemic on UNDP and a comparison in this regard with other United Nations entities are provided in the concise summary of the key findings and conclusions contained in the reports of the Board of Auditors for the annual financial period 2020 (A/76/173). The concise summary report provides an overview of cross-entity issues and key trends.

Response of UNDP to the COVID-19 pandemic

25. The COVID-19 pandemic has had a significant effect on the programmatic work of UNDP. Many additional programmes and projects were implemented to respond to the pandemic. Programmatic work in place was adjusted to respond to urgent needs or long-term development goals. In some cases, processes, working arrangements and partnerships were adjusted to accommodate restrictions of movement. UNDP expects the COVID-19 pandemic response and recovery to impact programmatic work in future years.

26. To support the countries affected, UNDP mounted an integrated response to the COVID-19 pandemic. The response was framed to address three objectives: help countries prepare for and protect people from the pandemic and its impacts; respond during the outbreak; and recover from the economic and social impacts.

27. The first and immediate offer of UNDP ("COVID-19: UNDP's integrated response") focused on three immediate priorities: health systems support; inclusive and integrated crisis management and response; and social and economic impact needs assessment and response. In a second and more evolved offer ("Beyond Recovery: Towards 2030"), UNDP focused on forward-looking support in four integrated areas: governance, social protection, green economy and digital disruption. This offer was constructed around the role and competencies of UNDP in building systems and resilience, and focused on linking the immediate response to long-term sustainable development needs.

28. In its response to the COVID-19 pandemic, UNDP benefited from programme tools already in place which were quickly adapted. These included standard operating procedures and guidance notes in relevant areas. UNDP supported country offices with integrated policy and programme offers on health responses, crisis management and socioeconomic impact assessments. Approximately 100 service offers were compiled and provided to resident representatives in a toolkit, including information on health matters, crisis response and business continuity.

29. The response of UNDP to the COVID-19 pandemic was in line with the current strategic plan which runs from 2018 to 2021. In order to more effectively align the COVID-19 pandemic response with the second offer, UNDP introduced six new outputs and 14 new output indicators in the integrated results and resources framework. The existing outcomes, outputs and indicators remained unchanged. Out of the 14 indicators, 6 are UNDP-specific, while 8 are drawn from the United Nations framework for the immediate socioeconomic response to the COVID-19 pandemic. UNDP is currently developing the strategic plan for the period from 2022 to 2025. That strategic plan will address the health and economic impacts of the COVID-19 pandemic and the impact on the Sustainable Development Goals and the pledge to leave no one behind.

United Nations framework for the immediate socioeconomic response to the COVID-19 pandemic

30. Within the United Nations system, UNDP was designated by the Secretary-General to be the technical lead of the United Nations socioeconomic response to the COVID-19 pandemic at country level. The socioeconomic response is fully coordinated with the health response led by the World Health Organization, and the humanitarian response led by the Office for the Coordination of Humanitarian Affairs of the United Nations Secretariat. As at 14 January 2021, UNDP had supported the preparation of 144 socioeconomic impact assessments in 97 countries. Based on these assessments, 119 socioeconomic response plans were prepared covering 137 countries.

31. The socioeconomic impact assessments and response plans were aligned with national priorities and the current United Nations Sustainable Development Cooperation Frameworks and will inform future cooperation frameworks.

Financing the COVID-19 pandemic response

32. When the COVID-19 pandemic hit, UNDP mobilized or reallocated nearly $1 billion to assist partners in over 170 countries and territories. Over 10 per cent were regular resources. UNDP allocated $855 million to 802 project outputs. Expenses amounted to $584 million.

33. A major part of the funds were provided or repurposed from existing projects. To leverage new and redirected funding, UNDP internally set up two COVID-19 pandemic targeted financing facilities. The use of these central financing facilities led to an alignment of country offices' work with corporate priorities.

34. In alignment with the first phase of the UNDP COVID-19 pandemic response offer, UNDP set up a rapid response facility to help countries start their immediate action. UNDP funded the facility with a volume of $30 million from existing resources, mainly from funding windows. In six weeks, UNDP had allocated funds to 110 country offices, each receiving $0.26 million on average. Within six months in 2020, country offices had used 96 per cent of the funds.

35. In alignment with the second offer, UNDP set up a rapid financing facility with a volume of $105 million to support country offices' national recovery efforts. The facility was used to leverage projects co-financed by other funds to facilitate strategic partnerships. Resources were drawn from sources of highly flexible funding (core resources). The funds were fully allocated to 124 countries and five regional and global projects. UNDP plans to deliver most of the funding in 2021.

36. Additionally, the Japanese Supplementary Fund contributed to the first offer with a volume of $64 million targeting 29 countries. The Global Fund to Fight AIDS, Tuberculosis and Malaria set up a COVID-19 pandemic response mechanism to help countries access contributions and to repurpose existing funds for the COVID-19 pandemic response. The mechanism was designed to support low- and middle-income countries in adapting existing projects and strengthening health and community systems. UNDP received $44 million from the response mechanism and repurposed an additional $11 million of existing funding.

37. Core funds were crucial for the response of UNDP to the COVID-19 pandemic. These resources allowed for a flexible allocation and helped UNDP respond quickly to the emergency situation. While repurposing earmarked funds required additional consultations and, in some cases, negotiations with the respective donors, core funds allowed an immediate response. In addition, contributions received through the funding windows enabled UNDP to allocate funds within the intended thematic area in support of the response to the COVID-19 pandemic. UNDP used core funds and

funding window resources not only for the setting up of facilities, but also for projects at country level. Flexible and predictable resources will remain important for the future COVID-19 pandemic response of UNDP.

Reporting on the COVID-19 pandemic response

38. UNDP set up tools to track and analyse the COVID-19 pandemic response. Country offices received detailed guidance on how to ensure that the COVID-19 pandemic response was reflected in the system. UNDP stated that a marker linked projects to the integrated COVID-19 pandemic response and tracked resources spent. Indicators enabled UNDP to analyse results achieved in the different areas of the UNDP offer.

39. In 2020, country offices reported twice on their COVID-19 pandemic response. This reporting was designed mainly to analyse successes and challenges with a view to informing future work and sharing experiences within UNDP. The reporting included information on results and progress, on resource mobilization and partnerships, on beneficiaries and on digital and innovative solutions implemented by the country offices. The reporting also served to forecast further demand for the COVID-19 pandemic response. Information on results and lessons learned was made available to UNDP staff in an internal dashboard.

40. Within the context of the SDG integration team, UNDP created the COVID-19 pandemic data insight platform which was launched in December 2020. On the platform, UNDP pulls together data on the COVID-19 pandemic and its impacts from the United Nations, non-profit partners, academia and countries. The platform can be used to create scenarios and simulations in support of evidence-based decision-making.

41. The Board noted that, also in December 2020, UNDP published the first study in a series on the impact of the COVID-19 pandemic on the Sustainable Development Goals. The study presented three scenarios on the longer-term impact of the COVID-19 pandemic and a baseline scenario. This first report was focused mainly on the impact of the pandemic on extreme poverty. In March 2021, UNDP followed up with a study focused on the impact of the COVID-19 pandemic in low and medium human development countries.

COVID-19 pandemic special procurement measures

42. In March 2020, the Bureau for Management Services announced several special procurement measures. Initially, these measures were authorized through 30 June 2020 but, subsequently, were extended three times, most recently to 30 June 2021. To facilitate the procurement of personal protective equipment and other health products, the following special measures had been authorized: lifting of the restriction on national competition, reduction of the minimum bidding period from two weeks to one week and expediting of clearances by procurement oversight committees.

43. In addition, measures not limited to health procurement had been authorized. These included, for example, the increase of the threshold for direct reviews for any exigent procurement by the chairperson or for contracts, assets and procurement up to the increased delegated procurement authority for the respective business unit. To reduce the burden on country offices, the extension for a further period of 6–12 months of long-term agreements that were due to expire was authorized.

44. UNDP issued several guidance notes, providing guidance on operationalizing the special measures as well as on ongoing solicitation processes and contract management issues arising from the situation created by the COVID-19 pandemic such as suspension and termination provisions.

45. At the end of September 2020, the Chief Procurement Officer authorized additional year-end measures, as part of UNDP efforts to accelerate programme delivery, which were to be applied until the end of December 2020. For example, the minimum bidding period of only one week already applicable to COVID-19 pandemic-related health procurement was authorized to be applied to all procurement.

46. In terms of procurement oversight, the Chief Procurement Officer directed that, as provided for similar exigent situations, direct review shall be further leveraged during the year-end rush for requests above the threshold of $500,000, where the submissions were deemed straightforward following a preliminary assessment.

Impact of the COVID-19 pandemic on human resources

47. While UNDP operates in about 170 countries and territories, the impact of the COVID-19 pandemic on staff members varied based on the individual local situation. In this context, UNDP developed a guidance which could be tailored to regional needs. In March 2020, UNDP informed staff members that until further notice, all UNDP staff may telework for the number of days approved within their duty station. In June 2020, the Administrator approved a new guidance document on teleworking/telecommuting during the COVID-19 pandemic, which was updated most recently in April 2021.

48. During the COVID-19 pandemic, UNDP adjusted rules for annual leave to prevent annual leave from being forfeited. As a consequence, employee benefits for accrued untaken annual leave increased by 30 per cent, compared with 2019, to $89 million.

49. In April 2020, UNDP informed all staff regarding temporary regulations which allowed home leave to be advanced and deferred as well as exemptions applied to the individual entitlements. These exceptions, which at first were in place for a period of one year, have been extended until 31 December 2021. As a consequence, the employee benefits for home leave increased by 27 per cent, compared with 2019, to $10.8 million.

50. In April and May 2020, because of the restrictions and medical situation at the duty stations, UNDP introduced an early disbursement of monthly salaries through payroll to support staff and service contractors. In this context, the Bureau for Management Services allowed salary advances for staff, including service contractors, of up to three months based on temporary rules and procedures. As a result, UNDP granted 758 salary advances for COVID-19 pandemic-related emergencies and special conditions. As at 31 December 2020, UNDP stated a balance of $353,103 of pending salary advances related to the COVID-19 pandemic.

4. Financial statements and accounting-related matters

Late submission of voluntary contribution agreements

51. UNDP voluntary contribution agreements are centrally recorded in the enterprise resource planning system by the Global Shared Services Unit. Therefore, all country offices and other units including headquarters submit signed voluntary contribution agreements to the Global Shared Services Unit. The Global Shared Services Unit then accounts for assets and revenue in accordance with IPSAS. The Global Shared Services Unit can account for agreements related to the respective period only if it has knowledge of those agreements. The UNDP Office of Financial Resources Management established the rule that all documents relevant for revenue recognition of voluntary contributions need to be submitted to the Global Shared Services Unit within one week after signature at the latest.

52. UNDP informed the Board that several signed documents relevant for revenue recognition of voluntary contributions had been submitted late. The Board identified

such cases during the sample review. In 2020, the Global Shared Services Unit had received 49 documents relevant for revenue recognition of voluntary contributions signed in prior years representing an overall amount of $66.0 million. In 2021, as of 28 June 2021, the Global Shared Services Unit had received 44 documents relevant for revenue recognition of voluntary contributions signed in 2020 representing an overall amount of $81.0 million. UNDP adjusted five documents relevant for revenue recognition of voluntary contributions signed in 2020 representing the overall amount of $70.8 million in the financial statements 2020 to avoid the risk of a material misstatement and to recognize donors' voluntary contributions in the correct period. The late submissions came from country offices of all regions as well as from headquarters units. The Board noted that the UNDP Office of Financial Resources Management sent out reminders and other targeted communications on a continuous basis to highlight the need for documents relevant for non-exchange revenue recognition to be submitted to the Global Shared Services Unit within the timeline.

53. The Board holds that UNDP should continuously monitor whether documents relevant for non-exchange revenue recognition have been submitted late. The Board also holds that, despite the reminders sent by the Office of Financial Resources Management, awareness is lacking. In the view of the Board, this is evident from the fact that country offices from all regions and several headquarters units did not comply with the rule that the documents should be submitted shortly after signature.

54. The UNDP Programme and Operations Policies and Procedures defines procedures for the revenue process and determines responsibilities. For instance, the recommending of write-offs is assigned to the head of office. Regarding the submission of agreements, the UNDP Programme and Operations Policies and Procedures states that UNDP office staff assigned by the head of office/unit is the party responsible for fulfilling the task. The Board holds that clear responsibilities could improve the process of submission and might reduce the number of cases of late submission.

55. UNDP issued the 2020 year-end assertion checklist. The assertion checklist is an acknowledgement by the heads of office of key assertions. The assertion checklist needed to be completed by heads of office and submitted by 28 February 2021. In section five, heads of office confirm that all documents relevant for non-exchange revenue recognition were submitted to the Global Shared Services Unit. Most of the offices where late submissions of agreements originated confirmed the timely submission of agreements. The Board holds that the responsible heads of office should be held accountable for the information submitted in the assertion checklist and should ensure the involvement of all relevant staff members in the completion of the assertion checklist.

56. **The Board recommends that UNDP increase awareness among country offices and headquarters units to ensure timely submission of documents relevant for revenue recognition of voluntary contributions and continue to monitor the late submission of such documents to determine whether additional guidance is needed.**

57. **The Board recommends that UNDP ensure that all submitting units define clear responsibility and accountability for submitting documents relevant for non-exchange revenue recognition to the Global Shared Services Unit.**

58. **The Board recommends that UNDP consider holding heads of office accountable when documents relevant for non-exchange revenue recognition were not submitted to the Global Shared Services Unit on time, while the head of office nevertheless confirmed related compliance during the annual assertion exercise.**

59. UNDP agreed with the recommendations.

After-service health insurance

60. In its financial statements 2020, UNDP stated a total amount of $1,174 million with regard to the position of employee benefits liabilities for after-service health insurance.

61. The liability for after-service health insurance was determined by an actuarial validation on the basis of a roll forward of the defined benefit obligation as at 31 December 2019. The actuary stated in its report that the roll forward results were established based on population and demographic assumptions used for the 31 December 2019 valuation (census data). The census data were generated by UNDP from its enterprise resource planning system and provided to the actuary in January 2020. These data covered the entire after-service health insurance population (staff and retirees) as at 31 December 2019 but not the change in staff in 2020. UNDP stated that no further data were provided to the actuary in 2020 and that the actuary was not involved in the decision on the roll forward.

62. In 2017, the Board had recommended "that UNDP, in consultation with the actuary: (a) determine the threshold for significant change in population of the after-service health insurance enrolment records which would require performance of a full census of staff for the valuation of after-service health insurance at year end; and (b) include in the actuarial report the estimated change in population as a part of the key information" (A/72/5/Add.1, chap. II, para. 29).

63. Consequently, UNDP implemented a policy for defining a materiality threshold and the use of the roll forward method for after-service health insurance in April 2018. In accordance with the policy, UNDP calculates in a first step the after-service health insurance liability per staff based on the after-service health insurance liability of the year before (full validation). In a second step, UNDP calculates the threshold of significant changes (number of changes in staff and retirees in the current year) in the after-service health insurance population.

64. In November 2020, UNDP reviewed the materiality for a roll forward versus a full validation of the after-service health insurance liability for 2020 in accordance with its policy. UNDP calculated a materiality threshold for after-service health insurance of $30.306 million and an after-service health insurance liability per staff of $106,000. Based on this, UNDP calculated the applicable threshold for a full validation with a change in staff of 286 active staff and retirees.

65. For 2020, UNDP indicated an increase of 213 (active staff and retirees). Because this change was below the applicable threshold of plus/minus 286 active staff and retirees, UNDP stated that the change in staff was not significant. As a result, UNDP decided on a roll forward of the defined benefit obligation as at 31 December 2020.

66. The Board observed that UNDP had considered the change in staff from 31 December 2019 to 26 October 2020 with additional 213 staff. In May 2021, the Board requested UNDP for the change in staff between 26 October and 31 December 2020. Hereupon, UNDP informed the Board that there was an additional increase in the number of eligible persons of 88 (retirees minus 5; active staff plus 93). UNDP did not take into account this change in its decision for a roll forward versus a full validation of the after-service health insurance liability.

67. The Board noted that the applicable change in staff in 2020 was actually 301 (213 plus 88). The Board therefore reviewed the calculation of the applicable threshold (table II.2).

Table II.2
After-service health insurance materiality and maximum change in staff (threshold) calculated by the Board
(Thousands of United States dollars)

2019 total expenses (financial statements 2019)	4 924 000
Overall materiality by UNDP (3 per cent)	147 720
Individual asset/liability materiality by UNDP (20 per cent)	29 544
Materiality	29 544
After-service health insurance liability as at 31 December 2019 (actuary report 2019)	1 059 823
After-service health insurance liability per staff as at 31 December 2019	106
Maximum change in staff (threshold)	279

Source: Information provided by UNDP and derived from the financial statements 2019.

68. As a result, the Board concluded that the applicable threshold for the change in staff was 279 and the applicable materiality for the after-service health insurance liability was $29.544 million in 2020.

69. The Board found that UNDP did not take into account all necessary data and information for its decision on a roll forward of the after-service health insurance liability in 2020.

70. The Board holds that UNDP should have considered the full change in the number of eligible persons between 1 January and 31 December 2020. Thus, UNDP should have also considered the changes for the period from 26 October to 31 December 2020 when making the necessary estimation for its decision on a roll forward or a full validation. These data were available by the end of January 2021 at the latest.

71. Based upon these data, the Board calculated that the total increase of the number of eligible persons in 2020 was 301, instead of 213 as stated by UNDP. The Board noted that the change in the number of eligible persons clearly exceeded the threshold. As a result, the Board holds that UNDP should have decided on a full validation by the actuary based on the census data as at 31 December 2020. Moreover, the Board holds that IPSAS 25: Employee benefits requires an actuarial calculation considering demographic and financial variables as an entity’s best estimate. Therefore, UNDP should have assigned the actuary to conduct a full validation of the after-service health insurance liability 2020 and to present the respective results until the end of March 2021 for a correct accounting.

72. UNDP explained that organizations of the United Nations system do undertake a roll forward in the intervening year between the full actuarial valuation. When the UNDP threshold calculation was performed as planned in October 2020, UNDP was within the internally set threshold. UNDP proceeded with the roll forward to ensure that the result of the actuarial valuation is available for the timely preparation of the financial statements.

73. Based on the assessment of the Board, UNDP provided the actuary in May 2021 with the updated staff list as of 31 December 2020 to enable a full validation to be conducted. The results indicated a drop in the liability for after-service health insurance of almost $13.9 million from the roll forward to the full validation as of 31 December 2020. UNDP stated that the drop was due to experience gains from higher-than-expected turnover in 2020. This drop was partly offset by the addition of 301 more new staff, as they have lower obligation due to a lower seniority.

74. **The Board recommends that UNDP take into account the changes in respect of eligible persons for the full period from 1 January to 31 December when making the necessary estimation for its decision on a roll forward or a full validation of the benefit obligation for after-service health insurance.**

75. UNDP agreed with the recommendation.

Disposal of vehicles due to mileage

76. According to the UNDP policy on the disposal and write-off of furniture and equipment, vehicles that had clocked 100,000 kilometres or were five years old from the date of purchase (whichever came first) could be disposed of. In cases where the vehicle was still in good condition, the office might decide to retain the vehicle for a longer period of time. When a vehicle was disposed of, a disposal form, which included the mandatory information of the nature of the disposal, was to be filled out.

77. In the view of the Board, a sole reference to the clocking of 100,000 kilometres is generally not a conclusive justification for the disposal of a vehicle. Other individual reasons should be provided, for instance, that based on the vehicle's condition it was not possible to state with certainty that the vehicle could be used safely or that the transfer was based on an agreement with a UNDP partner. The Board holds that a greater level of substantiation would provide the disposal process with the necessary transparency.

78. **The Board recommends that UNDP ensure that disposal notes for vehicles include a transparent explanation which refers to the individual circumstances under which the vehicle was disposed of to confirm that the disposal was the best option for UNDP.**

79. UNDP agreed with the recommendation.

Inaccurate use of catalogue codes

80. As UNDP performs procurement activities also on behalf of other United Nations entities, the UNDP enterprise resource planning system contains UNDP and non-UNDP catalogue codes. The codes determine whether the procured asset will be recorded as an UNDP asset or become expensed upon occurrence. In addition, in cases where UNDP performed procurement activities on behalf of other United Nations entities, the catalogue codes determine that procured assets will not be recorded as UNDP assets.

81. The Board noted disposals of assets in 2020 that had been recorded as property, plant and equipment in prior years but were not under the control of UNDP. The Board also noted additions of assets in 2020 which had been procured in prior years and had been under the control of UNDP since then. These errors occurred through use of the incorrect catalogue code and had not been detected by any control mechanism at the time of the initial purchase. The Board further noted that detective control procedures such as the physical verification exercise did not identify all cases of errors in the year the error had occurred.

82. The Board holds that UNDP should improve the asset procurement process in order to avoid erroneous catalogue code entries. The Board holds that mitigating measures should be implemented at the time of the initial purchase with a view to ensuring appropriate asset or expense recognition.

83. **The Board recommends that UNDP assess measures to mitigate the risk of erroneous asset or expense recognition resulting from use of an incorrect catalogue code upon the initial purchase.**

84. UNDP agreed with the recommendation.

Exchange transactions

85. UNDP uses two different processes when collecting revenue for services provided to other United Nations entities. In one process, an inter-agency clearing account is utilized. In the other, country offices invoice other United Nations entities manually for the services provided.

86. The Board noted several cases where revenue for exchange transactions was manually recorded in 2020 for services rendered by country offices in prior periods. The Board holds that country offices need to record and bill services in the period in which they have been provided to ensure accurate asset and revenue recognition in line with IPSAS 9. Revenue from exchange transactions generates core resources for the respective country offices which allows for flexibility of use. Therefore, the Board holds that timely collection of outstanding amounts supports flexible liquidity and should be in the interest of UNDP.

87. The Board noted that late revenue recognition was regularly caused by late billing of UNDP country offices. Furthermore, the Board was informed during field visits that a standardized approach to follow-up on outstanding amounts is currently not in place. The Board holds that UNDP should introduce a standardized approach for follow-up on outstanding amounts in order to ensure timely and complete cash receipts. UNDP should therefore define intervals for determining the relevant point in time for follow-up activities.

88. The Board noted that manual invoices were recorded outside of the UNDP enterprise resource planning system. The Board holds that UNDP should include recognition of services provided in the new enterprise resource planning system. This could also support the oversight function so as to ensure complete revenue recognition from exchange transactions.

89. **The Board recommends that UNDP record revenue from exchange transactions in the period in which services were rendered and assess how the enterprise resource planning system could support this accounting approach to ensure an appropriate process and follow-up and complete recovery of revenue from exchange transactions.**

90. UNDP agreed with the recommendation.

5. United Nations development system reform

91. On 31 May 2018, the General Assembly adopted resolution 72/279, on the repositioning of the United Nations development system. Pursuant thereto, as from 1 January 2019, the functions of the resident coordinator were separated from those of the UNDP resident representative, with the resident coordinator occupying an independent, full-time position. In the same resolution, the Assembly, inter alia, called upon the entities of the United Nations development system to strengthen capacities, resources and skill sets to support national Governments in achieving the Sustainable Development Goals and build capacities and expertise across United Nations agencies, funds and programmes.

UNDP Sustainable Development Goals integration offer

92. In resolution 72/279, the General Assembly, reinforcing the perception of UNDP as the support platform of the United Nations development platform, requested that due consideration be given to the UNDP integrator function in support of countries in their efforts to implement the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals set out therein. Towards this end, UNDP works together with resident coordinators and the UNDP country teams.

93. UNDP offers support to countries in their efforts to address complex development situations and to develop integrated solutions in order to achieve the Sustainable Development Goals. The offer focuses on four work streams, which may be delineated as follows: Integrated policy and programming bring together capacities across UNDP to help countries diagnose complex challenges. Data and analytics use modelling and forecasting to measure gaps and advancements and to identify root causes of challenges. Sustainable Development Goals-related financing helps countries identify innovative means of expanding public and private investments for achievement of the Goals. Investments in learning and innovation promote discovery of new pathways towards development and enable determination of the approaches that work and those that do not. The work streams are focused not only on individual Sustainable Development Goals but also on the gaps between them.

94. In January 2019, UNDP established the Global Policy Network. Anchored by the Bureau for Programme and Policy Support and the Crisis Bureau, the Network is designed to respond to complex development challenges. The SDG integration team, embedded by UNDP within the Global Policy Network, develops processes and procedures aimed at supporting country offices and resident representatives in their efforts to enable Sustainable Development Goals integration. The Board noted that this was facilitated through a global project. The project document was finalized in 2020.

95. The Board noted that the global project served as the technical framework for the various Sustainable Development Goals integration efforts carried out at the global, regional and country levels. The objective is to enable the strengthening of policies, methodologies and tools for Sustainable Development Goals integration; the building of internal and external capacities; and the collective sharing of insights. The project was underpinned and informed by the mainstreaming, acceleration and policy support common approach adopted by the United Nations Sustainable Development Group in 2015. Under this approach, UNDP continues to work together with participating agencies on country-level Sustainable Development Goals support.

96. The Board was informed that, in 2019 and 2020, the SDG integration team had started testing new approaches in a number of countries. The goal is to learn from these “first mover” countries and develop approaches that can be used by all country offices.

97. The Board noted that UNDP used a number of tools and services to support solutions for Sustainable Development Goals integration. For example, UNDP assists countries in their efforts to include the Goals in national and subnational planning and to formulate common country analyses and United Nations Sustainable Development Cooperation Frameworks. The Climate, Land-use, Energy and Water Systems modelling tool is used to assess how production and use of resources affect climate change. High-level expert advisory teams are established to facilitate dialogue between global experts and Governments. Integrated national financing frameworks help countries establish finance strategies for Sustainable Development Goals-aligned national development plans.

98. Through a network of 60 accelerator labs, UNDP works towards finding solutions to development challenges. Accelerator labs are learning networks focused on development challenges which bring together active citizens, local communities and social entrepreneurs to enable the creation of a collective intelligence. The Board noted that at the time of the present audit, the network was expanding to encompass 91 labs which would serve 115 countries.

Key results achieved by the SDG integration team in 2020

99. The Board noted that the SDG integration team had designed the online collaborative platform SparkBlue which was launched in June 2020. The online platform facilitates discussions and collaboration among internal and external partners. The platform hosts eight communities of practice, open forums for knowledge sharing and leveraging capacity. An e-course on integrated support, developed in cooperation with the United Nations Children's Fund, was launched in September 2020. The course is aligned to the SDG primer, a training course for resident representatives launched in 2019.

100. The Board noted that the SDG integration team was deeply involved in the response to the COVID-19 pandemic (for further information, see paras. 40 and 41 above).

101. The Board was informed that in 2020, UNDP together with the United Nations Children's Fund reviewed and updated the Sustainable Development Goals Acceleration Toolkit which had been launched originally in 2017 by the United Nations Development Group. The toolkit was designed to provide United Nations country teams and Governments with easy access to current tools for accelerating the 2030 Agenda for Sustainable Development. The Board noted that the updated acceleration toolkit was finalized and made available to the public in February 2021. The toolkit is linked to a compilation of tools developed by different United Nations entities and other organizations and institutions. The tools are organized into three categories: integration tools for analysing interconnections and identifying accelerators, tools for assessing how to contribute to the goal of leaving no one behind and tools for conducting risk-informed development planning.

UNDP resident representative serving temporarily as resident coordinator

102. In its resolution 71/243 of 21 December 2016, the General Assembly, stressing the importance of improving the efficiency and effectiveness of the resident coordinator system, requested the Secretary-General to ensure the full implementation of an effective functional firewall between the functions of the resident coordinator and the UNDP resident representative, so as to secure the impartiality and fairness of the resident coordinators.

103. In its resolution 72/279, the General Assembly decided to create a dedicated, independent, impartial, empowered and sustainable development-focused coordination function for the United Nations development system by separating, as noted above, the functions of the resident coordinator from those of the UNDP resident representative. Since 1 January 2019, the resident coordinator function has been separated from the UNDP resident representative function.

104. From January 2019 onward, UNDP provided operational support to the independent and reinvigorated resident coordinator system. The Board noted that during the year 2020, UNDP resident representatives temporarily served also as resident coordinators in 10 countries. In one country, the UNDP resident representative acted as resident coordinator for the whole of 2020 and continued to exercise this function in 2021. The Board noted that UNDP did not receive cost recovery from the United Nations Secretariat for the UNDP resident representatives serving also as resident coordinators.

105. UNDP and the United Nations Development Coordination Office signed a memorandum of understanding for service provision to the resident coordinator system. The memorandum of understanding determines that the provision of services by UNDP to the resident coordinator system should be on a full cost recovery basis. The memorandum of understanding states that UNDP and the United Nations

Secretariat should name dedicated focal points at an appropriate level of seniority. The focal points of UNDP and the Secretariat should liaise with respect to any issues arising under or related to the provision of services.

106. In a report of the Advisory Committee on Administrative and Budgetary Questions (A/73/755), the Advisory Committee noted cases of a UNDP resident representative serving as resident coordinator. The Committee took the view that such an arrangement was inconsistent with the decision taken by the General Assembly in its resolution 72/279. In addition, the report referred to an agreed cost-sharing arrangement between peacekeeping missions or special political missions and the resident coordinator system, under which the resident coordinator system needs to pay 50 per cent of the salaries of resident coordinators if they have a double-hatted role. In another report (A/73/498, para. 21), the Committee recalled that, until 2018, in the case of special political missions that have Deputy Special Representatives of the Secretary-General who also serve as resident coordinators, UNDP resident representatives and/or humanitarian coordinators, the salaries and common staff costs related to those positions were budgeted at 50 per cent of the total cost for the respective missions and the other half of the costs were billed to UNDP. The Board holds that UNDP should consider whether an equivalent approach should be adopted.

107. The Board is aware that in some specific situations, UNDP resident representatives need to support the resident coordinator system by serving as temporary resident coordinators. However, to fulfil the aim set out in General Assembly resolution 71/243, namely, to have in place an effective functional firewall between the functions of the resident coordinator and the UNDP resident representative, those services should be provided in exceptional circumstances and for a limited time. The Board holds that UNDP should liaise with the United Nations Secretariat and assess the feasibility of a reimbursement process for UNDP resident representatives serving temporarily also as resident coordinators to recover costs. This discussion could be conducted by the designated focal points.

108. **The Board recommends that UNDP liaise with the Secretariat to assess the feasibility of a reimbursement process for UNDP resident representatives also serving temporarily as resident coordinators to recover costs.**

109. UNDP agreed with the recommendation.

6. Internal controls

Matters of non-compliance identified

110. In its previous reports (A/74/5/Add.1 and A/75/5/Add.1), the Board identified matters of non-compliance with regard to the UNDP internal control framework. One matter concerned non-staff performing internal control functions. The Board reviewed that matter during its 2020 audit.

111. The Board noted that in July 2020, UNDP had issued a revised version of its operational guide of the internal control framework for UNDP. The Board found that the revision clarified the key roles that might be undertaken only by staff members, that is to say, individuals holding UNDP letters of appointment governed by the Staff Rules and Staff Regulations of the United Nations. The same document provided a list of minimum control functions that must be held by staff.

112. The Board noted that, in response to previous findings of the Board, UNDP had enhanced the Atlas Role Generation and User-provisioning System to further automate preventive controls on the assignment of staff functions to non-staff. Additionally, the Board found that country offices were reminded in November 2020 to take immediate corrective action to reassign selected staff functions assigned to non-staff by 30 November 2020.

113. The Board noted that UNDP heads of office having overall responsibility for establishing and maintaining adequate internal controls in their office were required to confirm several assertion statements during an annual assertion exercise. The Board noted that a checklist related to the 2020 annual assertion exercise required that heads of office confirm compliance with the key provision of the UNDP internal control framework, that staff functions were not performed by non-staff members.

114. The Board identified a total of 101 cases where non-staff were performing internal control functions related to human resources. The Board found that all country offices in which instances of non-compliance had occurred confirmed compliance with the above-mentioned key provision not to assign staff functions to non-staff during the annual assertion process.

115. The Board welcomes the progress made by UNDP in enhancing automated preventive controls with respect to assignment of staff functions to non-staff. At the same time, the Board noted that minimum control human resources functions were still assigned to non-staff without exceptional approval, which is contrary to the requirements under the UNDP internal control framework.

116. The above-mentioned occurrences arose due to the fact that not all minimum control functions and related user profiles were included in the enhanced preventive controls. The Board holds that the above-mentioned occurrences arose also because concerned business units did not comply with related requirements under the UNDP internal control framework or requests to review their internal controls.

117. The Board noted with concern that the heads of office of the respective business units had confirmed compliance with the UNDP internal control framework and the key provision that staff functions were not performed by non-staff members. The Board noted the same findings in its previous report (A/75/5/Add.1). The Board views these recurring findings as indications of the limited reliability of internal control-related statements provided during the annual assertion exercise. Furthermore, the Board holds that this indicates that some heads of office do not meet their responsibility for establishing and maintaining adequate internal controls in their office.

118. **The Board recommends that UNDP further automate preventive controls with respect to assigning staff functions to non-staff and include all minimum control functions that must be held by staff.**

119. **The Board recommends that UNDP review cases of non-compliance and analyse why country offices did not fully comply with the corporate internal control framework but still confirmed compliance during the annual assertion exercise.**

120. UNDP agreed with the recommendations

Requirements to ensure that internal control procedures are documented

121. The Programme and Operations Policies and Procedures of UNDP specifies that an internal control framework for UNDP country offices covers key control factors such as planning, monitoring, communication, policies, procedures, segregation of duties, individual authorities and accountabilities. This includes, inter alia, safeguarding assets from inappropriate use and loss through fraud or error; helping to ensure the quality of internal and external reporting through the maintenance of proper records and information flows; and facilitating compliance with applicable laws, regulations and internal policies.

122. Pursuant to the suggestions provided in the operational guide of the internal control framework for UNDP, heads of office have overall responsibility for establishing and maintaining adequate internal controls in their office, and for maintaining documentation of the office's internal control procedures. According to

the detailed description provided in the guide, periodically, and at least annually, the head of office should update and sign the office's documented internal control procedures and file them for future reference and audit. This document should include a record of authorities delegated, designations made and Atlas profiles authorized by the head of office, and reasons for non-compliance with the requirements and best practices suggested in this guide.

123. The Board noted that UNDP maintained a repository for storing country offices' local internal control frameworks on its intranet. The Board found that this site listed a number of the documents of which the internal control framework was composed, including, among others, a, localized version of the corporate operational guide of the internal control framework for UNDP.

124. The Board found that a checklist summarizing the key requirements of the internal control framework, utilized as part of the annual assertion exercise, stated that all heads of office had to confirm that their office had complied with the internal control framework. This included an approved local internal control framework which had been updated to reflect any new internal control measures announced during the year.

125. Out of 135 country offices, the Board selected a random sample of 51 (38 per cent) and requested the respective current local internal control frameworks and documentation of internal control procedures. The Board found that 18 country offices provided a record only of authorities delegated, designations made and Atlas profiles authorized by the head of office. The Board did not receive additional documentation on the offices' internal control procedures.

126. The Board was informed that UNDP considered that provision of a record of authorities delegated, designations made and Atlas profiles authorized by the head of office demonstrated a sufficient level of compliance with the requirement that a country office's internal control procedures should be documented. The Board was also informed that the documents listed in the internal control framework repository were considered to offer examples of best practices only and were not provided in order to comply with a mandatory requirement. The Board noted that documentation requirements of a country office's control procedures were interpreted differently by heads of office, especially with regard to what details beyond authorities delegated, designations made and Atlas profiles authorized needed to be documented.

127. The Board holds that internal control frameworks fulfil an important function, as they include key control factors which help safeguard assets from inappropriate use and loss through fraud or error or help ensure the quality of internal and external reporting. Consequently, heads of office, who are entrusted with custody and stewardship of UNDP and partner resources, have overall responsibility for establishing and maintaining adequate internal controls in their offices. Given the importance of internal controls, country offices' internal control procedures should be not only documented but regularly updated and tested.

128. The Board is of the view that various requirements clearly suggest that it is not sufficient to limit the documentation of a country office's control procedures to the authorities delegated and Atlas user profiles assigned. The Board views this as insufficient documentation of internal control procedures, as some control functions are performed outside Atlas, such as the delegated authority to sign the contribution agreements and recording of exchange revenue.

129. **The Board recommends that UNDP streamline in what detail and how country offices' internal control procedures need to be documented and inform heads of office accordingly.**

130. UNDP agreed with the recommendation.

Management of delegations of authorities

131. The UNDP policy on delegation of authorities lists various guiding principles which govern the policies and procedures for the delegation of authority in UNDP. The first principle states that all delegations of authority need to be done formally in writing. The authorities delegated should be clearly stated, understood and accepted by both the person delegating the authority (the delegator) and the person to whom the authority has been delegated (the delegatee).

132. The same policy provides a template letter for further delegation of authority by the head of office. A record of such further delegation of authority by the head of office should be maintained by the human resources unit of the office concerned. Similar requirements for delegations to be in writing and filing requirements are included in the UNDP operational guide for the internal control framework.

133. The Board noted that UNDP assigned three separate levels of authority which related to incurring commitments, verifying that payments may be made and disbursing payments based on user profiles in Atlas. These three profiles were assigned to the project manager (first level of authority), the approving manager (second level of authority) and the disbursing officer (third level of authority). The Board also noted that the respective delegation of authority was managed in a paper-based manner outside the Atlas Role Generation and User-provisioning System.

134. The Board reviewed the delegations of authority within the country office in Pakistan and reconciled them with the corresponding Atlas profiles. The Board noted that for 32 users that had been assigned the project manager user profile, the documentation of delegation of authority in writing was not available.

135. The country office in Pakistan stated that owing to the large number of project managers, as well as changes in the environment when new outputs were created in Atlas, the country office was not issuing a personalized delegation to these staff. The country office also stated that, instead, a matrix delegation of authority was in place.

136. Based on the assignment of Atlas user profiles in two different months, the Board selected two separate samples and requested the respective written delegations of authority. The Board was provided with 152 out of the 172 requested delegations of authority. The Board noted that 35 of the delegations received (23 per cent) did not meet the criteria outlined for delegations of authority in the respective policy and the UNDP internal control framework. For example, the Board was provided with terms of reference for a position or general overview of authorities delegated but no individual written delegation.

137. Overall, the Board noted that various formats were used to delegate authorities. While some delegations included detailed descriptions of the respective responsibilities, others simply indicated the role and function delegated on a one-page document or used a list of all projects and project managers to assign respective authorities.

138. The Board holds that provisioning and maintaining user profiles in Atlas and managing related delegations of authority are a key element of internal controls. The person to whom the authority has been delegated needs to clearly understand the related scope and responsibilities.

139. The Board acknowledges that some heads of office issued delegations in the form of a delegation of authority matrix. However, such a matrix indicates only what user profiles have been assigned to staff. The Board considers a matrix to be unsuitable for the purpose of clearly communicating the authorities delegated and assuring that the recipient of the delegation has been made aware of the related limitations and responsibilities.

140. The Board acknowledges that the UNDP policy on delegation of authority includes a sample letter for the delegation of authority. At the same time, the Board notes that very few offices used such templates. Furthermore, the Board is concerned that a large number of the delegation documents received were not in compliance with the formal requirements and guiding principles outlined in the UNDP policy on delegation of authority and the UNDP internal control framework.

141. **The Board recommends that UNDP remind heads of office to use the template for the delegation of authority that complies with the formal requirements of the respective policy.**

142. **The Board recommends that UNDP explore possibilities for integration of the delegation of authority process, which is currently paper-based, into its enterprise resource planning system.**

143. UNDP agreed with the recommendations.

Staff approving payments for themselves

144. According to the UNDP accounts payable policy, an accounts payable voucher records a liability due to a vendor and expense against a given chart of accounts. Pursuant to the accounts payable key procedure in the UNDP Programme and Operations Policies and Procedures, approving managers approve accounts payable vouchers in Atlas and sign the hard copy of vouchers to record approval.

145. On the basis of data provided by UNDP, the Board reviewed the accounts payable vouchers for 2020. Using a matching data analysis technique, the Board identified 18 transactions where the user approving the voucher was identical to the vendor paid. The Board noted that these transactions were approved by 10 different users and the related total amount was $28,755. The Board found that for two transactions, the invoice field referred to salary advances and for one transaction the invoice field referred to danger pay.

146. The Board was informed that two different recently established dashboards would track transactions where the voucher approver matched the vendor paid. The Board noted that on 1 April 2021, UNDP announced the introduction of additional monitoring reports related to the UNDP internal control framework. These included a new detective control in the form of a report on vouchers for cases where the voucher approver was identical to the vendor paid. The same message stated that staff members should not approve payments for themselves. Related transactions should be reviewed and staff members should not approve future payments for themselves.

147. The Board welcomes the announcement of UNDP implementation of additional reports to enable staff to regularly review user profiles and transactions where the user approving the voucher and the vendor paid are the same person. At the same time, the Board holds that this detective control is likely to be neither effective nor efficient, as it relies on proper monthly reviews by more than 135 business units. Consequently, the Board holds that a control for preventing staff from approving accounts payable vouchers for themselves would be more effective and efficient. Previous findings of the Board on the effectiveness of detective report-based controls suggest that only an automated preventive control in the enterprise resource planning system would be effective in preventing these transactions.

148. **The Board recommends that UNDP explore whether an automated control could be implemented in the enterprise resource planning system to prevent users from approving payments for themselves.**

149. UNDP agreed with the recommendation.

7. Enterprise risk management

Responsibility for enterprise risk management

150. As regards risk monitoring and review, the UNDP risk register provides an integrated platform for monitoring all levels and categories of risk. In accordance with the UNDP enterprise risk management policy, regular risk monitoring and review are conducted to inform management decisions, enabling adaptive management and course corrections. UNDP uses the risk register as the primary mechanism for recording risks at all levels. Each risk identified is described in terms of cause, risk event/scenario and impact and is assigned to a risk category. The project risk register, based in Atlas, is used to record project-level risks. The project risk register is to be used for monitoring as often as needed but no less than once a year.

151. On the basis of the "three lines of defence" model, UNDP clarifies and segregates roles and responsibilities within the context of UNDP risk management. The first line of defence comprises functions that own and manage risks. Accountability for enterprise risk management follows the line hierarchy. For example, the line manager of each unit is accountable for risk management within that manager's area of responsibility.

152. At the programme/unit level, the first line of defence includes the directors of regional/central bureaux. The UNDP enterprise risk management policy states in detail that directors of bureaux are, inter alia, responsible for ensuring that offices under their supervision (for example, country offices for regional bureaux) keep their risk registers up to date, respond to risks appropriately and report upward in line as necessary. For country offices/programmes, the resident representative/head of office is ultimately responsible for enterprise risk management and accountable to the relevant bureau director for ensuring that the unit's risk register is regularly monitored and updated and that risks are managed.

153. In accordance with the UNDP corporate accountability framework, regional bureaux are accountable for country office support and oversight. As expressed in the same document, the term "accountable" applies to the person who is ultimately answerable for completion of a function. That person is not necessarily performing the function but, rather, ensuring that it is completed.

154. Assertion statement 12 of the 2020 year-end assertion checklist required heads of office to confirm that their office complied with key requirements of the UNDP enterprise risk management policy. Offices needed to confirm, inter alia, that they maintained and updated project risks in Atlas as required under UNDP enterprise risk management policy and updated and monitored the risk register at least biannually.

Project risks dashboard

155. The Board noted that, in December 2020, UNDP launched a project risks dashboard to help offices respond to long-outstanding audit issues related to regular review, updating and monitoring of project risk registers. Sourced from Atlas, the dashboard provides an aggregated overview of development project risks and includes details such as the total number of risks, completed risks, incomplete risks and projects for which risks have not been recorded.

156. Utilizing the project risks dashboard, the Board reviewed the project risks documented and the completeness of risk entries recorded. Overall, the Board noted a positive development between the launch of the project risks dashboard in December 2020 and the time of analysis in April 2021. The proportion of projects that did not record any risks in Atlas decreased from 34 per cent in December 2020 to

18 per cent at the end of April 2021. The Board noted that, as at the end of April 2021, 694 out of 3,953 projects still had not recorded any risk entries.

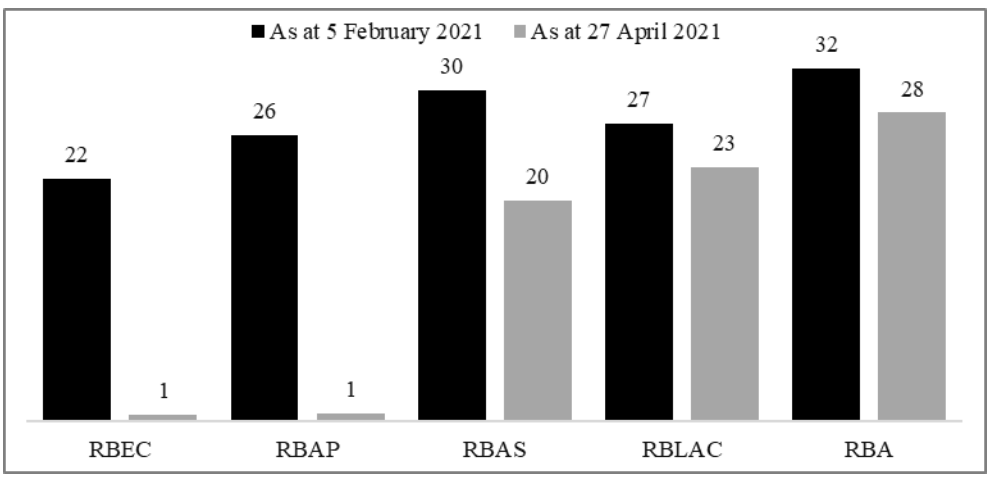
157. Furthermore, the Board noted that the proportion of risks for which there was complete information increased from 55 to almost 80 per cent. At the same time, the Board also noted that, as at the end of April 2021, for 4,173 out of 20,140 project risks documented (20 per cent), the information recorded was incomplete.

Effectiveness of regional bureaux oversight as first line of defence

158. In order to assess the effectiveness of oversight by regional bureaux with respect to ensuring that offices under their supervision kept their risk registers up to date, the Board analysed the percentage of projects with risk entries and the rate of complete risk entries per region (figure II.III).

159. The Board found that, especially for the country offices under the supervision of the Regional Bureau for Asia and the Pacific as well as the Regional Bureau for Europe and the Commonwealth of Independent States, the percentage of complete risk entries had improved significantly. The two regional bureaux had recorded no incomplete risk entries as at the end of April 2021 (figure II.IV).

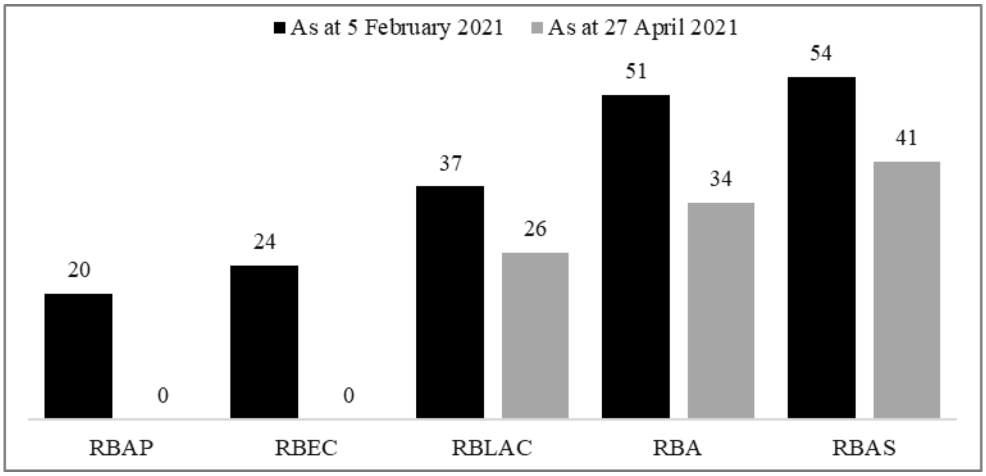
Figure II.III
Percentage of projects without risk entries per region



Abbreviations: RBA, Regional Bureau for Africa; RBAP, Regional Bureau for Asia and the Pacific; RBAS, Regional Bureau for Arab States; RBEC, Regional Bureau for Europe and the Commonwealth of Independent States; RBLAC, Regional Bureau for Latin America and the Caribbean.
Source: Analysis conducted by the Board of Auditors of the UNDP project risks dashboard.

160. The Board found that especially for the country offices under the supervision of the Regional Bureau for Asia and the Pacific and the Regional Bureau for Europe and the Commonwealth of Independent States, the percentage of complete risk entries improved significantly. The two regional bureaux recorded no incomplete risk entries as at the end of April 2021.

Figure II.IV
Percentage of risks with incomplete entries per region



Abbreviations: RBA, Regional Bureau for Africa; RBAP, Regional Bureau for Asia and the Pacific; RBAS, Regional Bureau for Arab States; RBEC, Regional Bureau for Europe and the Commonwealth of Independent States; RBLAC, Regional Bureau for Latin America and the Caribbean.

Source: Analysis conducted by the Board of Auditors of the UNDP project risks dashboard.

161. The Board identified the 15 country offices with the highest numbers of projects without risk entries and high numbers of projects with incomplete risk entries. The Board reviewed whether the respective heads of office had confirmed during the annual assertion process that their offices maintained and updated project risks in Atlas, as required under the UNDP enterprise risk management policy and updated and monitored the risk register at least biannually. The Board noted that, for all 15 country offices, the related assertion statement had been confirmed.

162. The Board welcomes the development and launch by UNDP of the project risks dashboard to help offices regularly review, update and monitor respective project risk registers. The Board takes positive note of the improvements made since the launch of the project risks dashboard.

163. At the same time, the project risks dashboard reveals the incompleteness of project risks recorded. The Board views the fact that one third of projects did not record any risk entries and that almost half of all risk entries had been incomplete when the dashboard was launched as an indication of the need to improve the maturity of enterprise risk management at UNDP.

164. Furthermore, the project risks dashboard showed the effectiveness of the oversight function of the first line of defence and revealed varying effectiveness in this regard. The Board welcomes the fact that the country offices under supervision of two regional bureaux recorded risks for all projects and that those risk entries are complete.

165. The Board notes with concern that, for the country offices with the highest numbers of projects without risk entries and high numbers of projects with incomplete risk entries, the respective head of office nevertheless confirmed that they maintained and updated project risks in Atlas. The Board views this as an indication of the limited reliability of risk management-related statements during the annual assertion exercise.

166. **The Board recommends that UNDP ensure that country offices record project-related risks for all of their projects and that risk entries are complete.**

167. **The Board recommends that UNDP ensure that directors of bureaux fulfil their responsibilities with regard to enterprise risk management and ensure that offices under their supervision keep their risk registers up to date.**

168. UNDP agreed with the recommendations.

8. Harmonized approach to cash transfers

169. The harmonized approach to cash transfers (HACT) is a common operational (harmonized) framework for transferring cash to partners, irrespective of whether those partners work with one or multiple United Nation agencies. The objective of the HACT framework is to support a closer alignment of development aid with national priorities and to strengthen national capacities for management and accountability, with the ultimate objective of gradually shifting to national systems. HACT is intended to offer a simplified set of procedures for effectively managing risk, reducing transaction costs and promoting sustainable development in a coordinated manner.

170. UNDP developed specific policy guidelines for implementing the HACTs framework. Country offices document the implementation of the HACT framework in a separate HACT SharePoint site on the intranet.

171. Implementation of the HACT framework comprises four key processes: a macroassessment of the public financial management environment which shall ensure adequate understanding of the environment within which agencies provide cash transfers to partners; a microassessment which is used to assess the partners' financial management capacity to determine the overall risk rating and assurance activities; the partners' adjusted risk rating which is the basis for the cash transfer modality and the reporting requirements; and assurance activities to determine whether the funds transferred to partners were used for their intended purpose and in accordance with the workplan.

172. In 2020, out of $4,389 million spent on programme activities, UNDP spent $1,709 million on projects implemented through partners (Governments and non-governmental organizations).

173. In 2020, the Board followed up on previous recommendations and reviewed HACT implementation at UNDP. The Board noted that UNDP had engaged in continuous improvement of the implementation of the HACT framework and relevant documentation. In 2020 and in the beginning of 2021, UNDP updated the HACT policy to include further documentation requirements. Further functionalities were added to the HACT SharePoint site at the beginning of 2021 to strengthen and facilitate documentation.

174. The Board noted that in 2020, UNDP had engaged a consultant to perform detailed reviews of country offices' compliance with the HACT framework to address recurring audit findings. As of 31 May 2021, the consultant had sent out communications to 79 per cent of country offices, which accounted for 93 per cent of 2020 programme expenditure, regarding the status of their compliance with HACT and actions required.

175. The Board noted that UNDP had assessed possibilities for integrating and digitizing risk assessments of implementing partners into the new cloud-based enterprise resource planning system which is planned to replace the current enterprise resource planning system Atlas in 2022.

Compliance with HACT policies

176. The Board reviewed implementation of the HACT framework in 10 country offices. Using a risk-based approach, the Board also reviewed documentation of HACT implementation on the HACT SharePoint site for additional country offices. The Board noted a number of cases of non-compliance with the current requirements.

177. At the beginning of each year, country offices upload a microassessment plan and an assurance activity plan to identify partners to be assessed and assurance activities to be carried out. The Board noted that in 4 out of 10 cases, the sampled country office had not uploaded a signed microassessment plan for 2020 and 5 country offices had uploaded the microassessment plan for 2020 in 2021. Out of 10 country offices, 5 had not uploaded a signed assurance activity plan for 2020 and 3 country offices had uploaded the assurance activity plan for 2020 in 2021. Assurance activities had not been planned or performed completely in 9 out of the 10 country offices sampled.

178. In the risk-based review of the HACT SharePoint site, the Board noted that a valid microassessment was lacking for a number of relevant partners. The Board reviewed the validity of microassessments for partners with 2020 expenditure of more than $300,000. The analysis included 720 partners with an overall expenditure of $1,551.1 million. UNDP had not scheduled or uploaded a microassessment for 19 partners. For 15 partners, a microassessment had been scheduled but not uploaded. In the case of 19 partners, the microassessment had expired during the programme cycle or earlier. Overall expenditure for partners without a valid microassessment was $93.4 million.

179. The Board also noted that for four microassessments that had revealed issues, no documentation was included in the HACT SharePoint site on how those issues were taken into consideration for future cooperation with the partner.

180. The Board reviewed data entered into the SharePoint site for 220 partners from 10 country offices. In nine cases, the Board noted inconsistencies between information in the microassessments and data entered into the HACT SharePoint site. These inconsistencies related to risk ratings and the date of completion of the microassessment. The risk rating is relevant for determining possible cash transfer modalities. The completion date of the microassessment is relevant for ensuring that UNDP makes payments based on a valid microassessment. For 26 partners, risk ratings were adjusted without documentation of the rationale for the adjustment, as stipulated in the HACT policy.

181. The Board also noted inconsistencies between risk ratings and cash transfer modalities. According to the HACT policy, cash advances (direct cash transfers) to partners are possible for partners with a low risk rating. For partners with a moderate risk rating, direct cash transfers are possible in areas assessed and found to be strong. For partners with a significant risk rating, direct cash transfers should not be made because of the level of risk. UNDP should not transfer any cash to partners with a high risk rating. The Board’s analysis showed that for 68 partners with a moderate risk rating, 9 partners with a “significant” risk rating and 1 partner with a “high” risk rating, direct cash transfer was chosen as the cash transfer modality. No documentation of the rationale, the justification or the exception granted was included at the HACT SharePoint site. The total expenses associated with these cases of non-compliance amounted to $51.3 million.

Oversight of compliance with HACTs policies

182. Under the UNDP HACT policy, the resident representatives are accountable to the Administrator with regard to applying HACT-related procedures at country level with regional headquarters' oversight and support.

183. The Board noted that UNDP had implemented corporate monitoring procedures which included gathering information on compliance with HACT, such as information on partners lacking a microassessment and the completeness of spot checks carried out. Results of the monitoring procedures were regularly shared with country offices and regional bureaux. Regional bureaux followed up on issues identified.

184. The Board welcomes the efforts of UNDP to improve compliance with HACT policies and relevant documentation. In the view of the Board, UNDP has laid the necessary foundation for compliance with the HACT framework through continuous updates of the HACT policy and improvements made to the HACT SharePoint site. In the opinion of the Board, the hiring of a consultant is a good approach to understanding why country offices experience difficulties meeting compliance requirements and to addressing root causes of cases of recurring non-compliance.

185. However, the Board holds that the cases of non-compliance described above show that a strengthened control environment is necessary.

186. In the view of the Board, oversight by the regional bureaux should be extended to the review of microassessments and assurance activities carried out for individual partners. This could be limited to partners for which cash transfers exceeded a defined threshold. In the view of the Board, this is especially important for ensuring that information from microassessments and assurance activities are taken into consideration in the context of cooperation with the partner. Oversight should also ensure that microassessments and assurance activities are complete and carried out on time.

187. The Board is of the opinion that functional controls at transactional level could help improve compliance with policies and reduce risks. For example, UNDP could implement a four-eye principle when entering microassessments-related information into the system. This could help reduce errors and improve data quality. Automated controls could ensure compliance with requirements, for example, that issues identified during microassessments and assurance activities should be documented and that the cash transfer modality should be in line with the risk rating.

188. In the view of the Board, integration of the documentation of HACT implementation into the new enterprise resource planning system could facilitate the review of HACT requirements prior to the transfer of cash.

189. **The Board recommends that UNDP analyse possibilities for implementing a threshold above which regional bureaux review microassessments and assurance activities carried out for individual partners.**

190. **The Board recommends that UNDP include documentation of harmonized approach to cash transfers (HACT) implementation in the new cloud-based enterprise resource planning system and that UNDP include functional controls within the system to ensure compliance with HACT policies.**

191. UNDP agreed with the recommendations.

9. Human resources

Annual leave

192. The United Nations grants annual leave to provide staff members with periods of time off from work at full pay for personal reasons and for the purpose of promoting good health, rest and recuperation. Full-time staff receive an annual leave credit at the rate of 2.5 days for each full month of service, which amounts to 30 days, or six weeks, of annual leave per year.

193. Staff members administered under the United Nations Staff Rules and Staff Regulations may carry over no more than 60 days of accumulated annual leave beyond 31 March of any given year. As of 1 April, any days of accumulated annual leave in excess of 60 days are forfeited (cut off). Staff members who, on separation from service, have accrued annual leave will be paid for each day of unused annual leave, up to a maximum of 60 days.

194. Owing to the COVID-19 pandemic, UNDPs management allowed an exception to the current policy. Accordingly, staff members were permitted to carry forward the annual leave balance in excess of the maximum of 60 days allowed (cut-off date: 31 March 2020) under the condition that all excess days needed to be used up to 31 March 2021. In case of separation, any payment of the annual leave that might be due should not exceed the maximum of 60 days allowed under the United Nations Staff Rules and Staff Regulations.

195. For annual leave in 2021, another exception was approved. The exception allows staff members to carry forward annual leave balances up to 75 days, beyond 31 March 2021. This exception ends on 31 March 2022, and no extension is intended. In this context, UNDP management has pointed out the following: “Annual leave is an important part of our ability to maintain our mental, as well as physical, health and well-being. Colleagues are therefore encouraged to take annual leave and use the time to rest and recharge.”

196. The country offices supported by regional bureaux and the Global Shared Services Unit regularly monitor leave days and send reminders to staff members and supervisors if necessary.

197. As at 31 December 2020, UNDP stated under note 21 of the financial statements to the position of employee benefits an amount of $88.8 million as a current liability for annual leave (table II.3). This represented an increase of $20.5 million (30 per cent) compared with 2019. In note 21, UNDP explained that this increase was due to staff’s not taking their planned leave entitlements in 2020 as a result of the COVID-19 pandemic and related travel limitations. The Board noted the following development over the past three years:

Table II.3
Employee benefits: annual leave
(Millions of United States dollars)

Annual leave	*2020*	*2019*	*2018*
Current liability as at 31 December	88.8	68.3	66.7
Difference compared with the previous year	+20.5	+1.6	-1.7
Difference (percentage)	+30.0	+2.4	-2.5

Source: UNDP financial statements 2018, 2019 and 2020 (employee benefits).

198. In 2020, the Board noted that an increasing number of UNDP staff members had very high accumulated annual leave balances compared with prior years. Furthermore, UNDP stated that 2,842 staff members had accrued 60 or more days of annual leave (31 December 2019: 1,760 staff members).

199. During the audits of the country offices in Iraq and Pakistan, the Board selected a sample of 19 national staff and reviewed in detail their annual leave movements and balances in 2019 and 2020. The Board detected that in six cases, the staff hardly used any annual leave for longer periods of recreation and well-being. As a result, their annual leave balances had sharply increased, up to 97.5 days, until 31 December 2020. In four out of the six cases, staff took less than half of the annual entitlement in 2019 and 2020 despite high annual leave balances that had already been accumulated. Therefore, annual leave (in one case, a total of 25 days) had already been forfeited in 2019.

200. The Board holds that UNDP already faced a situation of high annual leave balances in 2019. The additional increase of accrued annual leave days in 2020 was attributed mainly to the impact of the COVID-19 pandemic and the exception in place (i.e., no cut-off).

201. The Board appreciates that the respective country offices, the regional bureaux and the Global Shared Services Unit regularly monitor leave days. However, there are different reasons why some staff members do not exhaust their annual leave. The Board noted that individual staff members could accrue more than three times the annual entitlement without effective countermeasures being taken by responsible supervisors.

202. The responsible management should be aware that annual leave is intended for recuperation and preservation of well-being as well as to preserve staff productivity. Moreover, it is a key task of management to control and monitor the appropriate use of annual leave during the year to prevent constant stress and situations of permanent or sole responsibilities in order to mitigate fraud risks. Therefore, the Board considers it necessary that all staff members should take the major part of their annual leave for purposes of recreation to maintain their health and well-being.

203. The Board, noting that a total of 2,842 staff members had accumulated 60 or more annual leave days, holds that this showed that UNDP did not effectively control and monitor the use of annual leave by its staff. This will impact future budgets and may entail risks with respect to the availability of staff resources in programmes. So far, a high number of accrued annual leave days should be paid in cases of separation or staff should use much of the accumulated entitlements until the next cut-off to ensure that annual leave days do not expire.

204. Hence, UNDP needs to develop an overall strategy for reducing the high annual leave balances to an appropriate level in a foreseeable period. The Board noted that management might also fulfil its duty of caring for staff members by ensuring that annual leave days were not forfeited.

205. **The Board recommends that UNDP enhance the monitoring of annual leave taken and annual leave balances of its staff to ensure that staff use annual leave for necessary recreation as well as to prevent expiration of annual leave.**

206. **The Board recommends that UNDP strengthen awareness of all supervising managers to ensure that staff plan in advance a minimum of contiguous annual leave.**

207. **The Board recommends that UNDP develop an overall strategy to reduce high annual leave balances to an appropriate level within a foreseeable period.**

208. UNDP agreed with the recommendations.

Home leave

209. The United Nations invests in maintaining its multicultural nature through the home leave entitlement. (UNDP has its own main policy on home leave.) The entitlement allows eligible internationally recruited staff members to make periodic visits to their home country to renew and strengthen cultural and family ties.

210. In 2020, UNDP stated total expenses for home leave of $4.6 million (in 2019: $4.2 million).

Home leave: proof of travel

211. Upon return from home leave travel, a staff member is required to upload supporting documents into Atlas to provide evidence that travel took place as authorized. Failure to upload airline tickets and boarding passes and/or travel deviations that are not in line with the authorized entitlement may result in recovery of the lump sum for home leave or of the cost of the airline tickets.

212. Pursuant to the home leave standard operating procedure, the staff members had to certify home leave in Atlas upon return from home leave travel. Within 30 days, the staff members had to certify that home leave travel had taken place, as requested and authorized.

213. In August 2020, UNDP installed and implemented two automatic reminders for staff members. The first reminder is issued 30 days after the return to the duty station, when staff members have not certified and/or submitted proof of travel. The second reminder, after 60 days following the last day of home leave, states: "As informed previously … failure to upload documentary evidence and/or travel deviations that are not in line with the authorized entitlement, may result in recovery of the home leave payment. Unless certified as soon as possible, we will have to initiate recovery of the home leave."

214. Currently, UNDP has no process in place in its Programme and Operations Policies and Procedures for the recovery and deduction procedure after the second reminder. Also, UNDP did not review the effects of the implementation of the automatic reminders on home leave transactions.

215. The Board reviewed a sample of 30 cases out of 469 of home leave travel approved in 2019 and 2020. In 12 home leave travel transactions (representing 40 per cent of the sample), required documents were not uploaded as requested.

216. In order to review the effects of the implementation of the automatic reminders, the Board analysed an additional sample of 18 home leave transactions processed after September 2020. In 9 out of these 18 cases (50 per cent), the staff did not upload any supporting documentation within 60 days to provide evidence.

217. The Board found that 21 out of the 48 home leave transactions reviewed, or 43.8 per cent, were not complete. As a result, UNDP was not able to check whether the home leave transactions were proved and compliant with the applicable policy. A computation for the final settlement of the entitlement without proper documentation was not possible.

218. The Board appreciates that UNDP initiated automatic reminders to improve the certification process. These automatic reminders could improve the certification process through outlining clear deadlines and consequences. In this regard, the current reminders have not yet been effective.

219. Furthermore, the recovery and deduction processes in cases of non-compliant transactions should be included in Programme and Operations Policies and Procedures and clearly defined in the applicable standard operating procedure for

home leave. The Board holds that UNDP should determine the recovery process and implement an effective sanction mechanism to ensure timely settlements and evidence checks. Accordingly, the automatic reminders should be adjusted in order to inform staff of the consequences in case of non-certification or failure to upload supporting documents into Atlas as evidence. The automatic reminders should include a specific deadline by which the staff member would need to provide complete evidence and should determine the start of the recovery process in case of non-compliance.

220. **The Board recommends that UNDP review the home leave process, including regulations, to clearly determine the obligations of entitled staff, implement an effective reminder with deadlines and consequences and implement an effective recovery process.**

221. **The Board recommends that UNDP implement effective and regular controls of home leave travel to ensure that staff members fully comply with the applicable policy and procedures.**

222. UNDP agreed with the recommendations.

Home leave: length of stay

223. Pursuant to the home leave policy, staff members are required to spend no less than seven calendar days, excluding travel time, at their home leave destination.

224. The Board noted that 10 staff members had spent less than the required seven calendar days at their home leave destination. In 3 out of the 10 cases, the Board counted five calendar days as the length of stay at the home leave destination and in 6 cases, six calendar days. In one case, the staff member stayed less than four days because of the COVID-19 pandemic.

225. UNDP stated that the applicable days were counted including day of arrival at and day of departure from the home leave destination. In accordance with the policy, travel time was not counted as home leave in any of the cases.

226. The Board acknowledges that travel time is not considered home leave and that UNDP continues to grant home leave with a duration of at least seven days. Nevertheless, the Board holds that the policy should reflect that it is common sense to calculate the length of home leave stay as extending from the expected time of arrival at the home leave destination to the expected time of departure from that destination. UNDP should review and clearly define the terms for counting calendar days in its home leave policy. This would minimize the risk of distortion and ensure conditions of equality and fairness among staff members.

227. **The Board recommends that UNDP review and adjust the current home leave policy to ensure that the required length of stay, excluding travel time, is clearly defined.**

228. UNDP agreed with the recommendation.

Home leave: reimbursement of lump-sum payments

229. Pursuant to the home leave policy, advances for home leave should be approved on the understanding that the staff member would subsequently meet all of the conditions. Failure to prove this should lead to a recalculation of advance payments and proportionate reimbursements. The UNDP home leave policy does not stipulate obligations or deadlines for staff members with respect to informing UNDP in cases where home leave data have been changed. Besides, UNDP did not define the process for the recovery of lump sums in case of ineligibility.

230. The Board reviewed the 469 home leave travel transactions in 2019 and 2020 and detected 36 home leave cases where the lump sum or part of the lump sum was

deducted, with the total amounting to $129,886. The Board noted that UNDP had processed reimbursements in 12 cases between 51 and 485 days after the home leave travel ended or was cancelled. Furthermore, the Board found that UNDP did not initiate any recovery of the lump sums paid for two staff members who had received $51,362 in February 2020 but had not taken their home leave until May 2021.

231. UNDP stated that the tickets for previous home leave travel were regularly checked when staff members applied for new home leave. Cases where home leave travel was not carried out as planned led to a deduction and reimbursements. UNDP explained that owing to the travel restrictions resulting from the COVID-19 pandemic, staff members often could not take home leave as planned and postponed travel. Nevertheless, in the cases selected, staff members did not immediately inform UNDP of the changes. The Board was informed that UNDP did not have a process in place which allowed for monitoring of all pending settlements for lump sums paid in advance.

232. The Board acknowledged that the COVID-19 pandemic had extraordinary effects on staff members' home leave travel. However, the Board also noted weaknesses in general terms in the home leave policy and reimbursement process.

233. The Board holds that UNDP was not consistent when it started the recovery process and its start was often only incidental and late in cases where home leave travel was cancelled or postponed by the staff member. This was due to the fact that staff members did not inform UNDP that approved home leave had been postponed or cancelled.

234. The Board attributed this to a lack of respective formal obligations and deadlines defined in the home leave policy. Another reason for the unsteady recovery process was the lack of regular and effective monitoring by UNDP of advanced payments for home leave. As a result, UNDP did not reclaim lump-sum payments made in advance in a timely manner. These lump-sum payments might be unrecoverable in cases of separation of the staff member.

235. Hence, the Board holds that UNDP should review the home leave policy to ensure that staff members immediately inform UNDP of changes in approved home leave travel. To this end, UNDP needs to determine applicable obligations and timelines for entitled staff members. Furthermore, UNDP needs to develop and implement effective monitoring and regular controls for all pending advances paid for home leave.

236. **The Board recommends that UNDP regularly monitor all advance lump-sum payments granted for home leave to avoid overpayments for longer periods.**

237. **The Board recommends that UNDP ensure that the reimbursement of the lump sum paid in advance is checked whenever home leave travel is cancelled or postponed by staff members.**

238. UNDP agreed with the recommendations.

Advance salary payments

239. UNDP defined requirements and responsibilities for all possible salary advance payments in its policy on salary advance. Pursuant to the policy on advance salary payments for emergencies, staff members should first approach local lending institutions or the United Nations Federal Credit Union. The requests for advance salary payments must include evidence that attempts to obtain emergency financing from these institutions have been unsuccessful. Moreover, UNDP determined in its policy that only one salary advance for emergencies and special conditions may be granted during any 12-month period.

240. The Board found that the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of) had granted advance salary payments for a wide range of emergencies in 2019 and 2020. In 11 out of 31 selected cases (35.5 per cent), the decisions made for advance salary payments were based on justifications for construction work, repairs, renovations, maintenance or installations in private accommodations as well as for new equipment or furniture. The country offices did not differentiate between usual renovations, recurring repairs and maintenance or replacements stemming from actual emergencies.

241. Furthermore, the Board found that in more than 50 per cent of the requests reviewed, applicants had not provided documentation as evidence that attempts to obtain financing from local lending institutions or from the United Nations Federal Credit Union were unsuccessful. The Board noted that the country offices could not take this requirement into account.

242. The Board noted that, in three cases, one country office granted advance salary payments twice to the same staff within a 12-month period.

243. Additionally, the Board reviewed a list of all granted loans and advance salary payments to staff and service contractors in 2020. This list set out 3,232 cases of advance salary payments for emergencies, 378 advance salary payments for special conditions, 40 advance salary payments for medical expenses and 45 advance salary payments for other purposes (security measures, absence from duty station or initial appointment), in total 3,695 cases. UNDP highlighted 758 of these advance salary payments as related to the COVID-19 pandemic.

244. The Board selected and reviewed a further sample of 25 advance salary payments in 2020. Of these, UNDP granted advances for emergencies in 17 cases, for special conditions in 6 cases and for other needs in 2 cases. The Board noted that, in seven cases, UNDP granted multiple advance salary payments to the same staff within a 12-month period. In three of these cases, UNDP granted four advance salary payments to the same staff within a 12-month period (two payments each for emergencies and for special conditions not related to the COVID-19 pandemic).

245. Furthermore, the Board noted that in 13 out of the 25 selected cases, or 52 per cent, UNDP had granted advance salary payments without provision of documentation as evidence that attempts to obtain emergency financing from local lending institutions or the United Nations Federal Credit Union had been unsuccessful.

246. As at 31 December 2020, UNDP impaired advances issued in the amount of $1.6 million (note 12 to the financial statements 2020). These allowances include irrecoverable salary advances. The Board reviewed a sample from the list of write-offs for staff and found that, in two out of seven cases in the sample, UNDP had considered writing off allowances for advance salary payments because the staff had separated from UNDP over two years before and the amounts were irrecoverable.

247. The Board was aware of the unprecedented situation in the country offices due to the impact of the COVID-19 pandemic and the associated needs for advance payments to staff. The Board therefore focused on advance salary payments for emergencies or special conditions that were not COVID-19-related.

248. The Board holds that UNDP should grant advance salary payments to staff only in exceptional or unexpected circumstances when additional moneys are needed. However, staff members should first approach available lending institutions such as banks or the United Nations Federal Credit Union. Furthermore, the Board holds that, for this purpose, available United Nations Federal Credit Union savings should be used first of all.

249. The Board noted that the requesting staff hardly ever provided evidence that attempts to obtain emergency financing from lending institutions had been unsuccessful. In this regard, such evidence was lacking in 13 out of 25 cases, or more than 50 per cent of the sample. The Board is concerned that UNDP, by choosing not to request the documentation, did not comply with all requirements.

250. The Board holds that UNDP should define “emergencies” so as to distinguish them from situations associated with normally occurring repairs or maintenance. For future requests and decisions, a catalogue would be helpful with compiled actual emergencies, incidences and circumstances (for example, disasters) at duty stations. The applicable natural or human-caused disasters may be recognized and documented based on information provided by the Department for Safety and Security or own information and verifications. The applicable emergencies, incidences and circumstances may be approved on a duty station-wide basis. This would enable UNDP to treat applications for advance payments equally based on the policy.

251. Finally, the Board noted that multiple advance salary payments to the same staff within a 12-month period were often not compliant with the applicable regulation for advance salary payments. The Board holds that UNDP should exclude multiple advance salary payments to the same staff within a 12-month period even if advances for emergencies and special conditions are not mutually excluded. Accumulated advances may increase the potential risk of underrecoveries or defaults in receivables from staff and result in further write-offs. Moreover, this generous procedure may raise higher expectations among staff.

252. **The Board recommends that UNDP further refine the criteria for granting advance salary payments for emergency situations and that UNDP document the applicable reasons in all cases.**

253. **The Board recommends that UNDP document the provision of evidence, in all applications for salary advances, that the attempt to secure emergency financing from local lending institutions or the United Nations Federal Credit Union was unsuccessful.**

254. **The Board recommends that UNDP enhance compliance with the policy regarding the frequency of salary advances for emergencies or special conditions.**

255. UNDP agreed with the recommendations.

10. Contractual services

Vendor data management

256. Accurate, complete and reliable vendor master data not only contribute to the efficient processing of procurement- and payment-related transactions but also reduce the risks of fraudulent acts. Adequate and effective controls for vendor master data management, including vendor creation, changing vendor-related data and maintaining the vendor master file, are critical for ensuring the accuracy, completeness and reliability of vendor-related data.

257. UNDP records its vendor-related information in its enterprise resource planning system, Atlas, in a separate vendor master file for each business unit. In Atlas, all payees are referred to as “vendors”. For any payee for whom a purchase order is to be raised or to whom a payment will be made, a vendor record has to be properly set up in Atlas.

258. At UNDP, vendor management is primarily decentralized and delegated to its business units. As part of the ongoing clustering of financial services, the business process of vendor management for several country offices is performed by the Global Shared Services Unit in Kuala Lumpur. The vendor management-related services

provided by the Global Shared Services Unit include vendor registration and vendor data management.

259. Within the service delivery model of the Bureau for Management Services, accountability for the activities undertaken by the Global Shared Services Unit remains with the respective country offices and headquarters units. The Global Shared Services Unit is accountable for the service quality associated with the activities they provide within the various segments of those business processes.

260. In its audit report for the year ended 31 December 2015 (A/71/5/Add.1), the Board recommended that UNDP (a) perform regular vendor data checks to maintain accurate and up-to-date data, including removing duplicate active vendors; (b) ensure regular review and correction of vendors' bank information to prevent duplicates; and (c) review transactions processed in bank accounts shared by multiple vendors to correct inappropriate transactions. In its subsequent report, for the year ended 31 December 2016 (A/72/5/Add.1), the Board repeated this recommendation, based on the renewed finding of the same issues.

261. In 2017, UNDP implemented various measures such as regular vendor data clean-ups and launched a vendor management workbench in Atlas in December 2017. This tool was implemented to enable country offices to identify and rectify missing information and/or errors in vendor records. In October 2017, UNDP launched a vendor/payee dashboard in UNDP business intelligence software. This tool was developed to enable country offices and business units to identify where any potential vendor duplications are occurring.

262. In April 2018, UNDP made changes to the vendor management module in Atlas to require vendor creators to complete vendor addresses and contact details. After verification of these measures, the Board, in its report for the year ended 31 December 2017 (A/73/5/Add.1), considered the above-mentioned recommendations as implemented.

Supporting documents for creating vendor profiles for clustered country offices

263. The Board noted that the UNDP Programme and Operations Policies and Procedures for creating and approving vendors requires that, for creating a new vendor, the business unit should provide complete and accurate information/ documentation for the vendor. Afterwards, the Global Shared Services Unit should review Atlas vendor records to avoid creating duplicates, check for the accuracy and completeness of vendor information and enter required vendor information in Atlas. Additionally, in accordance with the UNDP's procedure for vendor management, the business unit has to provide supporting documents, including a vendor form with all data relevant for vendor creation.

264. The Board noted that, pursuant to the relevant standard operating procedures that were applicable for the year audited, all address information and contact details needed to be completed. Only when vendors confirmed the unavailability of an email address and/or contact number, the respective fields needed to be completed with a standardized data entry to indicate data that were lacking.

265. The Board noted that the service agreement between the Bureau for Management Services and regional bureaux for the provision of finance clustering services included listed responsibilities for different financial services shared between the clustered country offices and the Global Shared Services Unit. This service agreement stated that it was the responsibility of the country office to submit fully completed and signed vendor forms for vendor creation. The same document also stated that it was the responsibility of the Global Shared Services Unit to review the supporting documents and to ensure completeness of information needed to create the vendor. The Board noted that the service agreement further stated that the Global

Shared Services Unit should contact the country offices if documents were incomplete or additional information was required.

266. The Board noted that vendor management for the country office in Pakistan was clustered in December 2017. The vendor management for the country office in the Bolivarian Republic of Venezuela was clustered with the Global Shared Services Unit in February 2020. The vendor management for the country office in Iraq was clustered in September 2020.

267. During its audits of the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of), the Board reviewed a sample of supporting documents used by the country offices for vendor creation. This included vendors created by the country offices as well as vendors created by the Global Shared Services Unit. The Board found several weaknesses in supporting documents used by country offices for vendor creation (table II.4).

Table II.4
Weaknesses in supporting documents for vendor creation used by country offices

Weakness identified	*Pakistan*	*Iraq*	*Venezuela (Bolivarian Republic of)*	*Total*
Outdated vendor form used	54 (100%)	35 (65%)	3 (8%)	92 (62%)
Details on requesting person lacking	35 (65%)	45 (83%)	5 (13%)	85 (57%)
Email or phone number incomplete	11 (20%)	8 (15%)	4 (10%)	23 (16%)
Incomplete address	1 (2%)	14 (26%)	3 (8%)	18 (12%)
Number of vendor forms evaluated	54	54	40	148

Source: Analysis by the Board of Auditors of vendor forms used by country offices.

268. The Board noted that vendor master records were created by the Global Shared Services Unit with a lack of address or contact details due to incomplete vendor forms provided by the respective country offices.

269. The Board was informed that the Global Shared Services Unit performed extensive quality assurance on mandatory vendor master data fields. The Board was also informed that staff members were reminded on a regular basis of the importance of vendor management requirements, for example, during training sessions. Furthermore, after a system enhancement, details on the requester are available in the Oracle CX system for all offices following the completion of vendor management clustering in 2020. The Board was further informed that in 2021, approximately 40 per cent of cases were returned by the Global Shared Services Unit for missing mandatory documents, the number of which has been expanded following management review and audit recommendations.

270. In response to the above-mentioned findings, the Global Shared Services Unit stated that it did not return vendor forms with an incomplete postal address, as management held that the benefits of a rigid enforcement of completeness of this field did not justify the cost of additional workloads and increased turnaround times, which will result from cases' being returned through the country office to the vendor and resubmitted. The Global Shared Services Unit also stated that such actions would slow down delivery and impact on vendor relationships. UNDP stated that it operated in country offices and territories with a variety of address and telecommunications systems and that no vendor would be excluded because of the lack of a phone number, email or address. If they are not available, other risk mitigating measures are in place

such as the provision, for example, of proof of business relationship, bank account number or national identification card.

271. The Board acknowledges that the clustered country offices and the Global Shared Services Unit share responsibility for complete and accurate vendor records. The Board welcomes the quality assurance performed by the Global Shared Services Unit, the regular reminder and the recent enhancements for tracking the vendor creation requesters. However, the Board holds that there are opportunities to enhance data quality during the vendor creation process and that duly filled out vendor forms are important for an efficient vendor creation process.

272. The Board views complete and accurate key vendor information as critical for effective due diligence during the vendor creation process as well as for the effectiveness of any continuous due diligence procedure. Lack of vendor contact data and addresses may lead to difficulties when there is the need to contact these vendors.

273. **The Board recommends that UNDP continue to remind staff that only current and duly filled out vendor forms are provided in the vendor creation process.**

274. UNDP agreed with the recommendation.

Continuing inclusion of ineligible vendors in vendor master files

275. In accordance with the UNDP Programme and Operations Policies and Procedures, vendors are presumed to be eligible unless they are on the ineligibility list administered by the United Nations Global Marketplace, by virtue of sanctions imposed by UNDP or another participating United Nations entity, and the sanctions have not been revised or revoked. Pursuant to the UNDP anti-fraud policy, UNDP should not award a contract to any vendor that has been debarred.

276. During its audit for the year ended 31 December 2019 (A/75/5/Add.1), the Board identified the inclusion of ineligible vendors in local vendor master files. In response to the Board’s finding, UNDP established a mechanism for regularly matching the UNDP vendor master files with the United Nations ineligibility list and informing concerned country office accordingly.

277. The Board reviewed the local vendor master files during its audits of the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of). The Board identified the inclusion of three ineligible vendors in the vendor master file of the country office in Pakistan. The Board identified five ineligible vendors in the vendor master file of the country office in Iraq. The Board found that UNDP had not maintained an active business relationship with those eight vendors. The Board noted that all of the ineligible vendors had been debarred by UNDP and included on a respective list on the UNDP intranet.

278. The Board welcomes the establishment by UNDP of a mechanism for detecting the inclusion of ineligible vendors in local vendor master files. At the same time, the Board notes with concern that vendors that had been debarred by UNDP itself continued to be included in local vendor master files. This occurred because business units did not conduct continuous due diligence procedures for reviewing their vendor master files. The lack of important details such as the UNDP vendor identification number on the UNDP internal list of ineligible vendors hampered continuous due diligence efforts.

279. The Board acknowledges that matching the UNDP vendor master files with the United Nations ineligibility list might not result in detection of all ineligible vendors owing to technical limitations and the limited accuracy of such an analysis. At the same time, the Board holds that at least the vendors debarred by UNDP itself should

be excluded from local vendor master files even if this required a related manual review.

280. **The Board recommends that UNDP enhance its efforts to regularly review its vendor databases so as to exclude ineligible vendors debarred by UNDP itself.**

281. UNDP agreed with the recommendation.

Duplicate vendor records and duplicate bank accounts

282. The Board reviewed the vendor master file for all UNDP business units as of 3 November 2020 for exact matches of the vendor name within the same business unit. The Board found 1,647 duplicate vendor profiles across 87 business units. The Board noted that as of 17 May 2021, the UNDP payee dashboard showed similar results, with 1,702 duplicate vendors across 96 business units. During its audits of the country offices in Iraq and Pakistan, the Board noted duplicate vendor records in the local vendor master files.

283. The Board found that as of 15 September 2020, the UNDP payee dashboard showed 19,354 duplicate bank accounts. The Board noted that this number dropped to 7,295 across 124 business units as of 17 May 2021. During its audits of the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of), the Board noted duplicate bank accounts in the local vendor master files. The Board was informed that the Global Shared Services Unit had already initiated a review of potential duplicates. The Global Shared Services Unit stated that 10,056 duplicates were cleared in the first quarter of 2021 and that 4,056 duplicates were found to be false positives. The Board was informed that the review is expected to be completed before the end of 2021.

Unequal quality of vendor information recorded

284. The Board found that the standard operating procedures for vendor management and the related vendor forms did not include a detailed naming convention to ensure consistency for the recording of key information fields of vendor master data so as to remove the potential for duplicate vendors and avert the risk of duplicate payments. During the review of the vendor master file for all UNDP business units as of 3 November 2020, the Board noted inconsistencies in respect of the recording of the type of entity (through use, for example, of "Ltd." versus "limited"), address details (through use, for example, of "St." versus "street") and vendor name (with some names enclosed in quotation marks).

285. During its remote audits of the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of), the Board noted various data quality issues related to vendor records, such as incomplete address data, errors in spelling of city names and invalid data entries such as entries of numbers on address fields.

286. The Board was informed that UNDP was replacing its current enterprise resource planning system. The Board was also informed that, as part of this process, UNDP intended to implement a new supplier portal with the goal of moving the various decentralized vendor master files into one master vendor database. The Board was further informed that the new supplier portal would include enhancements to ensure completeness of data and also ensure that all essential information is properly and accurately captured. UNDP intended to request all active suppliers/vendors to register in the new supplier portal and update their information.

287. The Board acknowledges the challenges posed by decentralized vendor management, including local vendor master files, for the monitoring and maintenance of vendor-related data. The Board notes, positively, the various measures implemented by UNDP over the past years in order to address data quality issues

related to vendor data. The Board welcomes the initiative already started by the Global Shared Services Unit to review duplicate vendor records.

288. The Board holds that accurate, complete and reliable vendor master data not only contribute to the efficient processing of procurement- and payment-related transactions but also reduce the risks of fraudulent acts. The Board is concerned that the measures implemented by UNDP to address vendor-related data quality issues were not sufficient to solve permanently data quality issues such as duplicate vendor records, duplicate bank accounts and incomplete vendor data records.

289. The Board welcomes the changes envisaged through implementation of the new enterprise resource planning system and the implementation of a new supplier portal. The Board views this as offering a broad opportunity to address well-known vendor data quality issues. The Board also views the move to a centralized vendor master database as an opportunity to improve the regular vendor data maintenance clean-up.

290. **The Board recommends that UNDP explore possibilities for robust data input controls and regular data maintenance mechanisms in the new supplier portal which ensure accurate, complete and reliable vendor master data.**

291. UNDP agreed with the recommendation.

Mandatory procurement planning

292. Early and accurate procurement planning is essential to prevent last-minute or ill-planned procurement, which is incompatible with open, efficient and effective procurement. The analysis of consolidated procurement plans provides an opportunity to identify economies of scale, to better use resources and to lower operating costs for UNDP.

293. The UNDP Programme and Operations Policies and Procedures requires the development of procurement plans for projects and consolidated procurement plans for country offices on an annual basis. These should be analysed, reviewed and updated regularly. In its report for the biennium ended 31 December 2007 (A/63/5/Add.1), the Board recommended the development of a software tool to assist units in procurement planning. Since its launch in February 2017, country offices have been requested to use the corporate procurement management platform when planning for procurement and to submit the whole-office procurement plan by the end of March for the respective year.

294. At UNDP, procurement planning is mandatory for projects with complex business needs and which are significant for the performance and/or reputation of UNDP. Projects with a project budget above $1 million, among others, are considered to be projects with complex business needs. Pursuant to the UNDP operational guide of the internal control framework, project managers are responsible for preparing procurement plans for the project and monitoring activities based on the plan developed, while programme officers are responsible for ensuring that project procurement plans are prepared and submitted.

Procurement planning in the country office in Iraq

295. The Board noted that in mid-2015, the country office in Iraq had established the Funding Facility for Stabilization to carry out stabilization activities that focused on rehabilitating public infrastructure and providing essential services to communities living in areas affected by conflict. This included, inter alia, the rehabilitation of public infrastructure such as schools and public health centres. The Board found that this project was the largest project at the country office in Iraq, with a total annual budget of $362.4 million for 2020. Based on that budget, this project qualified as a project with complex business needs. The Board noted that, based on the annual

budget for 2020, 10 additional projects met the criteria for complex business needs, as their project budget was above $1 million.

296. The Board reviewed the procurement plan for the country office in Iraq and found that the country office had not implemented the use of the procurement management platform to plan and consolidate the country office's procurement needs. The country office in Iraq stated that the procurement management platform did not meet its requirements with respect to information to be captured, such as the location of the procurement action. Instead, the country office in Iraq used a spreadsheet to track and plan its procurement activities. The country office in Iraq advised that the spreadsheet shared with the Board was the main procurement planning and tracking tool.

297. The Board requested, in addition to the country office's overall procurement plan, the mandatory procurement plan prepared by the Funding Facility for Stabilization project. The country office in Iraq stated that, in 2019 and 2020, the Funding Facility for Stabilization project had not submitted a procurement plan. Instead, the project would submit its procurement needs whenever a contract had been signed with a donor. Furthermore, based on the documentation obtained, the Board could not establish whether all projects had complied with the requirement of an annual procurement plan. The Board reviewed the procurement planning spreadsheets used by the country office in Iraq and noted that although these planning documents included procurement requests for various projects, the documents monitored the ongoing procurement instead of presenting future procurement needs.

Opportunities to consolidate procurement actions

298. Depending on the type, complexity and value of the requirement, UNDP uses different methods of solicitation. A request for quotation is an informal invitation to submit a quotation, used for low-value procurement (with the value lying between $5,000 and $149,999) of readily available goods and services or small works. An invitation to bid is a formal invitation to submit a bid, usually associated with requirements for goods or works that are clearly and concisely defined, with an estimated procurement value of $200,000 and above.

299. The Board reviewed the procurement actions processed for the country office in Iraq in 2020 and noted the following opportunities to consolidate procurement actions.

300. The Board identified 42 requests for quotation for rehabilitations of schools with a median contract amount of $48,906. These rehabilitations of schools included similar simple civil, sanitary, mechanical and electrical works. Based on the location of the school and the advertisement date of the solicitation, the Board noted 34 solicitations (80 per cent) that showed opportunities for consolidating procurement needs.

301. In addition, the Board identified similar opportunities for consolidating procurement actions related to the supply of furniture. For example, out of 10 micropurchases related to the procurement of furniture, the Board identified six cases (60 per cent) that could have been consolidated based on the location of the health centres and the advertisement date of the solicitation. The Board noted that two micropurchases were advertised on the same date with almost the same amount of estimated costs and with identical goods requested and in almost the same quantities (except for one item). The Board also noted that the country office in Iraq considered it necessary to launch several micropurchasing processes to ensure, inter alia, a swift delivery and also ensure that bidders had sufficient capacity to handle each request. However, four contracts had been awarded to the same vendor.

302. The country office in Iraq stated that it is consolidating the procurement requests when feasible and that consolidation depended on various factors such as availability of funding and the receiving of proper requests from programme units.

Procurement efficiency in the country office in Iraq

303. The Board reviewed the length of the evaluation process for all 42 requests for quotation related to school rehabilitation projects with a median contract amount of $48,906. The median duration of the evaluation process (from deadline for submission of quotes to date of approval) was 71 days.

304. For comparison, the Board reviewed the duration of all evaluations related to full-scale rehabilitations of schools using the invitation-to-bid solicitation method. The Board identified 20 invitations to bid for full-scale rehabilitations of schools resulting in a median contract value of $435,422. In these procurement cases, the Board found that the median duration of the evaluation process was 92 days.

305. The Board acknowledges that involvement of the country office in Iraq in complex post-conflict reconstruction efforts entails confronting difficult contexts and challenges associated with projects' specific characteristics. The Board recognizes the resulting difficulties related to planning procurement activities. The Board acknowledges that the procurement team depends on the project managers and programme officers exercising their responsibility in conducting procurement planning and viewing procurement as a managerial rather than as an administrative task. At the same time, the Board holds that proper procurement planning is very much in the country office in Iraq's own best interest for the following reasons.

306. The Board holds that not using all consolidation opportunities is not efficient, as the administrative burden and operating costs are increased owing to the multiplicity of solicitation processes conducted. This results in an inefficient procurement process as demonstrated by the current lengths of the evaluation period associated with requests for quotations. Consolidating procurement requests related, for example, to rehabilitations of schools in separate lots for similar projects in similar locations under one procurement case would minimize the administrative workload for the country office. This would consequently increase the overall efficiency of the country office's procurement process.

307. The Board is of the view that a procurement process with longer processing times than needed ultimately delays the response of UNDP to the needs of the local population. Furthermore, non-compliance with planning requirements exposes UNDP to the risk that value for money is not being obtained owing to inadequate planning of procurement actions.

308. **The Board recommends that UNDP strengthen procurement planning for all projects in the country office in Iraq and consolidate procurement plans in the corporate procurement management platform.**

309. **The Board recommends that the country office in Iraq monitor procurement requests in order to identify opportunities for consolidation.**

310. UNDP agreed with the recommendations.

Solicitations related to minor construction projects in the county office in Iraq

311. For a sample of 10 requests for quotation related to construction projects in the country office in Iraq, the Board reviewed the associated solicitation documents. Those requests were related to the rehabilitation of nine schools and a water treatment plant with contract values between $44,000 and $53,000. The related bill of quantities

indicated in general: repair and restoration work, small modernizations and simple sanitary and electrical works.

Bid validity periods

312. The UNDP Programme and Operations Policies and Procedures requires that bids received by UNDP shall remain valid for the evaluation period specified in the solicitation documents. Consequently, the evaluation of bids must be completed before the validity of the offers expires. In exceptional circumstances, prior to the expiration of the offer validity period, UNDP may request vendors to extend the period of validity of their bids.

313. The length of the bid validity period depends on the complexity of goods, civil works or services to be procured. The Board noted that the usual bid validity period for a request for quotation was from 30 to 60 days and for formal methods of solicitation, 60 to 90 days. Pursuant to the UNDP solicitation policy, a sufficient bid validity time of approximately 30–90 days for evaluating offers or proposals is acceptable.

314. The Board found that in nine cases, the requested bid validity period was 120 days starting from the deadline for the submission of the quotation. In one case, the bid validity period was 90 days. The Board found that in one case, the country office in Iraq had requested an extension of the bid, six days after the offer validity had already expired.

315. The Board found that in two cases, the country office in Iraq signed the contracts with the contractor 18 and 25 days, respectively, after the bid validity period had expired. The Board did not obtain documentation on the written extension of the quotation validity period. Overall, the Board noted that the country office in Iraq needed an average of 103 days from opening the offers to signing the contracts.

316. Although the bid validity periods were substantially longer than what good practices for informal methods of solicitations suggested, in 3 out of 10 cases the country office in Iraq could not complete the evaluation of offers before the validity of quotations expired. The country office in Iraq stated that while the factors of working remotely due to the COVID-19 pandemic and shortage of staff members presented challenges for timely evaluations, the country office had started implementing measures designed to expedite evaluations.

317. The Board holds that the period of validity of bids should be as short as possible and not longer than is necessary for an evaluation without delay. The Board holds that lengthy evaluation processes could undermine the efficiency of operations managed by UNDP. The need for a bid validity extension should be avoided because of the risk of price increases or withdrawal of bids, which may delay the bidding process or cause it to fail.

318. The Board holds that a validity time of approximately 30–60 days should be sufficient to evaluate requests for quotation. The country office in Iraq stated that it plans to reduce the bid validity period depending upon the complexity of the works and the geographical coverage.

319. **The Board recommends that the country office in Iraq expedite the evaluation process in order to finalize contracts within the stipulated bid validity periods and monitor expiry of the quotations received.**

320. **The Board recommends that the country office in Iraq adjust the length of the bid validity period to reflect the complexity of civil works.**

321. UNDP agreed with the recommendations.

Construction works guidance note: site visits

322. UNDP often operates in environments that make its operations and programmes vulnerable to internal and external fraud and corruption (fraudulent acts). Given the UNDP mandate and the nature of its activities, UNDP cannot avoid these risks.

323. The Board identified several recommendations and good practices specifically targeted at mitigating the risk of collusion during procurement. For example, the tender process should be designed so as to reduce the opportunities for communication among bidders, either before or during the tender process. Therefore, it is a recommended good practice to eliminate opportunities for bidders to engage in communication with each other, for example, at pre-bid face-to-face meetings or at site visits.

324. The purpose of site visits is to enhance an understanding of the requirements of the project by allowing bidders to examine the physical sites for which they are being asked to provide services. Attendance of the site visits may be mandatory or non-mandatory. The Board noted that United Nations organizations suggested to their procurement staff members that site visits attended personally by bidders should be limited where possible. Furthermore, site visits should be mandatory only in those cases where the procurement official, in consultation with the relevant requisitioner, holds that the bidders could not understand the scope and breadth of the requirements solely on the basis of the information shared in the solicitation documents.

325. The Board noted that in June 2020, UNDP had established its first construction works policy and a related guidance note. While the policy covers all aspects of construction works, the guidance note supplements the policy and details how various clauses in the policy should be implemented. The Board also noted that the policy emphasized that the scope of works should include a clear description of the works to be carried out and the site location and boundaries. Furthermore, the drawings and the bill of quantities should be sufficiently clear to enable the contractor to fully understand the requirements of the project.

326. The Board noted that the construction works policy did not make any reference to site visits, whereas the guidance note stated that a site visit was highly recommended. Additionally, the guidance note stated that site visits were a normal requirement for works, as they gave the prospective bidders the opportunity to obtain a clearer and deeper understanding of conditions at the site. The guidance note further stated that any waiver of site visits should be determined on a case-by-case basis depending on the nature, scope and complexity of the works. The Board noted that the guidance note did not specify how the waiver should be determined and how complex the works should be.

327. The Board reviewed 10 requests for quotation related to construction works. The requests were for the rehabilitation of buildings with low values of from $45,000 to $55,000. The bill of quantities indicated generally equivalent or similar repair and restoration works and simple sanitary and electrical works.

328. In 7 out of 10 cases, UNDP requested that a site visit be mandatory. In addition, the tender documents stated that if a bidder did not visit the construction site, the bid would not be evaluated. The Board noted that in these seven cases, UNDP advertised the names, the private email addresses and the private mobile numbers from the responsible local engineers. The site visits were held by the local engineers and organized for all vendors at the same time. The Board was informed that those local engineers were not involved in the procurement process itself.

329. The Board welcomes the development by UNDP of a policy related to construction works and a supplemental guidance note. The construction works policy

rightly requires that the drawings and the bill of quantities shall be sufficiently clear for the contractors to fully understand the requirements of the project. Consequently, the Board holds that UNDP should recommend a site visit only in those cases where bidders cannot completely understand the scope of requirements from the solicitation documents and bill of quantities. Furthermore, the Board holds that a site visit cannot remediate unclear statements of works or unclear bills of quantities.

330. The Board acknowledges that there might be circumstances related to the country office's operational environment, such as political and security factors or market conditions, that would make site visits necessary to ensure speedy and successful completion of construction works. Nevertheless, the Board holds that in line with good practices for minimizing the risk of collusion, sound judgment should be applied in deciding whether a site visit is necessary and whether participation should be mandatory.

331. The Board holds that the current advice in the guidance note suggests that a site visit is a standard practice from which one should deviate only in exceptional circumstances. The Board also holds that the decision regarding mandatory site visits should be based on common discussion and agreement among procurement officials and requisitioners on a case-by-case basis.

332. The Board holds that a site visit should become mandatory only after it has been determined that the quality of the bid submissions would greatly improve if bidders observed the actual conditions on the ground. In those cases where circumstances render a site visit necessary, the risk of collusion and interaction between bidders needs to be minimized. Furthermore, in order to reduce the risk of collusion, no personal details from UNDP staff members or responsible local engineers should be published in the solicitation documents.

333. **The Board recommends that UNDP amend the construction works guidance note to clarify that the advantages and disadvantages of obligatory participation in a site visit must be weighed against the potential risk of collusion.**

334. **The Board recommends that UNDP avoid publishing contact details from staff members and consultants in advertisements and solicitation documents.**

335. UNDP agreed with the recommendations.

Certificate of substantial completion for civil or construction works

336. When UNDP issues the certificate of substantial completion for civil or construction works, this means that UNDP has taken possession of the works. In accordance with construction works policy, UNDP should ensure that immediate handover to the end user takes place at this time. Furthermore, business units shall make adequate plans well in advance with clients and end users to ensure that the end users are prepared to take over construction works on the same day as UNDP issues the substantial completion certificate to the contractor.

337. The warranty period begins after the signing of the certificate of substantial completion, with this procedure marking the transition from construction to occupation and operation. In the case of a gap in time between acceptance by UNDP of the works and the actual handover to the end user, business units shall make adequate arrangements for the security and insurance of the works. When the construction works are still in the possession of UNDP, UNDP needs to manage the risk of exposure to theft, vandalism and the outbreak of crisis.

338. The Board reviewed the procurement documents for 10 construction projects sampled in the country office in Iraq. The Board noted that in five cases, the certificate of substantial completion was signed 31–74 days later than the date on which, in the

project manager's opinion, the works had been substantially completed. The Board also noted that for one completed construction project, the certificate of substantial completion was lacking, and for another construction project which was supposed to have been completed in December 2020, no certificate of substantial completion was available during the audit in March 2021.

339. The Board holds that the certificate of substantial completion triggers a number of important actions including time periods. Therefore, a certificate of substantial completion shall be issued only when UNDP considers or has established that the whole work has been satisfactorily completed and tested and is ready for use by the end user. The Board holds that the country office in Iraq should plan the handover process accordingly so that the end user is prepared to take over the construction site on the day on which the project manager considers that the whole works have been completed and are ready for use.

340. **The Board recommends that the country office in Iraq sign a certificate of substantial completion when the whole works have been satisfactorily completed and avoid any time gaps between the substantial completion and the actual handover to the end user.**

341. UNDP agreed with the recommendation.

11. Information and communications technology

Implementation of a new enterprise resource planning system

342. After the launch of the digital strategy 2019–2021 in March 2019 and the information technology strategy 2020–2023 in March 2020, UNDP initiated the Next Generation Enterprise Resource Planning (NextGenERP) project to enhance the digital capability and management of the UNDP information technology function. NextGenERP was approved in May 2020 and is intended to replace the current enterprise resource planning system (Atlas), which was implemented in 2004, with a modern cloud-based enterprise resource planning system. UNDP expects that the digital nature of cloud platforms provides higher levels of integration with more data sources, improved access to machine learning and next- generation visualization and analytics tools which can deliver value beyond what is available with older technologies. The NextGenERP system shall be compliant with data interchange standards which allow interoperability between other United Nations organizations' enterprise resource planning systems.

343. This NextGenERP initiative is managed in collaboration with other Atlas partner agencies, and the current plan is to implement the cloud-based enterprise resource planning with a go-live date in January 2022. The implementation will be in three phases. Phase 1a is scheduled to start on 1 June 2021 and covers modules sourcing (including the supplier portal) and human capital management (recruitment, employee profile). Phase 1b will start in September to support the establishment of the new strategic plan of UNDP. Phase 2 is supposed to encompass the finance, supply chain and project management modules; the remaining human capital management functions; and payroll from 1 January 2022 onward. UNDP estimates total project costs for the period from 2020 to 2022 of $26.9 million of which $21.9 million would be the share of UNDP. As of 31 December 2020, UNDP had capitalized costs in the amount of $1.165 million for the NextGenERP project as an intangible asset.

344. The Board acknowledged the UNDP initiative. The Board recommends that, where applicable, UNDP improve business processes with the NextGenERP project, for example, to prevent users from approving payments for themselves; include the documentation of the implementation of the harmonized approach to cash transfers;

and integrate the currently paper-based delegation of authority process into the enterprise resource planning system.

Strategic documents, policies and guidelines

345. The new information technology strategy is a four-year road map which lays the operational foundation for delivering on the UNDP digital transformation and the goals that are to be achieved. The strategy further required efficient management which brings together all human, organizational and technical resources in the best way possible so that they can be used efficiently to achieve the strategic goals. The main target of the strategy is the implementation of NextGenERP. Furthermore, the strategy defines expected outcomes of the digital transformation process.

346. UNDP has developed a UNDP Standards for IT Infrastructure and Services guideline. UNDP recently issued this guideline, in March 2021.

347. UNDP emphasized the independence of the country offices operating their own information and communications technology (ICT). The audited country offices implemented the information technology strategy without having additional local strategic documents.

348. The Board acknowledges the new information technology strategy and appreciates the objectives and ambitious aims set. The Board holds that the central ICT responsibility of the organization should be perceived as the following: to ensure that decentralized locations are always supported and guided according to a one-house approach and in order to reach the desired value adding benefits. Therefore, the Board holds that clear guidelines, in order to, for example, standardize purchases and maintain the information technology infrastructure, should be in place. This reduces differences in interpretations by country offices, facilitates efficient information technology management and allows savings.

349. While the Board is of the view that UNDP needs to act to establish efficient ICT management, the Board acknowledges the progress achieved through the first steps taken under the new UNDP Standards for IT Infrastructure and Services guideline.

Disaster recovery plan and business continuity plan

350. UNDP provided the ICT Disaster Recovery Standards for UNDP Offices guideline on the Programme and Operations Policies and Procedures platform. The guideline points out that the UNDP information systems are critical assets for the organization. Business continuity and disaster recovery planning attempts to address threats, both natural and human-caused, which can damage or disable critical information systems. The guideline describes the requirements related to disaster recovery plans and business continuity plans. It states that any change shall be reflected in the disaster recovery plan within three months. The guideline calls for backups of all critical ICT systems and data on adequately sized removable media and their local off-site storage.

351. The local disaster recovery plans provided did not take into account security measures for country offices' data. The country offices explained that the data were stored in the UNDP cloud and the backup was carried out in the cloud under the responsibility only of UNDP and third-party service providers. The recovery procedures of the local disaster recovery plans assumed that regardless of the provider, an Internet connection was available after each kind of disaster. Moreover, the local disaster recovery plans did not contain business continuity plans regulating which office service should be available again, in which order or under what timeline, or to which office service the use of alternative Internet connections with low bandwidth should be restricted.

352. The ICT Disaster Recovery Standards for UNDP Offices guideline has so far not reflected the UNDP digital transformation process and the movement of all data and backups of local ICT systems into the cloud. With the movement of all data into the cloud, UNDP took the responsibility for all data as a critical asset for the organization in fulfilling each location's mission. However, neither the global guideline nor the local disaster recovery plans were adjusted in order to comply with the guideline. Furthermore, the country offices were not urged to reconsider their operational needs in case of a possible disaster and to update their local disaster recovery plans and business continuity plans.

353. The submitted disaster recovery plans and business continuity plans of the country offices did not contain any scenario for an offline recovery of data and systems to bring the country offices back to business. Moreover, the recovery of the country offices after a major disaster will most likely succeed only if there is a stable and powerful Internet connection to the cloud. Longer downtimes or more difficult recoveries might have an effect on the data and backups located exclusively in the cloud. As a result of a risk analysis, this risk will be categorized as a residual risk which must be tolerated.

354. The Board is aware that the third-party service provider needs to ensure accessibility to the data and to the backup of systems in the cloud. However, the responsibility for action plans for "getting back to business" in case of possible disasters remains the task of UNDP and the respective country offices.

355. **The Board recommends that UNDP incorporate relocation of data to the cloud and the associated changes for backups and disaster recovery more clearly in the ICT Disaster Recovery Standards for UNDP Offices guideline.**

356. **The Board recommends that UNDP provide encouragement and guidance to country offices in revising disaster recovery plans and business continuity plans and in adapting these plans to the changes in order to reflect the current backup procedure and to resume business operations in case there is no connection to the cloud.**

357. UNDP agreed with the recommendations.

Purchases and stock of desktop and laptop computers

358. In 2016, UNDP issued the Minimum Standards for ICT Infrastructure and Telecommunications guideline on the Programme and Operations Policies and Procedures platform. It defines the "minimum configuration" and "target configuration" of desktop computers and laptop computers.

359. The new UNDP Standards for IT Infrastructure and Services guideline fundamentally updates the recommended configurations and these are "subject to regular changes to align with recommended IT standards, good practices and ICT industry developments". It also "adheres to a four-year computer replacement cycle".

360. UNDP signed long-term agreements with suppliers for the delivery of ICT equipment. These are discount-based contracts depending on the product line (desktop, laptop, printer, etc.). The Minimum Standards for ICT Infrastructure and Telecommunications guideline stipulated that "Standard IT equipment should be procured only through established long-term agreements with manufacturers/resellers (HQ only)". The new guideline specifies that "Offices are recommended to procure new equipment through corporate long-term agreements/eStore (UNall) whenever possible to maximize standardization, which facilitates support".

361. The two guidelines stated that MAC-based computers were accepted. Based on this, during the Board's audit of country offices, one regional bureau emphasized that MAC-based devices were also standard at UNDP and had been used for a long time.

362. The Board reviewed a list of all purchases of desktop and laptop computers for headquarters and audited country offices for the years 2019 and 2020. The Board reviewed samples of purchase orders in order to view the hardware details. Additionally, the Board reviewed some of the job descriptions of users that had purchased expensive MAC-based devices for video processing. Overall, the results showed that:

(a) The report of headquarters and those of each of the three country offices differed with respect to the numbers for desktop and laptop computers purchased in 2019 and 2020;

(b) Approximately one third of all purchases were based on long-term agreements;

(c) ICT devices characterized by high technical performance were purchased regardless of whether the intended use was for normal office work or for image and video processing; and they were not purchased under long-term agreements;

(d) Most of the desktop and laptop computers purchased were Windows-based. According to inventory lists provided by 24 country offices, approximately 3.5 per cent of MAC-based devices are used for normal office work and for special kinds of use, such as image and video processing.

363. The Board holds that important ICT management duties rely on proper procurement planning for ICT end-user devices and a properly managed and overviewed stock. This can facilitate appropriate budget planning, licence management, adjustment of long-term agreements and ICT security measures. For efficient ICT management, all information on end-user devices from a technical and a financial perspective should be assessed. In the Board's view, UNDP would benefit from establishing a better basis for carrying out the above-mentioned management tasks.

364. As regular upgrades of end-user devices generate high expenses for the organization, standardization and efficient procurement management include a high potential for savings.

365. The Board noted that the old guideline prescribed the use of long-term agreements for headquarters only. This may be the reason that country offices did not use them to a greater extent. An obligatory use of long-term agreements for all offices could result in a gain of greater efficiency and greater savings in purchases and support. The Board holds that UNDP should consider mandatory specifications in order to foster the process of standardization and prevent unnecessary high-end purchases to achieve potential savings. The new guideline should be adapted accordingly, e.g.: Offices are to procure new equipment through corporate long-term agreements and exceptions should be approved by information technology management.

366. Measured against the technical configurations specified in the guideline valid until April 2020, all devices that had been procured were beyond the target configuration. Of course, the Board is aware of the rapid technical development of ICT equipment and acknowledges that configurations laid down in 2016 might be overtaken. Therefore, the Board welcomes the "regular changes to align recommended standards to developments in the ICT industry" under the new guideline.

367. The technical configuration of some of the highly specialized devices for image and video processing that were purchased showed that devices procured for the same purpose had different configurations. In addition, these devices were always procured outside of the framework of long-term agreements. In order to gain the expected added value benefits in the future, UNDP should enable the exchange of staff experiences between country offices.

368. A further gain of procurement efficiency should be possible with a limited number of computer and laptop models which are regularly aligned to developments in the ICT industry. The technical configuration of computers and laptops in the upper middle field is sufficient for most office applications. This is especially important when computers or laptops are expensive, which is the case for image processing devices, among others. An adjustment twice a year and limitation to two models each (depending on the purpose) have proved successful in other international organizations of the United Nations family.

369. **The Board recommends that UNDP include the mandatory use of long-term agreements and mandatory specifications for purchases in the UNDP Standards for IT Infrastructure and Services guideline.**

370. UNDP agreed with the recommendation.

Disposal and wiping procedure

371. The audited country offices informed the Board that hard drives were formatted on a low level before disposal. One country office stated that it had removed and destroyed hard drives. The global UNDP guideline on furniture and equipment: asset disposal and write-ff stipulates how obsolete computers have to be treated and disposed of. The guideline describes only the financial recognition of these assets. No further guideline or standard operating procedure regulating the information security aspects which recommends or specifies a secure treatment of hard drives of obsolete computers is in place.

372. A wiping procedure before disposal on a low level only might not delete sensitive data stored on the devices. This may cause information security risks for the organization, since it is possible to store sensitive information locally during the lifetime of an end-user device, and could enable access to insufficiently deleted sensitive information.

373. Standardization should also include security measures for the end-of-life treatment of devices. In order to ensure the same security level in the whole organization, the Board holds that the UNDP Standards for IT Infrastructure and Services should contain an obligatory and appropriate treatment and specify suitable products for secure wiping.

374. **The Board recommends that the UNDP Standards for IT Infrastructure and Services contain mandatory wiping procedures in order to force the standardization process.**

375. UNDP agreed with the recommendation.

C. Disclosures by management

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

376. The Administration informed the Board that in accordance with UNDP financial rule 126.17, UNDP had write-offs of $1,096,292 in 2020.

2. Ex gratia payments

377. As required by UNDP financial rule 123.01, the Administration reported $37,000 of ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

378. 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.

379. During the audit, the Board made inquiries 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 inquiries to the Office of Audit and Investigations.

380. In 2020, UNDP reported 65 cases of fraud or presumptive fraud to the Board. Of these 65 cases, UNDP had already resolved 15 cases, while 50 cases were still pending. The latter cases involved procurement fraud, other failure to comply with obligations, entitlements fraud, theft and embezzlement, abuse of authority, misrepresentation, forgery and false certification, and improper recruitment.

D. Acknowledgement

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

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

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

22 July 2021

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2019

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1.	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.	A minimum viable product of a collaborative digital workspace for programming (ThroughLine) is currently under development and will be tested shortly with the group of users in the field to ensure that it meets their needs and is aligned with human-centred design principles. In parallel, the ThroughLine platform is also being aligned with the emerging corporate platforms such as the new cloud-based enterprise resource planning system, Salesforce and customer relationship management.	The Board noted that UNDP had started to develop a collaborative digital workspace for programming. In the view of the Board, this workspace will allow project managers to better monitor projects. UNDP is currently replacing Atlas with a cloud-based enterprise resource planning solution. The Board considers this recommendation to have been overtaken by events.				X
2.	2016	A/72/5/Add.1, chap II, para. 107	The Board recommends that UNDP ensure that future service contract evaluations are completed on time, ideally one month prior to the contract's expiration, pursuant to policy, so as to provide offices with a reasonable amount of time for decision-making.	UNDP has thoroughly reviewed its individual contractor policy and introduced the International Personnel Services Agreement (I-PSA) as part of a new contractual modality framework. The I-PSA was launched by the Administrator, is on the Programme and Operations Policies and Procedures platform and is live since 15 February 2021.	The Board acknowledges that UNDP has introduced a new modality, the International Personnel Services Agreement and policy replacing the individual contract modality, effective 15 January 2021. The Board also acknowledges that UNDP has introduced a new modality, the National Personnel Services Agreement and policy, replacing the service contract modality, effective 1 June 2021. The Board appreciates that the new policies link evaluations to the annual performance management cycle. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
3.	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.	A minimum viable product of a collaborative digital workspace for programming (ThroughLine) is currently under development and will be tested shortly with the group of users in the field to ensure it meets their needs and is aligned with human-centred design principles. In parallel, the ThroughLine platform is also being aligned with the emerging corporate platforms such as the new enterprise resource planning system, Salesforce and customer relationship management.	The Board noted that UNDP had started to develop a collaborative digital workspace for programming. In the view of the Board, this workspace will allow project managers to better monitor projects. UNDP is currently replacing Atlas with a cloud-based enterprise resource planning solution. The Board considers this recommendation to have been overtaken by events.				X
4.	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.	UNDP has thoroughly reviewed its policy for individual contractors and introduced the International Personnel Services Agreement as part of a new contractual modality framework. The policy was launched by the Administrator, is on the Programme and Operations Policies and Procedures platform and is live since 15 February 2021.	The Board noted that UNDP had introduced new policies on contractual services as part of its "People for 2030" strategy. The new policy under the National Personnel Services Agreement also includes a timely evaluation of contracted services as part of the annual performance management cycle. The Board considers this recommendation implemented.	X			
5.	2017	A/73/5/Add.1, chap. II, para. 102	UNDP agreed with the Board's recommendations that country offices: (a) encourage staff to exercise their leave within the period in which leave is earned; and (b) ensure the implementation of the leave plan so that the office operates efficiently at all times and ultimately to reduce cases of forfeited untaken leave days.	UNDP will continue to remind staff to take leave; however, the global spread of the COVID-19 pandemic limits the ability of staff to take leave. An exception to the policy is approved to conditionally allow staff members to carry forward balance in excess of the maximum allowed beyond 31 March 2020. UNDP has introduced a mandatory performance goal for all supervisors related to effective people management, for which one indicator is: "Support to	The Board took note that staff members have experienced difficulties as regards taking their annual leave owing to COVID-19 pandemic-related travel restrictions since March 2020. In light of the ongoing travel restrictions, UNDP has issued exceptions for carrying forward the annual leave balance until 31 March 2022. Currently, leave management depends mainly on recent developments and restrictions				X

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				supervisees in maintaining their health and well-being (e.g., encourage supervisees to use leave, prevent situations where staff loses annual leave, encourage awareness and use of flexible working arrangements, etc.)".	instituted by national authorities as a result of the COVID-19 pandemic. In the 2020 audit, the Board focused on increased annual leave balances as of 31 December 2020 and on annual leave management in the country offices in Iraq, Pakistan and Venezuela (Bolivarian Republic of). As a result, the Board prepared three new recommendations on annual leave. Therefore, the Board considers this recommendation to have been overtaken by events.				
6.	2018	A/74/5/Add.1, chap. II, para. 47	The Board recommends that UNDP enhance the process for manual recording of exchange transactions at the country office level in order to ensure that revenue is recorded in the period in which UNDP rendered the services, as required under an accrual basis of accounting.	In the 2019 annual assertion, the Office of Financial Resources Management required all business units to affirm that exchange revenue was billed in a timely manner for manual transactions. Non-compliance noted was communicated back to the country offices. In 2020, the assertion statement was further strengthened and the quarterly closure instructions included the requirement of the timely billing and recording of exchange revenue.	The Board noted that UNDP provided guidance to country offices which highlighted that revenue was recorded in the period in which UNDP rendered the services. Therefore, the Board considers this recommendation implemented.	X			
7.	2018	A/74/5/Add.1, chap. II, para. 49	The Board recommends that UNDP ensure that country offices provide on-the-job training so that personnel have the sustainable awareness required to accurately record exchange transactions in accordance with UNDP policies and instructions.	Training materials were developed by the Office of Financial Resources Management and communicated throughout UNDP using Yammer as well as direct outreach through regional bureaux to inform and educate staff to book revenue in line with UNDP policies and procedures and to pursue collection efforts.	The Board did not note that country offices had provided guidance which highlighted that revenue was recorded in the period in which UNDP rendered the services to staff members responsible for exchange revenue recognition. While the implementation of the new enterprise resource planning system might update the process, the Board rephrased the recommendation.			X	

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
					The Board considers this recommendation to be not implemented.				
8.	2018	A/74/5/Add.1, chap. II, para. 75	The Board recommends that UNDP review the cases of non-compliance presented by the Board and analyse the reasons for and the circumstances in which bureaux and country offices did not fully comply with the corporate internal control framework.	UNDP has enhanced the Atlas Role Generation and User-provisioning System to further automate preventive controls on the assignment of staff functions and functions requiring segregation of duties. Additional internal control framework monitoring reports were added to the monthly Atlas Role Generation and User-provisioning System reports. Global communications were issued in 2020 and 2021.	The Board noted that additional preventive controls and monitoring reports have been implemented. Therefore, this recommendation is considered implemented.	X			
9.	2018	A/74/5/Add.1, chap. II, para. 76	The Board recommends that UNDP, on the basis of the above analysis, further refine its internal control framework to strengthen its implementation.	UNDP has updated the internal control framework to reflect changes noted by the Board and published it on the Programme and Operations Policies and Procedures platform.	The Board noted the update of the internal control framework. Therefore, this recommendation is considered implemented.	X			
10.	2018	A/74/5/Add.1, chap. II, para. 85	The Board recommends that UNDP assess whether and what internal financial control procedures could be introduced by UNDP to enhance data quality and limit risks of errors by means of having standardized control procedures and appropriate documentation to evidence that control procedures have been performed.	Clustering has brought an immediate benefit of standardizing processes while also addressing recurring audit concerns in high-risk areas such as bank reconciliation, vendor management and payroll. The establishment of the Compliance and Quality Assurance Unit within the Global Shared Services Unit, which will be fully staffed by the second quarter of 2022, will further enhance the control environment.	The Board noted the efforts of UNDP to enhance data quality and to limit risks of errors by having standardized control procedures and appropriate documentation in place to provide evidence that control procedures had been performed. However, the Board also noted several cases which highlighted errors or a lack of documentation. The Board further noted that UNDP had introduced a clustered Compliance and Quality Assurance Unit. The Board noted that this unit might address control procedures in future periods.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
					The Board considers this recommendation to be under implementation.				
11.	2018	A/74/5/Add.1, chap. II, para. 93	The Board recommends that UNDP ensure that country offices either establish their own standard template with minimum documentation requirements for programmatic output verification or use the template provided by UNDP.	All country offices were notified through their respective regional bureaux to use the template provided in the UNDP Programme and Operations Policies and Procedures for programmatic output verification.	The Board noted that UNDP had notified regional bureaux and country offices that they should use the standard template provided. The Board considers this recommendation implemented.	X			
12.	2018	A/74/5/Add.1, chap. II, para. 116	The Board recommends that UNDP ensure that country offices document the review of and conclusions drawn from microassessments.	The documentation requirement has been added to the UNDP harmonized approach to cash transfers policy (para. 40 (l)). Offices were informed of the change. Additionally, the harmonized approach to cash transfers SharePoint platform has been updated to include a mandatory requirement to upload a summary of issues noted and the conclusion from the microassessment. To ensure that UNDP offices are complying with the requirement, a consultant has been hired to review harmonized approach to cash transfers implementation by all UNDP offices in 2021.	The Board noted that UNDP had updated its harmonized approach to cash transfers policy in March 2021. Changes included, inter alia, a requirement to document actions taken for key findings in microassessments and assurance activity reports. The Board noted that UNDP had updated functionalities in the harmonized approach to cash transfers SharePoint platform by including a feature to enable uploading of microassessment findings and action plans. The Board noted that UNDP had engaged a consultant to perform detailed reviews of compliance by country offices with the harmonized approach to cash transfers framework. The Board considers this recommendation implemented.	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
13.	2018	A/74/5/Add.1, chap. II, para. 124	The Board recommends that UNDP update its policy on the harmonized approach to cash transfers to specify that the harmonized approach to cash transfers SharePoint site should be used for the mandatory planning of all assurance activities and that UNDP ensure the review of annual assurance activity plans.	The harmonized approach to cash transfers policy has been revised (para. 40 (a)) to include the requirement to upload an approved assurance plan generated from the harmonized approach to cash transfers SharePoint platform twice yearly (by February and July). Offices were informed of the change. To ensure that UNDP offices are complying with the requirement, a consultant has been hired to review harmonized approach to cash transfers implementation of UNDP offices in 2021.	The Board noted that UNDP had updated the harmonized approach to cash transfers policy to address the recommendation to use the harmonized approach to cash transfers SharePoint platform for planning assurance activities during the audit for 2019. In its report for 2019 (A/75/5/Add.1), the Board had closed this part of the recommendation. The Board noted that UNDP had updated its harmonized approach to cash transfers policy in March 2021. Changes included, inter alia, a requirement to update and upload microassessment plans and assurance activity plans semi-annually. The Board noted that UNDP had engaged a consultant to perform detailed reviews of compliance by country offices with the harmonized approach to cash transfers framework. The Board considers this recommendation implemented.	X			
14.	2018	A/74/5/Add.1, chap. II, para. 129	The Board recommends that UNDP strengthen oversight and monitoring functions for the harmonized approach to cash transfers framework.	A consultant has been hired to conduct a review of harmonized approach to cash transfers implementation by UNDP country offices in 2021. As of 31 May 2021, total expenditure (based on 2020 expenditure) of 119 country offices (93 per cent of all UNDP country offices) had been reviewed. Offices were informed of the change. To further strengthen implementing partner risk management procedures, the Office of Financial Resources Management has communicated with	The Board noted that UNDP had engaged a consultant to perform detailed reviews of compliance by country offices with the harmonized approach to cash transfers framework. However, the Board again noted various cases of non-compliance with the harmonized approach to cash transfers framework. The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				the Next Generation Enterprise Resource Planning team regarding various automation and digitalization requirements.					
15.	2018	A/74/5/Add.1, chap. II, para. 157	The Board recommends that UNDP, as part of its "People for 2030" strategy, review the policies on service contracts and individual contracts in order to establish clear criteria for assessing what constitutes a staff task and function and which tasks and functions may be transferred to contractual modalities other than regular staff contracts.	UNDP has addressed this recommendation through the development of a new non-staff contractual framework and modalities, the International Personnel Services Agreement, which replaces the existing individual contractor policy, and sets out clear criteria for its use; and the National Personnel Services Agreement, which replaces the existing Service Contract modality.	The Board noted that UNDP envisaged implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. In 2020, UNDP reviewed its contract modalities for service contracts and individual contracts and has implemented new policies on individual contracts live since 15 February 2021 and service contracts effective 1 June 2021. The Board noted that UNDP had addressed this recommendation in its new personnel services agreement framework. The Board considers this recommendation implemented.	X			
16.	2018	A/74/5/Add.1, chap. II, para. 161	The Board recommends that UNDP review its policy on service contracts in order to clarify recurring matters of non-compliance and consider amending the requirements defined in the policy that UNDP does not intend to implement.	This issue has been addressed in the new personnel services agreement framework. The weakness related to procurement processes will no longer apply, as such personnel will be recruited moving forward. The policy is on the Programme and Operations Policies and Procedures platform and will become active in June 2021.	The Board noted that UNDP had implemented new policies on contracted services. The detected weakness relating to procurement processes no longer applies, as such staff have been recruited since 15 February 2021 or 1 June 2021. UNDP has defined necessary requirements in its new personnel services agreement framework. The Board considers this recommendation implemented.	X			
17.	2018	A/74/5/Add.1, chap. II, para. 168	The Board recommends that UNDP review its policy on service contracts, including the requirements for waiving competitive recruitment and the use of such waivers.	It is the view of UNDP that waivers of a competitive recruitment for selection of contractors grant country offices a necessary degree of flexibility. This has, for example, proved highly useful in enabling UNDP to respond quickly to crises	The Board noted that UNDP had implemented a new policy on service contracts effective 1 June 2021 as part of its "People for 2030" strategy. The Board appreciates that UNDP strongly limits the granting of waivers to permit direct hiring in the	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				and rapidly changing circumstances, including its response to the COVID-19 pandemic. However, in line with the intent of this recommendation, the new contractual framework, which replaces the service contract policy, limits the granting of waivers to permit direct hiring in relation to retainer contracts only.	new personnel services agreement framework. The Board considers this recommendation implemented.				
18.	2018	A/74/5/Add.1, chap. II, para. 173	The Board recommends that UNDP review the responsibilities and monitoring function for the service contract modality as part of implementing the "People for 2030" strategy and define how much monitoring or oversight from headquarters is feasible and reasonable.	The new personnel services agreement framework was launched. The policy is on the Programme and Operations Policies and Procedures platform and will become active in June 2021. Implementation of this will be ensured through the new provision of clustered human resources services to ensure consistency and compliance in the application of the contractual modality.	The Board noted that UNDP had implemented a new policy on service contracts effective 1 June 2021 as part of its "People for 2030" strategy. This strategy includes adjusted monitoring and oversight functions by the Office of Human Resources, the Global Shared Services Unit and country offices. The Board considers this recommendation implemented.	X			
19.	2018	A/74/5/Add.1, chap. II, para. 191	The Board recommends that UNDP review its policy on individual contracts in order to clarify recurring matters of non-compliance and strengthen oversight by the procurement committees.	UNDP has thoroughly reviewed its internal contractor policy and introduced the International Personnel Services Agreement as part of a new contractual modality framework; and personnel hired under this policy are selected through a human resources process rather than procured. The policy is live since 15 February 2021.	The Board noted that UNDP envisaged implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. This strategy also includes a review of the use of individual contracts. UNDP has implemented a new policy on individual contracts based on a recruitment process (live since 15 February 2021). The Board considers this recommendation implemented.	X			
20.	2018	A/74/5/Add.1, chap. II, para. 192	The Board recommends that UNDP ensure that country offices and units with identified cases of non-compliance provide on-the-job training so that personnel have the sustainable awareness	We have thoroughly reviewed the individual contractor policy and introduced the International Personnel Services Agreement (I-PSA) as part of a new contractual modality framework. The I-PSA was launched by the Administrator, is live since 15 February 2021 and is	The Board noted that UNDP envisaged implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. This strategy also includes a review of the use of individual contractors. UNDP has implemented a new policy on individual contracts based on a	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			required to properly procure and manage individual contracts in accordance with the policy on individual contracts.	published on the Programme and Operations Policies and Procedures platform. Implementation of this will be ensured through the new provision of clustered human resources services, offering centres of excellence in human resources administration. A key objective of clustering human resources services is to ensure consistency and compliance in the application of the contractual modality.	recruitment process (live since 15 February 2021). The Board considers this recommendation implemented.				
21.	2019	A/75/5/Add.1, chap. II, para. 30	The Board recommends that UNDP review its presentation financial statements and the notes with regard to receivables and liabilities to United Nations entities in order to determine whether a change in presentation could bring further clarity and enhance the value of the financial statements for stakeholders, as well as enhance stakeholders' understanding of the financial statements.	UNDP has updated the presentation of its receivables and payables in the financial statements and notes to reflect a better grouping in the above-mentioned line items. This presentation was shared with the Board before being affected in the 2020 financial statements and was cleared.	The Board noted that UNDP had updated the presentation of receivables and payables in the financial statements and notes. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
22.	2019	A/75/5/Add.1, chap. II, para. 40	The Board recommends that, in the next financial statements, UNDP derecognize revenue and expenses for staff costs related to staff for whom funding partners contributed resources and who were assigned to the resident coordinator system.	Revenue and expenses for all non-UNDP personnel were derecognized for the preparation of the 2020 financial statements and will be applied consistently on an annual basis.	The Board noted that UNDP derecognized revenue and expenses for staff costs related to staff for whom funding partners contributed resources and who were assigned to the resident coordinator system. Therefore, the Board considers this recommendation implemented.	X			
23.	2019	A/75/5/Add.1, chap. II, para. 49	The Board recommends that UNDP find a solution for the local situation in this country and ensure that the country office request adequate evidence of service contract holders' pension plan coverage and of their monthly remittances to the social security schemes.	UNDP Tanzania office was granted the approval and implemented the lump-sum arrangement for service contracts that provides 8.33 per cent of the gross monthly remuneration in lieu of pension.	The Board noted that UNDP entered into a consultative process with the concerned service contract holders. As a result, the service contract holders opted for a lump-sum payment of 8.33 per cent of the monthly remuneration (instead of 10 per cent for a national pension scheme). This option is approved by the director of the Office of Human Resources on an exceptional basis if no reliable national pension scheme is in place (Programme and Operations Policies and Procedures platform). The Board considers this recommendation implemented.	X			
24.	2019	A/75/5/Add.1, chap. II, para. 50	The Board also recommends that UNDP ensure that the country office uses the current service contracts template for new service contracts and update existing contracts that were signed before the new template had been launched.	UNDP Tanzania office has adopted the new template for service contracts as recommended by the Board.	UNDP confirmed the updated service contract template. UNDP Tanzania has used the updated templates for new service contracts. The Board considers this recommendation implemented.	X			
25.	2019	A/75/5/Add.1, chap. II, para. 62	The Board recommends that UNDP revise its enterprise risk management	UNDP has updated its enterprise risk management policy and excluded external oversight bodies from the	The Board noted that UNDP revised its enterprise risk management policy.	X			

No.	Audit report year	Report reference	Board’s recommendation	Management/Administration’s response	Board’s assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			policy to exclude external oversight bodies such as the Board of Auditors from the third line of defence.	third line of defence. The third line of defence now includes internal audit only.	The Board considers this recommendation implemented.				
26.	2019	A/75/5/Add.1, chap. II, para. 77	The Board recommends that UNDP enhance awareness of country offices and other units on how to conduct fraud risk assessments in an integrated manner, for example, by presenting good practices at regional or annual retreats for its managers.	Integrated workplan guidance has been updated to include the requirement of fraud risks analysis and recording. It is also included in the year-end assertion certification provided by business units. Fraud risk assessment guidance is being developed. Training sessions for business units will follow in coordination with regional bureaux.	The Board noted the progress made to enhance awareness. The Board also noted that guidance was still being developed and training sessions would follow. This recommendation is considered to be under implementation.		X		
27.	2019	A/75/5/Add.1, chap. II, para. 78	The Board recommends that UNDP tighten the assertions by adding an affirmative statement that an office had assessed fraud and corruption risks in an integrated manner as required by the anti-fraud policy and the enterprise risk management policy.	The annual assertion review now includes the requirement to confirm completion by staff of the mandatory fraud awareness and prevention e-training and compliance with UNDP anti-fraud policy. See assertion statements 11 and 14 in the 2020 assertion checklist.	The Board noted that an affirmative statement had been added. Therefore, this recommendation is considered implemented.	X			
28.	2019	A/75/5/Add.1, chap. II, para. 98	The Board recommends that UNDP define its organizational priorities through an organization-specific anti-fraud strategy that should incorporate current good practices.	UNDP has developed an anti-fraud strategy document which has been endorsed by the Organizational Performance Group at the January 2021 meeting.	The Board noted that UNDP had developed a specific anti-fraud strategy. Therefore, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
29.	2019	A/75/5/Add.1, chap. II, para. 99	The Board recommends that UNDP continue to implement its fraud risk management action plan and provide regular updates on its status to the Risk Committee which should be documented in the meeting minutes.	An anti-fraud strategy has been developed, a fraud risk assessment has been conducted and the fraud risk management action plan has been updated. Both were approved by the Organizational Performance Group. An update on fraud risk management, the anti-fraud strategy and the action plan was presented to the Risk Committee in December 2020. A fraud action plan timeline has been set.	The Board noted that UNDP had updated its fraud risk management action plan and presented it to the Risk Committee in December 2020. The Board still needs to see that regular updates on the status of the fraud risk management action plan are being provided to the UNDP risk committee. This recommendation is considered to be under implementation.		X		
30.	2019	A/75/5/Add.1, chap. II, para. 100	The Board recommends that UNDP set a realistic time frame for implementing its fraud risk management action plan.	An anti-fraud strategy was developed, a fraud risk assessment has been conducted and the fraud risk management action plan has been updated. Both were approved by the Organizational Performance Group. An update on fraud risk management, the anti-fraud strategy and the action plan was presented to the Risk Committee in December 2020. The fraud risk management action plan timeline has been set.	The Board noted that UNDP updated timelines for implementing the various items of the fraud risk management action plan. Therefore, this recommendation is considered implemented.	X			
31.	2019	A/75/5/Add.1, chap. II, para. 101	The Board recommends that UNDP enhance awareness of country offices and other units on how to document fraud risk treatment actions in the corporate risk management tools available, for example, by presenting good practices at regional or annual retreats of its managers.	Integrated workplan guidance has been updated to include the requirement of fraud risks analysis and recording. This is also included in the year-end assertion certification prepared by business units. Fraud risk assessment guidance is being developed. Training sessions for business units will follow in coordination with regional bureaux.	The Board noted the progress made on enhancing awareness. The Board further noted that guidance was still being developed and training sessions would follow. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
32.	2019	A/75/5/Add.1, chap. II, para. 115	The Board recommends that UNDP further enhance its efforts and continue to raise fraud awareness internally.	The anti-fraud strategy was approved by the Organizational Performance Group at its January 2021 meeting. Outreach communication and webinars were organized by the regional bureaux to raise awareness on fraud internally.	The Board noted the progress made to enhance fraud awareness internally. Receipt of evidence of regular fraud awareness raising activities beyond broadcasting of email messages is still needed. With respect to the UNDP fraud risk management action plan, related actions are still to be implemented. This recommendation is considered to be under implementation.		X		
33.	2019	A/75/5/Add.1, chap. II, para. 124	The Board recommends that UNDP further enhance its continuous efforts to raise fraud awareness with external partners.	The UNDP anti-fraud policy has been published on the UNDP global website and is available for external access. UNDP has also enhanced its efforts in raising fraud awareness externally by including a link to the anti-fraud policy on all UNDP country offices' external sites where the partners access information on procurement opportunities and other resources.	The Board noted the progress made. Various good practices and enhancement opportunities identified by the Board in its report for the year 2019 (A/75/5/Add.1) had not yet been implemented. This recommendation is considered to be under implementation.		X		
34.	2019	A/75/5/Add.1, chap. II, para. 134	The Board reiterates its recommendation that UNDP review the cases of non-compliance presented by the Board and analyse the reasons for and the circumstances in which bureaux and country offices did not fully comply with the corporate internal control framework.	UNDP has enhanced the Atlas Role Generation and User-provisioning System to further automate preventive controls on the assignment of staff functions and functions requiring segregation of duties. Additional internal control framework monitoring reports were added to the monthly Atlas Role Generation and User-provisioning System reports. Global communications were issued in 2020 and 2021.	The Board noted that UNDP had reviewed the cases of non-compliance presented by the Board. The Board noted the Atlas Role Generation and User-provisioning System enhancements and additional monitoring reports. Therefore, this recommendation is considered implemented.	X			
35.	2019	A/75/5/Add.1, chap. II, para. 135	The Board recommends that UNDP develop an adequate project outline with appropriate timelines and budgets for the	The Next Generation Enterprise Resource Planning project charter was developed which outlines timelines and budget for the NextGenERP project as well as	The Board noted that UNDP had established a project outline with appropriate timelines and budgets for the new enterprise resource planning system.	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
			planning phase involved in a complex multi-year project to introduce a new enterprise resource planning system.	defines the scope, objectives and strategy of the NextGenERP project.	Therefore, the Board considers this recommendation implemented.				
36.	2019	A/75/5/Add.1, chap. II, para. 136	In the meantime, the Board reiterates its recommendation that UNDP, on the basis of the above analysis, further refine its internal control framework and further recommends that UNDP streamline its internal control framework documentation in the operational guide to strengthen its implementation.	UNDP has updated the internal control framework to reflect changes noted by the Board and has published it on the Programme and Operations Policies and Procedures platform.	The Board noted the enhancements made to the UNDP internal control framework and the progress made in streamlining UNDP internal control framework documentation. The Board still identified cases where non-staff were performing internal control functions. This recommendation is considered to be under implementation.		X		
37.	2019	A/75/5/Add.1, chap. II, para. 148	The Board recommends that UNDP assess the application of good practices such as rotation of tasks among personnel in contexts where a higher risk of fraudulent acts had been identified.	The Global Shared Services Unit/Finance Unit has already started to offer staff the opportunity to rotate within Global Shared Services Unit units for capacity-building. This process will be systemized to ensure that staff spend a maximum amount of time in a position, thereby reducing the risk of fraud while allowing staff to obtain an end-to-end view of all finance processes. A rotation guideline will be developed in the upcoming months. With these actions, the recommendation should be closed by the end of the second quarter of 2021.	The Board noted the progress made. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
38.	2019	A/75/5/Add.1, chap. II, para. 153	The Board recommends that UNDP record the vehicles not yet included in the enterprise resource planning system in compliance with IPSAS 17: Property, plant and equipment.	The Sudan country office has been working with the Global Shared Services Unit team to process the recording of vehicles. The case has now been completed. Supporting documents are provided for reference.	The Board noted that UNDP had recorded the data on vehicles in compliance with IPSAS 17 in the enterprise resource planning system in April 2021. Therefore, the Board considers this recommendation implemented.	X			
39.	2019	A/75/5/Add.1, chap. II, para. 154	The Board recommends that UNDP enhance awareness of the importance of fully complying with requirements in place to physically verify the existence and completeness of vehicles in country offices where matters of non-compliance were identified.	UNDP property, plant and equipment policy provides a governing framework for the physical verification of assets. To further strengthen awareness of the need to physically verify UNDP assets, and vehicles in particular, UNDP issued several reminders in this regard. Additionally, at the end of the year 2020, General Operations launched a complementary vehicle review for selected offices.	The Board noted that UNDP provided guidance to country offices on physical verification matters. However, the Board again noted several late recognitions and derecognitions of vehicles which were not detected by physical verification procedures. Therefore, the Board holds that UNDP should further enhance awareness of the importance of fully complying with requirements in place to physically verify the existence and completeness of vehicles in country offices. The Board considers this recommendation to be under implementation.		X		
40.	2019	A/75/5/Add.1, chap. II, para. 159	The Board recommends that UNDP establish a detective control at the Global Shared Services Unit level to ensure that information entered by country offices into the enterprise resource planning system is correct and accurate.	It is important to note that the function of verifying and validating the human resources information received by the Global Shared Services Unit from country offices belongs to human resources and not payroll. As part of the implementation of clustering of human resources services, human resources administration of local personnel is expected to be completely centralized in the Global Shared Services Unit. This will prevent country offices from making any data entries in Atlas. From that moment onward, the Global Shared Services Unit will be responsible for	The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				setting up a proper verification process. The standard operating procedures that will be implemented as part of the roll-out of local benefits and entitlements services will include additional verification, following an approach similar to that currently being taken for international staff by the Global Shared Services Unit Copenhagen. The centralization of human resources administration for local personnel will continue until the third quarter of 2021.					
41.	2019	A/75/5/Add.1, chap. II, para. 166	The Board recommends that UNDP streamline existing referencing on eligibility checks to be performed during vendor creation.	The buyer must now verify that the vendor is legitimate and is not included on the United Nations Global Marketplace list of suspended or removed vendors, which subsumes the list of terrorists and financiers of terrorism under the Security Council Committee pursuant to resolutions 1267 (1999), 1989 (2011) and 2253 (2015) and the UNDP list of suspended or removed vendors, among other required lists.	The Board noted that UNDP had streamlined existing referencing on eligibility checks to be performed during vendor creation. This recommendation is considered implemented.	X			
42.	2019	A/75/5/Add.1, chap. II, para. 167	The Board recommends that UNDP streamline and enhance guidance on required supporting documents for vendor creation.	UNDP has streamlined this requirement in the new standard operating procedure on vendor management.	The Board noted the enhancements made. This recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
43.	2019	A/75/5/Add.1, chap. II, para. 173	The Board recommends that UNDP enhance existing guidance for business units outlining procedures to be performed at regular intervals for vendor monitoring and maintenance of vendor records and continuous due diligence.	UNDP has enhanced the guidance with the establishment of a quarterly procedure for vendor maintenance and monitoring in appendix 4 of the new standard operating procedure on vendor management.	The Board noted the enhancements made and that procedures for vendor monitoring and maintenance of vendor records had been added to the respective standard operating procedures. This recommendation is considered implemented.	X			
44.	2019	A/75/5/Add.1, chap. II, para. 174	The Board recommends that UNDP implement the recently established process to regularly review its vendor databases to exclude ineligible vendors.	UNDP has enhanced this guidance with the establishment of a monthly/bi-monthly procedure on verifying sanctioned vendors in the enterprise resource planning system, as described in appendix 4 of the new standard operating procedure on vendor management.	The Board noted that UNDP regularly matched its vendor master file with established lists of sanctioned vendors and communicated information on possible ineligible vendors to country offices for further verification and action. This recommendation is considered implemented.	X			
45.	2019	A/75/5/Add.1, chap. II, para. 175	The Board recommends that UNDP periodically inform all business units about new suspensions or entities and individuals sanctioned on the recommendation of the UNDP vendor review committee.	The Procurement Services Unit has matched the sanctions lists on the United Nations Global Marketplace with the vendor records in Atlas and continues to conduct the matching process on a monthly basis. The results are then shared with all business units along with clear instructions for units to take necessary actions to close identified gaps.	During its audit, the Board noted the continued inclusion of ineligible vendors sanctioned by UNDP in local vendor master files. This recommendation is considered to be under implementation.		X		
46.	2019	A/75/5/Add.1, chap. II, para. 180	The Board recommends that UNDP expedite the clearing of the backlog of vendor cases to be reviewed by the vendor review committee.	UNDP continues to clear the backlog of cases, with the overall closure rate at 72.9 per cent since 2014. The Vendor Review Committee has put in place specific measures to address the backlog of cases, including prioritizing the review of long-outstanding cases and cases where there may be a financial loss. As of 1 May 2021, there are 46 open cases in total.	The Board noted the progress made. The Board noted a continuing backlog of 46 open cases. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
47.	2019	A/75/5/Add.1, chap. II, para. 200	The Board recommends that UNDP continue to provide feedback to and to engage with the Development Coordination Office on 1 per cent levy matters (including challenges observed at the country level and questions on interpretation of the United Nations Secretariat guidance).	UNDP disclosed details on feedback to and engagement with the United Nations Development Coordination Office on coordination of 1 per cent levy matters.	The Board noted that UNDP communicated with the Development Coordination Office on 1 per cent levy matters on an ongoing basis. The Board encourages UNDP to further engage in such communications. Owing to the ongoing communication mechanism, the Board considers this recommendation implemented.	X			
48.	2019	A/75/5/Add.1, chap. II, para. 201	The Board further recommends that UNDP develop a standardized template and encourage its use among country offices in order to state the reasons why a specific contribution agreement was exempted from the levy in line with the United Nations Secretariat guidance checklist.	UNDP has introduced a template for note to file for 1 per cent coordination levy exclusion cases.	The Board noted that UNDP sent out guidance and a standardized template for the documentation of levy exceptions in line with United Nations Secretariat guidance to country offices. Therefore, the Board considers this recommendation implemented.	X			
49.	2019	A/75/5/Add.1, chap. II, para. 213	The Board encourages UNDP to continue to further enhance its system to operationalize, monitor and report on funding compact commitments.	UNDP updated the baselines, annual targets and milestones for entity-specific funding compact commitments through the structured funding dialogue report with dedicated annex 2.	The Board noted that UNDP continued to make progress on the funding compact commitment and to show progress on 77 per cent of the entity-specific indicators. UNDP updated the baselines, annual targets and milestones for entity-specific funding compact commitments through the structured funding dialogue report. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
50.	2019	A/75/5/Add.1, chap. II, para. 224	The Board recommends that UNDP continue to monitor open Resident Coordinators Office projects identified and expedite project closure to the extent possible.	Significant progress has been made in the closure of resident coordinator legacy projects, with a completion rate of 84 per cent by November 2020.	The Board noted progress of UNDP in closing open Resident Coordinators Office projects. The Board considers this recommendation implemented.	X			
51.	2019	A/75/5/Add.1, chap. II, para. 225	The Board recommends that UNDP continue to monitor and report the number of staff members provided under transition arrangements to the resident coordinator system and document when those transitional arrangements cease to exist.	The transition of staff to the Resident Coordinator Office is complete. All related records and files were transferred to the United Nations. Staff who could not be transitioned to the United Nations were separated from UNDP in accordance with UNDP policies and procedures.	The Board noted that UNDP continued to monitor and report on the number of staff members provided under transition arrangements to the resident coordinator system and that UNDP had completed the transition of staff to the resident coordinator system. The Board considers this recommendation implemented.	X			
52.	2019	A/75/5/Add.1, chap. II, para. 232	The Board recommends that UNDP use the results from the joint survey with the Development Coordination Office to assess and, if needed, to refine its service offer to the resident coordinator system and its operational support to country offices.	The results of the survey have been used to further improve client relationships and service provision in 2021. UNDP and the Development Coordination Office also held a joint webinar and discussed the lessons learned from the global survey with the country offices.	The Board noted that UNDP refined its service offer to the resident coordinator system and its operational support to country offices based on survey results. The Board further noted that UNDP discussed lessons learned with the United Nations Development Coordination Office. Therefore, the Board considers this recommendation implemented.	X			
53.	2019	A/75/5/Add.1, chap. II, para. 236	The Board recommends that UNDP continue to follow up on signing local service-level agreements for service provision to the Resident Coordinator Office.	Significant progress was made in improving the total number of local service-level agreements signed by countries and regional offices. In 2020, in the midst of the pandemic and the operational difficulties and limitations affecting operations globally, a total of 126 offices, reflecting a 95 per cent completion rate, signed the service-level agreement.	The Board noted that UNDP made further progress on signing local service-level agreements for service provision to the Resident Coordinator Office. Owing to an increased completion rate of signed service-level agreements for service provision to the Resident Coordinator Office, the Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
54.	2019	A/75/5/Add.1, chap. II, para. 252	The Board recommends that UNDP use the feedback obtained on the management and accountability framework to inform its contribution to the revision of the country-level framework in order to ensure that accountability is strengthened.	UNDP has carefully analysed the feedback on the management and accountability framework and is using it in the planned revision of the country-level management and accountability framework to ensure that mutual accountability is strengthened and the independent resident coordinator system serves all United Nations development system entities in the promotion of their mandates.	The Board noted that UNDP analysed the feedback on the management and accountability framework in order to strengthen accountability. The Board considers this recommendation implemented.	X			
55.	2019	A/75/5/Add.1, chap. II, para. 269	The Board recommends that UNDP continue its participation in the inter-agency dialogue on the client satisfaction principles as well as the costing and pricing principles and, in cooperation with other stakeholders, explore options on how the inter-agency dialogue on the costing and pricing principles may be enhanced in order to address existing concerns of United Nations entities that have not agreed with the principles.	The audit recommendation was implemented in August 2020 when the UNDP Administrator became a signatory, on behalf of UNDP, to the client satisfaction principle managed by the Business Innovation Group.	The Board acknowledges that UNDP became a signatory to the client satisfaction and costing and pricing principles. As the contribution of UNDP to the inter-agency dialogue continues, the Board considers this recommendation implemented.	X			
56.	2019	A/75/5/Add.1, chap. II, para. 288	The Board recommends that UNDP consider further streamlining the mapping of its contributions to the United Nations development system reform process and continue its strong engagement in all inter-agency work streams for the United Nations development system reform.	UNDP has provided seven updates to the Executive Board on subject matter related to United Nations development system reform, expanded its collaboration with other agencies and supported efforts to review the United Nations Sustainable Development Group and the Core Group with the aim of strengthening both inter-agency mechanisms.	UNDP reports regularly, with compiled updates, on its continued active support for the repositioning of the United Nations development system reform process. These information notes for the Executive Board reflect all aspects of the reform process. The Board considers this recommendation implemented.	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
57.	2019	A/75/5/Add.1, chap. II, para. 289	The Board further recommends that UNDP use the opportunities and challenges identified in surveys related to the United Nations development system reform to further refine its support to the country level on reform-related matters.	UNDP conducted a survey with resident representatives on United Nations development system reform implementation in March 2020. Its findings were discussed by management and were reflected in the contribution of UNDP to United Nations development system reform implementation and UNDP support to country-level engagement. Key actions were taken and key findings, which required corporate attention of UNDP and/or UNDP action, were tabled in anchor group meetings entailing specific follow-up with designated focal points.	UNDP conducted two surveys on United Nations development system reform implementation and on service provision to the resident coordinator system, resulting in implementation of actions and improvements, including, for example, inputs to the management and accountability framework. The Board considers this recommendation implemented.	X			
	Total number of recommendations				**57**	**40**	**13**	**1**	**3**
	Percentage of the total number of recommendations				**100**	**70**	**23**	**2**	**5**

Chapter III
Financial report for the year ended 31 December 2020

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 2020. 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 2020 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 35.3), 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 2020, 9,459 United Nations Volunteers from 168 countries supported partner United Nations entities in their peace and development activities in 157 countries of assignment.

- *Junior Professional Officers programme*. UNDP manages the Junior Professional Officers programme on behalf of 11 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.

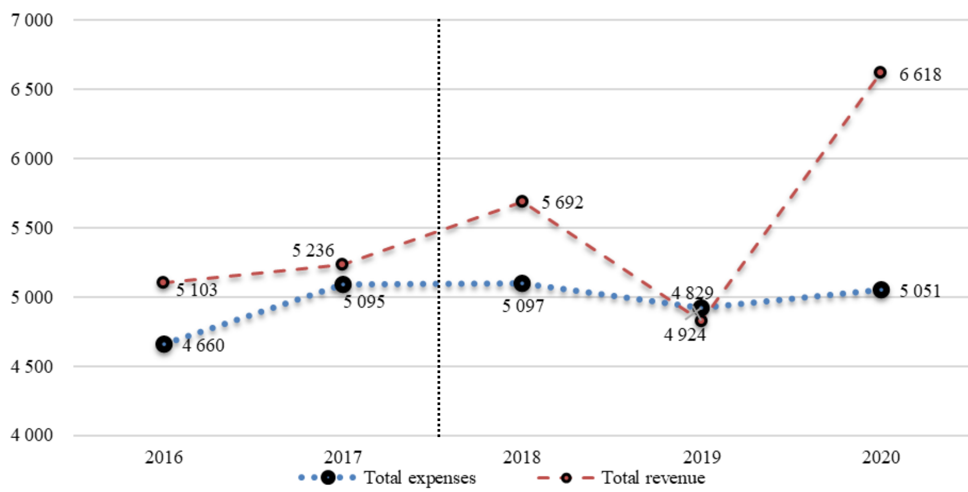
B. Summary of financial results and highlights

8. In 2020, UNDP reported total annual revenues of $6,618 million (2019: $4,829 million) and managed total assets of $14,299 million (2019: $12,485 million) (see figure III.I). UNDP recorded total contributions of $6,272 million (2019: $4,473 million), comprising $551 million (2019: $694 million) in regular resources and $5,721 million (2019: $3,779 million) in other resources.

Highlights from fiscal year 2020 compared with 2019 include:

- Increase in total revenue by $1,789 million (or 37 per cent)
- Increase in total expenses by $127 million (or 3 per cent)
- Increase in programme expenses by $66 million (or 2 per cent)
- Increase in contractual services by $78 million (or 4 per cent)
- Increase in investments, excluding investments for the Multi-Partner Trust Fund Office, of $670 million (or 10 per cent)

Figure III.I
Total revenue and expenses in 2016–2020
(Millions of United States dollars)



Note: In 2019, UNDP changed its accounting policy for revenue recognition, hence figures from 2018 onward are not comparable with those of prior years. This accounting policy change, in line with IPSAS 23, has resulted in revenue being recorded in full upfront when agreements with donors are signed, provided certain criteria are met.

9. Starting in mid-March 2020, the COVID-19 pandemic became a global challenge and has had an unprecedented impact on the global economy. UNDP continued to focus on the effective implementation of its programmatic activities, quickly adjusting to the unprecedented circumstances, supported by a robust response from partners/donors in addressing the pandemic during the period that followed.

10. Even as the COVID-19 pandemic unfolded, UNDP conducted its business with a profound sense of commitment. Wherever the pandemic's impact on the financial results of UNDP was in evidence, that impact has been described in the notes to the financial statements. Some of the most notable developments are described below.

11. During 2020, UNDP reprogrammed and mobilized nearly $1 billion in support of the COVID-19 response.

12. UNDP delivery went up in 2020, compared with 2019, although the rise was 2 per cent lower than the original 2020 target. UNDP programme delivery for 2020 was $4.4 billion, which is the second-highest delivery rate for UNDP in six years. In the Africa region, programme delivery, at $1.2 billion, was the highest ever reported by any region.

13. UNDP allocated $7 million in regular resources (of which $4.5 million was utilized in 2020) for additional security measures related to COVID-19 activities, for example, medical evacuations of personnel. Further funding will be needed in 2021 for this purpose.

14. When compared with refunds to donors in 2019, refunds in 2020 decreased slightly, from $69.9 million to $65.9 million (see note 25, Voluntary contributions). It cannot be determined how much the amount of these refunds may be attributable to the impact of the pandemic, as refunds to donors are provided as part of regular operations and sometimes on a cyclical basis, that is to say, some multi-year funding cycles came to an end in 2020, with refunds being processed to donors after which the funds are carried over to the next programme funding cycle.

15. UNDP did not identify any voluntary contributions that needed to be impaired as a result of the COVID-19 pandemic.

16. Also, UNDP did not identify any impairments of its assets, namely, monetary and non-monetary assets, as a result of the COVID-19 pandemic.

17. There was an overall decline in UNDP investment income of $48.7 million, or 29 per cent. The decline was caused by the lower interest rates in 2020 due, in part, to the economic situation brought about by the COVID-19 pandemic (see note 27, Investment revenue).

18. There was an increase in procurement handling fees of $5.0 million, or 109 per cent. This increase was the result primarily of new activities related to the procurement of medical equipment and medical supplies specific to COVID-19 project deliverables (see note 26, Revenue: exchange transactions).

19. The procurement of medical, pharmaceutical and agricultural supplies increased by $91.1 million, or 24 per cent, which was the result mainly of new activities related to the procurement of medical equipment and medical supplies specific to COVID-19 project deliverables. In addition, the increased procurement related to the COVID-19 pandemic resulted in an increase of freight costs of $27.6 million, or 77 per cent (see note 29, Expenses).

20. Travel expenses decreased by $97.9 million, or 45 per cent, as a result primarily of travel bans, lockdowns and restrictions, and the cancellation or postponement of duty travel, as well as change in assignment- and repatriation- related travel patterns. A similar trend was noted in relation to the area of learning and recruitment where there was a decrease of $50.9 million, or 20 per cent. Rent and utilities fell by $21.8 million, or 12 per cent (see note 29, Expenses).

21. Projects that are under implementation or construction were impacted both financially and in terms of their expected completion date by physical access restrictions, especially in cases where the respective country implemented a shutdown of all activities. The impact of the pandemic on project activities cannot be quantified within the scope of financial costs, as these are generally multi-year projects and it is still too early to assess the impact overall.

22. As a result of the limitations on physical movements that applied in many of the locations where UNDP operates, a majority of staff and personnel worked remotely, particularly administrative staff whose tasks did not require them to have direct physical contact with beneficiaries, and other colleagues or counterparts. The sudden shift to remote working was facilitated by an accelerated changeover to increased use of mobile office tools. In the long term, this change may result in the transitioning of more personnel to remote working arrangements.

23. Office space was utilized to a much lower extent in 2020 than in 2019. In most cases, rental contracts for buildings were maintained despite their only partial occupancy, as there was ongoing uncertainty regarding local lockdown restrictions in the countries in which UNDP operates. No decisions concerning the need for and use of office space in the post-pandemic period were made in 2020.

24. Physical access to certain locations to perform physical inventory and asset verification counts was limited in some locations as a result of restrictions imposed by local authorities or for the safety of staff and their counterparts. In such cases, alternative verification methods were applied and the restrictions do not impact the numbers presented in the financial statements.

25. Annual leave liabilities increased by $20.5 million, or 30 per cent, while home leave liabilities increased by $2.3 million, or 27 per cent. These increases are due to staff’s not taking their planned leave entitlements in 2020 as a result of the COVID-19

pandemic and travel limitations imposed to contain it (see note 21, Employee benefits).

26. There was an increase in current liabilities related to employee benefits of $8.3 million, or 3 per cent, from $240.9 million in 2019 to $249.2 million in 2020. This was due mainly to the increase in the liabilities related to annual and home leave referred to above. There was also a slight increase in premiums payable for medical insurance for selected countries.

27. In addition, there was an increase in non-current liabilities related to employee benefits of $140 million, or 12 per cent, from $1,142 million in 2019 to $1,282 million in 2020. This was due mainly to an increase in liability for after-service health insurance and accrued liability for end-of-service repatriation. The after-service health insurance liability increased by $126.7 million, a level of growth attributable mostly to the assumption of a decrease in interest rates (discount rate) which increased that liability in accordance with the actuarial assessment. It is not known what portion of the increase in employee benefit liabilities is related to the COVID-19 pandemic.

28. The long-term impact of the lessons learned from the COVID-19 pandemic are still being evaluated and it is too early to assess whether any possible changes may have an impact on the carrying value of UNDP assets; as such, no COVID-19-related asset impairment events were recorded during the annual asset impairment review.

C. Financial performance[1]

Revenue analysis

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

30. The total revenue in 2020 was $6,618 million, an increase of $1,789 million, or 37 per cent, from the total revenue of $4,829 million in 2019.

31. The main sources of revenue of UNDP in 2020 were as follows:

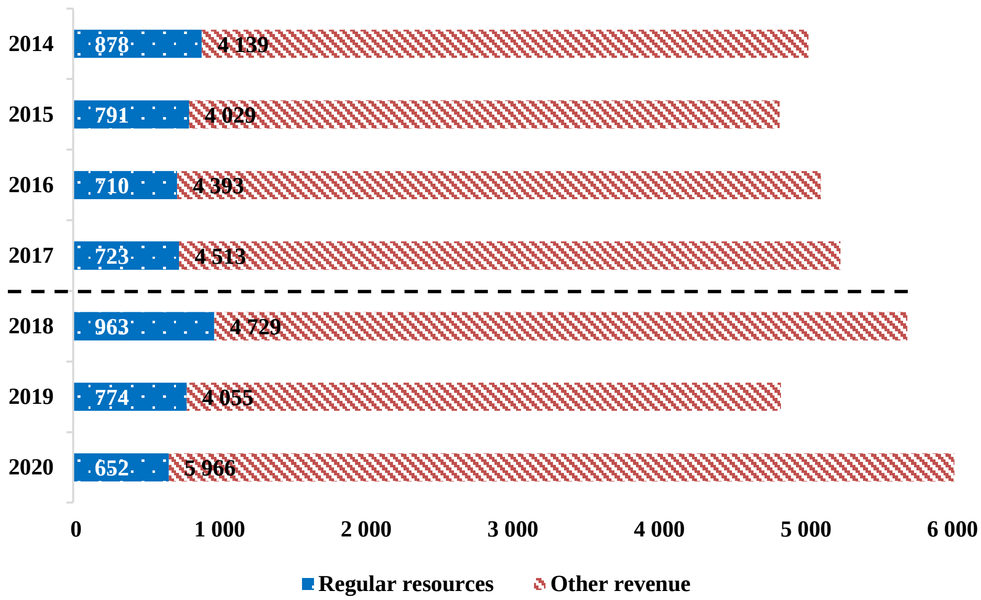
- $6,272 million, or 95 per cent, from voluntary contributions (2019: $4,473 million, or 93 per cent)
- $346 million, or 5 per cent, from exchange, investment and other revenue ($356 million, or 7 per cent, in 2019)
- The increase in voluntary contributions was driven by multi-year agreements with several key donors, while the top three donors' contributions were higher than in 2019 by $1,556 million

Revenue by segment

32. The proportion of the Programme's non-core contributions to core contributions further increased in 2020. In 2020, total revenue from regular resources was $652 million (representing 10 per cent of total revenue) and other revenue was $5,966 million (representing 90 per cent of total revenue) (see table III.II). In 2019, total revenue from regular resources represented 15 per cent of total revenue.

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

Figure III.II
Trend of regular resources and other revenue, 2014–2020
(Millions of United States dollars)

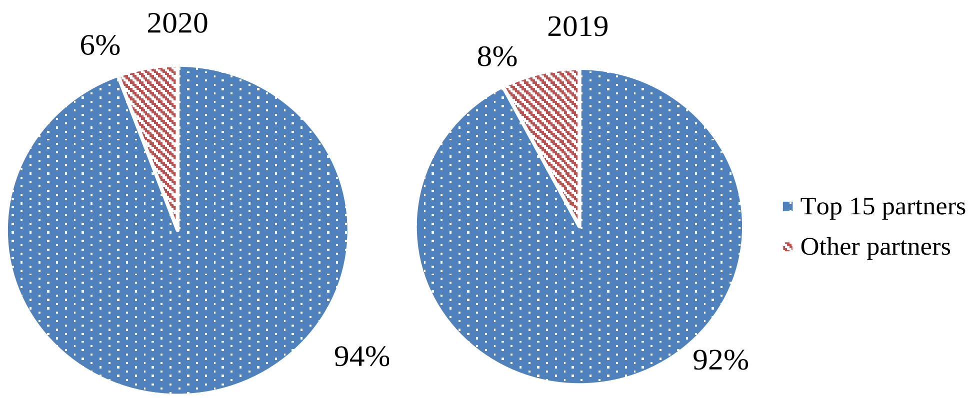


Note: In 2019, UNDP changed its accounting policy for revenue recognition, hence figures from 2018 onward are not comparable with those for prior years. This accounting policy change, in line with IPSAS 23, has resulted in revenue being recorded in full upfront when agreements with donors are signed, provided certain criteria are met.

33. Within cost-sharing, revenue totalling $4,725 million, third-party cost-sharing and government cost-sharing provided 75 per cent and 24 per cent of the revenue, respectively. South-South cooperation provided 1 per cent of total cost-sharing revenue.

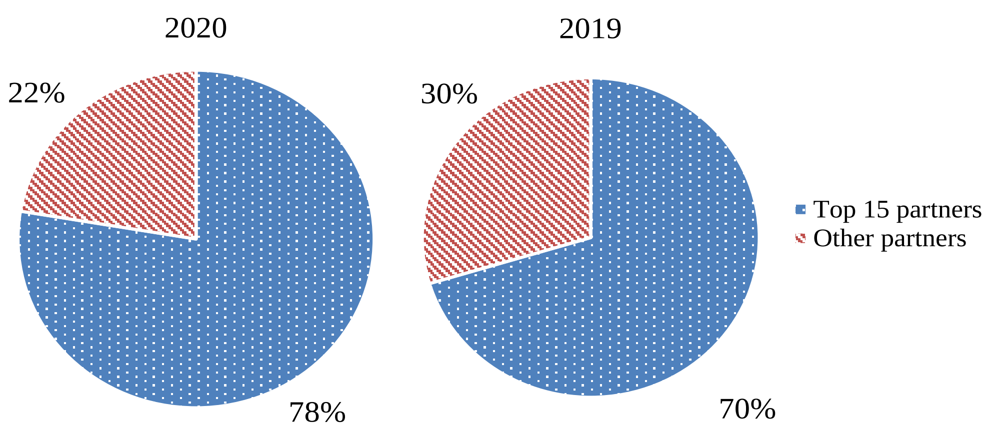
34. Both the core and non-core funding bases are concentrated in a few funding partners (i.e., donors). In 2020, 94 per cent of core revenue was received from 15 partners, which is consistent with the figure for the prior year (2019: 92 per cent) (see figure III.III). In 2020, the largest donor for core funding accounted for 26 per cent (2019: 27 per cent) of total core contributions, amounting to $551 million.

Figure III.III
Core revenue concentration, 2019–2020
(Percentage)



35. For non-core revenue, the concentration of contributions from the largest 15 partners increased from 70 per cent in 2019 to 78 per cent in 2020 (see figure III.IV). In 2020, the largest donor for non-core funding accounted for 17 per cent (2019: 15 per cent) of total non-core contributions, amounting to $5,721 million.

Figure III.IV
Non-core revenue concentration, 2019–2020
(Percentage)



36. 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 69 per cent of the revenue of UNDP in 2020, followed by trust funds (14 per cent), regular resources (9 per cent) and reimbursable support services and miscellaneous activities (8 per cent) (see figure III.V).

37. Overall, 2020 revenue proportions by segment changed compared with the prior year, with an increase in cost-sharing (by 3 per cent) and an increase in trust funds (by 5 per cent), offset by the decrease in regular resources (core, by 6 per cent) and reimbursable support services and miscellaneous activities (by 2 per cent), from 2019.

Figure III.V
Composition of total revenue in 2019–2020 by segment
(Percentage)

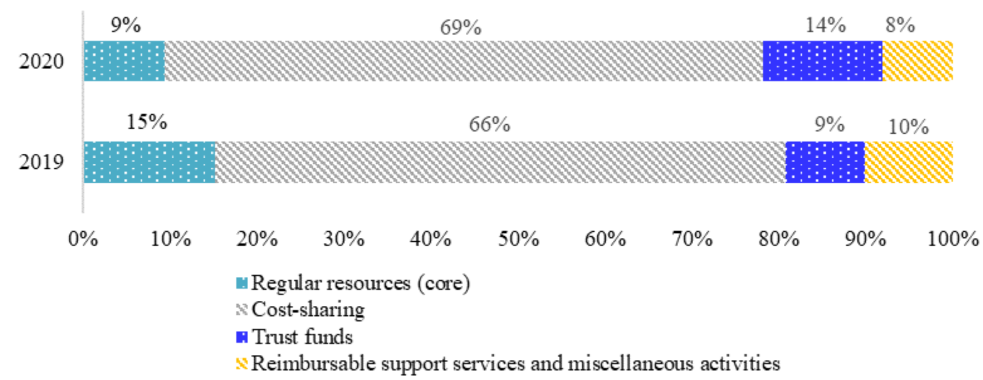
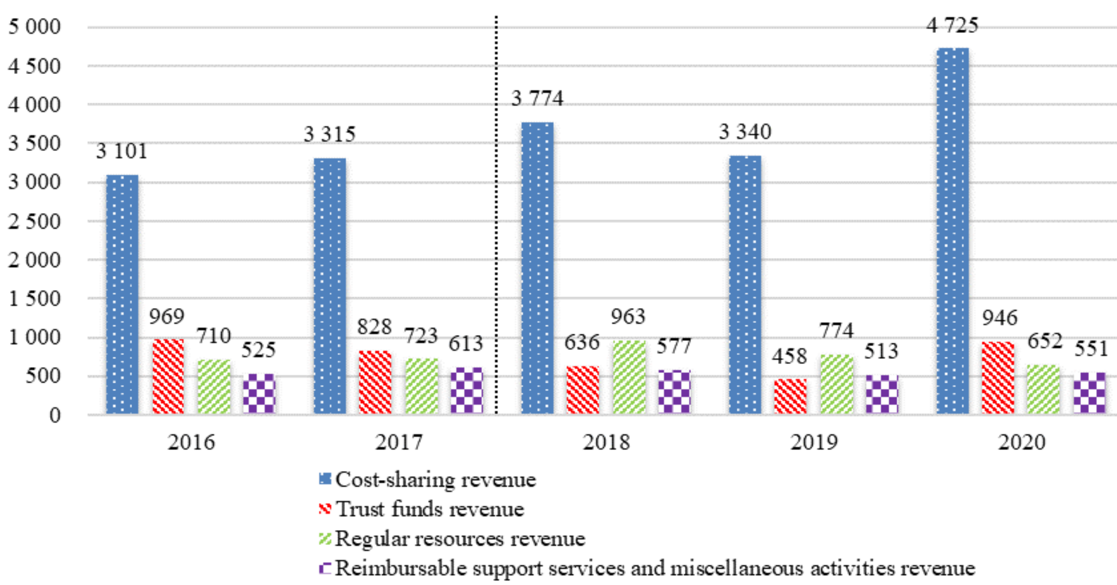


Figure III.VI
Composition of total revenue in 2016–2020 by segment
(Millions of United States dollars)



Note: In 2019, UNDP changed its accounting policy for revenue recognition, hence figures from 2018 onward are not comparable with those for prior years. This accounting policy change, in line with IPSAS 23, has resulted in revenue being recorded in full upfront when agreements with donors are signed, provided certain criteria are met.

Expense analysis

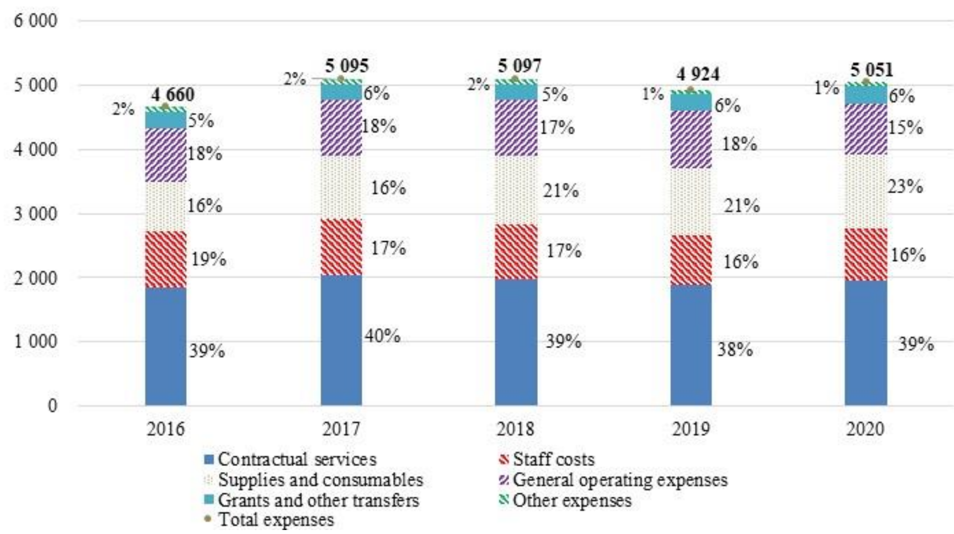
38. In 2020, UNDP expenses were $5,051 million, an increase of $127 million, or 3 per cent, from 2019 (2019: $4,924 million).

39. The largest expense category by nature continued to be contractual services, for which expenses totalled $1,957 million in 2020 (2019: $1,879 million), representing 39 per cent of total expenses (see figure III.VII). The remaining expenses in 2020 by nature are: supplies and consumables, totalling $1,154 million (2019: $1,032 million); staff costs, totalling $814 million (2019: $788 million); general operating expenses, totalling $774 million (2019: $903 million); expenses for grants and other transfers,

totalling $288 million (2019: $251 million); and other expenses, totalling $64 million (2019: $71 million).

40. Government entities and private, financial, academic and civil society organizations contributed to the achievement of the Programme's sustainable development results and implemented $1,710 million (2019: $1,755 million) of total programme expenditures incurred in 2020.

Figure III.VII
Composition of total expenses in 2016–2020 by nature
(Millions of United States dollars)

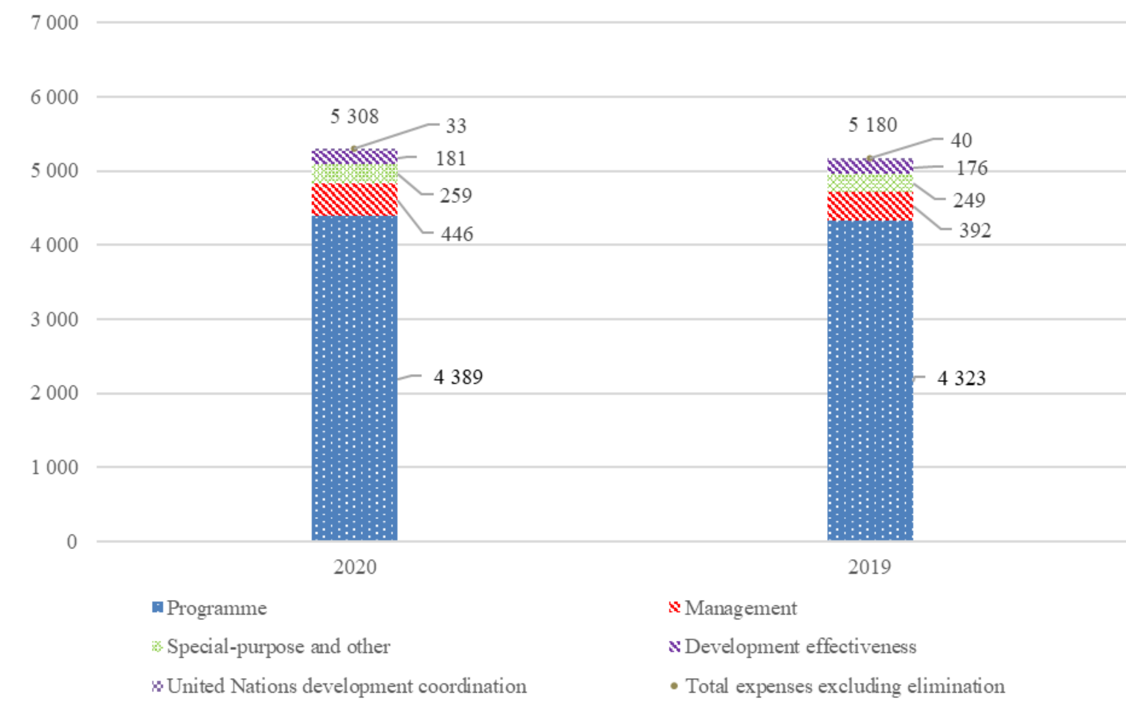


Expenses by cost classification

41. 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 related to the United Nations Volunteers programme and the United Nations Capital Development Fund, as well as capital investments and other related expenditure.

42. In 2020, of total UNDP expenses of $5,307 million (excluding the effect of the eliminations of internal cost recovery) (2019: $5,180 million), $4,389 million, or 83 per cent, was spent on programme activities (2019: $4,323 million); $181 million, or 3 per cent, was spent on development effectiveness (2019: $176 million); $33 million, or 1 per cent, was spent on United Nations development coordination (2019: $40 million); $446 million, or 8 per cent, was spent on management (2019: $392 million); and $259 million, or 5 per cent, was spent on special-purpose and other activities to support operations administered by UNDP (2019: $249 million) (see figure III.VIII). The increase in resources spent on programme and management activities largely contributed to the overall increase in expenses.

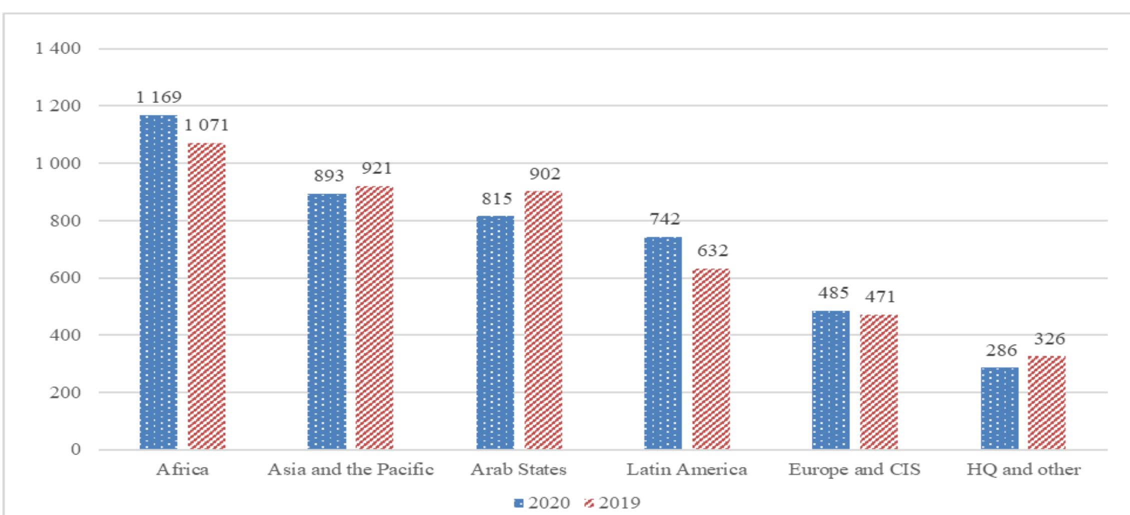
Figure III.VIII
Composition of total expenses in 2019–2020 by cost classification
(Millions of United States dollars)



Programme expenses by geographical region

43. In 2020, of total UNDP programme expenses of $4,389 million (excluding the effect of eliminations), the Africa region continues to have the largest proportion, amounting to $1,169 million (27 per cent), as shown in figure III.IX.

Figure III.IX
Programme expenses in 2019–2020 by geographical region
(Millions of United States dollars)

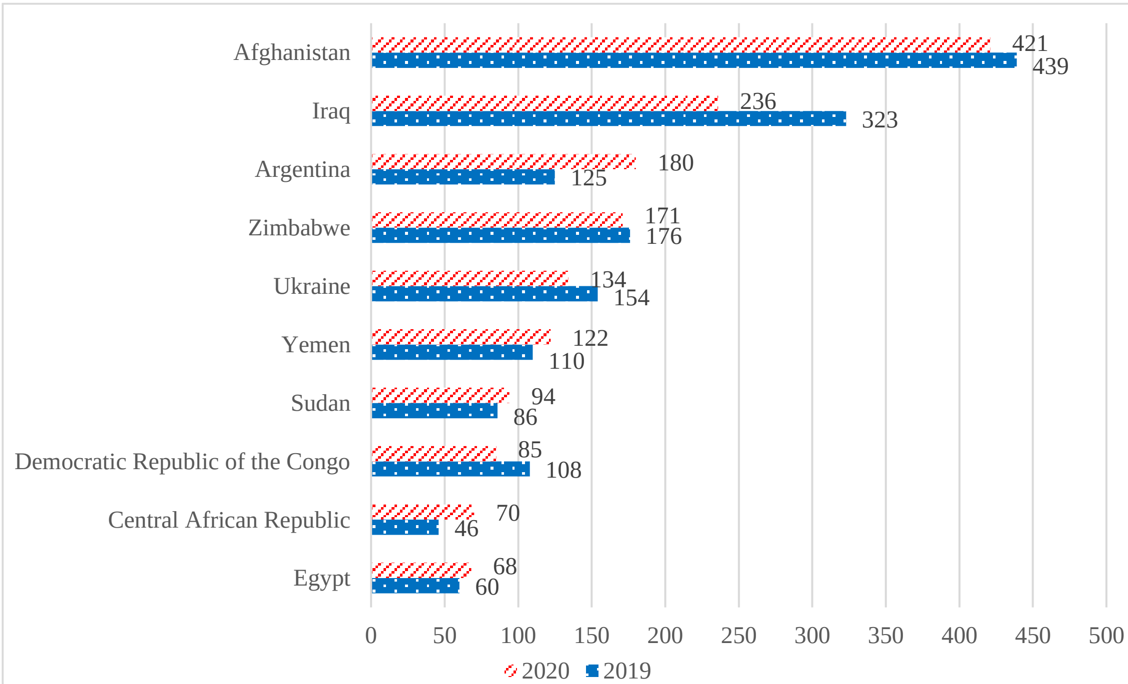


Abbreviations: CIS, Commonwealth of Independent States; HQ, headquarters.

Programme expenses by country office

44. A total of 36 per cent of UNDP programme expenses ($1,580 million of $4,389 million) was attributed to the 10 largest country offices, in Afghanistan, Iraq, Argentina, Zimbabwe, Ukraine, Yemen, the Sudan, the Democratic Republic of the Congo, the Central African Republic and Egypt (see figure III.X).

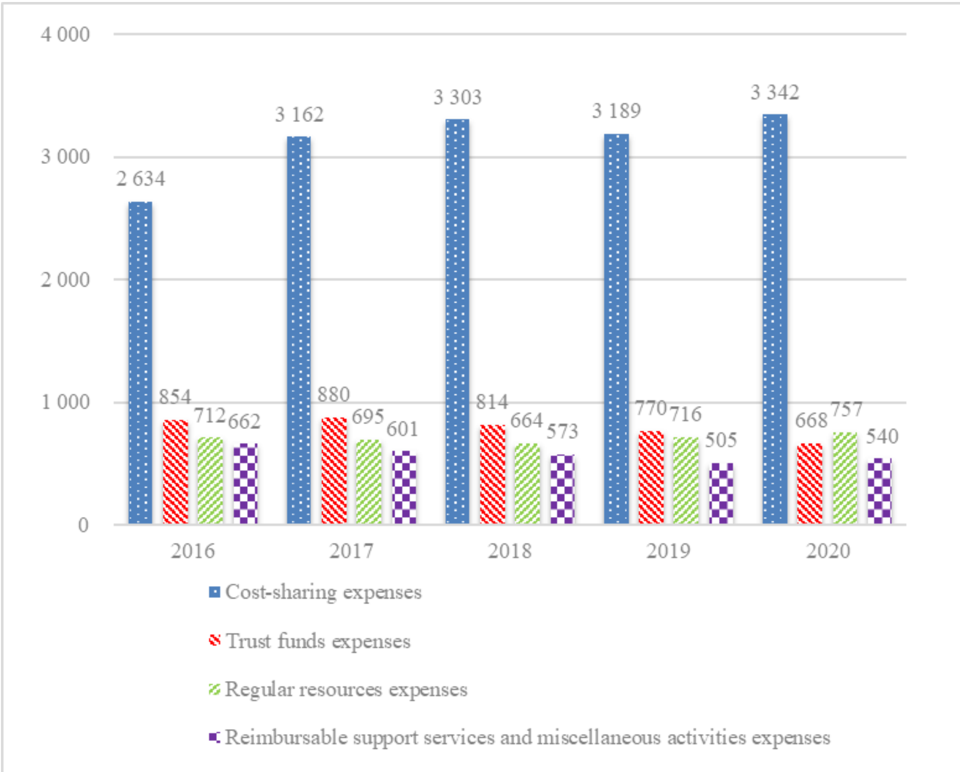
Figure III.X
Programme expenses in 2019–2020 by the top 10 country offices
(Millions of United States dollars)



Expenses by segment

45. Of the total expenses for 2020 (excluding the effect of eliminations), 63 per cent was funded from cost-sharing, 13 per cent from trust funds, 14 per cent from regular resources and 10 per cent from reimbursable support services and miscellaneous activities (figure III.XI).

Figure III.XI
Total expenses in 2016–2020 by segment
(Millions of United States dollars)



46. Within cost-sharing expenses, totalling $3,342 million, 72 per cent was spent on third-party cost-sharing and 28 per cent on government cost-sharing. South-South cooperation continued to account for less than 1 per cent of total cost-sharing expenses.

D. Surplus/deficit

47. In 2020, UNDP had a surplus of revenue over expenses of $1,567 million, compared with a deficit of $94.5 million in 2019. The increase stemmed from the fact that UNDP funding is received on a cyclical basis, that is to say, at times, multi-year agreements with donors are signed and the revenue is recorded in full upfront, provided certain criteria are met. In the fourth quarter of 2020, UNDP signed agreements with donors for contributions amounting to $2,430 million for multi-year programmes and projects which will be implemented in future periods. Of that amount, $1,636 million was agreed in December 2020. The top three donors' contributions for 2020 exceeded their contributions for 2019 by $1,556 million.

E. Budgetary performance

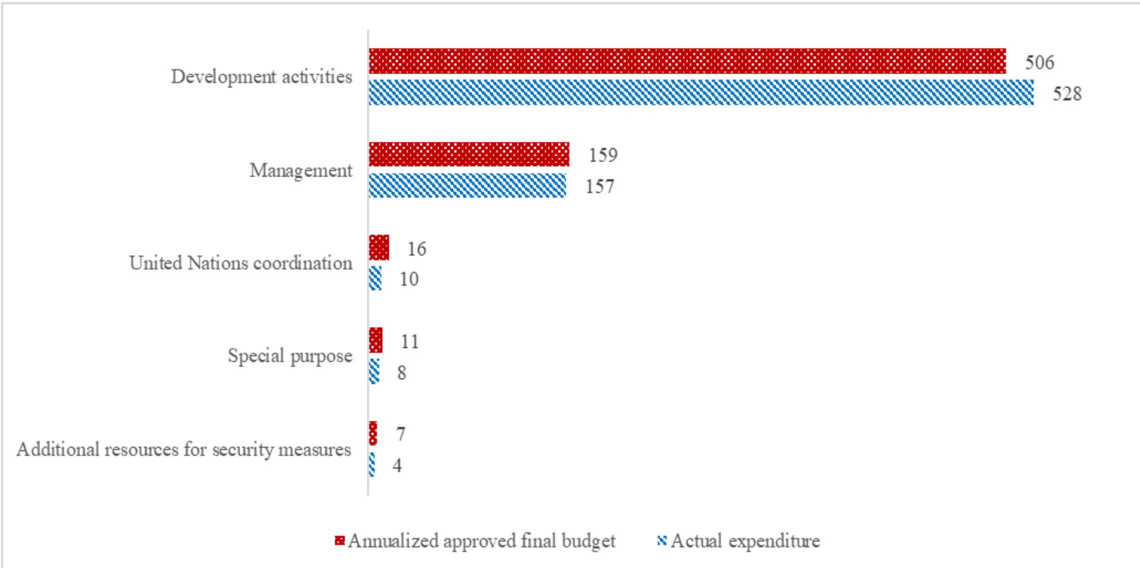
48. The integrated resources plan and the integrated budget set out the estimated financial resources for the new strategic plan, covering both regular (core) and other (non-core) resources for 2018–2021. The integrated resources plan includes regular

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

49. 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.

50. 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, Comparison to budget.

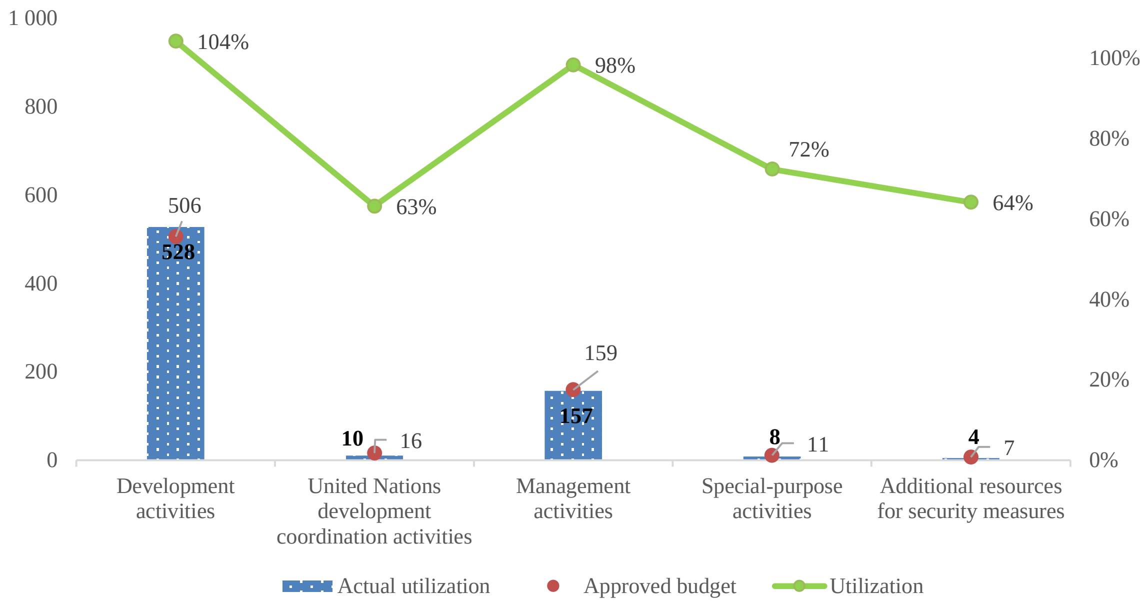
Figure III.XII
Budget utilization rates for 2020
(Millions of United States dollars)



51. During 2020, UNDP revised the annual spending limits for the programmatic component of the integrated budget upward based on the level of voluntary contributions received and the liquidity requirement for regular resources, including the level of expenditures in the first two years of the four-year period of the strategic plan. This resulted in higher expenditures for development activities compared with those under the 2020 annualized budget (see figure III.XII).

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

Figure III.XIII
2020 budget versus actual utilization
(Millions of United States dollars and utilization in percentages)



F. Financial position

Assets

53. At year-end 2020, UNDP held assets of $14,299 million (2019: $12,485 million), which comprised investments of $7,894 million (2019: $7,123 million), cash and cash equivalents of $1,177 million (2019: $813 million) and non-exchange receivables of $4,805 million (2019: $4,051 million). The majority of investments and cash and cash equivalents will be used for development activities funded through cost-sharing and trust funds. Cash and investments include cash and investments held on behalf of the Multi-Partner Trust Fund Office.

54. Overall, assets increased by $1,813 million, or 15 per cent, over the prior year. The change is attributable mainly to increases in investments of $771 million, increases in receivables from non-exchange transactions of $754 million and increases in cash and cash equivalents of $364 million.

Liabilities

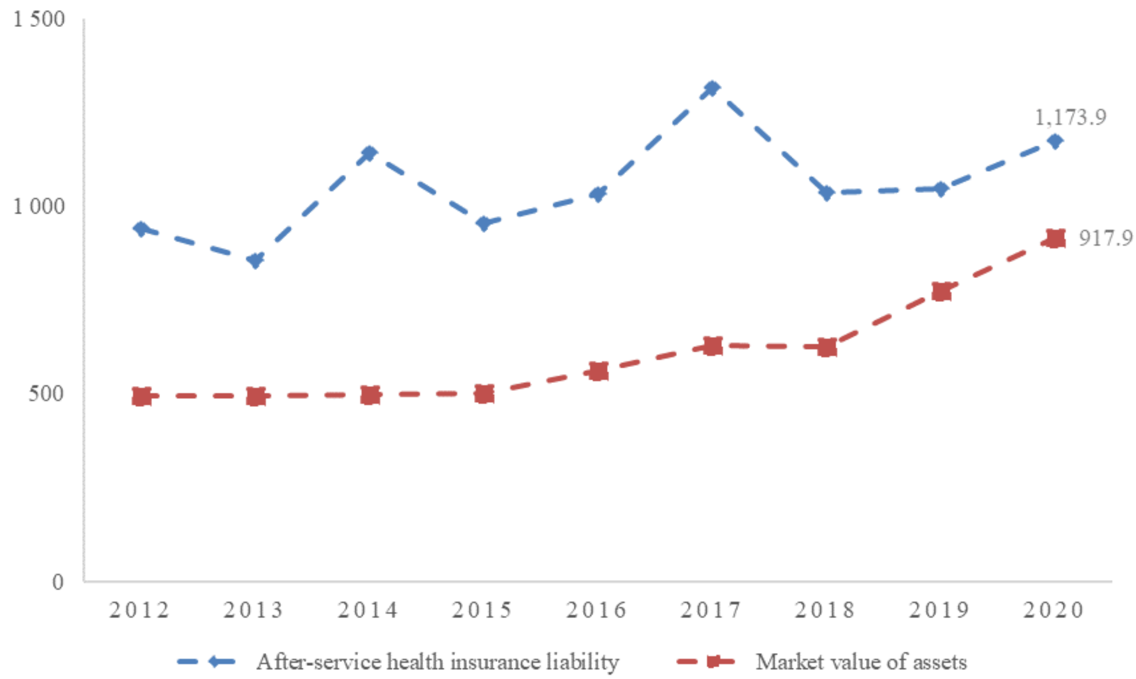
55. The total liabilities of UNDP increased by $239 million, or 9 per cent, from $2,790 million in 2019 to $3,029 million in 2020. The change is attributable mainly to funds held in trust for the Multi-Partner Trust Fund Office, which increased by $156 million and employee benefits which increased by $149 million.

56. The after-service health insurance benefit which was actuarially valued is $1,174 million (2019: $1,047 million) (see figure III.XIV). The increase of $127 million in the after-service health insurance liability in 2020 is due largely to the decrease in valuation discount rates, slightly compensated by the decrease of the health-care cost trend.

57. UNDP holds $918 million in cash and investments to fund after-service health insurance liabilities (78 per cent funded) (2019: $775 million and 74 per cent funded)

and continues to bridge the funding gap based on the full funding strategy, which is informed by a periodic asset-liability study.

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



Liquidity

58. UNDP exceeded the minimum liquidity requirement for regular resources mandated by the Executive Board with 7.21 months of average expenditures (2019: 6.61 months).

Net assets/equity

59. Net assets/equity reached $11,270 million (see table III.1), comprising accumulated surpluses of $10,968 million and reserves of $302 million; $10,289 million represents the accumulated non-core programme resource balance,[2] which increased by 19 per cent (2019: $8,653 million). The total accumulated resource balance includes $4,862 million (2019: $4,123 million) of receivables and investments of $917.86 million (2019: $774.539 million) for the after-service health insurance liability, leaving accumulated resources of $5,188 million available for programme delivery. Under its Financial Regulations and Rules, UNDP is permitted to spend only when the cash is received.

60. In 2020, $16 million was released to the operational reserve from the accumulated surpluses, in accordance with the operational reserve formula approved by the Executive Board in decision 1999/9.

[2] 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.

61. In 2019, $6 million was released to the accumulated surpluses from the operational reserve.

62. During 2020, net assets/equity increased by $1,575 million as a result of the combined effect of the following factors: (a) a surplus of $1,567 million; (b) change in fair value of available-for-sale investments of $79.5 million; (c) actuarial losses of $71.5 million; and (d) change in value of funds with specific purposes of $0.8 million.

Financial position by segment

63. 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 2020
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total UNDP*
Total assets	3 248.4	7 732.5	2 165.9	1 151.8	14 298.6
Percentage of total UNDP assets	23	54	15	8	100
Total liabilities	2 412.6	111.1	18.3	486.8	3 028.8
Percentage of total UNDP liabilities	79	4	1	16	100
Net assets/equity	835.9	7 621.3	2 147.6	665.0	11 269.8
Percentage of total UNDP assets/equity	7	68	19	6	100

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

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

G. Accountability, governance and risk management

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

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

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

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

65. 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

66. 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.

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

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

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

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

(d) Monitor the effectiveness of internal controls.

68. 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 headquarters divisions. The functions are financial performance monitoring, planning and budgeting processes, quality management and assurance, results and performance management;

(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

69. UNDP launched its updated enterprise risk management (ERM) policy in 2018–2019 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.

70. 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.

71. The enterprise risk management policy represents a unified approach to risk management which is applied across all levels of the organization, from the project level to the corporate level, with escalation mechanisms in place. Accountability for enterprise risk management follows the line hierarchy: the line manager of each unit is accountable for risk management within that manager's area of responsibility. In this regard, the three lines of defence provide the organization with the basis for a well-defined risk governance structure. The UNDP enterprise risk management toolkit, which is available to all staff and the public, provides the latest information on the UNDP risk management approach, risk governance mechanisms, relevant guidance and risk dashboards, training opportunities and materials, and communication products.

Financial risk management

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

offices to implement effective controls and financial risk management procedures to manage these risks.

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

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

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

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

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

74. 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.

75. UNDP is exposed to currency risk arising from financial assets and liabilities that are denominated in foreign currency. The Programme's transactions are denominated primarily in United States dollars, but certain donor contributions are received in other currencies, including national currencies in programme countries. The Treasury Division actively manages the Programme's net foreign currency exposure in eight major currencies against the United States dollar using foreign exchange forward and option contracts. UNDP evaluates on an ongoing basis its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations. The exposure of UNDP to currency and other financial risks is disclosed in note 30.

Accounting matters

Critical accounting estimates

76. 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

77. 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.

Change in the asset capitalization threshold

78. On 1 January 2020, UNDP changed its asset capitalization threshold for property, plant and equipment, increasing it from $1,500 to $5,000. For further details on this change in the asset capitalization threshold, see notes 5 and 15 to the UNDP financial statements. For leasehold improvements, the capitalization threshold remained unchanged at $50,000.

Adoption of new accounting standards

79. The IPSAS Board has delayed the effective date of IPSAS 41: Financial instruments from 1 January 2022 to 1 January 2023, owing to the global COVID-19 pandemic and the challenges it has created. UNDP will be adopting the new standard, as required, effective 1 January 2023.

80. The IPSAS Board approved and published three exposure drafts (exposure draft 70: Revenue with performance obligations, exposure draft 71: Revenue without performance obligations and exposure draft 72: Transfer expenses) on 21 February 2020 and agreed on an exposure period of six months from the date of publication. UNDP provided its comments on the exposure drafts and the IPSAS Board performed a preliminary analysis. The projected date of issuance of these standards is December 2021. UNDP has carried out an initial assessment of the impact of the new exposure drafts. The assessment indicates that the exposure drafts are likely to affect the UNDP financial statements significantly if they are translated into IPSAS based on the principles set out in the original exposure drafts. The key impact is the following: for all earmarked contributions, revenue recognition will be deferred until UNDP meets its obligations. UNDP expects that there will be sufficient implementation time once the standards are approved and that the implementation will require additional resources.

81. The IPSAS Board approved and issued exposure draft 75: Leases on 15 January 2021 and agreed on an exposure period of four months from the date of publication. This exposure draft proposes new requirements for lease accounting which are aligned with International Financial Reporting Standard 16: Leases. Phase one will focus on a lease accounting model or models for both lessees and lessors based on International Financial Reporting Standard 16 and phase two will consider public sector-specific issues such as concessionary leases, access rights and other, similar “lease-like” arrangements in the public sector. Phase two will be informed by responses to a request for information on concessionary leases and other arrangements similar to leases. The estimated dates of issuance of this IPSAS are March 2022

(phase one) and September 2023 (phase two). UNDP is assessing the impact of this new exposure draft on its financial statements.

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

Transactions with related parties

83. UNDP transacts with related parties and discloses information on key management personnel in note 31 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

84. 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)

	2020	*2019*
UNDP	1 036	1 036
UNDP-GEF	87	87
Total	**1 123**	**1 123**

Abbreviations: GEF, Global Environment Facility.

H. Implementation of the Next Generation Enterprise Resource Planning project

85. The Next Generation Enterprise Resource Planning (NextGen ERP) project was approved in May 2020. Its objective is to replace the current enterprise resource planning system, namely, Atlas, which was implemented in 2004, with a modern Oracle Cloud enterprise resource planning solution which will support the #NextGenUNDP way of working, in accordance with the strategic plan.

86. The adoption of an enterprise resource planning cloud is aligned with the aspirations and capabilities encompassed in both the information technology and digital strategies, thereby enabling a strategic fit. This objective reflects the recommendation of a service provider that undertook a study in this regard in 2017 and is further validated by the choice made by other United Nations organizations. The digital nature of cloud platforms provides higher levels of integration with a greater number of data sources and improved access to machine learning, as well as next-generation visualization and analytics tools which can deliver value beyond what is available with older technologies. Moreover, moving to Oracle Cloud enterprise resource planning provides an opportunity for UNDP and its partner agencies to revise some of their current processes through application of the new digital capabilities embedded within the new platform.

87. Total project costs of the Information and Technology Management Unit for 2020–2022 are estimated at $26.9 million, of which $21.9 million would be the share of UNDP. The move to Oracle Cloud enterprise resource planning also provides an opportunity to reduce the ongoing IT operating costs for enterprise resource planning by $1.8 million per annum once Atlas is fully decommissioned. Various other productivity gains and benefits are expected through improvement in digital engagement and ways of working.

I. Achievements in 2020 and future developments

Strategic plan, 2018–2021

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

89. 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.

90. 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;

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

(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.

91. The process of preparing the next strategic plan, 2022–2025, is under way. By mid-2021, all of UNDP will have had the opportunity to reflect on, discuss and design a plan that captures the aspirations and ambitions of the organization.

Reflecting on the achievements of 2020

92. The agility of UNDP was demonstrated by the rapidity and scale of its response to the COVID-19 pandemic. UNDP digital support helped enable 82 countries to continue functioning remotely. The Programme mobilized or repurposed nearly $1 billion, of which over 10 per cent was “core” funding, to assist partners in over 170 countries.

93. In spite of the disruptions inflicted by the COVID-19 crisis, UNDP saw growth in funding from all partner types in 2020, which speaks to the growing confidence in its ability to deliver results. Non-core resources increased by 43 per cent and cost-sharing by 41 per cent.

94. Despite the constraints imposed by the pandemic, UNDP programme delivery in 2020 was $4.4 billion, the Programme’s second-highest delivery rate in six years. In the Africa region, programme delivery, at $1.2 billion, was the highest ever reported by any region.

95. In 2020, consistent with 2019, of every dollar spent, 91 cents went to programmes and services for achievement of development results.

96. In 2020, UNDP administered $131.3 million on behalf of the United Nations resident coordinator system.

97. In 2020, UNDP disbursed $1.6 billion in 112 currencies through its payroll system, more than half of which was on behalf of partner United Nations agencies. UNDP supported $2.51 billion in financial transactions for approximately 118 United Nations and other agencies in over 170 countries. UNDP provided common premises for other agencies in at least 126 countries, where they could avail themselves of common services, including travel management.

98. UNDP continues to remain one of the world's most transparent organizations, with a score of 96.6 per cent on the 2020 Aid Transparency Index, a rise of 1.2 percentage points over its score in the previous (2018) index. The next such index score is expected to be published in the second half of 2022. By opening its books in this way, UNDP increased accountability to its donors and partners.

Chapter IV
Financial statements for the year ended 31 December 2020

United Nations Development Programme

I. Statement of financial position as at 31 December 2020

(Thousands of United States dollars)

	Reference	*31 December 2020*	*31 December 2019*
Assets			
Current assets			
Cash and cash equivalents	Note 8	838 512	526 830
Cash and cash equivalents, Multi-Partner Trust Fund Office	Note 8	338 780	285 682
Investments	Note 9	3 883 409	3 647 499
Investments, Multi-Partner Trust Fund Office	Note 9	532 044	419 921
Receivables, non-exchange transactions	Note 10	2 844 574	2 314 774
Receivables, other	Note 11	56 217	71 499
Advances issued	Note 12	217 523	256 682
Loans to Governments	Note 14	507	507
Inventories	Note 13	12 317	9 127
Total current assets		**8 723 883**	**7 532 521**
Non-current assets			
Investments	Note 9	3 320 863	2 887 018
Investments, Multi-Partner Trust Fund Office	Note 9	157 868	168 541
Loans to Governments	Note 14	3 011	3 518
Receivables, non-exchange transactions	Note 10	1 960 710	1 736 674
Property, plant and equipment	Note 15	125 081	150 056
Intangible assets	Note 16	7 067	6 870
Receivables, other	Note 11	100	99
Total non-current assets		**5 574 700**	**4 952 776**
Total assets		**14 298 583**	**12 485 297**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 17	187 560	188 448
Advances payable	Note 18	15 099	41 294
Funds received in advance and deferred revenue	Note 19	241 009	277 015
Funds held on behalf of donors	Note 19	7 550	9 134
Funds held in trust: Multi-Partner Trust Fund Office	Note 20	871 005	703 870
Employee benefits	Note 21	249 190	240 901
Other current liabilities	Note 22	3 808	7 374
Total current liabilities		**1 575 221**	**1 468 036**

United Nations Development Programme

I. Statement of financial position as at 31 December 2020 (continued)

	Reference	*31 December 2020*	*31 December 2019*
Non-current liabilities			
Funds held in trust: Multi-Partner Trust Fund Office	Note 20	157 868	168 541
Funds received in advance and deferred revenue	Note 19	13 246	11 290
Employee benefits	Note 21	1 282 305	1 141 860
Other non-current liabilities	Note 22	120	265
Total non-current liabilities		**1 453 539**	**1 321 956**
Total liabilities		**3 028 760**	**2 789 992**
Net assets/equity			
Reserves	Note 23	302 160	286 160
Accumulated surpluses	Note 24	10 967 663	9 409 145
Total net assets/equity		**11 269 823**	**9 695 305**
Total liabilities and net assets/equity		**14 298 583**	**12 485 297**

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 2020

(Thousands of United States dollars)

	Reference	*31 December 2020*	*31 December 2019*
Revenue			
Voluntary contributions	Note 25	6 272 482	4 472 557
Revenue, exchange transactions	Note 26	147 715	141 038
Investment revenue	Note 27	118 458	167 171
Other revenue	Note 28	79 392	48 364
Total revenue		**6 618 047**	**4 829 130**
Expenses			
Contractual services	Note 29	1 956 845	1 878 736
Staff costs	Note 29	814 310	788 260
Supplies and consumables used	Note 29	1 154 090	1 031 866
General operating expenses	Note 29	773 957	903 177
Grants and other transfers	Note 29	287 894	250 579
Other expenses	Note 29	47 883	51 776
Depreciation and amortization	Note 29	15 867	19 279
Total expenses		**5 050 846**	**4 923 673**
Surplus/(deficit) for the year		**1 567 201**	**(94 543)**

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 2020

(Thousands of United States dollars)

		31 December 2020			31 December 2019
	Reference	*Reserves*	*Accumulated surpluses*	*Total net assets/equity*	*Total net assets/equity*
Balance at the beginning of the year		**286 160**	**9 409 145**	**9 695 305**	**9 629 040**
Changes in net assets/equity					
Operational reserve transfer from accumulated surplus	Note 24	16 000	(16 000)	–	–
Funds with specific purposes	Note 24	–	(762)	(762)	24 108
Changes in fair value of available-for-sale investments		–	79 534	79 534	92 477
Actuarial gains/(losses)	Note 21	–	(71 455)	(71 455)	44 223
Current year surplus and deficit	Statement II	–	1 567 201	1 567 201	(94 543)
Total changes in net assets/equity		**16 000**	**1 558 518**	**1 574 518**	**66 265**
Balance at the end of the year		**302 160**	**10 967 663**	**11 269 823**	**9 695 305**

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

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2020

(Thousands of United States dollars)

	Reference	*2020*	*2019*
Cash flows from operating activities			
Surplus/(deficit) for the year	Statement II	1 567 201	(94 543)
Adjustments to reconcile surplus/(deficit) for the year to net cash flows			
Depreciation and amortization	Note 29	15 867	19 279
Impairments	Note 29	4 933	1 884
In-kind contributions (donated goods)		(23)	(122)
Amortization of premium/(discount) on investments		(9 623)	(18 977)
(Gains)/losses on foreign exchange translation		(106 279)	20 873
Losses on disposal of property, plant and equipment		1 255	1 970
Changes in assets			
(Increase)/decrease in receivables, non-exchange transactions[a]		(677 753)	353 931
(Increase)/decrease in receivables, other[b]		(104 688)	(112 959)
(Increase)/decrease in advances issued		36 868	(50 009)
(Increase)/decrease in inventories	Note 13	(3 190)	(2 488)
Changes in liabilities, net assets/equity			
(Decrease)/increase in accounts payable and accrued liabilities		(519)	(692)
(Decrease)/increase in advances payable		(26 195)	7 337
(Decrease)/increase in funds received in advance and deferred revenue	Note 18	(34 050)	64 582
(Decrease)/increase in funds held on behalf of donors	Note 18	(1 584)	(5 288)
(Decrease)/increase in funds held in trust, Multi-Partner Trust Fund Office	Note 19	156 462	88 641
(Decrease)/increase in employee benefits		77 501	101 710
(Decrease)/increase in other liabilities	Note 22	(4 825)	3 184
(Decrease)/increase in funds with specific purposes	Note 24	(762)	24 108
Cash flows from/(used in) operating activities		**890 596**	**402 421**
Cash flows from investing activities			
Purchases of investments	Note 9	(6 254 106)	(6 739 539)
Maturities of investments	Note 9	5 736 573	6 134 362
(Increase)/decrease in investments, Multi-Partner Trust Fund Office	Note 9	(99 390)	(130 127)
(Increase)/decrease in investments managed by external investment managers		(65 141)	(39 069)
Interest and dividends received		117 542	138 951
(Increase)/decrease in loans to Governments	Note 14	507	507
Purchases of property, plant and equipment	Note 15	(13 760)	(22 225)
Disposals of property, plant and equipment	Note 15	23 732	2 761
Purchases of intangible assets	Note 16	(2 452)	(642)
Disposals of intangible assets	Note 16	96	2
Cash flows from/(used in) investing activities		**(556 399)**	**(655 019)**

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2020 (continued)

	Reference	*2020*	*2019*
Cash flows from financing activities		**–**	**–**
Cash flows from/(used in) financing activities		**–**	**–**
Increase/(decrease) in cash and cash equivalents, including Multi-Partner Trust Fund Office		**334 197**	**(252 598)**
Effect of exchange rate changes on cash and cash equivalents		**30 583**	**(1 445)**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: beginning of year		**812 512**	**1 066 555**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: end of year	Note 8	**1 177 292**	**812 512**

[a] This amount includes an adjustment for foreign exchange translation of $76.272 million.
[b] This amount includes an adjustment for interest and dividends received of $117.542 million in cash as well as an adjustment for foreign exchange translation of $(0.343) million.

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

United Nations Development Programme

V (a). Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2020

(Thousands of United States dollars)

	Approved budget 2020		*Actual expenditure on comparable basis (note 7)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	415 625	415 625	442 177	(26 552)
Development effectiveness	90 082	90 082	85 391	4 691
Subtotal	**505 707**	**505 707**	**527 568**	**(21 861)**
United Nations development coordination activities	**16 000**	**16 000**	**10 116**	**5 884**
Management activities				
Recurring	152 247	152 247	151 369	878
Non-recurring	7 000	7 000	5 311	1 689
Subtotal	**159 247**	**159 247**	**156 680**	**2 567**
Special purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	11 048	11 048	8 002	3 046
Subtotal	**11 048**	**11 048**	**8 002**	**3 046**
Total	**692 002**	**692 002**	**702 366**	**(10 364)**
Budget from additional resources for security measures (in accordance with Executive Board decision 2017/31)	7 000	7 000	4 493	2 507
Grand total	**699 002**	**699 002**	**706 859**	**(7 857)**

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

United Nations Development Programme

V (b). Statement of comparison of budget with actual amounts for the triennium 2018–2020 of the strategic plan cycle for 2018–2021

(Thousands of United States dollars)

	Approved budget 2018–2020		*Actual expenditure on comparable basis (note 7)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	1 161 974	1 161 974	1 144 768	17 206
Development effectiveness	285 377	285 377	232 678	52 699
Subtotal	**1 447 351**	**1 447 351**	**1 377 446**	**69 905**
United Nations development coordination activities	**127 866**	**127 866**	**108 927**	**18 939**
Management activities				
Recurring	418 850	418 850	395 260	23 590
Non-recurring	21 000	21 000	16 557	4 443
Subtotal	**439 850**	**439 850**	**411 817**	**28 033**
Special-purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	33 144	33 144	25 333	7 811
Subtotal	**33 144**	**33 144**	**25 333**	**7 811**
Total	**2 048 211**	**2 048 211**	**1 923 523**	**124 688**
Budget from additional resources for security measures (in accordance with Executive Board decision 2017/31)	7 000	7 000	4 493	2 507
Grand total	**2 055 211**	**2 055 211**	**1 928 016**	**127 195**

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

United Nations Development Programme
Notes to the financial statements 2020

Note 1
Reporting entity

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

1.2. UNDP has its headquarters in New York and works primarily through its global network of offices. The UNDP global network comprises five regional offices, global shared services centres in Copenhagen and Kuala Lumpur, and operations in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations. UNDP serves the donor community and partners with liaison offices in Brussels, Copenhagen, Geneva, Tokyo and Washington, D.C.

1.3. UNDP helps to achieve the eradication of poverty, and the reduction of inequalities and exclusion, and assists countries in developing policies, leadership skills, partnering abilities and institutional capabilities and in building resilience in order to sustain development results. UNDP is continuing its work to support the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals, as they shape global sustainable development efforts for the next 10 years. UNDP helps developing countries attract and use development cooperation and domestic resources effectively and encourages, in all its activities, the protection of human rights, capacity development and the empowerment of women.

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

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

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

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

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

Basis of measurement

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

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

Foreign currency

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

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

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

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

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

Critical accounting estimates

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

Future accounting changes

3.9. The IPSAS Board 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. The IPSAS Board has delayed the effective date for the standard, changing it from 1 January 2022 to 1 January 2023, owing to the global COVID-19 pandemic and the challenges it has created. UNDP will adopt the new standard, as required, effective 1 January 2023. UNDP is assessing the impact of this new standard on its financial statements.

3.10. The IPSAS Board approved and published three exposure drafts (exposure drafts 70–72) on 21 February 2020 and agreed on an exposure period of six months from the date of publication. The purpose was to develop one or more IPSAS to address the accounting requirements for all revenue transactions (exchange and non-exchange) and transfer expenses. Exposure draft 70: Revenue with performance obligations, is based on International Financial Reporting Standard 15: Revenue from contracts with customers and has been expanded to apply to binding arrangements which are not necessarily contractual. Exposure draft 71: Revenue without performance obligations updates IPSAS 23: Revenue from non-exchange transactions. It addresses revenue that arises from binding arrangements with present obligations which are not performance obligations, and revenue not related to binding arrangements. Exposure draft 72: Transfer expenses relates to transactions where an entity transfers resources to another party without directly receiving anything in return. UNDP provided its comments on these exposure drafts and the IPSAS Board performed a preliminary analysis. The projected date of issuance of the new standards is December 2021. An initial assessment of the impact of these new exposure drafts has been carried out by UNDP. The assessment indicates that the exposure drafts are likely to affect UNDP financial statements significantly, if they are translated into IPSAS based on the principles set out in the original exposure drafts. UNDP expects that there will be sufficient implementation time once the standards are approved.

3.11. The IPSAS Board approved and issued exposure draft 75: Leases on 15 January 2021 and agreed on an exposure period of four months from the date of publication. This exposure draft proposes new requirements for lease accounting aligned with International Financial Reporting Standard 16: Leases. Phase one will focus on a lease accounting model or lease accounting models for both lessees and lessors based on International Financial Reporting Standard 16 and phase two will consider public sector-specific issues, such as concessionary leases, access rights and other, similar "lease-like" arrangements in the public sector. Phase two will be informed by responses to a request for information on concessionary leases and other arrangements similar to leases, which was issued together with exposure draft 75. The estimated dates of issuance of this IPSAS are March 2022 (phase one) and September 2023 (phase two). UNDP is assessing the impact of this new exposure draft on its financial statements.

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

Authorization to submit financial statements for audit

3.13. 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 2021.

Note 4
Significant accounting policies

Financial assets classification

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

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables

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

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

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

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

4.9. Advances issued represent cash transferred to executing entities/implementing partners (see note 35.2 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. On 1 January 2020, UNDP changed its asset capitalization threshold by increasing it from $1,500 to $5,000. See notes 5 and 15 for further details on this change. For leasehold improvements, the capitalization threshold remained unchanged, at $50,000.

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

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

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

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

Estimated useful lives of property, plant and equipment

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

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

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

Intangible assets

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

4.24. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by UNDP are capitalized as an intangible asset. Directly associated costs include the software development staff costs and the portion attributable to relevant overhead. Other development expenses that do not meet the capitalization criteria are recognized as an expense as incurred. Development costs previously recognized as an expense, for example, research costs, are not recognized as an asset in a subsequent year. The threshold for recognition of internally developed software is $50,000 and for externally acquired software, $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 and intangible assets are classified as non-cash generating assets and are reviewed for impairment at each reporting date. None of UNDP property, plant and equipment and intangible assets are held with the objective of earning a commercial return. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use.

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

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

Fair value through surplus or deficit

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

Funds received in advance and deferred revenue

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

Employee benefits

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

Post-employment benefits

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

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

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

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

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

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

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

Defined benefit plans

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

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

Other long-term employee benefits

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

Termination benefits

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

Leases

Operating lease

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

Finance lease

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

Right-to-use arrangements

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

Revenue recognition

Contributions (non-exchange revenue)

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

4.52. Enforceability of agreements occurs upon signature.

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

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

Revenue from exchange transactions

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

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

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

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

Expense recognition

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

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

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

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

Commitments, provisions and contingencies

Commitments

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

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

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

(c) Non-cancellable minimum lease payments;

(d) Other non-cancellable commitments.

Provisions

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

Contingencies

Contingent assets

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

Contingent liabilities

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

Note 5
Change in asset capitalization threshold and reclassification of comparatives

Change in asset capitalization threshold

5.1. On 1 January 2020, UNDP changed its asset capitalization threshold for property, plant and equipment by increasing the threshold from $1,500 to $5,000 per unit. This change in asset capitalization threshold was made in order to achieve efficiencies in the administration of these assets. This accounting change was applied prospectively in current-year results with the impact of the change in asset capitalization threshold disclosed separately in note 15, Property, plant and equipment.

Reclassification of comparatives

5.2. To improve and simplify the presentation of financial statements, relevant receivables and payables were reclassified. Comparative information was also reclassified, where applicable. There was no change in 2019 total receivables and payables. Statement I: Statement of financial position; note 6, Segment reporting: statement of financial position; note 11, Receivables: other; note 19, Funds received in advance, deferred revenue and funds held on behalf of donors; note 20, Funds held in trust: Multi-Partner Trust Fund Office; and note 30, Financial instruments and risk management, were amended accordingly to reflect this reclassification of comparative figures. Note 14, Other assets, in the 2019 financial statements was amalgamated with note 11, Receivables: other.

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 2020

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2020	*31 December 2019*	*31 December 2020*	*31 December 2019*	*31 December 2020*	*31 December 2019*	*31 December 2020*	*31 December 2019*	*31 December 2020*	*31 December 2019*
Assets										
Current assets										
Cash and cash equivalents	224 963	154 294	394 188	239 081	114 774	65 588	104 587	67 867	838 512	526 830
Cash and cash equivalents, Multi-Partner Trust Fund Office	338 780	285 682	–	–	–	–	–	–	338 780	285 682
Investments	944 688	883 768	1 891 985	1 775 595	547 698	484 035	499 038	504 101	3 883 409	3 647 499
Investments, Multi-Partner Trust Fund Office	532 044	419 921	–	–	–	–	–	–	532 044	419 921
Receivables: non-exchange transactions	191 679	260 325	1 988 554	1 688 187	647 082	330 851	17 259	35 411	2 844 574	2 314 774
Receivables, other	54 114	68 952	1 288	1 838	147	171	668	538	56 217	71 499
Advances issued	27 089	35 486	154 015	189 747	35 906	29 501	513	1 948	217 523	256 682
Loans to Governments	–	–	–	–	–	–	507	507	507	507
Inventories	332	181	10 987	8 126	11	13	987	807	12 317	9 127
Total current assets	**2 313 689**	**2 108 609**	**4 441 017**	**3 902 574**	**1 345 618**	**910 159**	**623 559**	**611 179**	**8 723 883**	**7 532 521**
Non-current assets										
Investments	743 579	701 362	1 655 487	1 399 988	485 139	388 204	436 658	397 464	3 320 863	2 887 018
Investments, Multi-Partner Trust Fund Office	157 868	168 541	–	–	–	–	–	–	157 868	168 541
Loans to Governments	–	–	–	–	–	–	3 011	3 518	3 011	3 518
Receivables, non-exchange transactions	–	98 172	1 617 461	1 031 669	332 345	591 867	10 904	14 966	1 960 710	1 736 674
Property, plant and equipment	33 197	41 771	18 478	21 053	2 765	4 646	70 641	82 586	125 081	150 056
Intangible assets	75	–	–	–	–	5	6 992	6 865	7 067	6 870
Receivables, other	41	41	20	20	16	17	23	21	100	99
Total non-current assets	**934 760**	**1 009 887**	**3 291 446**	**2 452 730**	**820 265**	**984 739**	**528 229**	**505 420**	**5 574 700**	**4 952 776**
Total assets	**3 248 449**	**3 118 496**	**7 732 463**	**6 355 304**	**2 165 883**	**1 894 898**	**1 151 788**	**1 116 599**	**14 298 583**	**12 485 297**

Segment reporting: statement of financial position as at 31 December 2020 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2020	*31 December 2019*	*31 December 2020*	*31 December 2019*	*31 December 2020*	*31 December 2019*	*31 December 2020*	*31 December 2019*	*31 December 2020*	*31 December 2019*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	51 371	50 869	86 072	92 255	15 334	12 453	34 783	32 871	187 560	188 448
Advances payable	208	2 313	3 181	17 292	2 601	13 329	9 109	8 360	15 099	41 294
Funds received in advance and deferred revenue	208 598	259 298	21 529	6 842	233	–	10 649	10 875	241 009	277 015
Funds held on behalf of donors	7 047	8 602	322	347	80	80	101	105	7 550	9 134
Fund held in trust, Multi-Partner Trust Fund Office	871 005	703 870	–	–	–	–	–	–	871 005	703 870
Employee benefits	235 537	227 434	2	2	3	3	13 648	13 462	249 190	240 901
Other current liabilities	2 787	6 644	–	65	24	23	997	642	3 808	7 374
Total current liabilities	**1 376 553**	**1 259 030**	**111 106**	**116 803**	**18 275**	**25 888**	**69 287**	**66 315**	**1 575 221**	**1 468 036**
Non-current liabilities										
Funds held in trust, Multi-Partner Trust Fund Office	157 868	168 541	–	–	–	–	–	–	157 868	168 541
Funds received in advance and deferred revenue	–	–	–	–	–	–	13 246	11 290	13 246	11 290
Employee benefits	878 017	790 967	–	–	–	–	404 288	350 893	1 282 305	1 141 860
Other non-current liabilities	120	265	–	–	–	–	–	–	120	265
Total non-current liabilities	**1 036 005**	**959 773**	**–**	**–**	**–**	**–**	**417 534**	**362 183**	**1 453 539**	**1 321 956**
Total liabilities	**2 412 558**	**2 218 803**	**111 106**	**116 803**	**18 275**	**25 888**	**486 821**	**428 498**	**3 028 760**	**2 789 992**
Net assets/equity										
Reserves	157 159	143 159	–	–	3 000	3 000	142 001	140 001	302 160	286 160
Accumulated surpluses/(deficits)	678 732	756 534	7 621 357	6 238 501	2 144 608	1 866 010	522 966	548 100	10 967 663	9 409 145
Total net assets/equity	**835 891**	**899 693**	**7 621 357**	**6 238 501**	**2 147 608**	**1 869 010**	**664 967**	**688 101**	**11 269 823**	**9 695 305**
Total liabilities and net assets/equity	**3 248 449**	**3 118 496**	**7 732 463**	**6 355 304**	**2 165 883**	**1 894 898**	**1 151 788**	**1 116 599**	**14 298 583**	**12 485 297**

Segment reporting: statement of financial performance for the year ended 31 December 2020

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total UNDP*	
	2020	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*
Revenue												
Voluntary contributions	551 143	693 634	4 675 378	3 260 464	932 105	439 217	113 856	79 242	–	–	6 272 482	4 472 557
Revenue, exchange transactions	2 705	37	165	740	2	18	144 843	140 866	–	(623)	147 715	141 038
Investment revenue	51 573	62 476	45 468	73 951	11 199	16 716	10 218	14 028	–	–	118 458	167 171
Other revenue	46 191	17 731	4 393	5 228	2 918	2 193	281 729	279 034	(255 839)	(255 822)	79 392	48 364
Total revenue	**651 612**	**773 878**	**4 725 404**	**3 340 383**	**946 224**	**458 144**	**550 646**	**513 170**	**(255 839)**	**(256 445)**	**6 618 047**	**4 829 130**
Expenses												
Contractual services	160 506	142 284	1 350 311	1 205 795	372 224	463 108	73 804	67 549	–	–	1 956 845	1 878 736
Staff costs	283 349	307 780	202 060	174 191	41 732	48 409	287 169	257 880	–	–	814 310	788 260
Supplies and consumables used	101 467	46 501	909 332	902 692	98 778	52 214	44 513	30 459	–	–	1 154 090	1 031 866
General operating expenses	150 512	173 275	649 807	704 509	106 924	149 432	122 553	132 406	(255 839)	(256 445)	773 957	903 177
Grants and other transfers	31 632	24 359	208 379	172 775	46 631	51 733	1 252	1 712	–	–	287 894	250 579
Other expenses	26 109	17 406	19 787	25 805	925	4 289	1 062	4 276	–	–	47 883	51 776
Depreciation and amortization	3 220	4 442	2 647	2 992	412	678	9 588	11 167	–	–	15 867	19 279
Total expenses	**756 795**	**716 047**	**3 342 323**	**3 188 759**	**667 626**	**769 863**	**539 941**	**505 449**	**(255 839)**	**(256 445)**	**5 050 846**	**4 923 673**
Surplus/(deficit) for the year	**(105 183)**	**57 831**	**1 383 081**	**151 624**	**278 598**	**(311 719)**	**10 705**	**7 721**	**–**	**–**	**1 567 201**	**(94 543)**

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

Note 7
Comparison to budget

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

7.2. Statement V (a) and V (b) reflect the comparison of budget and actual amounts for the year ended 31 December 2020 and for the triennium 2018-2020, respectively. 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; (d) special-purpose activities: (i) capital investments; and (ii) non-UNDP operations administered by UNDP; and (e) budget for additional resources for security measures. It is noted that statement II reflects expenses by nature.

7.3. For these reasons, the total actual regular resources budget expenditure differs from total financial accounting expenses.

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 statements V (a) and V (b). 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 programmatic and institutional components of the integrated budget in table 4a in annex A to the report of the Administrator entitled "UNDP integrated resources plan and integrated budget estimates, 2018–2021" (DP/2017/39).

7.5. Statements V (a) and V (b) show 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. Statements V (a) and V (b) also provide further details regarding budgetary performance for the year and cumulative performance for the first three years of the current strategic plan.

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 2020 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.

7.7. Accordingly, actual amounts/utilization in 2020 against budget levels is as follows:

- Development activities: actual utilization of $527.6 million, representing 104.3 per cent of the annualized approved budget of $505.7 million (refer to paragraph 7.8 below for details)
- United Nations development coordination activities: actual utilization of $10.1 million, representing 63.2 per cent of the annualized approved budget of $16.0 million
- Management activities: actual utilization of $156.7 million, representing 98.4 per cent of the annualized approved budget of $159.2 million
- Special-purpose activities: actual utilization of $8.0 million, representing 72.4 per cent of the annualized approved budget of $11.0 million
- Budget for additional resources for security measures: actual utilization of $4.5 million, representing 64.2 per cent of the annualized approved budget of $7 million

7.8. During 2020, UNDP revised the annual spending limits for the programmatic component of the integrated budget upward based on the level of voluntary contributions received and the liquidity requirement for regular resources, including the level of expenditures in the first two years of the four-year period covered by the strategic plan. This resulted in higher expenditures, compared with the 2020 annualized budget, for development activities.

7.9. As shown in statement V (b), for the triennium 2018–2020, expenditure remained below that under the 2018–2020 approved budget, as follows:

- Development activities: actual utilization of $1,377.4 million, representing 95.2 per cent of the approved budget of $1,447.4 million
- United Nations development coordination activities: actual utilization of $108.9 million, representing 85.2 per cent of the approved budget of $127.9 million
- Management activities: actual utilization of $411.8 million, representing 93.6 per cent of the approved budget of $439.9 million
- Special-purpose activities: actual utilization of $25.3 million, representing 76.4 per cent of the approved budget of $33.1 million
- Budget for additional resources for security measures: actual utilization of $4.5 million, representing 64.2 per cent of the approved budget of $7 million.

7.10. Actual net cash flows from operating activities, investing activities and financing activities in statement V (a) 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 a comparable basis as presented in statement V (a)	**(702 655)**	**(4 204)**	**–**	**(706 859)**
Basis differences	42 034	(27)	–	42 007
Entity differences	1 551 217	(552 168)	–	999 049
Increase/(decrease) in cash and cash equivalents from statement IV	**890 596**	**(556 399)**	**–**	**334 197**

7.11. 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.

7.12. Entity differences between statement V (a) 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.

7.13. 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 2020	*31 December 2019*
United Nations Development Programme		
Cash held in bank accounts	455 469	235 267
Cash held by external investment managers	32 550	33 890
Petty cash and project cash	140	171
Money market funds	33 436	64 244
Money market instruments	342 410	219 492
Impairment	(25 493)	(26 234)
Total cash and cash equivalents	**838 512**	**526 830**
Held in trust for multi-donor trust funds		
Cash held in bank accounts	4 752	1 088
Money market funds	164 047	154 268
Money market instruments	169 981	124 731
Bonds	–	5 595
Total cash and cash equivalents: funds held in trust	**338 780**	**285 682**
Total cash and cash equivalents and funds held in trust	**1 177 292**	**812 512**

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 $0.74 million was due mainly to the write-off of irrecoverable balances which had been previously provided for and were recognized in the statement of financial performance.

8.3. The exposure to UNDP from credit, market and currency risks and its risk management activities related to its financial assets are disclosed in note 30.

Note 9
Investments

9.1
Total investments

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current investments		
Investments managed by UNDP	3 875 973	3 638 863
Investments managed by external investment managers	7 436	8 636
Total current investments	**3 883 409**	**3 647 499**
Non-current investments		
Investments managed by UNDP	2 442 991	2 155 005
Investments managed by external investment managers	877 872	732 013
Total non-current investments	**3 320 863**	**2 887 018**
Total investments	**7 204 272**	**6 534 517**

Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current investments		
Investments, Multi-Partner Trust Fund Office	532 044	419 921
Non-current investments		
Investments, Multi-Partner Trust Fund Office	157 868	168 541
Total investments, Multi-Partner Trust Fund Office	**689 912**	**588 462**

9.1.1. UNDP investments include held-to-maturity financial assets which are managed by UNDP and available-for-sale financial assets which are managed by external investment managers. Investments for the Multi-Partner Trust Fund Office represent funds provided to UNDP by donors to be held on their behalf for future disbursement to participating United Nations and non-United Nations organizations.

9.2
Total investments managed by UNDP: held to maturity

(Thousands of United States dollars)

	1 January 2020	*Purchases*	*Maturities*	*Amortization*	*Reclassification non-current to current*	*31 December 2020*
Current investments						
Money market instruments	1 798 682	3 865 554	(3 438 365)	8 964	279 594	2 514 429
Bonds	1 840 181	234 428	(1 889 652)	70	1 176 517	1 361 544
Total current investments	**3 638 863**	**4 099 982**	**(5 328 017)**	**9 034**	**1 456 111**	**3 875 973**

	1 January 2020	*Purchases*	*Maturities*	*Amortization*	*Reclassification non-current to current*	*31 December 2020*
Non-current investments						
Money market instruments	–	278 986	–	608	(279 594)	–
Bonds	2 155 005	1 875 138	(408 556)	(2 079)	(1 176 517)	2 442 991
Total non-current investments	**2 155 005**	**2 154 124**	**(408 556)**	**(1 471)**	**(1 456 111)**	**2 442 991**
Total investments held to maturity	**5 793 868**	**6 254 106**	**(5 736 573)**	**7 563**	**–**	**6 318 964**

9.2.1. As at 31 December 2020, UNDP did not have any impairment on held-to-maturity investments.

9.2.2. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 30.

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

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current investments		
Bonds	6 920	8 632
Bonds, fair value adjustments	516	4
Total current investments	**7 436**	**8 636**
Non-current investments		
Equities	450 922	416 789
Equities: fair value adjustments	124 465	53 502
Bonds	283 678	255 192
Bonds: fair value adjustments	18 807	6 530
Total non-current investments	**877 872**	**732 013**
Total investments managed by external investment managers available for sale	**885 308**	**740 649**

9.3.1. The available-for-sale portfolio represents investments managed by external investment managers for after-service health insurance. In addition to the above investments, $32.55 million (2019: $33.89 million) in after-service health insurance investments has been classified under cash and cash equivalents.

9.3.2. Total after-service health insurance investments, including cash and cash equivalents, amounted to $917.86 million (2019: $774.54 million).

9.3.3. As at 31 December 2020, UNDP did not have any impairment on available-for-sale investments.

9.3.4. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 30.

9.4
Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	1 January 2020	*Purchases*	*Maturities*	*Amortization*	*Reclassification non-current to current*	*31 December 2020*
Current investments						
Money market instruments	164 698	867 873	(670 000)	2 311	34 923	399 805
Bonds	255 223	55 555	(276 526)	(152)	98 139	132 239
Total current investments	**419 921**	**923 428**	**(946 526)**	**2 159**	**133 062**	**532 044**
Non-current investments						
Money market instruments	–	34 814	–	109	(34 923)	–
Bonds	168 541	154 675	(67 001)	(208)	(98 139)	157 868
Total non-current investments	**168 541**	**189 489**	**(67 001)**	**(99)**	**(133 062)**	**157 868**
Total investments, Multi-Partner Trust Fund Office	**588 462**	**1 112 917**	**(1 013 527)**	**2 060**	**–**	**689 912**

9.4.1. As at 31 December 2020, 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 2020	*31 December 2019*
Contributions receivable, current	2 845 454	2 315 465
Impairment[a]	(880)	(691)
Contributions receivable, current, net	**2 844 574**	**2 314 774**
Contributions receivable, non-current	**1 960 710**	**1 736 674**
Total receivables: non-exchange transactions	**4 805 284**	**4 051 448**

[a] Impairment of non-exchange receivables increased by $0.189 million in 2020. There was no reversal of impairment recognized in prior periods.

Ageing of receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Past due	133 263	104 149
Due in future periods	4 672 021	3 947 299
Total receivables: non-exchange transactions	**4 805 284**	**4 051 448**

10.1. Contributions receivable include $4.672 billion (2019: $3.947 billion) committed to UNDP by donors in signed agreements for future periods and $191.679 million (2019: $358.497 million) in receivables from regular resources.

10.2. The $133.263 million (2019: $104.149 million) in past due contributions receivable represents the amount that is already due to UNDP based on the schedule of payments in the signed donor agreements.

10.3. Contributions receivable of $4.614 billion (2019: $3.693 billion) are restricted, in that they are used for project implementation activities to support specified purposes consistent with the policies, aims and activities of UNDP.

10.4. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 30.

Note 11
Receivables: other

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current		
Receivables from United Nations entities	4 508	10 288
Investment receivables	18 014	32 004
Receivables from third parties	33 729	28 054
Receivables from staff	446	391
Other financial assets	202	–
Miscellaneous receivables	1 662	1 610
Total receivables: other, current, gross	**58 561**	**72 347**
Impairment[a]	(2 344)	(848)
Total receivables: other, current, net	**56 217**	**71 499**
Non-current		
Security deposits	100	99
Total receivables: other, non-current, gross	**100**	**99**
Total receivables: other, net	**56 317**	**71 598**

[a] Impairment of other receivables increased by $1.496 million in 2020. Impairments of $2.152 million were recorded in 2020 against a reversal of impairment recognized in prior periods of $0.656 million.

Ageing of receivables: other

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Less than or equal to 6 months	25 962	59 542
Over 6 months	32 699	12 904
Total receivables: other, gross	**58 661**	**72 446**

Receivables: United Nations entities

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
United Nations Population Fund	–	6 345
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	4 444	3 716
Receivables from other entities for reserve for field accommodation	28	36
United Nations University	4	191
Others	32	–
Total receivables, other, from United Nations entities	**4 508**	**10 288**

11.1. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 30.

Note 12
Advances issued

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Operating funds issued to Governments and non-governmental organizations not yet implemented	75 461	129 583
Operating funds issued to United Nations entities not yet implemented	94 976	74 223
Prepayments	33 270	40 223
Advances to staff	15 416	14 017
Total advances issued, gross	**219 123**	**258 046**
Impairment[a]	(1 600)	(1 364)
Total advances issued, net	**217 523**	**256 682**

[a] Impairment of advances issued increased by $0.236 million to $1.600 million in 2020. Impairments of $0.316 million were recognized in 2020 less a reversal of impairment recognized in prior periods of $0.080 million.

Ageing of advances

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Less than or equal to 6 months	204 941	215 492
Over 6 months	14 182	42 554
Total advances issued, gross	**219 123**	**258 046**

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Medical supplies and equipment	9 591	6 759
Information technology supplies and consumables	230	–
Office supplies	764	848
Fuel	6	6
Publications	70	51
Human development reports	1	26
Crisis supplies and equipment	12	12
Electoral supplies and equipment	–	5
Other project-related inventories	1 643	1 420
Total inventories	**12 317**	**9 127**

Note 14
Loans to Governments

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current		
Loans to Governments	507	507
Total current loans to Governments	**507**	**507**
Non-current		
Loans to Governments	3 011	3 518
Total non-current loans to Governments	**3 011**	**3 518**
Total loans to Governments	**3 518**	**4 025**

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

14.2. As at 31 December 2020, loans to Governments consisted of loans issued to the Governments of Cabo Verde, the Comoros, Guinea-Bissau and Sao Tome and Principe.

14.3. As the current balance of loans to Governments had been paid down, the next current portion of $0.507 million was reclassified from non-current to current at the end of the year.

Note 15
Property, plant and equipment

15.1. 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.

15.2. As disclosed in note 5, on 1 January 2020, UNDP changed its asset capitalization threshold which affected 18,066 assets with a total cost of $41.378 million and carrying amount of $20.810 million. The details of the impact of such an accounting change is reflected in the table below.

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 2020								
Cost	7 175	45 867	5 136	58 897	98 499	15 529	28 095	259 198
Accumulated depreciation	–	(7 844)	(2 963)	(30 502)	(51 036)	(5 323)	(11 474)	(109 142)
Carrying amount as at 1 January 2020	**7 175**	**38 023**	**2 173**	**28 395**	**47 463**	**10 206**	**16 621**	**150 056**
Change in asset capitalization threshold – 1 January 2020								
Cost – revised	7 175	45 844	1 304	23 977	97 930	13 495	28 095	217 820
Accumulated depreciation – revised	–	(7 830)	(708)	(13 112)	(50 778)	(4 672)	(11 474)	(88 574)
Carrying amount as at 1 January 2020 – revised	**7 175**	**38 014**	**596**	**10 865**	**47 152**	**8 823**	**16 621**	**129 246**
Year ended 31 December 2020								
Additions and adjustments	–	624	33	840	9 541	675	1 955	13 668
Disposals, cost	–	(90)	(71)	(1 458)	(6 053)	(1 064)	(238)	(8 974)
Depreciation	–	(1 648)	146	(1 103)	(7 505)	(597)	(3 001)	(13 708)
Disposals, accumulated depreciation/depreciation	–	92	21	386	3 993	250	175	4 917
Impairment	–	–	–	–	(68)	–	–	(68)
Recategorization	–	88	(296)	–	–	–	208	–
Carrying amount as at 31 December 2020	**7 175**	**37 080**	**429**	**9 530**	**47 060**	**8 087**	**15 720**	**125 081**
Balance at 31 December 2020								
Cost	7 175	46 466	970	23 359	101 350	13 106	30 020	222 446
Accumulated depreciation	–	(9 386)	(541)	(13 829)	(54 290)	(5 019)	(14 300)	(97 365)
Carrying amount as at 31 December 2020	**7 175**	**37 080**	**429**	**9 530**	**47 060**	**8 087**	**15 720**	**125 081**

15.3. The change in the asset capitalization threshold, effective 1 January 2020, resulted in a decrease in the net book value of property, plant and equipment from $150 million to $129 million.

15.4. As at 31 December 2020, assets under construction of $0.5 million (2019: $1.5 million) were included under leasehold improvements.

15.5. Previously, $0.295 million of assets were classified as “Furniture and fixtures”. During 2020, the assets were reclassified as prefabricated buildings, resulting in a decrease of $0.194 million in depreciation for the “Furniture and fixtures" category and a corresponding increase of $0.266 million in depreciation for the "Buildings" category, and resulting in negative depreciation in the "Furniture and fixtures" category.

15.6. As at 31 December 2020, UNDP had an impairment of property, plant and equipment amounting to $0.068 million (2019: nil).

Note 16
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 2020					
Cost	19 179	65	298	289	19 831
Accumulated amortization	(12 703)	(25)	(233)	–	(12 961)
Carrying amount as at 1 January 2020	**6 476**	**40**	**65**	**289**	**6 870**
Year ended 31 December 2020					
Additions and adjustments	66	–	11	2375	2,452
Disposals	–	(37)	(293)	–	(330)
Amortization	(2 154)	(4)	(1)	–	(2 159)
Adjustments to accumulated amortization/depreciation	–	6	228	–	234
Impairment losses	–	–	–	–	–
Recategorization	152	–	–	(152)	–
Carrying amount as at 31 December 2020	**4 540**	**5**	**10**	**2 512**	**7 067**
Balance as at 31 December 2020					
Cost	19 397	28	16	2 512	21 953
Accumulated amortization	(14 857)	(23)	(6)	–	(14 886)
Carrying amount as at 31 December 2020	**4 540**	**5**	**10**	**2 512**	**7 067**

16.1. As at 31 December 2020, UNDP did not have any impairment of intangible assets (2019: $1.168 million).

Note 17
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Accruals	81 330	86 842
Payables to United Nations entities	31 390	34 266
Payables to third parties	65 689	63 176
Other financial liabilities	694	175
Payables to staff	4 370	3 989
Investments settlements payable	4 087	–
Total accounts payable and accrued liabilities	**187 560**	**188 448**

Payables to United Nations entities

(Thousands of United States dollars)

	31 December 2020	31 December 2019
United Nations current account	11 122	8 332
World Health Organization	6 187	5 505
United Nations Relief and Works Agency for Palestine Refugees in the Near East	4 184	4 057
Joint United Nations Programme on HIV/AIDS (UNAIDS)	2 693	2 546
United Nations Capital Development Fund	271	5 093
United Nations Population Fund	456	–
United Nations coordination levy	3 530	2 323
Other United Nations entities	2 947	6 410
Total payables to United Nations entities	**31 390**	**34 266**

Note 18
Advances payable

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Operating funds payable to Governments and non-governmental organizations	1 968	948
Operating funds payable to executing entities/ implementing partners	13 131	40 346
Total advances payable	**15 099**	**41 294**

Note 19
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 2020	31 December 2019
Current		
Funds received in advance	21 827	7 043
Deferred revenue, Department for Safety and Security	–	1 022
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	10 574	9 782
Deferred revenue, non-exchange transactions	10	3
Clearing accounts with United Nations entities	105 513	167 740
Common service funds received in advance from United Nations entities	103 085	91 425
Total current funds received in advance and deferred revenue	**241 009**	**277 015**

	31 December 2020	*31 December 2019*
Non-current		
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	13 246	11 290
Total non-current funds received in advance and deferred revenue	**13 246**	**11 290**
Total funds received in advance and deferred revenue	**254 255**	**288 305**

19.1 Deferred revenue, Department for Safety and Security, relates to the provision of services by UNDP to Department for Safety and Security personnel in support of the security arrangements for United Nations country offices. Clearing accounts with United Nations entities represent funds held by UNDP on behalf of United Nations entities for future services provision to those entities. Such services include, inter alia, banking, accounts payable and payroll services. Common service funds received in advance from United Nations entities represent amounts collected on behalf of United Nations entities for services to be provided by UNDP to these entities. Those common services include, inter alia, shared office space, information and communications technology, janitorial services and travel services.

(b) Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Refunds to donors	7 550	9 134
Total funds held on behalf of donors	**7 550**	**9 134**

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

Note 20
Funds held in trust: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current		
Multi-Partner Trust Fund Office	871 005	703 870
Total current funds held in trust: Multi-Partner Trust Fund Office	**871 005**	**703 870**

	31 December 2020	*31 December 2019*
Non-current		
Multi-Partner Trust Fund Office	157 868	168 541
Total non-current funds held in trust: Multi-Partner Trust Fund Office	**157 868**	**168 541**
Total funds held in trust: Multi-Partner Trust Fund Office	**1 028 873**	**872 411**

20.1. This amount represents funds provided by donors to the Multi-Partner Trust Fund Office for future disbursement. In 2020, UNDP, in its role as administrative agent, received net cash inflows from donors of $1,574.761 million (2019: $1,296.809 million) and released $1,423.157 million (2019: $1,233.333 million). The increase of net cash inflows also includes $10.789 million (2019: $18.159 million) of interest and investment income and a net movement of other assets and liabilities of $0.175 million (2019: $0.899 million).

Note 21
Employee benefits

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current		
Annual leave	88 777	68 317
Medical insurance plan	121 639	112 315
After-service health insurance	20 870	19 197
Repatriation entitlements	7 673	9 372
Home leave	8 123	6 408
Termination benefits	490	269
Workers' compensation	901	846
Contributions payable to the United Nations Joint Staff Pension Fund	276	23 771
Death benefits	221	231
Other employee benefits	220	175
Total current employee benefit liabilities	**249 190**	**240 901**
Non-current		
After-service health insurance	1 153 023	1 027 982
Repatriation entitlements	109 193	95 794
Workers' compensation	14 859	13 447
Home leave	2 649	2 071
Death benefits	2 581	2 566
Total non-current employee benefit liabilities	**1 282 305**	**1 141 860**
Total employee benefit liabilities	**1 531 495**	**1 382 761**

21.1. 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.

21.2. As at 31 December 2020, liabilities for after-service health insurance, repatriation entitlements, workers' compensation and death benefits were determined by an actuarial valuation on the basis of a roll-forward of the defined benefit obligation as at 31 December 2020. The roll-forward results are established based on population and demographic assumptions used for the 31 December 2019 valuation. Financial assumptions have been reviewed and discount rates and health care trends were updated as at 31 December 2020.

21.3. Annual leave liabilities increased by $20.5 million, or 30 per cent, while home leave liabilities increased by $2.3 million, or 27 per cent. These increases are due to staff's not taking their planned leave entitlements in 2020 as a result of the COVID-19 pandemic and the travel limitations imposed to contain it.

Defined benefit plans

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Defined benefit obligation as at 31 December 2019	**1 047 179**	**105 166**	**2 797**	**14 293**	**1 169 435**
Increase of the obligation					
Current service cost	37 235	9 219	89	853	47 396
Interest cost	35 504	3 080	64	57	38 705
Actuarial losses on disbursements	–	–	7	–	7
Actuarial losses from change in financial assumptions	73 830	9 061	88	933	83 912
Actuarial losses from change in demographic assumptions	–	–	–	194	194
Actuarial losses due to experience adjustments	-–	–	–	271	271
Decrease of the obligation					
Actual benefits paid	(12 379)	(4 207)	(243)	(840)	(17 669)
Actuarial (gains) on disbursements	(7 476)	(5 453)			(12 929)
Actuarial (gains) from change in financial assumptions	–	–	–	–	–
Actuarial (gains) from change in demographic assumptions	–	–	–	–	–
Actuarial (gains) due to experience adjustments	–	–	–	–	–
Recognized liability as at 31 December 2020	**1 173 893**	**116 866**	**2 802**	**15 761**	**1 309 322**

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Current service cost	37 235	9 219	89	853	47 396
Interest cost	35 504	3 080	64	57	38 705
Total employee benefits expenses recognized	**72 739**	**12 299**	**153**	**910**	**86 101**

21.8. 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	(73 830)	(9 061)	(88)	(1 398)	(84 377)
Actuarial gains/(losses) on disbursement	7 476	5 453	(7)	–	12 922
Total actuarial gains/(losses) recognized	**(66 354)**	**(3 608)**	**(95)**	**(1 398)**	**(71 455)**

21.9. In 2020, the net actuarial loss of $71.455 million was attributable mainly to the actuarial loss related to after-service health insurance from a change in financial assumptions of $73.830 million.

21.10. 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)

	2020	*2019*	*2018*	*2017*	*2016*
After-service health insurance					
Defined benefits obligation	1 173 893	1 047 179	1 036 847	1 316 407	1 034 861
Experience adjustment on plan liabilities	–	47 926	(188 125)	118 690	–
Duration[a]	21	22	18	–	–
Repatriation					
Defined benefits obligation	116 866	105 166	93 273	105 675	98 913
Experience adjustment on plan liabilities	–	1 271	(7 187)	7 892	–
Duration[a]	10	10	9	–	–

	2020	*2019*	*2018*	*2017*	*2016*
Death benefits					
Defined benefits obligation	2 802	2 797	1 427	2 084	2 412
Experience adjustment on plan liabilities	–	29	(571)	(143)	–
Duration[a]	8	8	8	–	–
Workers' compensation					
Defined benefits obligation	15 761	14 293	13 319	15 460	16 457
Experience adjustment on plan liabilities	271	(541)	(1 398)	1 488	2 184
Duration[a]	18	18	17	–	–

[a] The weighted average duration of the defined benefit obligation is available only from 2018 onward.

21.11. UNDP estimated benefit payments net of participant contributions for the next 10 years is provided in the table below.

(Thousands of United States dollars)

	2021	*2022*	*2023*	*2024*	*2025*	*2026–2030*
After-service health insurance	21 584	23 322	25 110	26 960	28 858	173 819
Repatriation grant	7 909	7 019	6 619	6 546	6 721	32 253
Death benefits	226	219	214	209	204	913
Workers' compensation	894	858	824	790	761	3 371

21.12. At the end of 2020, UNDP had $917.859 million in cash and investments to fund the after-service health insurance liability. This resulted in a funding position of 78 per cent (2019: 74 per cent) of the total liability of $1,173.9 million at the end of 2020.

21.13. The next actuarial valuation will be conducted as at 31 December 2021.

Actuarial assumptions

21.14. In line with several United Nations system organizations, UNDP undertakes a full valuation every second year and a roll-forward valuation in the interim year. A roll forward is undertaken if the change is within limits specified in the UNDP after-service health insurance materiality policy. Since a full valuation had been undertaken as of 31 December 2019, UNDP assessed the change in population in 2020 and as the change was within specified limits, it decided to undertake a roll-forward. Financial assumptions have been reviewed and discount rates and health-care trends were updated as at 31 December 2020. 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:

	2020	*2019*
Discount rate:		
(a) After-service health insurance	2.95 per cent	3.42 per cent
(b) Repatriation benefits	2.21 per cent	3.07 per cent
(c) Death benefits	2.00 per cent	2.39 per cent
(d) Workers' compensation	2.69 per cent	3.33 per cent

	2020	*2019*
Health-care cost-trend rates:		
(a) United States of America, non-Medicare plans	5.31, grading down to 3.65 per cent after 14 years	5.44, grading down to 3.85 per cent after 13 years
(b) United States of America, Medicare plans	5.15, grading down to 3.65 per cent after 14 years	5.26, grading down to 3.85 per cent after 13 years
(c) United States of America, dental plans	4.59, grading down to 3.65 per cent after 14 years	4.66, grading down to 3.85 per cent after 13 years
(d) Non-United States of America, Switzerland	3.64, grading down to 2.75 per cent after 8 years	3.76, grading down to 2.85 per cent after 8 years
(e) Non-United States of America, eurozone	3.73, grading down to 3.25 per cent after 6 years	3.83, grading down to 3.65 per cent after 3 years
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.97–9.27 per cent
Rate of inflation	2.20 per cent	2.20 per cent
Per capita medical claim cost (varies by age)	$975–$14,571	$932–$13,819
Actuarial method	Projected unit credit method	Projected unit credit method

21.15. 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.

21.16. 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:

	2020		*2019*	
Mortality rate, active employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00056	0.00718
Female	0.00037	0.00522	0.00037	0.00522

	2020		*2019*	
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

21.17. 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	*2020*		*2019*	
	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

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

Rate of marriage at retirement for active beneficiaries	*2020*	*2019*
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

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

(Thousands of United States dollars)

	+0.5 per cent	*-0.5 per cent*
Effect of discount rate change on end-of-year liability	(113 703)	131 747
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	126 712	(110 666)

United Nations Joint Staff Pension Fund

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

21.21. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. UNDP and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNDP 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 of IPSAS 39: Employee benefits. Contributions of UNDP to the Fund during the financial period are recognized as expenses in the statement of financial performance.

21.22. 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.

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

21.24. The latest actuarial valuation for the Fund was completed as of 31 December 2019, and a roll-forward of the participation data as of 31 December 2019 to 31 December 2020 was used by the Fund for its 2020 financial statements.

21.25. The actuarial valuation as of 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2 per cent (139.2 per cent in the 2017 valuation). The funded ratio was 107.1 per cent (102.7 per cent in the 2017 valuation) when the current system of pension adjustments was taken into account.

21.26. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as of 31 December 2019, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of the present report, the General Assembly had not invoked the provision of article 26.

21.27. Should article 26 be invoked owing either to an actuarial deficiency during the ongoing operation or to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2017, 2018 and 2019) amounted to $7,546.92 million, of which 6 per cent was contributed by UNDP.

21.28. During 2020, contributions of UNDP paid to the Fund amounted to $147 million (2019: $144 million). The amount includes the organizational share of $98 million (2019: $96 million) as well as the contributions made by the participants of $49 million (2019: $48 million). Contributions due in 2021, dependent on staffing levels and changes in pensionable remuneration, are expected to be about $150 million.

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

Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

21.30. The Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board and the United Nations General Assembly on the audit every year. The Fund publishes quarterly reports on its investments and these can be viewed by visiting the Fund website (www.unjspf.org).

Note 22
Other liabilities

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Current		
Unapplied deposits	1 264	6 202
Other payables	2 544	1 172
Total other current liabilities	**3 808**	**7 374**
Non-current		
Reimbursable deposits	120	265
Total other non-current liabilities	**120**	**265**
Total other liabilities	**3 928**	**7 639**

Note 23
Reserves

(Thousands of United States dollars)

	31 December 2019	*Movements*	*31 December 2020*
Endowment fund	3 000	–	3 000
Operational reserve	283 001	16 000	299 001
Reserve for special initiatives	159	–	159
Total reserves	**286 160**	**16 000**	**302 160**

23.1. 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.

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

23.3. At 31 December 2020, the balance in the operational reserve for regular resources was $157 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.

23.4. In addition, the Executive Board approved the establishment of an operational reserve for other resource activities. At 31 December 2020, the balance of the operational reserve for other resource activities was $142 million. The basis for the calculation of the operational reserve for other resources is the sum of the following components:

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

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

23.5. While the reserve calculation for other resources is based on cost-sharing, trust funds and reimbursable support services and miscellaneous activities, the operational reserve for other resources is only presented as part of net assets/equity for reimbursable support services and miscellaneous activities in the table in note 6, Segment reporting: statement of financial position as at 31 December 2020.

23.6. The operational reserve for other resource activities includes the reserve for field accommodation. The reserve for field accommodation was established in 1979 at a maximum level of $25.0 million to construct housing for United Nations international staff at the country offices. In 1989, the Governing Council authorized UNDP to expand the scope of the reserves to include financing for United Nations system common premises, intended to accommodate the office needs of the agencies of the Joint Consultative Group on Policies. The financial position and performance of the reserve for field accommodation is presented in note 35.4, Reimbursable support services and miscellaneous activities.

23.7. 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 office relocation costs such as renovations, furniture, fittings and moving costs.

23.8. On calculating the operational reserves in 2020, a net transfer of $16 million was made according to the Board-approved formulas.

Note 24
Accumulated surpluses

(Thousands of United States dollars)

	31 December 2019	*Movements*	*31 December 2020*
Accumulated surpluses[a]	8 952 771	1 551 201	10 503 972
Funds with specific purposes[b]	144 715	(762)	143 953
Actuarial gains/(losses)	250 817	(71 455)	179 362
Changes in fair value of available-for-sale investments	60 842	79 534	140 376
Total accumulated surpluses	**9 409 145**	**1 558 518**	**10 967 663**

[a] The movement in accumulated surpluses of $1.551 billion consists of the surplus for the year of $1.567 billion and a transfer to the operational reserve of $0.016 billion.
[b] The funds with specific purposes include security; information and communications technology; United Nations Volunteers; learning; personnel; and other.

24.1. Of the total accumulated surpluses of $10,968 million, $10,289 million represents the accumulated non-core programme resource balance[4] (2019: $8,653 million). The total accumulated resource balance includes $4,862 million (2019: $4,123 million) representing receivables and $917.86 million (2019: $774.539 million) representing investments pertaining to the after-service health insurance liability, leaving accumulated resources of $5,188 million available for programme delivery.

Note 25
Voluntary contributions

(Thousands of United States dollars)

	2020	*2019*
Contributions	6 303 617	4 509 708
Government contributions to local office costs	19 317	18 184
Subtotal contributions and government contributions to local office costs	**6 322 934**	**4 527 892**
Contributions in kind	15 490	14 549
Less: returns to donors of unused contributions	(65 942)	(69 884)
Total voluntary contributions, net	**6 272 482**	**4 472 557**

25.1. Contributions in kind comprise primarily donated right to use of land and buildings of $15.394 million (2019: $14.427 million), as well as donated goods, such as computer equipment and supplies received from donors, of $0.096 million (2019: $0.122 million).

25.2. Under its Financial Regulations and Rules, UNDP is permitted to spend only up to the amount of cash received and available cash on hand.

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

25.3. In 2020, the amount of cash received amounted to $5.565 billion (2019: $4.900 billion).

25.4. The table below provides an indication of the contributions and government contributions to local office costs recognized in 2020 and the year to which the revenue pertains.

(Thousands of United States dollars)

By year	*2020*	*By year*	*2019*
Current year		**Current year**	
2020	1 650 913	2019	580 593
Subtotal current year	**1 650 913**	**Subtotal current year**	**580 593**
Future years		**Future years**	
2021	2 711 311	2020	2 210 625
2022 and beyond	1 960 710	2021 and beyond	1 736 674
Subtotal future years	**4 672 021**	**Subtotal future years**	**3 947 299**
Total contributions and government contributions to local office costs	**6 322 934**	**Total contributions and government contributions to local office costs**	**4 527 892**

25.5. In the fourth quarter of 2020, UNDP signed agreements with donors for contributions amounting to $2.430 billion (fourth quarter of 2019: $1.645 billion) for multi-year programmes and projects which will be implemented in future periods. An agreement for $1.636 billion of this amount was signed in December 2020 (December 2019: $0.906 billion).

Note 26
Revenue: exchange transactions

(Thousands of United States dollars)

	2020	*2019*
Department for Safety and Security	29 922	29 477
Reimbursement for management and support services	76 742	75 467
United Nations Volunteers programme	1 845	2 010
Implementation support services fees	2 655	3 071
Payroll management services fees	9 805	9 069
Procurement handling fees	9 563	4 569
Training fees	2 613	3 792
Rental revenue	3 843	4 185
Multi-Partner Trust Fund Office administrative agent fees	10 709	9 200
Sales and royalties from sale of publications	–	35
Other exchange revenue	18	163
Total revenue from exchange transactions	**147 715**	**141 038**

26.1. The increase in procurement handling fees of $4.994 million, or 109 per cent, is primarily the result of new activities related to the procurement of medical equipment and medical supplies specific to COVID-19 project deliverables.

Note 27
Investment revenue

(Thousands of United States dollars)

	2020	*2019*
Investment revenue	118 458	167 171
Total investment revenue	**118 458**	**167 171**

27.1. Investment revenue is represented as follows:

(Thousands of United States dollars)

	2020	*2019*
Interest plus amortized discount, net of amortized premium earned on fixed income instruments and bank account balances	94 556	145 935
Dividends earned on the UNDP investment portfolio	6 601	7 580
Realized gain on sale of investments	17 301	13 656
Total investment revenue	**118 458**	**167 171**

27.2. The decline in UNDP investment income of 29 per cent was caused by the lower interest rates in 2020 due, in part, to the economic situation brought about by the COVID-19 pandemic.

Note 28
Other revenue

(Thousands of United States dollars)

	2020	*2019*
Foreign exchange gains[a]	44 306	17 093
Common system and miscellaneous revenue	32 798	24 792
General management services fees	2 288	6 479
Total other revenue	**79 392**	**48 364**

[a] Foreign exchange gains of $44.306 million include the effect of exchange rate changes on cash and cash equivalents of $30.583 million.

Note 29
Expenses

(Thousands of United States dollars)

	Programme expenses[a] *2020*	*Total expenses* *2020*	*Programme expenses* *2019*	*Total expenses* *2019*
29.1 Contractual services				
Contractual services	1 828 821	1 911 105	1 767 549	1 835 382
United Nations Volunteers-related expenses for contractual services	40 574	45 740	39 410	43 354
Total contractual services	**1 869 395**	**1 956 845**	**1 806 959**	**1 878 736**
29.2 Staff costs				
Salary and wages	166 888	533 956	171 361	509 621
Pension benefits	30 069	98 071	30 177	93 621
Post-employment and termination	18 571	97 579	18 519	100 618
Appointment and assignment	8 537	17 069	8 232	26 405
Leave benefits	9 390	28 786	5 586	13 427
Other staff benefits	60 818	38 849	59 501	44 568
Total staff costs	**294 273**	**814 310**	**293 376**	**788 260**
29.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	477 721	496 717	490 020	506 434
Medical, pharmaceutical and agricultural supplies	452 166	464 387	369 611	373 254
Information technology supplies and software maintenance	39 269	47 378	32 093	38 045
Information technology and communications equipment	76 989	96 266	54 605	59 768
Security and office supplies	47 072	49 265	50 690	54 200
Other consumables used	79	77	41	165
Total supplies and consumables used	**1 093 296**	**1 154 090**	**997 060**	**1 031 866**
29.4 General operating expenses				
Travel	110 451	121 273	187 676	219 156
Learning and recruitment	193 107	200 560	238 347	251 472
Rent, leases and utilities	78 176	153 818	104 916	175 617
Communications	85 283	114 656	84 203	111 544
Freight	62 140	63 596	35 340	35 970
Professional services	35 563	40 658	31 911	37 502
Security	20 635	34 138	19 625	30 384
Reimbursement	986	11 654	1 478	1 834
Contribution to jointly financed United Nations activities	3 464	12 310	3 484	11 864
Contribution to information and communications technology	1 969	4 581	1 947	4 025

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2020	*2020*	*2019*	*2019*
Insurance/warranties	4 939	5 754	6 398	7 360
Miscellaneous operating expenses[b]	232 823	10 959	232 898	16 449
Total general operating expenses	**829 536**	**773 957**	**948 223**	**903 177**
29.5 Grants and other transfers				
Grants	277 803	279 122	232 039	233 622
Transfers	(2 825)	8 772	6 025	16 957
Total grants and other transfers	**274 978**	**287 894**	**238 064**	**250 579**
29.6 Other expenses				
Sundries	13 723	15 610	25 882	27 936
Foreign exchange losses	7 161	25 948	6 584	19 986
Losses on sale of fixed assets and intangible assets	1 184	1 255	1 503	1 970
Ex gratia payments	–	137	–	–
Impairments[c]	894	4 933	8	1 884
Total other expenses	**22 962**	**47 883**	**33 977**	**51 776**
29.7 Depreciation and amortization				
Depreciation	4 293	13 708	5 407	16 980
Amortization	36	2 159	164	2 299
Total depreciation and amortization	**4 329**	**15 867**	**5 571**	**19 279**
Total expenses	**4 388 769**	**5 050 846**	**4 323 230**	**4 923 673**

[a] Of the total expenses, $4.389 billion represents programme expenses and the remaining $662 million represents development effectiveness, United Nations development coordination, management, special purposes and other. See note 35.1, “Total expenses by cost classification”, for details.

[b] Of the total miscellaneous operating expenses, $3.1 million represents administrative service fees for United Nations agencies.

[c] Total impairments of $4.933 million include gross impairments of $3.987 million less impairments previously recognized of $0.150 million and actual write-offs of $1.096 million.

29.1. The increase in leave benefits (annual and home leave benefits) of $15.359 million is due primarily to staff’s not taking their planned leave entitlements in 2020 as a result of the COVID-19 pandemic and travel limitations imposed to contain it.

29.2. Travel expenses decreased by $97.883 million, or 45 per cent, as a result primarily of travel bans, lockdowns and restrictions; and the cancellation or postponement of duty travel, as well as change in assignment and repatriation-related travel patterns. A similar trend was noted in relation to the area of learning and recruitment, where there was a decrease of $50.912 million, or 20 per cent. from the prior year (see note 29, Expenses).

29.3. The procurement of medical, pharmaceutical and agricultural supplies increased by $91.133 million, or 24 per cent. This is the result mainly of new activities related to the procurement of medical equipment and medical supplies specific to

COVID-19 project deliverables. Moreover, the increased COVID-19-related procurement resulted in increased freight costs of $27.626 million.

Note 30
Financial instruments and risk management

30.1. 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.

30.2. UNDP manages its working capital investment portfolio centrally within the Treasury Division. Investment activities are overseen by an Investment Committee, comprising senior management, which meets quarterly to review its investment portfolio performance and to ensure that investment decisions comply with the established investment policy and guidelines. The principal investment objectives as stated in the UNDP Investment 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 UNDP’s liquidity requirements;

(c) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters;

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

30.3. As at 31 December 2020, the working capital portfolio was classified as held-to-maturity financial assets. Holdings include cash, money market instruments and fixed-income securities.

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

30.5. UNDP has fully outsourced the investment management of its after-service health insurance funds to two external investment managers in order to ensure an adequate level of investment return, given the longer-term nature of the after-service health insurance liabilities. As at 31 December 2020, the after-service health insurance portfolio was classified as available-for-sale. Holdings include cash and cash equivalents, fixed-income securities and equities.

30.6. The external investment managers are governed by the after-service health insurance investment guidelines. The guidelines ensure that all the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. The guidelines identify eligible instruments for global equities and fixed income investments and specify asset class limits. Reporting by and oversight of the investment managers occurs formally through quarterly after-service health insurance investment committee meetings. These guidelines are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

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

(a) Financial assets

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus and deficit*	*31 December 2020 book value*	*31 December 2019 book value*
Cash and cash equivalents	–	–	838 512	–	838 512	526 830
Investments	6 318 964	885 308	–	–	7 204 272	6 534 517
Receivables: non-exchange transactions	–	–	4 805 284	–	4 805 284	4 051 448
Receivables: other	–	–	56 317	–	56 317	71 598
Advances issued	–	–	217 523	–	217 523	256 682
Loans to Governments	–	–	3 518	–	3 518	4 025
Total financial assets	**6 318 964**	**885 308**	**5 921 154**	**–**	**13 125 426**	**11 445 100**

(b) Financial liabilities classification

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus and deficit*	*31 December 2020 book value*	*31 December 2019 book value*
Accounts payable and accrued liabilities	187 066	494	187 560	188 448
Advances payable	15 099	–	15 099	41 294
Funds held in trust – Multi-Partner Trust Fund Office	1 028 873	–	1 028 873	872 411
Funds held on behalf of donors	7 550	–	7 550	9 134
Other liabilities	3 928	–	3 928	7 639
Total financial liabilities	**1 242 516**	**494**	**1 243 010**	**1 118 926**

30.8. Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2020, the market value of those assets exceeded book value by $47.927 million (2019: $15.169 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.

30.9. As at 31 December 2020, UNDP had $0.494 million (2019: $0.175 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 2020 and 2019, UNDP did not have any financial assets recorded at fair value through surplus or deficit.

30.10. For the year ended 31 December 2020, a net loss of $2.660 million (2019: net gain of $2.434 million) related to financial assets and liabilities recorded at fair value through surplus or deficit was recognized in the statement of financial performance.

Valuation

30.11. The table below presents the fair value hierarchy of the Programme's available-for-sale financial instruments carried at fair value as at 31 December 2020.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Available-for-sale financial assets				
Equities	575 387	–	–	575 387
Bonds	309 921	–	–	309 921
Liabilities				
Financial instruments at fair value through surplus or deficit	–	(494)	–	(494)
Total	**885 308**	**(494)**	**–**	**884 814**

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

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

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

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

Analysis of UNDP credit risk

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

30.14. As at 31 December 2020, UNDP operates bank accounts in 149 countries, which exposes it to the risk of the collapse of local financial institutions. UNDP has established risk assessment criteria to assess the creditworthiness of financial institutions before new bank accounts are opened and limits of local currency holdings are approved and monitored centrally by the UNDP Treasury Division. In addition, UNDP, using zero-balance accounts, permits local offices to draw funds in United States dollars and euros from a headquarters-managed master account to periodically replenish local currency accounts. Zero-balance accounts are designed to automatically transfer excess balances to the master account for investment in short-term money market instruments. The arrangement minimizes excess balances in local bank accounts.

30.15. With regard to its investments, the UNDP investment policy and guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the investment 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 issued by sovereigns; supranational organizations or international agencies; governmental or federal agencies; and banks.

30.16. UNDP utilizes credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's (S&P) and Fitch, to categorize and monitor credit risk on its financial instruments. As at 31 December 2020, investments managed by UNDP were in high-quality fixed-income instruments, as shown in the table below (presented using S&P's rating convention).

Concentration by credit rating: UNDP-managed investments

(Thousands of United States dollars)

31 December 2020	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*A-*	*Not rated*	*Total*
Money market instruments	802 505	427 391	934 450	299 963	–	50 000	120	2 514 429
Bonds	2 238 358	664 847	628 348	272 982	–	–	–	3 804 535
Total	**3 040 863**	**1 092 238**	**1 562 798**	**572 945**	**–**	**50 000**	**120**	**6 318 964**

31 December 2019	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*A-*	*Not rated*	*Total*
Money market instruments	262 787	120 031	615 600	550 000	150 000	100 000	264	1 798 682
Bonds	2 117 332	697 248	697 037	433 569	50 000	–	–	3 995 186
Total	**2 380 119**	**817 279**	**1 312 637**	**983 569**	**200 000**	**100 000**	**264**	**5 793 868**

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

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2020	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds	10 792	2 096	6 490	4 411	3 016	2 318	7 096	6 917	37 134	229 651	309 921
Total	**10 792**	**2 096**	**6 490**	**4 411**	**3 016**	**2 318**	**7 096**	**6 917**	**37 134**	**229 651**	**309 921**

31 December 2019	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds	2 504	2 037	6 658	6 110	974	3 135	1 984	6 803	36 998	203 155	270 358
Total	**2 504**	**2 037**	**6 658**	**6 110**	**974**	**3 135**	**1 984**	**6 803**	**36 998**	**203 155**	**270 358**

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 $193.376 million (2019: $169.915 million), with the remaining balance of $36.275 million (2019: $33.240 million) comprising government bonds.

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

30.18. The credit risk exposure of UNDP on outstanding non-exchange receivables is mitigated by the Financial Regulations and Rules of UNDP, which require that, for non-regular resources, expenses be incurred after receipt of funds from donors. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk assessment criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities (as shown in the table below) that do not have significant credit risk. UNDP periodically reviews the amounts for collectability and records an impairment against these receivables when deemed appropriate. As at 31 December 2020, an impairment of $0.88 million was recorded against the outstanding non-exchange receivables.

Receivables: non-exchange transactions by entity type

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Government entities	1 296 342	1 504 526
Non-governmental entities	3 508 942	2 546 922
Total receivables: non-exchange transactions	**4 805 284**	**4 051 448**

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

30.19. The top three donors, accounting for 48 per cent (2019: 44 per cent) of the outstanding non-exchange receivable balances, are all multilateral donors, as shown in the table below. Based on historical payment patterns, UNDP believes that all non-exchange receivable balances are collectable, as the amounts are presented net of the impairment of $0.88 million.

Non-exchange receivables: top three outstanding balances

(Thousands of United States dollars)

No.	*Balance*	*Percentage of total*	*Entity type*
1	901 088	19	Multilateral agency
2	790 769	16	Multilateral agency
3	631 841	13	Multilateral agency
Subtotal	**2 323 698**	**48**	
Other	2 481 586	52	
Total	**4 805 284**	**100**	

Analysis of UNDP liquidity risk

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

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

Liquidity analysis

(Thousands of United States dollars)

	31 December 2020	*Percentage*	*31 December 2019*	*Percentage*
Cash balances	462 666	6	243 094	3
Cash equivalents	375 846	5	283 736	4
Total cash and cash equivalents	**838 512**	**11**	**526 830**	**7**
Current investments	3 883 409	48	3 647 499	52
Non-current investments	3 320 863	41	2 887 018	41
Total current and non-current investments	**7 204 272**	**89**	**6 534 517**	**93**
Total investments, cash and cash equivalents	**8 042 784**	**100**	**7 061 347**	**100**

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Money market funds	33 436	64 244
Money market instruments	342 410	219 492
Cash equivalents	**375 846**	**283 736**

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

Analysis of market risk to UNDP

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

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

(a) Fair value of financial assets and liabilities;

(b) Future cash flows.

30.25. A portion (12 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 (88 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 2020*	*31 December 2019*
Held-to-maturity investments	Amortized cost	6 318 964	5 793 868
Available-for-sale investments	Fair value	885 308	740 649
Total investments		**7 204 272**	**6 534 517**

30.26. In the held-to-maturity portfolio, UNDP invests in United States dollar-denominated certificates of deposits, commercial paper, time deposits and interest bearing or discounted bonds, including fixed-rate, floating-rate and callable notes. As at 31 December 2020, UNDP had $419.326 million (2019: $800.467 million) in outstanding floating rate fixed-income securities, with maturities ranging from one month to three years.

30.27. The table below presents the interest sensitivity of UNDP investments based on the duration of its securities. The sensitivity is limited to the fixed-income investments classified as available for sale, which are marked to market through net assets/equity, and changes in interest rates would therefore have no impact on the UNDP surplus and deficit.

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

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2020	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
309 921	100 basis point increase	(7 015)	–
309 921	50 basis point decrease	3 508	–

Note: Bond instruments only, excluding equity investments (see table in para. 30.11 above).

Foreign exchange risk

30.28. While the Programme's transactions are denominated primarily in United States dollars, 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.

30.29. UNDP receives donor contributions primarily in United States dollars as well as in a number of major currencies, including the Australian dollar (AUD), the Canadian dollar (CAD), the Danish krone (DKK), special drawing rights (XDR), the euro (EUR), the Japanese yen (JPY), the New Zealand dollar (NZD), the Norwegian krone (NOK), the pound sterling (GBP), the Swedish krona (SEK) and the Swiss franc (CHF). In addition, programme country Governments make contributions mainly in their national currency to programmes in their country. On an ongoing basis, UNDP evaluates its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations.

30.30. UNDP actively manages net foreign exchange exposure in eight (8) major currencies against the United States dollar using foreign exchange forward and option contracts.

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

(Thousands of United States dollars)

	United States dollar	*Euro*	*Swedish krona*	*Other*	*31 December 2020 total*	*31 December 2019 total*
Cash and cash equivalents	554 746	118 712	308	164 746	838 512	526 830
Investments	6 974 695	108 099	4 429	117 049	7 204 272	6 534 517
Receivables, non-exchange	3 514 232	634 889	221 584	434 579	4 805 284	4 051 448
Total cash and cash equivalents, investments, and receivables: non-exchange	**11 043 673**	**861 700**	**226 321**	**716 374**	**12 848 068**	**11 112 795**

(b) Foreign exchange sensitivity analysis

(Thousands of United States dollars)

	Currency depreciation		*Currency appreciation*	
	Surplus/(deficit)	*Net assets*	*Surplus/(deficit)*	*Net assets*
Euro (10 per cent change)	(78 060)	–	96 083	–
Swedish krona (10 per cent change)	(20 558)	–	25 167	–
Pound sterling (10 per cent change)	(14 620)	–	17 037	–
Norwegian krone (10 per cent change)	(11 310)	–	13 823	–

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

30.31. At 31 December 2020, 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.

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

Equity price risk

30.33. In 2020, UNDP held equity investments in its externally managed after-service health insurance portfolio. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNDP surplus and deficit.

Price sensitivity of equity investments

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2020	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
575 387	5 per cent increase	28 769	–
575 387	5 per cent decrease	(28 769)	–

30.34. Despite the volatility in financial markets witnessed in 2020 due partly to the impact of the COVID-19 pandemic, the principal of the UNDP working capital portfolio remains safe, as it holds high-quality assets, with the aim being to preserve principal in line with its investment policy. Investment income earned on the working capital portfolio invested funds in 2020 was reduced from $167.2 million in 2019 to $118.5 million in 2020 owing to lower investment yields in the market, which were a result in part of the COVID-19 pandemic.

30.35. Credit rating agencies put a number of banks on negative outlook watch and downgraded some as a result of the more difficult operating conditions brought about partly by the COVID-19 pandemic. UNDP actively monitors ratings of its investment holdings and investment counterparties in accordance with its investment guidelines.

30.36. Any changes, due to market volatility, in the value of the UNDP after-service health insurance portfolio, which is classified as available for sale, have no impact on the reported surplus and deficit. See note 21, Employee benefits, for additional disclosure on the changes to after-service health insurance liability in 2020.

Note 31
Related parties

Key management personnel

31.1. The leadership structure of UNDP consists of an Executive Group (EG) 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 mandate of UNDP. Collectively, the Executive Group has four tiers, comprising: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); and a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and the Chief of Staff and Director, Office of the Administrator (ex officio).

Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	13	3 053	1 190	4 243	4 606
Close family members of key management personnel	–	–	–	–	–
Total	**13**	**3 053**	**1 190**	**4 243**	**4 606**

31.2. 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.

31.3. Other entitlements include contributions by UNDP for key management personnel to the United Nations Joint Staff Pension Fund, a defined contribution plan, of $0.63 million (2019: $0.59 million).

Loans

31.4. Staff advances are available to UNDP staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations. As at 31 December 2020, 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

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

31.6. 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 32
Commitments and contingencies

Open commitments

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Property, plant and equipment	6 157	9 679
Goods	443 955	402 757
Services	495 822	294 269
Total open commitments	**945 934**	**706 705**

32.1. As at 31 December 2020, commitments of UNDP for the acquisition of various goods and services contracted but not received amounted to $945.934 million.

Lease commitments by term

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Obligations for property leases		
Less than 1 year	69 725	68 573
1–5 years	65 542	79 691
Beyond 5 years	24 160	18 944
Total property lease obligations	**159 427**	**167 208**

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Obligations for equipment leases		
Less than 1 year	105	112
1–5 years	155	266
Beyond 5 years	–	90
Total equipment lease obligations	**260**	**468**

32.2. 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 one and five years.

32.3. UNDP has approximately 394 operating lease agreements for land and buildings. The majority of lease agreements are under commercial terms. In 2020, approximately 83 agreements were for space provided to UNDP by host Governments on a free-of-charge basis and recorded as contributions in kind which primarily comprise donated use of land and buildings of $15.394 million (2019: $14.427 million), (see note 25, Voluntary contributions). Rent for all operating leases is reported within rent, leases and utilities expense (see note 29, Expenses).

Contingent assets

32.4. At 31 December 2020, UNDP has a contingent asset for a compound in South Sudan over which there is an ownership dispute. Owing to that dispute, UNDP has not recognized the land and buildings in the compound as property, plant and equipment. The fair value of the land and buildings was last assessed by independent valuators in 2018 at $51.368 million.

Contingent liabilities

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

32.6. As at 31 December 2020, corporate and commercial and administrative law claims totalled $10.347 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.

32.7. 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 2020, there were no such claims.

Note 33
Disaster Mitigation Fund

(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Opening balance	**11**	**1 043**
Total revenue	1 056	–
Total expenses	(1 044)	(1 032)
Closing balance	**23**	**11**

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

Note 34
Events after reporting date

34.1. The reporting date for UNDP is 31 December of each year. The date of certification and transmittal of the financial statements is 30 April of the year after the financial year end (the date of signing of these financial statements).

34.2. There have been no other events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 35
Additional disclosure

35.1
Total expenses by cost classification

(Thousands of United States dollars)

	2020
Development	
Programme	4 388 769
Development effectiveness	180 901
United Nations development coordination	32 514
Management	445 783
Special purpose	48 438
Other	210 280
Elimination[a]	(255 839)
Total expenses	**5 050 846**

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

35.2
Programme expenses by executing entity/implementing partner and responsible party

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

35.2 (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	102 747	1 207 986	357 933	–	1 668 666
International non-governmental organizations	108	21 324	8 291	–	29 723
National non-governmental organizations	667	4 078	5 926	–	10 671
Food and Agriculture Organization of the United Nations	4	19	–	–	23
International Maritime Organization	–	–	705	–	705
United Nations Educational, Scientific and Cultural Organization	–	–	847	–	847
United Nations Industrial Development Organization	–	–	277	–	277
United Nations Institute for Training and Research	–	–	(20)	–	(20)
United Nations Office for Project Services	135	2 649	51 926	–	54 710
United Nations Office on Drugs and Crime	–	133	–	–	133
United Nations Volunteers programme	–	–	125	17 358	17 483
Other United Nations entities	–	–	184	–	184
United Nations Development Programme	306 277	2 099 545	199 545	–	2 605 367
Total programme expenses	**409 938**	**3 335 734**	**625 739**	**17 358**	**4 388 769**

35.2 (b)
Programme expenses by responsible party

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

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	83 059	1 022 868	273 786	8	1 379 721
International non-governmental organizations	6 505	162 716	11 516	–	180 737
National non-governmental organizations	7 188	137 232	15 142	–	159 562
Asian Development Bank	–	367	–	–	367
Food and Agriculture Organization of the United Nations	–	3 147	2 308	–	5 455
International Fund for Agricultural Development	–	–	180	–	180
International Labour Organization	–	160	–	–	160

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
International Maritime Organization	–	–	705	–	705
International Organization for Migration	33	2 545	138	–	2 716
International Training Centre of the International Labour Organization	–	1	–	–	1
Joint United Nations Programme on HIV/AIDS (UNAIDS)	17	–	–	–	17
Pan American Health Organization	–	4 285	–	–	4 285
United Nations Capital Development Fund	1 403	538	892	–	2 833
United Nations Children's Fund	98	5 254	593	–	5 945
Department of Peacekeeping Operations of the United Nations Secretariat	–	261	–	–	261
Department of Political and Peacebuilding Affairs of the United Nations Secretariat	–	36	–	–	36
Economic Commission for Africa		60	–	–	60
United Nations Educational, Scientific and Cultural Organization	25	346	846	–	1 217
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	167	4 546	2 326	–	7 039
United Nations Environment Programme	4	405	860	–	1 269
Executive Office of the Secretary-General	–	154	–	–	154
Office of the United Nations High Commissioner for Human Rights	–	231	–	–	231
Office of the United Nations High Commissioner for Refugees	–	439	–	–	439
United Nations Human Settlements Programme (UN-Habitat)	49	9 711	–	–	9 760
United Nations Industrial Development Organization	–	509	277	–	786
United Nations Institute for Training and Research	117	425	106	–	648
Latin American Institute for the Prevention of Crime and the Treatment of Offenders	–	39	–	–	39
United Nations Office for Project Services	9	5 752	52 208	–	57 969
United Nations Office on Drugs and Crime	–	2 542	97	–	2 639
United Nations Population Fund	583	2 799	–	–	3 382
United Nations Relief and Works Agency for Palestine Refugees in the Near East	–	60	–	–	60
United Nations University	–	43	33	–	76
United Nations Volunteers programme	–	34	129	17 350	17 513
World Food Programme	635	4 859	123	–	5 617
World Health Organization	743	9 097	1 064	–	10 904
World Tourism Organization	9	76	–	–	85
United Nations Development Programme	309 294	1 954 197	262 410	–	2 525 901
Total programme expenses	**409 938**	**3 335 734**	**625 739**	**17 358**	**4 388 769**

35.3
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	339 265	328 327	607 447	177 663	320 996	95 697	1 869 395
Staff costs	101 278	61 864	43 985	15 231	13 170	58 745	294 273
Supplies and consumables used	378 816	208 827	99 784	200 937	192 738	12 194	1 093 296
General operating expenses	310 839	159 739	128 209	67 192	115 032	48 525	829 536
Grants and other transfers	32 124	48 658	11 713	22 455	90 502	69 526	274 978
Other expenses	4 663	6 679	703	879	9 272	766	22 962
Depreciation and amortization	1 706	624	964	473	231	331	4 329
Total	**1 168 691**	**814 718**	**892 805**	**484 830**	**741 941**	**285 784**	**4 388 769**

35.4
Reimbursable support services and miscellaneous activities

35.4 (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	76 655	4 172	12 130	4 884	3 867	1 585	1 294	104 587
Investments	367 941	20 024	58 226	23 440	15 588	7 607	6 212	499 038
Receivables, non-exchange transactions	6 406	862	7 597	1 271	1 123	–	–	17 259
Receivables, other	309	–	–	332	–	31	(4)	668
Advances issued	186	1	158	168	–	–	–	513
Loans to Governments	–	–	–	–	–	507	–	507
Inventories	930	–	–	57	–	–	–	987
Total current assets	**452 427**	**25 059**	**78 111**	**30 152**	**20 578**	**9 730**	**7 502**	**623 559**
Non-current assets								
Investments	321 948	17 521	50 948	20 510	13 639	6 656	5 436	436 658
Loans to Governments	–	–	–	–	–	3 011	–	3 011
Receivables, non-exchange transactions	7 805	–	2 363	736	–	–	–	10 904
Property, plant and equipment	56 861	16	909	3 991	–	8 864	–	70 641

	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*
Intangible assets	4 987	–	2 005	–	–	–	–	6 992
Receivables, other	22	–	–	1	–	–	–	23
Total non-current assets	**391 623**	**17 537**	**56 225**	**25 238**	**13 639**	**18 531**	**5 436**	**528 229**
Total assets	**844 050**	**42 596**	**134 336**	**55 390**	**34 217**	**28 261**	**12 938**	**1 151 788**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	4 305	73	11 199	4 485	14 719	2	–	34 783
Advances payable	301	8 792	–	–	16	–	–	9 109
Funds received in advance and deferred revenue	10 639	–	–	–	–	10	–	10 649
Funds held on behalf of donors	–	–	–	101	–	–	–	101
Employee benefits	13 652	–	1	3	(8)	–	–	13 648
Other current liabilities	525	–	–	54	385	33	–	997
Total current liabilities	**29 422**	**8 865**	**11 200**	**4 643**	**15 112**	**45**	–	**69 287**
Non-current liabilities								
Funds received in advance and deferred revenue	13 246	–	–	–	–	–	–	13 246
Employee benefits	404 306	–	–	–	(18)	–	–	404 288
Total non-current liabilities	**417 552**	–	–	–	**(18)**	–	–	**417 534**
Total liabilities	**446 974**	**8 865**	**11 200**	**4 643**	**15 094**	**45**	–	**486 821**
Net assets/equity								
Reserves	117 001	–	–	–	–	25 000	–	142 001
Accumulated surpluses	280 075	33 731	123 136	50 747	19 123	3 216	12 938	522 966
Total net assets/equity	**397 076**	**33 731**	**123 136**	**50 747**	**19 123**	**28 216**	**12 938**	**664 967**
Total liabilities and net assets/equity	**844 050**	**42 596**	**134 336**	**55 390**	**34 217**	**28 261**	**12 938**	**1 151 788**

35.4 (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*	*Government cash counterparts contributions*	*Total*
Revenue								
Voluntary contributions	69 841	(2 847)	35 378	(1 820)	13 304	–	–	113 856
Revenue, exchange transactions	84 689	1 137	2 178	56 784	–	55	–	144 843
Investment revenue	7 434	220	971	1 593	–	–	–	10 218
Other revenue	275 657	3	5 163	906	–	–	–	281 729
Total revenue	**437 621**	**(1 487)**	**43 690**	**57 463**	**13 304**	**55**	–	**550 646**
Expenses								
Contractual services	49 259	2 952	16 630	4 945	4	14	–	73 804
Staff costs	237 620	220	3 808	30 964	14 557	–	–	287 169
Supplies and consumables used	29 785	8 503	2 412	3 808	2	3	–	44 513
General operating expenses	88 711	1 170	5 857	23 914	2 886	15	–	122 553
Grants and other transfers	1 247	–	5	–	–	–	–	1 252
Other expenses	698	20	160	184	–	–	–	1 062
Depreciation and amortization	8 786	–	80	419	–	303	–	9 588
Total expenses	**416 106**	**12 865**	**28 952**	**64 234**	**17 449**	**335**	–	**539 941**
Surplus/(deficit) for the year	**21 515**	**(14 352)**	**14 738**	**(6 771)**	**(4 145)**	**(280)**	–	**10 705**

35.5
Cost-sharing: government, third-party and South-South: statement of financial performance

(Thousands of United States dollars)

	Third-party cost-sharing	*Government cost-sharing*	*South-South cost-sharing*	*Total*
Revenue				
Voluntary contributions	3 547 531	1 097 250	30 597	4 675 378
Revenue, exchange transactions	88	77	–	165
Investment revenue	9 709	35 759	–	45 468
Other revenue	987	3 406	–	4 393
Total revenue	**3 558 315**	**1 136 492**	**30 597**	**4 725 404**
Expenses				
Contractual services	993 985	353 534	2 792	1 350 311
Staff costs	184 322	17 403	335	202 060
Supplies and consumables used	551 098	357 274	960	909 332
General operating expenses	512 076	136 807	924	649 807
Grants and other transfers	131 606	76 695	78	208 379

	Third-party cost-sharing	*Government cost-sharing*	*South-South cost-sharing*	*Total*
Other expenses	11 870	7 888	29	19 787
Depreciation and amortization	2 382	265	–	2 647
Total expenses	**2 387 339**	**949 866**	**5 118**	**3 342 323**
Surplus/(deficit) for the year	**1 170 976**	**186 626**	**25 479**	**1 383 081**

35.6 (a)
Top three trust funds and South-South Cooperation: statement of financial position

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Assets				
Current assets				
Cash and cash equivalents	47 185	11 778	7 950	3 815
Investments	226 390	56 534	38 156	18 291
Receivables, non-exchange transactions	528 836	–	15 837	424
Receivables, other	27	–	–	–
Advances issued	24 341	–	172	5 307
Inventories	6	–	–	–
Total current assets	**826 785**	**68 312**	**62 115**	**27 837**
Non-current assets				
Investments	198 091	49 467	33 386	16 004
Receivables, non-exchange transactions	310 244	–	265	200
Property, plant and equipment	1 366	844	8	63
Intangible assets	–	–	–	–
Receivables, other	16	–	–	–
Total non-current assets	**509 717**	**50 311**	**33 659**	**16 267**
Total assets	**1 336 502**	**118 623**	**95 774**	**44 104**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	6 035	14	5 021	58
Advances payable	830	25	–	203
Funds held on behalf of donors	79	–	–	–
Total current liabilities	**6 944**	**39**	**5 021**	**261**
Total liabilities	**6 944**	**39**	**5 021**	**261**
Net assets/equity				
Accumulated surpluses/deficits	1 329 558	118 584	90 753	43 843
Total net assets/equity	**1 329 558**	**118 584**	**90 753**	**43 843**
Total liabilities and net assets/equity	**1 336 502**	**118 623**	**95 774**	**44 104**

35.6 (b)
Top three trust funds and South-South Cooperation: statement of financial performance

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Revenue				
Voluntary contributions	330 236	112 682	32 885	26 486
Investment revenue	6 175	881	1 274	464
Other revenue	1 227	–	1 173	–
Total revenue	**337 638**	**113 563**	**35 332**	**26 950**
Expenses				
Contractual services	194 104	89 786	26 500	3 397
Staff costs	19 645	1 216	2 185	415
Supplies and consumables used	39 843	509	2 146	3 300
General operating expenses	60 112	5 542	4 389	1 766
Grants and other transfers	35 962	–	–	543
Other expenses	213	2	147	187
Depreciation and amortization	186	150	3	3
Total expenses	**350 065**	**97 205**	**35 370**	**9 611**
Surplus/(deficit) for the year	**(12 427)**	**16 358**	**(38)**	**17 339**

35.7 (a)
Funding windows: statement of financial position

35.7.1. The funding windows were established in 2016 as the Programme’s pooled thematic funds, with four windows: (1) Sustainable development and poverty eradication; (2) Climate change and disaster risk reduction; (3) Governance for inclusive and peaceful societies; and (4) Emergency development response to crisis and recovery. In 2019, UNDP management approved the redesign of the funding windows to align more directly to its core mandate and the strategic plan (2018–2021) as well as donor priorities. Four new windows were created: (1) Poverty and inequality; (2) Governance, peacebuilding, crisis and resilience; (3) Nature, climate and energy; and (4) Gender equality and women’s empowerment. The 2020 UNDP financial statements present each funding window separately, in view of their distinct nature, including each of the original four.

Funding windows: statement of financial position

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*	*Poverty and inequality*	*Gender equality and women's empowerment*
Assets								
Current assets								
Cash and cash equivalents	1 620	1 564	2 566	523	19 391	8 668	164	46
Investments	7 773	7 501	12 313	2 515	93 076	41 612	786	219
Receivables, non-exchange transactions	–	–	–	–	92 157	–	–	238
Receivables, other	–	5	4	(2)	15	–	–	–
Advances issued	–	266	29	26	4 199	30	–	–
Inventories	3	–	–	–	–	–	–	–
Total current assets	**9 396**	**9 336**	**14 912**	**3 062**	**208 838**	**50 310**	**950**	**503**
Non-current assets								
Investments	6 801	6 563	10 773	2 200	81 441	36 410	688	190
Receivables, non-exchange transactions	–	–	–	–	5 036	–	–	–
Property, plant and equipment	–	262	–	41	21	–	–	–
Total non-current assets	**6 801**	**6 825**	**10 773**	**2 241**	**86 498**	**36 410**	**688**	**190**
Total assets	**16 197**	**16 161**	**25 685**	**5 303**	**295 336**	**86 720**	**1 638**	**693**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	84	155	197	110	2 808	–	–	–
Advances payable	13	–	–	–	–	–	–	–
Other current liabilities	–	–	–	–	233	–	–	–
Total current liabilities	**97**	**155**	**197**	**110**	**3 041**	**–**	**–**	**–**
Total liabilities	**97**	**155**	**197**	**110**	**3 041**	**–**	**–**	**–**
Net assets/equity								
Accumulated surpluses	16 100	16 006	25 488	5 193	292 295	86 720	1 638	693
Total net assets/equity	**16 100**	**16 006**	**25 488**	**5 193**	**292 295**	**86 720**	**1 638**	**693**
Total liabilities and net assets/equity	**16 197**	**16 161**	**25 685**	**5 303**	**295 336**	**86 720**	**1 638**	**693**

35.7 (b)
Funding windows: statement of financial performance

35.7.2. Included in Governance, peacebuilding, crisis and resilience, voluntary contributions of $339 million are voluntary contributions of $272 million from the funding windows related to the COVID-19 pandemic for the following funds: (a) COVID-19 pandemic – country response; (b) COVID-19 pandemic – regional response; (c) COVID-19 pandemic – development effectiveness; and (d) Crisis response – COVID-19 pandemic. In terms of expenses, the COVID-19 pandemic funding windows incurred $94 million of the total expenses from the Governance, peacebuilding, crisis and resilience window of $101 million.

Funding windows: statement of financial performance

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*	*Poverty and inequality*	*Gender equality and women's empowerment*
Revenue								
Voluntary contributions	(1)	22	–	–	338 715	41 110	1 638	693
Investment revenue	271	343	191	125	–	–	–	–
Other revenue	–	–	1	31	438	–	–	–
Total revenue	**270**	**365**	**192**	**156**	**339 153**	**41 110**	**1 638**	**693**
Expenses								
Contractual services	3 512	5 383	5 519	2 295	29 471	55	–	–
Staff costs	536	4 686	2 205	729	6 452	18	–	–
Supplies and consumables used	80	3 336	136	1 939	44 140	2	–	–
General operating expenses	1 184	3 505	1 812	1 262	16 016	62	–	–
Grants and other transfers	179	328	88	441	5 207	–	–	–
Other expenses	50	58	13	4	116	–	–	–
Depreciation and amortization	2	31	–	8	10	–	–	–
Total expenses	**5 543**	**17 327**	**9 773**	**6 678**	**101 412**	**137**	**–**	**–**
Surplus/(deficit) for the year	**(5 273)**	**(16 962)**	**(9 581)**	**(6 522)**	**237 741**	**40 973**	**1 638**	**693**

35.8
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 2019*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2020*
Fund manager: UNDP Africa				
African Peer Review Mechanism of the New Partnership for Africa's Development	18	–	–	18
Belgium: trust fund in support of the elections project in the Democratic Republic of the Congo	2	–	–	2
EEC: support for the national mine action strategy: support for the launch of the Mine Action Centre in Casamance	(10)	–	–	(10)

Name of the trust fund	*Net assets 31 December 2019*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2020*
EEC: support for the legislative elections in 2007 (phase one)	(67)	67	–	–
EEC: Programme in support of good governance in Chad	1	(1)	–	–
EEC: Support for the implementation of the Integrated Drylands Development Programme	2	–	(2)	–
Justice and security trust fund for Liberia	224	4	(31)	197
UNDP trust fund for the Mozambique mine clearance programme	276	5	–	281
UNDP trust fund for the United Nations Educational and Training Programme for Southern Africa	12	–	(1)	11
UNDP: support for the electoral process in Guinea	(2)	2	–	–
Total UNDP Africa	**456**	**77**	**(34)**	**499**
Fund manager: UNDP Arab States				
Arab Human Development Report	1	–	(1)	–
EEC trust fund for local government and country recovery in South Sudan	28	–	–	28
EEC/Sudan: post-conflict community-based recovery and rehabilitation programme	27	–	–	27
EEC/Sudan: Promotion of equality, tolerance and peace through the dissemination of the Comprehensive Peace Agreement and of the Transitional Legal Framework in Southern Sudan	–	–	3	3
Information and communication technology trust fund for Egypt	490	16	(137)	369
Support to Iraq reconstruction	–	(1)	1	–
UNDP: trust fund for the Programme of Assistance to the Palestinian People	5 397	73	(503)	4 967
Total UNDP Arab States	**5 943**	**88**	**(637)**	**5 394**
Fund manager: UNDP Asia and the Pacific				
Law and order trust fund for Afghanistan	102 226	113 563	(97 205)	118 584
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	266	5	–	271
UNDP-Republic of Korea trust fund	134	–	(128)	6
UNDP-Republic of Korea trust fund in support of the Tumen River Area Development Programme	3 099	17	(534)	2 582
Total UNDP Asia and the Pacific	**105 725**	**113 585**	**(97 867)**	**121 443**
Fund manager: UNDP Bureau for Policy and Programme Support				
Forest Carbon Partnership Facility	12 512	133	(6 304)	6 341
Multilateral Fund for the Implementation of the Montreal Protocol	90 791	35 332	(35 370)	90 753
Global Environment Facility trust fund	1 341 985	337 638	(350 065)	1 329 558
Trust fund to combat desertification and drought	262	1	(255)	8
UNDP Energy Account	99	2	–	101
UNDP thematic trust fund on gender	(8)	–	–	(8)
UNDP: thematic trust fund for crisis prevention and recovery	8 704	97	(2 446)	6 355
UNDP: thematic trust fund for democratic governance	1 561	24	(697)	888
UNDP: thematic trust fund on energy for sustainable development	(1)	–	–	(1)
UNDP: thematic trust fund on environment	14 615	126	(7 133)	7 608

Name of the trust fund	*Net assets 31 December 2019*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2020*
UNDP: thematic trust fund on information and communications technology for development	122	–	–	122
UNDP: thematic trust fund on poverty reduction for sustainable development	196	3	–	199
UNDP: thematic trust fund on HIV/AIDS	82	1	–	83
UNDP: trust fund for crisis, post-conflict and recovery situations	391	–	(402)	(11)
UNDP: trust fund for public-private partnerships for the urban environment	26	–	–	26
UNDP: trust fund for sustainable social development, peace and support to countries in special situations	2 249	31	(279)	2 001
Total UNDP Bureau for Policy and Programme Support	**1 473 586**	**373 388**	**(402 951)**	**1 444 023**
Fund manager: UNDP Bureau of External Relations and Advocacy				
UNDP-Republic of Korea: Sustainable Development Goals trust fund	1 210	1 777	(1 673)	1 314
UNDP trust fund for international partnership	256	11	(64)	203
UNDP trust fund for the private sector in development	540	995	(406)	1 129
UNDP-Republic of Korea: Millennium Development Goals trust fund for programming fund-based cooperation	663	10	–	673
Total UNDP Bureau of External Relations and Advocacy	**2 669**	**2 793**	**(2 143)**	**3 319**
Fund manager: UNDP Europe and the Commonwealth of Independent States				
UNDP-Russian Federation: trust fund for development	31 209	40 463	(9 727)	61 945
EEC trust fund for integrated support for decentralization in Albania	2	–	–	2
Total UNDP Europe and Commonwealth of Independent States	**31 211**	**40 463**	**(9 727)**	**61 947**
Fund manager: UNDP Geneva				
UNDP trust fund for innovative partnerships with national Governments, local authorities, the private sector, non-governmental organizations, academic institutions and foundations	4 006	1 208	(1 853)	3 361
Total UNDP Geneva	**4 006**	**1 208**	**(1 853)**	**3 361**
Fund manager: UNDP Latin America and the Caribbean				
International Commission against impunity in Guatemala	50	1	–	51
UNDP-Spain: trust fund for integrated and inclusive development	281	5	–	286
Total UNDP Latin America and the Caribbean	**331**	**6**	**–**	**337**
Fund manager: UNDP Technical Cooperation among Developing Countries				
India, Brazil and South Africa Facility for Poverty and Hunger Alleviation	8 858	4 141	(1 847)	11 152
Pérez-Guerrero Trust Fund for South-South Cooperation	8 295	(52)	(86)	8 157
United Nations Fund for South-South Cooperation	26 504	26 950	(9 611)	43 843
Total UNDP Technical Cooperation among Developing Countries	**43 657**	**31 039**	**(11 544)**	**63 152**
Fund manager: UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services				
Climate change and disaster risk reduction	35 069	192	(9 773)	25 488
Emergency development response to crisis and recovery	11 715	156	(6 678)	5 193
Gender equality and women's empowerment	–	693	–	693

Name of the trust fund	*Net assets 31 December 2019*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2020*
Governance for peaceful and inclusive societies	32 968	365	(17 327)	16 006
Governance, peacebuilding, crisis and resilience	54 554	339 153	(101 412)	292 295
Nature, climate and energy	45 747	41 110	(137)	86 720
Poverty and inequality	–	1 638	–	1 638
Sustainable development and poverty eradication	21 373	270	(5 543)	16 100
Total UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services	**201 426**	**383 577**	**(140 870)**	**444 133**
Total trust funds	**1 869 010**	**946 224**	**(667 626)**	**2 147 608**

Abbreviations: EEC, European Economic Commission; UNDP, United Nations Development Programme.

Note 36
COVID-19 pandemic

36.1. Where evident on UNDP financial performance for the 2020 financial year, the financial impact of the COVID-19 pandemic has been disclosed within the relevant financial statement notes affected. For further details, see note 21, Employee benefits; note 26, Revenue: exchange transactions; note 27, Investment revenue; note 29, Expenses; note 30, Financial instruments and risk management; and note 35.7 (b), Funding windows: statement of financial performance.

21-08585 (E) 270821