



United Nations

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

**Financial report and audited
financial statements**

for the year ended 31 December 2020

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-sixth Session

Supplement No. 5D



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

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



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Note

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

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Letter of transmittal

**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 the audited financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 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 financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which comprise the statement of financial position (statement I) as at 31 December 2020 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 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 UNRWA, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Commissioner-General of UNRWA is responsible for the other information, which comprises the financial report for the year ended 31 December 2020 contained in chapter IV below, but does not include the financial statements and our auditor’s report thereon.

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

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

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

The Commissioner-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation

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

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

Those charged with governance are responsible for overseeing the financial reporting process of UNRWA.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

22 July 2021

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to 5.7 million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs approximately 28,258 area staff and 193 international staff at its five fields of operations in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

The Board of Auditors has audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2020. Owing to the impact of the coronavirus disease (COVID-19) pandemic, the audit was conducted remotely in Beijing and covered UNRWA headquarters and its Jordan and Lebanon field offices.

Opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNRWA 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).

The Board also issued a separate unqualified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2020, which were prepared in accordance with the International Financial Reporting Standards.

In addition, the Board performed an annual audit of the Microfinance Department of UNRWA and issued an unqualified opinion on its financial statements for the year ended 31 December 2020. The material management issues in relation to the Department are included in the present long-form report.

Overall conclusion

UNRWA reported a deficit of \$145.10 million for 2020, which represented a decrease in the deficit amounting to \$27.26 million (15.82 per cent) when compared with the deficit of \$172.36 million reported for the previous year. The continuous deficit is attributable mainly to a shortfall in cash contributions from different donors.

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

Key findings

Goals set in the resource mobilization strategy not fully achieved

The Board reviewed the indicators of the monitoring framework in the resource mobilization strategy for the period 2019–2021 and noted that of the 15 targets set for the year 2020, 7 targets (47 per cent) had not been fully achieved at the end of 2020.

Recruitment delay in the staff selection process

The Board identified delays in the staff selection process: of the staff posts recruited by UNRWA headquarters in 2020, 9 (56.25 per cent) of 16 international posts had exceeded the target period (120 days), and 13 (68.42 per cent) of 19 area staff posts had exceeded the target period (90 days). At the Jordan field office, the average length of the recruitment period for 29 area staff posts was 196 days, with a maximum period of 358 days. At the Lebanon field office, the average recruitment period for 32 area staff posts was 251 days, and in 30 cases (93.75 per cent) it was more than the target period of 90 days.

Low compliance rate in performance evaluations for non-teaching and teaching staff members

The Board noted that the compliance rate in performance evaluations was low in the 2019 and 2020 e-performance cycles. For instance, for the 2019 cycle for non-teaching staff, from January to June 2020, the headquarters compliance rate was only 46 per cent, while the rate of three departments was zero; for the 2020 cycle for non-teaching staff, from July to September 2020, the compliance rate in the submission of the mid-cycle performance review was only 12 per cent, and in 9 of the 19 departments was zero.

Non-preparation of procurement plan

The Board noted that UNRWA headquarters had not prepared a master procurement plan with strategies for the year 2020.

Staff members receiving social safety net programme services

The Board reviewed the social safety net programme distribution list and noted that 47 UNRWA staff members (excluding daily paid workers) were enrolled and received services from the programme in 2020. Seven of them were permanent staff from the Gaza field office and the other 40 were fixed-term employees from the Lebanon and Gaza field offices.

Lack of update to disaster recovery plans

The Board reviewed two disaster recovery plans of UNRWA and noted that neither had been updated since 2015, while the Department of Information Management and Technology had been restructured twice and the two plans were no longer operational. Except for those two plans, no other disaster recovery test plans were provided.

Inadequate management of loans receivable

The Board noted that while the gross portfolio was decreasing, as at 31 December 2020, the portfolio at risk stood at 22.14 per cent. A further review over the past four years indicated that the portfolio at risk had increased from 6.70 per cent in 2016 to 7.25 per cent in 2019 against the regional benchmark of 5.85 per cent.

Main recommendations

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

Goals set in the resource mobilization strategy not fully achieved

(a) **Pay close attention to the key indicators in the resource mobilization strategy monitoring framework and make further efforts to meet the yearly targets set by the Agency;**

Recruitment delay in the staff selection process

(b) **Develop clear plans and procedures to control the length of the recruitment period in accordance with the international staff personnel directive and area staff personnel directive;**

Low compliance rate in performance evaluations for non-teaching and teaching staff members

(c) **Ensure compliance in performance evaluations for non-teaching and teaching staff members at the headquarters and field office levels, respectively, and link the e-performance system with a reward system to ensure the achievement of the set goals;**

Non-preparation of procurement plan

(d) **Prepare an annual master procurement plan for the major procurement activities;**

Staff members receiving social safety net programme services

(e) **Take corrective action where appropriate to recover subsidies under the social safety net programme given to staff members, strengthen the verification of refugees' enrolment and exclude those who do not meet the required criteria to ensure that refugees in real need of assistance can be enrolled;**

Lack of update to disaster recovery plans

(f) **Update the disaster recovery plans to comply with the latest organizational structure and service, and periodically review the disaster recovery plans in order to make them responsive to the continuously evolving information technology environment;**

Inadequate management of loans receivable

(g) **Conduct a thorough eligibility analysis of loan applicants and guarantors and work on decreasing the portfolio at risk.**

Follow-up to previous recommendations

As at 31 December 2020, of the 47 outstanding recommendations up to the financial year ended 31 December 2019, 25 (53 per cent) had been implemented, 19 (41 per cent) remained under implementation, 1 (2 per cent) had not been implemented and 2 (4 per cent) had been overtaken by events. The Board acknowledged the efforts made by UNRWA in implementing previous recommendations, and encourages UNRWA to continue to work on implementing the remaining recommendations.

Key facts	
5.7 million	Population of Palestinian refugees served by UNRWA in 2020
28,258	UNRWA area staff (local staff)
193	UNRWA international staff
\$862.40 million	Total assets
\$1,080.30 million	Total liabilities
\$982.52 million	Total revenue
\$1,127.62 million	Total expenses
\$1.06 billion	UNRWA final budget 2020
\$145.10 million	Deficit for the year 2020

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by General Assembly resolution 302 (IV) of 8 December 1949 and became operational on 1 May 1950. It is a subsidiary organ of the Assembly within the United Nations system. The mandate of UNRWA is to help Palestinian refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving more than 5.7 million Palestinian refugees in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank. UNRWA is also one of the largest employers in the Middle East, with approximately 28,451 staff, most of whom are Palestinian refugees.
2. The Board of Auditors audited the financial statements of UNRWA and reviewed its operations for the year ended 31 December 2020, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.
3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 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 body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency.
4. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.
5. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations at UNRWA headquarters in Amman as well as at the field offices in Jordan and Lebanon, in accordance with regulation 7.5 of the Financial Regulations and Rules of the United Nations. Specific areas covered during the audit

include financial management; programme and project management; procurement and contract management; asset management; human resources management; health programme management; relief and social services; information and communications technology (ICT); and management of the Microfinance Department.

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

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

B. Findings and recommendations

1. Follow-up to previous recommendations

8. The Board noted that there were 47 outstanding recommendations up to the year ended 31 December 2019, of which 25 (53 per cent) had been implemented, 19 (41 per cent) were under implementation, 1 (2 per cent) had not been implemented and 2 (4 per cent) had been overtaken by events, as shown in table II.1.

Table II.1

Status of implementation of recommendations

	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Overtaken by events</i>
Total	25	19	1	2
Percentage	53	41	2	4

9. The Board has carried out an analysis of the 20 recommendations that were under implementation and not implemented and noted that 4 (20 per cent) are related to asset management; 4 (20 per cent) are about human resources management; 4 (20 per cent) fall under the category of ICT; 3 (15 per cent) involve financial management; 3 (15 per cent) called for corrective actions to relief and social services; and 2 (10 per cent) concerned central support services.

10. With regard to the ageing of those 20 pending recommendations, 2 (10 per cent) have remained open for four years; 3 (15 per cent) have been open for three years; 5 (25 per cent) are two years old; and 10 (50 per cent) were made one year ago.

11. The Board acknowledges the efforts made by UNRWA to increase the implementation status of previous recommendations, and 53 per cent were implemented in 2020 (2019: 59 per cent). In this context, it encourages the Agency to continue to work on implementing the remaining recommendations. Details of the status of implementation of the previous years' recommendations are provided in annex I to the present report.

2. Financial overview

Financial performance

12. In 2020, the revenues of UNRWA decreased by \$18.26 million (from \$1,000.78 million in 2019 to \$982.52 million in 2020). This decrease was mainly due to a decrease in cash contributions by \$15.34 million.

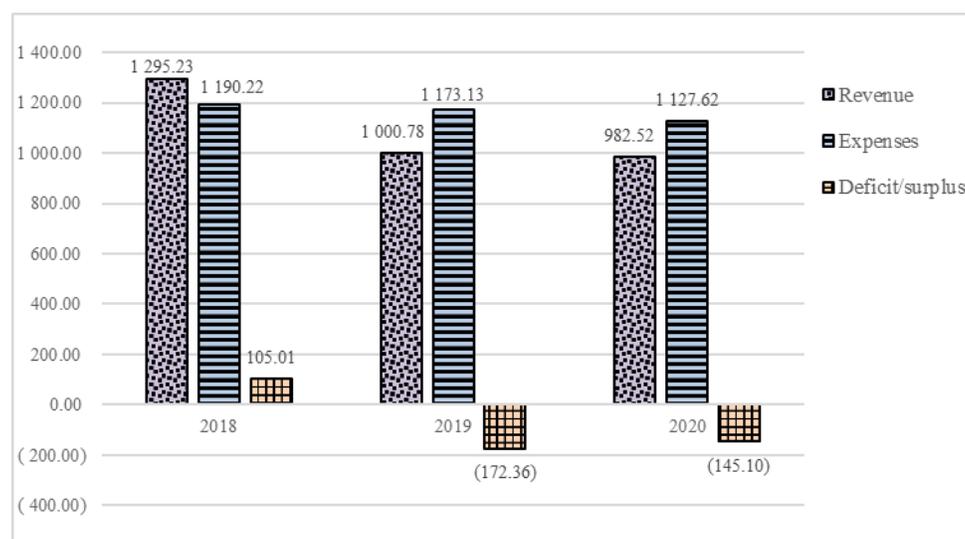
13. UNRWA reported a deficit of \$145.10 million for the year ended 31 December 2020 (2019: deficit of \$172.36 million). The reported deficit is explained by the continued loss of a key donor of cash contributions since August 2018, despite the Agency's continued cost reduction measures adopted in the light of its financial restrictions.

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

Figure II.I

Comparative revenue and expenses trend for three years

(Millions of United States dollars)



Source: Financial statements of UNRWA for 2020.

15. The programme budget, which finances the core activities of the Agency, reflected a significant increase in the deficit by 27.44 per cent, from a deficit of \$144.04 million in 2019 to a deficit of \$183.57 million in 2020. The increase in the deficit in the programme budget was due to a decrease in revenue of 4.83 per cent, mainly for cash contributions. Emergency appeals recorded a surplus of \$23.14 million owing to funding for the future related to the coronavirus disease (COVID-19) pandemic. The project funds recorded a surplus of \$15.87 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a deficit of \$2.42 million, owing to the constrained financial markets resulting from the COVID-19 pandemic. The details are presented in table II.2.

Table II.2

Financial performance by fund

(Millions of United States dollars)

Description	Unearmarked activities			Earmarked activities			Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Revenue	591.02	24.09	7.48	284.84	101.69	(26.59)	982.52
Expenses	774.58	22.62	9.90	261.69	85.82	(27.00)	1 127.62
Surplus/(deficit)	(183.57)	1.47	(2.42)	23.14	15.87	0.41	(145.10)

Source: Financial statements of UNRWA, segment reporting by fund: financial performance as at 31 December 2020.

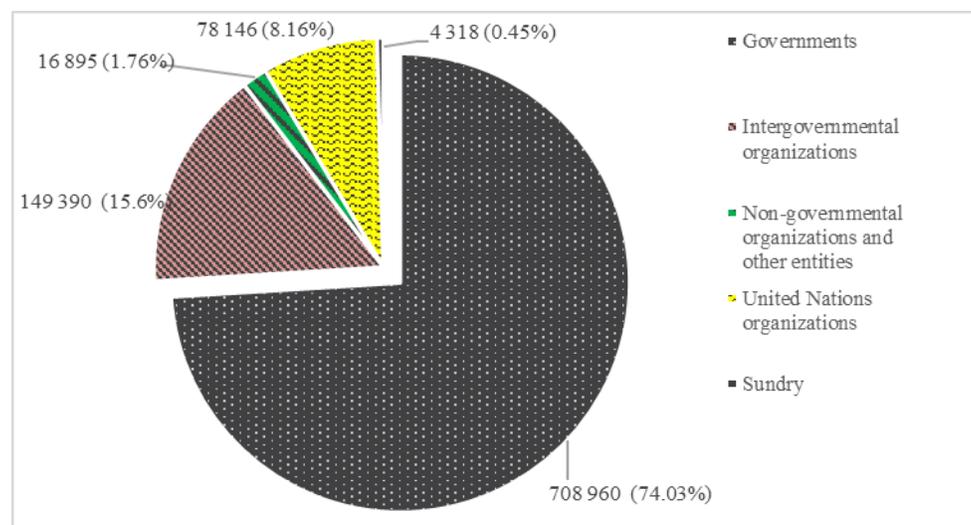
Composition of contributions revenue

16. Of the total contributions of \$957.71 million reported during 2020, \$879.56 million (91.84 per cent) represents voluntary contributions from Governments, intergovernmental organizations, non-governmental entities and sundry donors, while the remaining balance of \$78.15 million (8.16 per cent) was received from the United Nations regular budget and other United Nations agencies (see figure II.II).

Figure II.II

Contributions revenue by source

(Thousands of United States dollars)



Source: Financial statements of UNRWA for 2020 (information presented in accordance with notes 20 and 21, including cash and in-kind contributions revenue).

Financial position

17. The Board analysed the financial statements for the year 2020 on the basis of the key financial indicators. Table II.3 contains key financial ratios computed from the statement of financial position. The ratio analysis indicates that, despite high levels of liquid assets, liquidity has decreased compared with 2019. In that sense, overall net assets decreased from a deficit of \$0.78 million in 2019 to a deficit of \$217.90 million in 2020, including an increase in the reserves deficit from a deficit of \$50.08 million in 2019 to a deficit of \$121.68 million in 2020. The significant decrease in net assets is attributed to the increase in employee benefit liabilities and payables and accruals, coupled with a decrease in contributions receivable.

18. That analysis is consistent with the decrease in working capital from \$254.11 million in 2019 to \$168.50 million in 2020 and the value of the ratio of current assets to current liabilities, which decreased from 2.41 in 2019 to 1.80 in 2020. In addition, UNRWA had a quick ratio value of 1.41 (2019: 1.97) to cover each dollar of immediate current liabilities when they fall due. Furthermore, the total assets could cover 79.83 per cent of the total liabilities at year-end. All ratios indicate a decrease in liquidity compared with the year 2019.

19. The programme budget, which finances the Agency's core activities, continues to experience a liquidity pressure whereby its current liabilities continue to exceed current assets. As at the year-end, the programme budget had a current ratio and a quick ratio of 0.46 and 0.32, respectively, to cover each dollar of current liabilities.

Table II.3
Ratios of key financial indicators

Ratio	31 December 2020 (all funds)	Programme budget 2020	31 December 2019 (all funds)	Programme budget 2019
Cash ratio^a				
(Cash + short-term investments): current liabilities	1.24	0.20	1.49	0.16
Quick ratio^b				
(Cash + short-term investments + accounts receivable): current liabilities	1.41	0.32	1.97	0.54
Current ratio^c				
Current assets: current liabilities	1.80	0.46	2.41	0.70
Solvency ratio^d				
Total assets: total liabilities	0.80	0.52	1	0.65

Source: Financial statements of UNRWA for 2020 and 2019.

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

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

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

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

20. Total liabilities of UNRWA stood at \$1,080.30 million as at 31 December 2020, with post-employment and other long-term employee benefits of \$951.06 million representing 88.04 per cent of the total liabilities. Long-term employee benefits liabilities were \$869.78 million, compared with \$754.79 million reported in the previous year, showing an increase of \$114.99 million. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The increase during the year is due to the change in the discount rate from 3.13 per cent to 2.57 per cent, affected by payments of \$38.69 million and an actuarial loss of \$36.56 million, offset by interest of \$25.45 million, service costs of \$52.59 million incurred during the year and remeasurements of the continuing low interest rate environment of \$35.05 million.

21. The Board noted a slight decrease in cash balances maintained by UNRWA. As at 31 December 2020, UNRWA had cash balances amounting to \$260.69 million, compared with \$268.52 million reported as at 31 December 2019. Of the \$260.69 million, \$38.16 million (14.64 per cent) was available for programme budget (unearmarked) activities, while \$222.53 million (85.36 per cent) was available for earmarked activities.

22. Furthermore, the Board noted an increase in the accrued expenses of UNRWA. As at 31 December 2020, UNRWA had accrued expenses amounting to \$58.28 million, compared with \$18.44 million reported as at 31 December 2019. Of the \$58.28 million, \$43.61 million (74.83 per cent) was other salary-related payable, compared with \$3.89 million as at 31 December 2019. Because of limited cash under the programme budget, UNRWA delayed the payment of the December 2020 salaries to January 2021, increasing the salary-related accrual.

Budget performance

23. The original 2020 programme budget (modified cash basis), as reflected in the Blue Book¹ for 2020–2021, was \$1,116.15 million. On a modified cash basis, the final 2020 budget was \$1,057.12 million, representing a decrease of \$59.03 million (or 5.29 per cent). This is explained mainly as a reflection of the decrease in the final budget, due primarily to a decrease in the final programme budget from \$888.32 million to \$824.76 million (including in-kind contributions) and an increase in the final projects budget from \$227.82 million to \$232.36 million, including restricted funds (earmarked projects).

3. Financial management*Long-outstanding balance of provision for advances to staff*

24. In accordance with section D.1, paragraph 190 (rule 1.3.11), of the UNRWA financial technical instructions (20 March 2018 version), on accounts receivable monitoring, a 100 per cent provision shall be calculated when receivables to separated staff members are outstanding for more than one year from the separation date, and the doubtful debt and the write-off request should be submitted with the supporting documents to the Director of Finance for approval after four years.

25. During the review of the receivables and the provision, the Board observed that, as at 31 December 2020, the credit balance of the provision for advances to international staff, amounting to \$88,018.57, had not been cleared for more than 10 years from the separation of the staff members.

26. The Board was informed that these provisions were very long-outstanding accumulated amounts, details of which were difficult to trace. The referred cases were followed up periodically and responsible parties advised that they had compiled the supporting documentation for write-off.

27. UNRWA further explained that provisioning and write-offs were two separate processes within the Agency. While provisioning was processed systematically at the end of each month on the basis of the provisioning percentages set up in REACH (the UNRWA enterprise resource planning system), in line with the Agency's policies and procedures, write-offs, on the other hand, were posted manually.

28. The Board acknowledged the efforts made by the Agency to review the long-outstanding balances. Nevertheless, the Board considers that a long-outstanding balance of provisions may indicate weak controls over the follow-up and clearing of staff advances against entitlements from the separated staff.

29. The Board recommends that UNRWA analyse the historical data and push forward the clearance of outstanding balances of provisions in compliance with its financial technical instructions.

30. The Agency agreed with the recommendation.

Goals set in the resource mobilization strategy not fully achieved

31. The overall objective of the resource mobilization strategy for the period 2019–2021 is to secure the necessary funds in that period to deliver on the Agency's mandate, in line with five strategic outcomes set out in the UNRWA medium-term strategy for the period 2016–2021. This objective requires sufficient, predictable and

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

sustained contributions to the Agency's human development and emergency operations, which are funded through its programme budget and emergency appeals.

32. The Board reviewed the indicators in the resource mobilization strategy monitoring framework and noted that of the 15 targets set for the year 2020, 7 (47 per cent) were not fully achieved at year-end. The details are shown in table II.4.

Table II.4
Comparison of target and actual indicators for 2020

<i>Indicator</i>	<i>Target</i>	<i>Actual</i>
Percentage of non-earmarked funds pledged under the programme budget and emergency appeals	71.4	59
Number of donors subscribing to the <i>Annual Operational Report</i> to reduce contribution-specific reporting requirements under the programme budget and emergency appeals	18	15
Share of overall income from diversified sources – public donors (i.e. regional and emerging partners) (percentage)	26.5	6
Number of countries supporting a zakat partnership	6	5
Number of international policy forums, multilateral organizations and regional groups where the UNRWA Commissioner-General has been given a speaking slot	20	10
Number of views on the UNRWA YouTube channel	30 022 680	22 053 395
Number of visitors to the UNRWA website	970 699	905 585

Source: Data provided by UNRWA.

33. The Agency explained that underachievement on some of the indicators in 2020 was due to factors such as donor preference for earmarked contributions, regional politics and the economic status of donor countries in the context of the COVID-19 pandemic. As a result of the UNRWA financial situation and budget restrictions, no investment was available for fundraising and communications, and the annual budget was not sufficient to cover the full scope of fundraising and communication and outreach activities needed to achieve the objectives of the resource mobilization strategy.

34. The Board is of the view that the underachievement of the seven above-mentioned key indicators showed the deficiencies in the Agency's ability to successfully mobilize resources to fulfil its mandate.

35. The Board recommends that UNRWA pay close attention to the key indicators in the resource mobilization strategy monitoring framework and make further efforts to meet the yearly targets set by the Agency.

36. UNRWA agreed with the recommendation.

4. Programme and project management

No registry of lessons learned

37. It is stated in paragraph 77 of the UNRWA project procedures manual that the Department of Planning will keep track of all lessons learned, take or initiate any required action and provide an analysis of all lessons learned to the Project Review Committee every six months. The Department will maintain a registry of lessons learned in order that lessons can be shared with project sponsors, officers and managers of similar and other projects in the future.

38. The Board noted that the Agency did not maintain a registry of lessons learned or provide an analysis of all lessons learned to the Project Review Committee every six months, as requested in the project procedures manual.

39. The Agency explained that the registry of project-oriented lessons learned could not be instituted as the strategic project management office, the unit responsible for the development and maintenance of the registry, had yet to be established owing to the restricted funding environment.

40. The Board considers that not having a registry of lessons learned or an analysis of all lessons learned not being delivered to the Project Review Committee may hamper the ability of UNRWA to benefit from previous projects.

41. The Board recommends that UNRWA develop and maintain a registry of lessons learned in accordance with the UNRWA project procedures manual and expedite the establishment of the unit that will be in charge of it.

42. The Agency agreed with the recommendation.

Lack of emergency response handbook

43. It is stated in paragraph 9 of the UNRWA emergency management framework (issued in September 2017 and updated in May 2018) that headquarters shall establish an emergency response handbook and standard operating procedures that incorporate good practice from the field. The field-level emergency response handbook should be aligned with an agency-wide handbook, based on a crisis or emergency scenario that is different from field to field.

44. The Board noted that the emergency response handbook, both at the headquarters and field levels, had not yet been issued.

45. The Agency explained that it continued to work on the emergency response handbook. However, it had been delayed owing to the lack of dedicated resources in the Department of Planning, and the priority was to respond to the ongoing crisis (financial and related to the COVID-19 pandemic) in 2020. Preparation of the handbook was expected to resume in 2021, and the Agency would seek to mobilize additional resources to that end.

46. The Board considers that the emergency response handbook is fundamental for UNRWA operations at both the headquarters level and the field office level, providing a harmonized approach for all operations in emergency responses.

47. The Board recommends that UNRWA resume the drafting of the emergency response handbook and expedite its deployment.

48. The Agency agreed with the recommendation.

5. Procurement and contract management

Inadequate deployment of e-procurement

49. It is stated in paragraph 22 of the report of the Secretary-General on procurement activities in the United Nations Secretariat (A/73/704) that following the implementation of e-tendering on a pilot basis, the Procurement Division of the Secretariat, in consultation with the other United Nations organizations, intends to introduce e-tendering across the Organization and a web-based, catalogue-type ordering system that may be hosted on the United Nations Global Marketplace website to facilitate processing of orders directly by field offices.

50. The Board noted that UNRWA headquarters and the Jordan field office were piloting the use of the intended platform to accept tender applications. However, other

field offices had not deployed the e-tendering system, and tender applications were still processed manually, accounting for 69 per cent of the total purchase value.

51. UNRWA indicated that the adoption of e-tendering might not be suitable for all field offices at this stage, as vendors operating in the region were not capable of adopting and/or were not familiar with that technology. There was hence a high risk of precluding small and medium-sized enterprises from accessing business opportunities with the Agency, limiting the number of bidders and competition and ultimately hampering the organization's capacity to achieve best value for money.

52. The Board considers that the deployment of e-tendering in the Jordan field office is a good start for all field offices. With prudent and comprehensive evaluation, it could be implemented in areas where the situation is appropriate in the foreseeable future, while considering local market conditions, adequate resources and business efficiency.

53. The Board recommends that UNRWA prepare a multi-year plan for the progressive deployment of the e-tendering platform in the field offices.

54. The Agency agreed with the recommendation.

Outdated procurement instructions

55. In accordance with chapter 9.1 of the UNRWA procurement manual (2015), certain recommendations for award, depending on the value and contract term, are subject to review by the responsible committee or department at a field office. Prior to submitting a recommendation for award to the awarding authority for approval, the sponsoring officer will ensure that, for procurement actions subject to responsible committee review, a recommendation has been obtained.

56. The Board observed that UNRWA had revised the levels of delegated authority, contract type and thresholds for procurement review in December 2019 and September 2020, respectively, in the form of the delegation of authority letters. The updates were quite different from the regulations in the procurement manual.

57. Moreover, in 2018, the merger of procurement functions in the Jordan field office and at headquarters in Amman took place and the relevant authority was delegated to the Chief of the Central Support Services Division to perform the procurement functions of the Jordan field office. However, no updates were made to organization directive No. 10 to reflect the change.

58. The Board considers that in order to clarify the delegation of authority between the Central Support Services Division, the Jordan field office and other field offices, it is necessary to update organization directive No. 10.

59. The Board recommends that UNRWA set a timetable for the renewal of the procurement instructions and update those instructions in a timely manner so as to better guide procurement activities.

60. The Agency agreed with the recommendation.

Non-preparation of procurement plan

61. It is stated in section 4.4 of the UNRWA procurement manual (2015) that in order to support the principal objectives of procurement, project and procurement personnel in each headquarters department and field office will, to the extent possible, establish an annual procurement plan for major procurement activities, which will contribute to the Agency's procurement plan and be the basis for requests for procurement actions.

62. The Board observed that UNRWA headquarters had not prepared a master procurement plan with strategies, which could have guided the purchasing activities throughout the year 2020.

63. The Agency explained that as a result of the late completion of the budget allocation process at the end of March 2020 and the impact of the COVID-19 pandemic that followed, several activities were put on hold (e.g. construction projects) and could not be scheduled. Therefore, it was impossible for the Agency to prepare a procurement plan in a timely manner.

64. Since the COVID-19 pandemic started to affect Jordan at the end of March 2020, the Board is of the view that a master procurement plan needs to be prepared in January by headquarters in accordance with the procurement manual. Even if affected by the COVID-19 pandemic, a simplified procurement plan could be developed as an alternative.

65. The Board recommends that UNRWA prepare an annual master procurement plan for the major procurement activities.

66. The Agency agreed with the recommendation and said that it would resume preparation of the annual procurement plan in 2021. In case of epidemics or other emergencies rendering impossible the issuance of an annual plan, an alternative one may be prepared, as necessary, to guide procurement activities.

6. Asset management

Deficiencies in the classification of assets and their estimated useful life

67. In accordance with section D.2, paragraph 7 (rule 2.3.1), of the UNRWA financial technical instructions, on the life cycle of property or property group rates for depreciation, uninterruptible power supply equipment and photocopiers are classified, respectively, as medium-life ICT equipment and office equipment with an estimated useful life of five years.

68. The table of asset classes in REACH gives specific standards for asset classification and estimated useful life. For uninterruptible power supply equipment, low-capacity uninterruptible power supply (less than 10 kVA) is classified as short-life ICT equipment with an estimated useful life of three years, and high-capacity uninterruptible power supply (equal to or greater than 10 kVA) is classified as medium-life ICT equipment with an estimated useful life of five years. Photocopiers belong to office equipment and are assigned a useful life of five years. In addition, personal computers, notebooks, servers, digital senders and heavy-duty printers are described as PC laptops.

69. The Board observed that six out of seven uninterruptible power supply items and 15 out of 22 photocopiers were not classified in appropriate asset classes or assigned a suitable useful life in accordance with the standards. Out of the six items, two with a total book value of \$11,857.40 were incorrectly sorted into the class of PC laptops, and four (each with a capacity of 6 kVA) with a total book value of \$10,280.90 were treated as high-capacity uninterruptible power supply items and classified as medium-life ICT equipment with a five-year useful life. The 15 photocopier machines with a total book value of \$29,332.43, acquired in 2020, whose useful life should have been estimated as five years, were sorted into the class of PC laptops, with a useful life of three years.

70. The Agency explained that it could not change the useful life of the assets already inserted in the REACH system and the impact of the variance was immaterial.

71. The Board considers that improper classification and estimated useful life for assets may indicate a weakness in the process of asset recording and influence the accuracy of the calculation of depreciation of the related assets.

72. The Board recommends that UNRWA review the procedure of asset classification and strengthen its controls to avoid improper classification and thus ensure accurate calculation of depreciation.

73. The Agency agreed with the recommendation.

7. Human resources management

Recruitment delay in the staff selection process

74. It is stated in UNRWA international staff personnel directive No. I/104.2/Rev.4/Amend.1 that hiring directors (field directors and headquarters department directors) are responsible for ensuring that the selection process is completed within a maximum period of 120 days (from the date of publication of the vacancy announcement to the date a selection decision is made by the relevant authority). It is stated in UNRWA area staff personnel directive No. A/4/Part II/Rev.7/SectionI that area staff selection activities carried out by the Agency will be guided by a target of a maximum of 90 calendar days to fill area staff vacancies.

75. The Board noted that recruitment of 16 international posts was completed in 2020 at UNRWA headquarters, nine of which (56.25 per cent) had a recruitment period exceeding 120 days, with a maximum recruitment period of 192 days. Recruitment for 19 area staff posts was completed in 2020 at UNRWA headquarters, 13 of which (68.42 per cent) had a recruitment period exceeding 90 days, with a maximum recruitment period of 289 days.

76. The Board further noted that in 2020 at the Jordan field office, the average recruitment period for 29 area staff posts was 196 days, with a maximum recruitment period of 358 days. In 2020 at the Lebanon field office, the average recruitment period for 32 area staff posts was 251 days, and in 30 cases (93.75 per cent) it was more than 90 days.

77. UNRWA indicated that the Agency had been deploying several tools to strengthen this area, including at the headquarters and field office levels. The COVID-19 pandemic had caused interruptions to the completion of the written tests, and interview processes were carried out electronically. However, remote technology did not always effectively respond to the challenges at the field office level, specifically for lower grades, as most of the candidates did not have computers and/or Internet connection. Additionally, for area staff posts, the recruitment processes were put on hold owing to the financial situation. Therefore, no new posts were advertised except internally.

78. The Board is of the view that the extension of the time period for international and area staff recruitment did not comply with the staff selection policy. The COVID-19 pandemic may affect the recruitment process, but the application of remote technology can largely respond to the current challenges to recruitment, such as for interviews, tests and approval, especially for the senior posts. Delayed recruitment could affect the performance of important posts and the achievement of organizational goals. The Board further holds that preventing recruitment delays in the staff selection process is a shared responsibility of different departments and calls for concerted efforts.

79. **The Board recommends that UNRWA develop Agency-wide plans and procedures to ensure that the selection process is completed within the maximum time period.**

80. UNRWA agreed with the recommendation.

Low compliance rate in performance evaluations for non-teaching and teaching staff members

81. It is stated in UNRWA international staff personnel directive No. I/112.6/Rev.1 that the end of February is the deadline for agreement and completion of individual objectives and performance indicators in the system and July/August is the deadline for mid-cycle performance discussions. In addition, it is stated in UNRWA area staff personnel directive No. A/23 that the end of February is the deadline for agreement and completion of individual objectives and performance indicators in the system, July/August is the deadline for mid-cycle performance discussions and the end of January is the deadline for completion of individual performance management, performance discussions and the previous year's performance evaluation in the system.

82. The Board noted that the performance evaluation compliance rate was low in the 2019 and 2020 e-performance cycles for UNRWA. For instance, for the 2019 cycle for non-teaching staff, from January to June 2020, the headquarters compliance rate was only 46 per cent, while compliance rate in three departments was zero; for the 2020 cycle for non-teaching staff, from July to September 2020, the compliance rate for the submission of the mid-cycle performance review was only 12 per cent, and in 9 of the 19 departments was zero.

83. With regard to the teaching staff at the Lebanon field office, as at 30 September 2020, the annual performance evaluation completion rate for the school year 2019/20 was only 18 per cent, and 1,225 teaching staff had not completed the annual performance evaluation; even as at 31 March 2021, the annual performance evaluation completion rate for the school year 2019/20 was only 85 per cent, and 237 teaching staff still had not completed the annual performance evaluation, which should have been completed before 31 August 2020.

84. The Agency explained that the Department of Human Resources had opened the year-end review and would as usual be sending follow-up messages to all the Heads of department urging them to complete the e-performance of their subordinates in a timely manner. An official recommendation relating to linking e-performance with a reward system had been submitted to management for a final decision. A change request was raised in the system, issuing bimonthly reminders to staff and supervisors to complete the task within the evaluation phase. The field offices in Jordan and the Syrian Arab Republic had extensively encouraged all departments through regular email communications to complete e-performance in a timely manner and to a high level of quality. As at 13 April 2021, the compliance rate for the 2020 cycle for non-teaching staff in the Jordan field office was 98.3 per cent. As at 19 April 2021, the compliance rates for the 2020 cycle for non-teaching area staff and international staff were 99 per cent and 92 per cent, respectively. The Lebanon field office has developed an action plan to address the issue of annual performance evaluation completion rates.

85. The Board holds that efforts to improve the completion rate at all stages of performance management will help staff members to adjust their work priorities and direction in a timely manner and further ensure the realization of the annual work objectives of staff members, as well as the overall annual performance goal of the Agency. The Board highly appreciates the Agency's great efforts to rectify this problem after the interim audit. However, the Board is of the view that some of the

compliance rates at different performance management stages throughout the whole year of 2020 are still low.

86. The Board recommends that UNRWA ensure compliance in performance evaluations for non-teaching and teaching staff members at the headquarters and field office levels, respectively, and link the e-performance system with a reward system to ensure the achievement of the set goals.

87. UNRWA agreed with the recommendation.

Integration of REACH and the Education Management Information System

88. In accordance with the best practice of information system management, information systems should ensure data consistency and accuracy and avoid any data anomalies and redundancy.

89. REACH is an integrated management system for the daily management of UNRWA. As an important module, the human resources management subsystem is mainly used for the organization's daily human resources management. The Education Management Information System is the transaction information system for education and is mainly used for the management of daily teaching activities.

90. The Board noted that there were data discrepancies between REACH and the Education Management Information System. Currently, in practice, the data for the same employee were entered by two different departments (the Department of Human Resources and the Department of Education) into these two systems, which had no interface. In addition, the staff transfer transactions were implemented in the Education Management Information System but were not fully documented in the REACH system, leading to inconsistency between the two systems in terms of data. As at 7 April 2021, the discrepancy rate of the REACH system at the West Bank field office was 11.75 per cent, with 253 discrepancies, while the discrepancy rate of the Education Management Information System at the same field office was 4.55 per cent, with 98 discrepancies. From the perspective of effective management, the discrepancy rates of the two systems in some field offices were slightly high.

91. The Agency indicated that a functional specifications document for integration between REACH and the Education Management Information System had been prepared by the information technology service centre, a member of the Information and Communication Technologies Task Force. The Task Force was currently following up with the concerned field offices to fix all the discrepancies between the two systems. Full coordination had been taking place with the Department of Human Resources and the Department of Education. Furthermore, as at April 2021, UNRWA had made a substantial improvement compared with the status as at 17 November 2020. As at 7 April 2021, the Agency-wide discrepancy rate of REACH was 13.8 per cent compared with 0.98 per cent for the Education Management Information System. The Agency was still working on the integration of both systems.

92. The Board considers that REACH shall be the ultimate reference for staff data and that the integration shall add value and avoid data redundancy. The discrepancies between REACH and the Education Management Information System do not comply with the principles of data consistency and accuracy.

93. The Board recommends that UNRWA further decrease the discrepancy rate of REACH and the Education Management Information System and develop integration between the two systems to ensure the consistency of all information system data related to human resources.

94. UNRWA agreed with the recommendation.

Incomplete staff profiles in e-performance system

95. It is stated in UNRWA area staff personnel directive No. A/23 that the performance year for non-teaching staff is from 1 January to 31 December and the end of February is the deadline for the agreement and completion of individual objectives and performance indicators in the system.² In compliance with the above rules, the e-performance system should ensure the completeness and accuracy of data and avoid any data anomalies or deficiencies.

96. The Board compared the headquarters staff profile lists from REACH with the e-performance system as at 31 March 2021 and found that 14 staff members in REACH were missing in the e-performance system. The Board also noted that one staff member was on the headquarters list in the e-performance system while listed in the Gaza field office in REACH, which indicated that there was still no integration between REACH and the e-performance system, and some human resources actions, such as transfer from headquarters to the field, were not reflected in the e-performance system.

97. The Agency indicated that eight staff members had their reports for the 2020 and 2021 cycles merged into one cycle as they joined the Agency late in 2020; three staff members had completed their 2020 reports but retired in February or April 2021; two staff members had completed their cycles but completion had not been listed under e-performance owing to technical issues and had been reported to the Department of Information Management and Technology; and one staff member had been separated on medical grounds owing to sick leave. With regard to the staff member on the headquarters list in the e-performance system while listed in the Gaza field office in REACH, the difference was due to the frequent move between Gaza headquarters and the Gaza field office. A number of tools were deployed to strengthen this area, and implementation was in progress.

98. The Board considers that since the active non-teaching staff should agree on and complete individual objectives and performance indicators in the system before the end of February, the eight merged-cycle staff members should be included in the e-performance system before February 2021 and the three retired staff members' status in REACH should be "inactive". For the situation of internal transfers, the staff members' main profile should be kept in the e-performance system to manage their performance.

99. The Board holds that the omission of staff members' data in the e-performance system may lead to a lack of annual performance evaluation and performance process management for the related staff members and affect the realization of overall human resources management objectives.

100. The Board recommends that UNRWA verify and add the missing staff in the e-performance system in a timely manner and further integrate REACH with the e-performance system.

101. UNRWA agreed with the recommendation.

Gender representation of prevention of sexual exploitation and abuse focal points

102. It is stated in article 7 of the sexual exploitation and abuse complaints procedure (general staff circular No. 07/2010) that the focal point and alternate focal points for each location must be comprised of at least one female and one male.

103. The Board reviewed the list of the UNRWA focal points for the prevention of sexual exploitation and abuse at headquarters and five field offices, and noted that all

² The end of February is the deadline for reflecting the objectives in the e-performance system.

the focal points in the Lebanon and West Bank field offices were female, which was not in line with the rules.

104. The Agency explained that it was currently in a period of transition, since it was taking steps to change the policy and planning to change the criteria for the prevention of sexual exploitation and abuse focal points, and would address the gender representation issues through new procedures on sexual exploitation and abuse in early 2021. General staff circular No. 07/2010 would be revised in the second quarter of 2021 after the necessary resources had been secured.

105. The Board considers that the disparity of gender representation in the prevention of sexual exploitation and abuse focal points is a breach of the effective rules, which may hinder the protection of the privacy of the victims.

106. The Board recommends that UNRWA appoint the prevention of sexual exploitation and abuse focal points on the basis of gender equality so as to comply with the Agency's rules and procedures.

107. UNRWA agreed with the recommendation.

Management compact letter not issued

108. It is stated in paragraph 22 of organization directive No. 21, on programme and project cycle management, that complementary to the approval of the annual operational plans, the Commissioner-General shall enter into a management compact with each director for the year in question.

109. The Board noted that the management compact for 2020 between the Commissioner-General and the Director of UNRWA Affairs in the Lebanon field office had not been issued.

110. The Lebanon field office explained that owing to the personnel changes at the senior management level at UNRWA headquarters, the compact had not been issued in 2020.

111. The Board is of the view that the management compact is an important management mechanism and management tool for the Agency, since it lists the accountabilities, authorities, operational priorities and resource management target for the directors at field offices, and the directors make decisions in accordance with the approved management compacts.

112. The Board recommends that the Lebanon field office work together with headquarters to assess the possible impact of the absence of the management compact and issue the management compact in 2021.

113. The UNRWA Lebanon field office agreed with the recommendation.

8. Information and communications technology

Outdated information and communications technology policy documents

114. In accordance with management practice APO01.09, "Define and communicate policies and procedures", of the governance and management objectives of the 2019 Control Objectives for Information and Related Technology (COBIT) framework,³ the policies shall be evaluated and updated on at least a yearly basis to accommodate changing operating or business environments.

³ Control Objectives for Information and Related Technology (COBIT) is a framework created by the Information Systems Audit and Control Association for information technology management and governance.

115. The Board noted that the previous Information Management Department, established in 2016, was restructured in 2019, and at the same time the current Department of Information Management and Technology was established.

116. The Board reviewed ICT policy documents and found that some were outdated, including:

(a) Organization directive No. 26, on ICT, issued in November 2015, which is from the highest level of the Department of Information Management and Technology and still included references to the now defunct Administrative Support Department, Technology Service Division and Information Management Service Division. In addition, there was no updated plan for this policy document in the strategy for the organizational structure of the Information Management Department for 2019 and 2020, which was a guideline for the restructuring of the Department;

(b) The review and interpretation of revision 1.1 of the UNRWA information security policy, issued in February 2011, were designated to two defunct bodies called the Information Management Committee and the Administrative Support Department.

117. UNRWA indicated that both documents were under review and were expected to be released by the end of the second quarter of 2021.

118. The Board recommends that UNRWA update organization directive No. 26 and its information security policy in a timely manner to accommodate its current ICT environment.

119. UNRWA agreed with the recommendation.

Lack of update to disaster recovery plans

120. It is indicated in section C of technical instruction No. 7 on the ICT disaster recovery policy (effective 1 November 2012) that the disaster recovery plan shall be promptly updated in the event of the addition or deletion of an ICT service or a change in the ICT environment affecting the disaster recovery plan. The time between implementation of the change that affects disaster recovery arrangements and issuance of the revised disaster recovery plan shall not exceed three calendar months and disaster recovery test plans shall be formally planned and documented in the form of a test plan stating all assumptions or limitations.

121. The Board noted that the current Department of Information Management and Technology had been restructured twice since 2015 and there was a project to migrate the REACH system support service from the original provider, whose contract came to an end on 31 May 2019, to a new one.

122. The Board reviewed two disaster recovery plans and noted that neither had been updated since 2015. The disaster recovery plan effective 25 January 2015 was issued by the Department of Administrative Support, which was no longer operational. The disaster recovery plan for enterprise systems, effective 5 April 2015, was issued by the Information Services Division, which was also no longer operational. Except for those two plans, no other disaster recovery test plans were provided.

123. The Board is of the view that the disaster recovery plan is a strategy set out to help UNRWA to quickly resume its operations after an unexpected event. It needs to be well documented, structured and regularly reviewed. The lack of a properly updated disaster recovery plan may increase the risk of the Agency not being able to restore normal business operations after a disaster.

124. The Board recommends that UNRWA update the disaster recovery plans to comply with the latest organizational structure and service, and periodically

review the disaster recovery plans in order to make them responsive to the continuously evolving information technology environment.

125. UNRWA agreed with the recommendation.

No test exercise of disaster recovery plan for the REACH system

126. It is indicated in section C of technical instruction No. 7, on the ICT disaster recovery policy, that in order to ensure continuous improvements and to verify the adequacy of disaster recovery plans for every ICT service and/or infrastructure component, the disaster recovery plans shall be tested on an annual basis.

127. The Board observed that the latest disaster recovery exercise for the REACH system was performed in 2017. In addition, the contract between UNRWA and the previous REACH system support service provider came to an end on 31 May 2019.

128. The Board reviewed the project proposal called “SAP technical operation support services”, which became effective on 21 March 2019, and noted that the new service provider was to conduct knowledge transfer within three months of 1 March 2019 and conduct a disaster recovery test. However, as at 31 December 2020, the disaster recovery test exercise for the REACH system had not been performed for nearly three years.

129. UNRWA explained that it was currently migrating the REACH system to the new provider and part of the plan was to conduct a disaster recovery test.

130. The Board is of the view that the non-performance of a disaster recovery test for three years may damage the ability of the REACH system to recover from a disaster, which may cause disruption to the normal operations of the Agency.

131. The Board recommends that UNRWA take concrete actions to perform a disaster recovery test for the REACH system as required by the disaster recovery policy.

132. UNRWA agreed with the recommendation.

Inactive status of company codes in the REACH production system

133. It is stated in the UNRWA information security policy (revision 1.1, from February 2011) that the Agency’s information assets must be secured against variable threats.

134. A company code that is working productively can prevent programmes that have been deleted from resetting data by mistake. There are three company codes in the REACH production system.

135. The Board reviewed the status of those company codes in REACH and found that the column “Company code is productive” was blank, which indicated that they were not working productively in the production system.

136. The Board is of the view that there is a potential risk that some system programmes data may be reset if the company code in the production system is not set to be productive.

137. The Board recommends that UNRWA set the company code in the REACH production system to be productive to ensure data integrity and avoid accidental data loss.

138. UNRWA agreed with the recommendation.

Backup operation not recorded on log form

139. It is stated in section A, on backup policy, of Information Management Department technical instruction No. 6 that all backup operations should be logged on paper in the annual backup log form.

140. The Board noted that in 2020, the backup of the Lebanon field office electronic data was done automatically. However, the backup operation was not logged on the annual backup log form or recorded properly in other ways.

141. UNRWA explained that it had been monitoring the backup process and could notice the failure of backups. For 2020, it did not process a log on paper owing to telecommuting being in effect as a result of the COVID-19 pandemic. In addition, the backup process was monitored by two staff members every day.

142. The Board is of the view that it is a key internal control procedure to conduct a timely and adequate record of backup operations on the annual backup log form, as required in Information Management Department technical instruction No. 6. Without the record on the log form, it may be difficult to confirm whether the system backup has been performed properly.

143. The Board recommends that the Lebanon field office record backup operations in the annual backup log form, as required in Information Management Department technical instruction No. 6.

144. The UNRWA Lebanon field office agreed with the recommendation.

Backup restore test operation not performed

145. In accordance with section B, on restore policy, of Information Management Department technical instruction No. 6, a backup restore test operation shall be performed at the end of the second and fourth quarters of each year. A restore of official data and files performed upon request by end users or due to system failures can substitute for the test operation, provided that it takes place within the current quarter and is properly documented in the restore log. All restore operations (test or official) should be logged on paper in the annual restore log form.

146. The Board noted that in 2020, the backup restore test operation was not performed in the Lebanon field office. Meanwhile, the annual restore log form had not been used.

147. UNRWA explained that in 2020, it experienced a lot of backup restores in accordance with end user requests. Therefore, there was no need to conduct a backup restore test at the end of the second and fourth quarters of the year.

148. Since the log form is not used in the Lebanon field office, the Board cannot figure out whether the restores are performed in the second and fourth quarters, or whether they are performed successfully.

149. The Board recommends that the Lebanon field office conduct a backup restore test operation, with a proper record in the restore log, at the end of the second and fourth quarters of each year, in accordance with Information Management Department technical instruction No. 6.

150. The UNRWA Lebanon field office agreed with the recommendation.

9. Health programme management

Outdated guidelines on procurement and delivery of supplies to health centres

151. The guidelines on procurement and delivery of supplies to health centres, issued in July 2010, are the principal instruction to outline and describe the preparation, completion, issuance and movement of medical supplies in a timely manner.

152. The Board noted that in 2010, UNRWA reorganized its structure and introduced an electronic medical record (e-Health) system to manage pharmacy supplies at the health centres in order to bring possible improvements to the supply chain.

153. Furthermore, the Board noted that the guidelines had not been updated since their issuance, and some of their important components had become outdated. For instance, the procurement and inventory management system stated in the guidelines was no longer used as an information system to manage the procurement and logistics of medical supplies.

154. The UNRWA Department of Health indicated that it was reviewing the existing guidelines to reflect the current situation on the ground.

155. The Board holds that it is necessary to update the above-mentioned guidelines to accommodate the current operating environment for medical supplies, since the guidelines are critical to provide instructions to health staff in their day-to-day work, thereby ensuring the fulfilment of the Agency's strategy.

156. The Board recommends that UNRWA update the guidelines on procurement and delivery of supplies to health centres to reflect the current organizational structure and the changed information system environment.

157. UNRWA agreed with the recommendation.

Non-integration of hospitalization management system with REACH and the electronic medical record system (e-Health)

158. It is stated in paragraph 129 of the UNRWA medium-term strategy for the period 2016–2021 that under its hospitalization programme, UNRWA will redirect focus and accord highest priority to those with life-threatening illnesses requiring life-saving/life-supporting medical care and treatment, but who lack the financial assets or insurance coverage to attain these.

159. It is stated in article XIV of the UNRWA Department of Health technical instructions on the hospitalization support programme⁴ and the Department's management protocols that data collection is necessary to provide the Agency with clinical information that enables better decision-making, quality control and monitoring of trends in expenditure and to support the financial audit of hospital bills.

160. The Board noted that in each field office the Department of Health managed the hospitalization support programme through the hospitalization management system that had been developed in-house. However, the systems were neither connected with the consolidated patient database of the whole Agency nor integrated with REACH or e-Health.

161. The Board also noted that, owing to the manual input of hospital referrals, the time lag in providing clinical information made it more difficult for the UNRWA Department of Health to produce statistics in a timely manner, forecast hospitalization expenditures against its budget and rationalize the use of resources.

⁴ The technical instructions became effective in June 2019.

162. The UNRWA Department of Health indicated that it had already considered integrating the hospitalization management function with the e-Health system.

163. The Board recommends that UNRWA take measures to integrate the hospitalization management function with REACH and e-Health.

164. UNRWA agreed with the recommendation and was planning to link the hospitalization management system to e-Health and eventually to REACH. UNRWA indicated that the recommendation could be implemented in the period 2022–2023 owing to the extensive background work (e-Health upgrade).

Lack of specific field technical instructions on the hospitalization support programme

165. It is stated in article X of the UNRWA Department of Health technical instructions on the hospitalization support programme that, in accordance with organization directive No. 1, specific field technical instructions will be developed by each field office and approved by the Department of Health at headquarters to support and reflect the different implementation of the principles of the technical instructions owing to the specificity of the local context.

166. In addition, it is stated in article X that the UNRWA financial technical instructions should include, at least, clear contribution rates for each type of patient and type of services, roles and responsibilities of the different staff involved in the hospitalization process, the procedure for the reimbursement claims and a list of the conditions not included in the hospitalization support programme.

167. The Board noted that the Jordan field office still used the agreement with the Ministry of Health of the Government of Jordan signed on 21 September 2006 instead of developing any specific field technical instruction for hospitalization. The agreement did not define clear priorities and principles of the health and safety plan, such as who had priority coverage, which services to cover, how to provide coverage, institutional funding priorities, admission standards for acute hospitalization, data collection and reporting, and programme monitoring.

168. The Jordan field office indicated that the long-standing hospitalization agreement signed with the Ministry of Health in 2006 was considered part of the national insurance system. Therefore, a new technical instruction may contradict the agreement between the Jordan field office and the Government of Jordan.

169. Moreover, the Board noted that a specific field technical instruction to support and reflect the different implementation of the principles had not yet been put in place in the Lebanon field office owing to the complexity and diversity of the local context.

170. The Lebanon field office explained that staff had been using other documents, such as contracts and terms of reference, as a main tool for a long time, while the formulation of a new field-specific technical instruction was in process.

171. The Board is of the view that a field technical instruction can provide frontline staff with clear direction to perform their duties as management intended, to facilitate consistent practices and to provide a means to hold staff accountable for their responsibilities. The absence of a field technical instruction could increase the risk of inequity during the provision of support to the most vulnerable refugees and those without other alternatives.

172. The Board recommends that the Jordan and Lebanon field offices assess the existing operational model for the hospitalization support programme and expedite the development of a field technical instruction in the current context.

173. The UNRWA Jordan and Lebanon field offices agreed with the recommendation.

Lack of regular audit of medical referrals

174. It is stated in article XVI of the UNRWA Department of Health technical instructions on the hospitalization support programme that audits of medical referrals should be performed regularly, and at least twice per year, by each field chief of the Department of Health or delegated staff.

175. The Board noted that since the issuance of the technical instructions on the hospitalization support programme, the Jordan field office had only conducted one audit on medical referrals, in June 2020, and the result of the audit was still in process. In addition, there was no audit evidence that the biannual audit of medical referrals had been conducted in the Lebanon field office in 2020.

176. The Lebanon field office explained that it had been monitoring the hospital expenditures by reviewing patients' admissions and payments on both a daily and a monthly basis, and that reviews were conducted before the payment of the bills to the hospitals.

177. The Board is of the view that the audit on the medical referrals is an essential mechanism to guarantee that all the medical referrals issued from different medical officers working in various locations follow the same standards and will have an impact on the improvement of the quality of medical services.

178. The Board recommends that the Jordan and Lebanon field offices conduct regular audits on medical referrals and process and analyse the audit result in a timely manner, to monitor the appropriateness of the referrals and the quality of medical care provided by the hospitals.

179. The UNRWA Jordan and Lebanon field offices agreed with the recommendation.

10. Relief and social services management*Staff members receiving social safety net programme services*

180. It is stated in article V.B, on relief and social services, of the UNRWA consolidated eligibility and registration instructions, that during their employment, UNRWA staff members are not eligible for services provided under the social safety net programme.

181. The Board reviewed social safety net programme distribution lists relating to four field offices and noted that 47 UNRWA staff members (excluding daily paid workers) were enrolled in the programme and received services equivalent to a total value of \$24,472.85 in 2020. Of those 47 enrolled staff, 7 were permanent staff members from the Gaza field office and 40 were fixed-term staff members from the Lebanon and Gaza field offices.

182. The Board was informed that UNRWA employees in the lower salary grades (grades 1 and 2) with a high number of dependants may become eligible for the social safety net programme, on the basis of results of a social study and the proxy means testing formula. However, the Board further noted that eight staff members in the Lebanon field office with fewer than four dependants were also enrolled in the programme and received services in 2020.

183. The Board observed that many refugees were approaching the Agency for social safety net programme services. However, the number of refugees in the programme registered as "poor" could not be increased owing to the fixed ceiling for beneficiaries in place since 2013. In addition, the Board noted that the Jordan field office had begun to eliminate all UNRWA employees from the programme as part of corrections to inclusion errors in 2019.

184. UNRWA explained that it was correct that the consolidated eligibility and registration instructions explicitly excluded UNRWA staff members from the social safety net programme and the relief services instructions did not indicate otherwise. Relief workers across the field had implemented a practice of including the families of UNRWA staff when the proxy means testing formula indicated eligibility as a result of the poverty criteria being met. The inclusion of UNRWA staff members, particularly in the Lebanon field office, would be addressed as it was not consistent with the regulatory framework. The formula involved inclusion and it should include additional filters that ensured the exclusion of UNRWA staff. In Gaza, the new eligibility criteria for food assistance for 2021 would explicitly exclude employees of UNRWA.

185. The Board is of the view that fair distribution, transparency and effectiveness of the social safety net programme services and processes must be ensured above all, and the efficient use of the limited resources must be dedicated to those entitled only.

186. The Board recommends that UNRWA take corrective action where appropriate to recover subsidies under the social safety net programme given to staff members, strengthen the verification of refugees' enrolment and exclude those who do not meet the required criteria to ensure that refugees in real need of assistance can be enrolled.

187. UNRWA agreed with the recommendation and stated that corrective action had been taken to exclude UNRWA staff members from the social safety net programme lists.

Inaccuracy of refugee registration data

188. It is stated in the UNRWA refugee registration information system user manual (2008) that the Agency's registration function is responsible for updating, maintaining and preserving the individual and family registration records. A dynamic and scalable computer system allows for the registration of refugees and the migration of all old data from the previous database, as well as the processing of social safety net programme cases.

189. The Board was unable to gain direct access to the refugee registration data in the refugee registration information system owing to its sensitivity and privacy. Instead, the Board reviewed the list of active social safety net programme cases in the Lebanon, West Bank and Jordan field offices as at 13 November 2020. The details are shown in table II.5.

Table II.5
Ages of the active social safety net programme refugees reviewed

<i>Age (years)</i>	<i>Lebanon</i>	<i>West Bank</i>	<i>Jordan</i>	<i>Total</i>
0–9	1	–	–	1
10–19	17	8	45	70
20–29	87	38	90	215
30–39	1 105	334	1 102	2 541
40–49	3 252	1 702	3 052	8 006
50–59	4 843	1 806	2 145	8 794
60–69	2 641	681	570	3 892
70–79	2 357	1 066	589	4 012
80–89	1 512	989	343	2 844

<i>Age (years)</i>	<i>Lebanon</i>	<i>West Bank</i>	<i>Jordan</i>	<i>Total</i>
90–99	351	276	43	670
100–109	25	34	4	63
110–120	–	2	–	2
Total	16 191	6 936	7 983	31 110

Source: Data provided by UNRWA.

190. It was observed that in 65 cases, the refugees' ages were of concern.

191. In addition, the Board reviewed the accuracy of the refugee registration data relating to 87 cases of UNRWA staff members (including daily paid workers) enrolled in the social safety net programme.

192. The Board noted that of those 87 cases, 15 refugees were classified as staff members by mistake, and 18 cases were not updated promptly when they left UNRWA. The details are shown in table II.6.

Table II.6

Records of information of sampled UNRWA staff enrolled in the social safety net programme

<i>Field office</i>	<i>Total number of internal staff enrolled in the social safety net programme</i>	<i>Number of staff with inaccurate information resulting from incorrect entry</i>	<i>Number of staff with out-of-date information</i>	<i>Number of internal staff with accurate information</i>
Lebanon	55	4	12	39
Jordan	9	7	2	–
West Bank	4	4	–	–
Gaza	19	–	4	15
Total	87	15	18	54

Source: Data provided by UNRWA.

193. UNRWA explained that the refugee population who were of the concerned age and above had been deleted from the refugee registration information system at the end of 2019, with the exception of refugees benefiting from the social safety net programme and emergency assistance. With regard to incorrect entries, most of the cases were the result of inaccurate information provided by families who had individuals working with community-based organizations funded by UNRWA, but who were recorded as working with UNRWA. With regard to the UNRWA employment status, for the 18 cases of former UNRWA staff, it was worth noting that the refugee registration information system was not connected to the human resources system automatically and reviews of social safety net programme cases were scheduled annually or every two or three years (varying between field offices). Therefore, if the family did not report any change in its socioeconomic conditions prior to the scheduled field visit by the relief workers, then the change would not be observed in the programme module.

194. The Board considers that inaccuracy and incompleteness of refugee registration records may impede the provision of effective relief and social services to refugees.

195. **The Board recommends that UNRWA update the refugee registration information system to identify and delete the abnormal registration data and ensure the accuracy, integrity and completeness of data in the system.**

196. UNRWA agreed with the recommendation and stated that corrective action had been taken in the four field offices to resolve the abnormal cases.

Appeals committee not in place

197. It is stated in annex III, on the appeals system, to relief services instruction No. 2011/1 that as part of the social safety net programme, an appeals system will be established with the aim of providing a systematic, accountable and transparent process for handling appeals. Under the overall guidance and direction of the Field Director, an appeals committee shall be established in all field offices. The committee shall meet at least once every month to consider applications for review and to recommend the actions to be taken.

198. The Board noted that the appeals committee working mechanism was suspended in the Lebanon field office in 2020, and therefore no appeals committee meeting was held.

199. The Board considers that the absence of appeals committee meetings may hamper the establishment of a systematic, accountable and transparent process for handling appeals.

200. **The Board recommends that the Lebanon field office hold appeals committee meetings regularly in accordance with the relevant regulations and rules.**

201. The UNRWA Lebanon field office agreed with the recommendation.

11. Microcredit community support programme management

Administrative fee not reviewed on a regular basis

202. The microcredit community support programme is a subprogramme of the Department of Relief and Social Services for Palestine refugees only. Two lending schemes are provided under the programme, including direct products for business and housing improvement, and indirect lending, which is operated and managed by community-based organizations and offers individuals and groups guaranteed lending. It is stated in the programme guidelines, issued in 2007, that an administrative fee is charged to loan recipients to recover part of the programme's cost, and a review of the administrative fee will be made once every three years and/or at the request of the Chief of the Field Relief and Social Services Programme.

203. The Board noted that UNRWA had decreased the administrative fee from 10 per cent to 7 per cent without providing an interest rebate reward under the programme guidelines. In 2019, UNRWA revised the guidelines and set the administrative fee at the same level, 7 per cent. As at the time of audit, however, there was no evidence that the administrative fee had been reviewed in the past 13 years.

204. The Agency indicated that an ongoing review had taken place as the programme management was always monitoring the fees charged by other microfinance institutions. Since 2007, the fee charged by UNRWA remained the lowest compared with other microfinance institutions, which formed one of the programme's attractions to refugees.

205. The Board considers that the lack of regular review of the administrative fee may have a negative impact on the achievement of the financial and social objectives set by UNRWA.

206. **The Board recommends that UNRWA review the microcredit community support programme administrative fee on a regular basis to ensure full compliance with the programme guidelines.**

207. UNRWA agreed with the recommendation and indicated that it would hire a consultant to review the programme and provide necessary input without inducing further costs.

12. Microfinance Department

Inadequate management of loans receivable

208. The portfolio at risk, which refers to the loans more than 30 days overdue, is a major indicator for microfinance institutions to manage credit risk. The benchmark of portfolio at risk for microfinance institutions in the Middle East and North Africa region, where the UNRWA Microfinance Department operates, is 5.85 per cent.

209. The Board noted that while the gross portfolio was decreasing, as at 31 December 2020, the Microfinance Department's portfolio at risk stood at 22.14 per cent, partly because of the COVID-19 pandemic. A further review over the past five years indicated that the portfolio at risk had increased from 6.70 per cent to 7.11 per cent, 7.16 per cent, 7.25 per cent and 22.14 per cent, respectively, from 2016 to 2020 against the regional benchmark of 5.85 per cent.

210. The Agency explained that when compared with other microfinance institutions in each region working in similar circumstances, the Microfinance Department had similar portfolio at risk ratios. UNRWA attributed the high ratio to, inter alia, worsening economic conditions, high turnover rate of loan officers, and difficulties in enforcement for defaulting clients who were transferred for legal follow-up.

211. **The Board recommends that UNRWA conduct a thorough eligibility analysis of loan applicants and guarantors and work on decreasing the portfolio at risk.**

212. UNRWA agreed with the recommendation.

Higher ratio of loans to non-refugees

213. To provide income-generating opportunities for Palestine refugees, as well as other poor or marginal groups who live and work near them, the microfinance programme managed by the Microfinance Department was developed to extend credit and complementary financial services to families, women and youth, and small business owners. The credit service, comprising 10 loan products, is delivered through 23 branches distributed across the Gaza Strip, the West Bank, Jordan and the Syrian Arab Republic.

214. The Board enquired about the number of loans disbursed to Palestine refugees as at 31 December 2020 and reviewed the annual reports of the Microfinance Department from 2016 to 2020. The details of the outreach of loan products are shown in table II.7.

Table II.7
Outreach of loans, 2016–2020

<i>Indicator</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
Number of loans disbursed	39 161	38 595	38 183	35 576	21 339
Number of loans to Palestine refugees	14 125	13 756	13 052	13 138	8 202
Percentage of loans to Palestine refugees	36.0	35.6	34.2	36.9	38.4
Percentage of loans to non-refugees	64.0	64.4	65.8	63.1	61.6

Source: Auditor's analysis based on the data provided by UNRWA.

215. The Board noted from the table that the proportion of loans to Palestine refugees over the past five years was 36.2 per cent on average, meaning that around 63.8 per cent of the loans were disbursed to non-refugees.

216. The Agency explained that the percentage of Palestine refugee loans in its portfolio was only an indicator of the actual number of Palestine refugees living in each country compared with the entire population. Furthermore, for the purpose of economies of scale and in line with its mission, it was serving other marginalized groups in each area it served.

217. The Board is of the view that the high proportion of loans to non-refugees runs the risk of diverting valuable resources and weakening the impact of microfinance on Palestine refugees' economic empowerment.

218. The Board recommends that UNRWA make more effort to increase its loan products among Palestine refugees.

219. The Agency agreed with the recommendation.

High interest rates

220. The Microfinance Department's financial service, comprising 10 loan products, is delivered through 23 branches distributed in the Gaza Strip, the West Bank, Jordan and the Syrian Arab Republic. According to the statistics on loans disbursed in 2020, the consumer loan product (47 per cent), the women's household credit (26 per cent) and the microenterprise credit (22 per cent) are the three largest loan products in terms of outreach, accounting for 95 per cent of the total.

221. The Board enquired about the annual interest rates of the three above-mentioned loan products in four field offices and noted that their minimum interest rate was as high as 24 per cent (see table II.8).

Table II.8
Annual interest rates of loan products in four field offices

(Percentage)

<i>Field office</i>	<i>Consumer loan product</i>	<i>Women's household credit</i>	<i>Microenterprise credit</i>
Jordan	24.0	26.4	24.0
Gaza	24.0	24.0	24.0
West Bank	24.0	24.0	24.0
Syrian Arab Republic	30.0	24.0	24.0

Source: Data provided by UNRWA.

222. The Board considers that the microfinance programme is intended to reduce the vulnerability of Palestine refugees or other marginal groups who have limited or no access to bank loans by making consumption easier and providing opportunities for generating income and becoming economically self-reliant. However, the high interest rates of the programme charged on the loan recipients increase the financial burden on them, which in turn may have a negative impact on the accomplishment of the Agency's mission.

223. The Board reviewed the Microfinance Department's operational self-sufficiency, which indicates whether the microfinance programme has earned sufficient operating revenue to cover its total expenses. The standard is 100 per cent and a higher percentage is positive. The Board noted that the Department's operational self-sufficiency from 2017 to 2020 was 146.8 per cent, 148 per cent, 136 per cent and 65 per cent, respectively, which suggested that the Department was far beyond self-sustaining. On the basis of its financial situation, the Department was well-positioned to cut interest rates to better serve Palestine refugees.

224. The Agency indicated that the Microfinance Department aimed to make its operations financially sustainable for future expansion and growth of its operations for new clients, and that the interest rates were set at a sufficient rate to cover all of its costs and its growth in lending, since the Department did not receive any funding for its capital. The operating expenses were much higher than any other microfinance institution or bank in the region, since they worked as separate entities and fully controlled their expenses.

225. The Agency further stated that the Microfinance Department was on track with its mission to balance financial and social indicators, as evidenced by the Department's small-sized loans compared with other microfinance institutions and banks. The Department had a social responsibility in some of its lending services that alone would not sustain itself as a product, including the women's household credit, where revenue generated was much lower than the transactional costs. The Department closed the year 2020 with an unprecedented loss of \$3.95 million and needed to offset the loss in future years; until then, continuous assessment and reduction of interest rates would be undertaken.

226. The Board holds that the Microfinance Department is self-sustaining well, as evidenced by its operational self-sufficiency in the past few years. In this context, the Department, as an UNRWA entity, needs to accomplish its mission by balancing the financial and social indicators to empower Palestine refugees to be economically self-reliant.

227. The Board recommends that UNRWA review the interest rates of its three loan products on a regular basis and work on the reduction of the interest rates.

228. UNRWA agreed to undertake a periodic review of its interest rates on the basis of affordability and availability of capital.

C. Disclosures by management

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

1. Write-off of cash, receivables and property

230. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs amounting to \$2.96 million had been recognized during the year: contribution receivable losses of \$1.27 million; outstanding loans

receivables of \$1.02 million; accounts receivable losses of \$0.34 million; inventory losses of \$0.30 million, identified through inventory valuation; property losses of \$31,235; and cash losses of \$4 (see annex II).

2. Ex gratia payments

231. As required by financial regulation 11.5, UNRWA reported ex gratia payments amounting to \$435,422.30 for 2020. The payments were mainly for 106 contractors hired under the job creation programme whose contracts will not be extended.

3. Cases of fraud and presumptive fraud

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

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

234. During the year under review, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by UNRWA and disclosed in the present report. In addition, the Board noted that the Agency had adopted a new approach of only disclosing cases during the year under review instead of disclosing a cumulative number of cases reported for previous years. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 48 cases of fraud and presumptive fraud in 2020 to the Board. Of the 48 cases, 19 (40 per cent) investigations were completed and finalized during the year, with quantified losses of \$164,718.14. The remaining 29 (60 per cent) cases were still under investigation. As at 31 December 2020, the cumulative number of cases under investigation were as follows: 2 relate to 2017, 4 relate to 2018, 13 relate to 2019 and 29 were reported during 2020. The Board encourages the Department of Internal Oversight Services to continue to increase the rate of investigation of the pending cases. A summary of the cases completed during 2020 is contained in annex III to the present report.

D. Acknowledgement

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

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

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

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

22 July 2021

Annex I

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

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1	2016	A/72/5/Add.4 , chap. II, para. 31	UNRWA agreed with the Board's recommendation to (a) expedite allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system for easy traceability and monitoring of the assets; (b) develop a unique physical identifier to link the REACH system with other systems used to record fixed assets; and (c) expedite reconciliation of the number of vehicles in the REACH system and the fleet management system records.	UNRWA confirms that the barcode system is being deployed Agency-wide and remains available for verification when possible.	The barcode system is being deployed Agency-wide. Therefore, this recommendation is considered to be under implementation.		X		
2	2016	A/72/5/Add.4 , chap. II, para. 36	The Board recommends that UNRWA Lebanon field office (a) ensure that sections and departments provide timely notifications to the Property Management Unit on the new acquisitions, surveyed and transferred assets to allow manual recording and numbering of assets as a short-term solution pending the reactivation of the barcode system; (b) improve communication and build awareness among custodians on raising survey requests and adherence to transfer procedures to ensure timely	UNRWA confirms that the barcode system and the link with REACH referred to in part (c) of the recommendation is operational again and requests the Board to proceed with verification and closure.	The Board verified the operation of the link between the barcode system and REACH in the Lebanon field office. Therefore, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
3	2016	A/72/5/Add.4 , chap. II, para. 75	dissemination of information to the Property Management Unit for updating the assets records; and (c) expedite the reactivation process of the barcode system in the REACH system for easy tracking and monitoring of acquired assets and surveyed and transferred assets from one location to another.	UNRWA agreed with the Board's recommendation that it (a) review its procurement manual to include limits for contract renewals in order to enhance fair competition and obtain best value for money; and (b) improve the data collection process to include end users' satisfaction as part of vendors' performance evaluation and ensure that renewal of contract takes into account the results of the Agency's market assessment.	UNRWA considers part (a) of the recommendation as overtaken by events. Procurement and Logistics Division technical instruction No. 1 is currently not part of its regulatory framework and paragraph 11.4 of the procurement manual covers the overall limits to contract duration (five years) based on considerations described in paragraph 13.6.5. Concerning part (b) of the recommendation, pursuant to the Board's recommendation UNRWA explored options to implement enhancements to REACH aimed at improving the existing performance evaluation integrated in the receipt module in 2020. No technical solution is available without fully replacing REACH with a dedicated system; UNRWA considers that the evaluation mechanism already in place				X

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
				covers the evaluation of the timely delivery of each purchase order at the set price and in conformity with quality standards. UNRWA remains available to provide further details.				
4	2016	A/72/5/Add.4 , chap. II, para. 123	The Board recommends that UNRWA expedite the process of developing business continuity plans for headquarters and field offices to improve continuity of service delivery and enhance the security and safety of the Agency resources during major incidents.	The compilation of continuity plans remains the responsibility of each field office. Currently headquarters in Amman and the field offices in Gaza and the West Bank have completed the plans, while the field offices in Lebanon, the Syrian Arab Republic and Jordan are continuing to finalize their plans, which should be in place by mid-December.	Given that the offices in Lebanon, the Syrian Arab Republic and Jordan are finalizing their plans, this recommendation remains under implementation.		X	
5	2017	A/73/5/Add.4 , chap. II, para. 37	The Board recommends that UNRWA (a) improve its review process in respect of the manual computation of staff entitlements while awaiting the interface between the electronic leave system and the REACH system to minimize the risk of human error; and (b) enhance the time management module in the REACH system through integration with the stand-alone e-leave system to facilitate system computation of leave encashment.	The Agency pointed that the International Personnel Services Section had looked into the integration of the leave system for international personnel with REACH. The technical review was ongoing, and all the options to address it were being explored. The initial solution of enhancing the electronic time management (eTM) system with REACH had resulted in a higher cost estimate. Given the financial emergency UNRWA was facing, an alternative solution was being explored. Meanwhile, a process improvement had been	Regarding part (a), the documentation provided shows improvement in the manual computation of staff entitlements. Regarding part (b), according to the documents provided and considering the financial difficulties and actual situation of UNRWA, the Board is of the view that the current internal control relating to staff entitlements calculation is appropriate for the accuracy of the calculation results. Therefore, this recommendation is considered implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
				implemented whereby the manual calculation went through multi-level review before being entered into the system for payment. The Assistant Human Resources Officer prepared the inter-office memo with a calculation, the Entitlements Officer reviewed it for accuracy and it was eventually approved in REACH by the Head of the International Personnel Services Section by once again reviewing the related documents.				
6	2017	A/73/5/Add.4 , chap. II, para. 49	The Board recommends that UNRWA (a) update the existing organizational structure and organizational directive No. 3 to reflect the additional departments and divisions; and (b) indicate the actual number of staff when requesting and accounting for advance grants received from United Nations Headquarters to finance international staff posts under the regular budget.	Organization directives Nos. 2 and 3 are with the Executive Office for issuance, therefore part (a) of the recommendation is under implementation. Part (b) is already considered implemented.	Although part (b) of the recommendation is considered implemented, the new decision proposal for organization directive No. 3 was drafted but was not approved and issued until April 2021. Thus, part (a) of the recommendation is considered to be under implementation.		X	
7	2017	A/73/5/Add.4 , chap. II, para. 138	UNRWA agreed with the Board's recommendations that it: (a) closely follow up with the guarantors of loan defaulters to recover the long-outstanding loan and liaise with the legal office for legal advice, including enforcement of legal action against the guarantors; (b) perform eligibility	With regard to part (a) of the recommendation, despite the severe economic and financial situation, staff are reaching out to beneficiaries and asking them to settle their accounts. Proof has already been provided and no new cases have been accepted for nearly eight months. Part (b) of the	Given the actions taken and statements provided by the Agency, the Board considers part (b) of the recommendation to be under implementation.		X	

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
			analysis prior to granting the loan and avoid granting loans to clients whose guarantors refuse to provide monthly income evidence, with a view to reducing the recoverability risks in case of default by clients; and (c) amend the microcredit community support programme guideline of 2012 to reflect the change in the late fee, from 5 per cent to 2 per cent.	recommendation will be implemented once the loans begin to be issued; they are on hold until the programme has been reviewed and the economic and financial situation in the country improves and allows for issuance of the loans.				
8	2017	A/73/5/Add.4 , chap. II, para. 142	UNRWA-Lebanon field office agreed with the Board's recommendation that it ensure that all important reports mentioned in the contract are configured in the loan management information system for better management of the microcredit community support programme loan portfolio.	Owing to the coronavirus disease (COVID-19) pandemic and subsequent closures, the enhancement was not implemented. However, a new revision of the whole programme was agreed upon, to be conducted by the UNRWA Microfinance Department, which will look at the whole programme for restructuring and enhancement.	On the basis of the statements provided by the Agency, the Board considers this recommendation to be under implementation.		X	
9	2018	A/74/5/Add.4 , chap. II, para. 29	The Board recommends that the Finance Department of the UNRWA West Bank field office ensure proper accounting recognition of canteen revenue transactions and that it enhance communication with the Department of Education to reflect all information in its accounting records.	The West Bank education programme has submitted the 2019 consolidated financial school canteen report for new Israeli shekels and Jordanian dinars to the Finance Department, with the required supporting documents from all area education officers and the bank statements for all schools in the West Bank, in due time to be recognized and recorded in the REACH	The Board reviewed the evidence provided to support the reconciliation of differences between the cash journal entries and the canteen revenue report for new Israeli shekels and observed that the request for write-offs had been approved with the necessary authorizations. Therefore, the Board considers this recommendation implemented.	X		

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
10	2018	A/74/5/Add.4 , chap. II, para. 37	The Board recommends that UNRWA take measures to record the precise quantity of each item in the inventory in REACH, which would allow it to manage the physical inventory in an appropriate manner and to report the information accurately and with integrity.	system, as appropriate. The Agency requests closure of the recommendation. Instructions were sent to the field offices to register the overall quantity of books using the available single generic code and average unit value, so as to limit to a maximum the administrative overheads while still reflecting in REACH the overall quantities. UNRWA confirms its disagreement with this recommendation and that no such cases were registered anyway for in-kind donations in the course of 2020. The Agency considers that the matter has been addressed to the best extent possible and requests closure of the recommendation.	The Board recognized the instruction sent to field offices to treat the cases of in-kind donations of books and observed the means of monitoring books transiting for donation by reviewing the sample of West Bank field office schoolbook delivery notes. In addition, the Board reviewed in the REACH system the inventory records for school textbooks in 2020 and verified that they were registered with overall quantities (not one book). Therefore, this recommendation is considered implemented.	X		
11	2018	A/74/5/Add.4 , chap. II, para. 74	The Board recommends that UNRWA establish unified criteria for the terms regarding the submission of claims for injuries, by reconciling the area staff rule and the personnel directive and maintaining the appropriate distinction between the shorter term needed for the initial notice and the longer term needed for the submission of claims for compensation.	The Agency pointed out that the review of the area staff service-incurred accident, illness and injury policy would commence in the fourth quarter of 2020, and that the target date to complete the revision was the third quarter of 2021 for the following reasons: (a) the new Commissioner-General had established additional priorities for the workplan for 2020 of the Human Resources Policy and Development Division; (b) the pandemic had occupied much of the	Taking into consideration the Agency's statements, the Board considers the recommendation to be under implementation.		X	

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
12	2018	A/74/5/Add.4 , chap. II, para. 84	The Board recommends that UNRWA take action to lower the percentage of annual and advance annual leaves starting prior to approval and to allow the situation to occur only in special cases, in order to comply with part I, article 1.1 of personnel directive No. 5/Rev.7, and to issue circulars and/or communications accordingly.	Division's time, delaying the 2020 workplan; and (c) the Division was focusing on addressing the impact on staff of the severe financial situation of the Agency. It should be highlighted that UNRWA has only one Human Resources Policy Officer (P-4). It was totally inadequate for an entity of the size and complexity of UNRWA not to have a dedicated section to address this challenge.	Actions taken by the Department of Human Resources have contributed to raising compliance in terms of staff submitting their annual leave in the system prior to commencing it. The first quarter of 2021 shows that the non-compliance of annual leave planning and approval decreased by 25 per cent (from 41.5 per cent to 17 per cent). The Agency attached records of documents and requested implementation.	The Board noted that in the first quarter of 2021, 41.85 per cent of applications were submitted after the annual leave had been taken, while 63.75 per cent of annual leaves started before they had been approved. Since the process is regulated in area staff circular No. A/07/2020, released on 15 November 2020, the annual and advance annual leaves starting prior to approval should occur only in special cases; 63.75 per cent is too high for a non-compliance rate. Therefore, the Board considers the recommendation to be under implementation.		X	

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
13	2018	A/74/5/Add.4 , chap. II, para. 97	The Board recommends that UNRWA issue an official update to the third version of its procurement manual to take into account the changes in the levels of delegated authority, review requirements, the awarding of authority and the redelegation of authority.	UNRWA reflected these and further changes in the letters of delegation of authority issued in the course of 2020. Considering that this recommendation does not reflect the current situation anymore and its purpose has been overtaken by the issuance of a new recommendation in November 2020, UNRWA requests closure of the recommendation as it has been overtaken by events.	On the basis of the information provided, this recommendation is considered to have been overtaken by events.				X
14	2018	A/74/5/Add.4 , chap. II, para. 104	The Board recommends that UNRWA review all administrative instructions and have them updated and aligned with the procurement manual.	UNRWA is currently working on updating current versions of organization directive No. 10 and the procurement manual, and recently obtained interest from donors in funding the additional resources required. Subject to the availability of funds, it considers to be able to address the recommendation in the course of 2021.	On the basis of the actions taken and statements made by the Agency, this recommendation is considered to be under implementation.		X		
15	2018	A/74/5/Add.4 , chap. II, para. 129	The Board recommends that UNRWA outline, in a manual or in instructions, the conditions, restrictions and requirements for when a given vendor is to be blocked and unblocked.	UNRWA is currently working on this issue, and the recommendation is considered to be included in the update of instructions and will be addressed in the course of 2021.	The Board reviewed the Agency's response and target date set. On the basis of that information, this recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
16	2018	A/74/5/Add.4 , chap. II, para. 160	The Board recommends that the Jordan, West Bank and Lebanon field offices of UNRWA conduct a disaster recovery exercise at least once per year, to comply with the tests required by the UNRWA information security policy and with technical instruction No. 7 (2012) of the Information Systems Division.	The disaster recovery test was conducted on 23 December 2020 and supporting documents were provided to the Board. On the basis of the evidence provided, the UNRWA Department of Information Management and Technology recommends closure of the recommendation.	The Agency conducted the disaster recovery exercise in 2020 and provided evidence. The Board considers this recommendation implemented.	X			
17	2018	A/74/5/Add.4 , chap. II, para. 182	The Board recommends that the UNRWA Microfinance Department set up and activate an independent system to confirm the loan instalment payments made, along with the remaining outstanding balances, directly with the borrowers. The system may be automated by having messages sent to borrowers on a regular basis, indicating the instalments paid and the loan balance as at the date of the message.	In Jordan, implementation is under way, and the system is expected to go live before the end of 2021. In the Syrian Arab Republic, the situation is complicated since there is no service provider in compliance with the technical requirements of the UNRWA Microfinance Department. The recommendation is not subject to implementation at this stage.	As implementation is still pending in Jordan and the Syrian Arab Republic, the Board considers the recommendation to be under implementation.		X		
18	2019	A/75/5/Add.4 , chap. II, para. 30	The Board recommends that UNRWA ensure that only delegated personnel are able to modify the exchange rates in the REACH system, and that such personnel are clearly identified and separate from those personnel who have view-only authorization.	With regard to limiting users to Treasury Division staff, the Agency has now completed the review of the access and it is currently limited to those staff. Currently, the transaction access is with the treasury approver group and treasury operations group. The latter group only has treasury users now, in line with the above. The transaction access is provided in case	Taking into consideration the Agency's statements and the supporting documents, including the recruitment reports, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
19	2019	A/75/5/Add.4 , chap. II, para. 37	The Board recommends that UNRWA take measures to improve the review of assets during the capitalization process, including instructions for requisition users and Procurement and Logistics Department personnel who process purchase requisitions and related purchase orders.	the automatic upload does not work and the changes, if needed to be done, are based on the approved circular issued by Chief of the Treasury Division and approved by the Director of Finance. Since 2015, however, the Agency has not faced such an instance since all uploads of exchange rates were done automatically.	The procurement team acts as the last firewall by conducting continued review and rejecting or returning any purchase requisitions with the wrong assignment of non-asset material codes to asset codes because that is the last station where such mistakes can be corrected and prevented. This is the key measure to stop raising purchase requisitions where non-asset material codes are assigned to asset codes either wrongly as a result of oversight or deliberately because of lack of funds under the relevant non-asset work breakdown structure. In addition, the budget section in the finance team is implementing reviews of submitted asset requirements under the General Fund that are matching the previously reserved asset funds and so preventing non-asset items from being wrongly assigned to asset codes.		X		

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
20	2019	A/75/5/Add.4 , chap. II, para. 47	The Board recommends that UNRWA perform a review of all users with the personnel action approval process role and adjust them in accordance with proper segregation of duties.	Segregation of access rights has been completed. The Agency requests review from the Board for implementation.	The Board did not receive any supporting documents relating to this recommendation from UNRWA until April 2021. Owing to the limitations of remote audit, the Board cannot verify the status now. Therefore, this recommendation is considered to be under implementation.		X		
21	2019	A/75/5/Add.4 , chap. II, para. 56	The Board therefore recommends that UNRWA ensure compliance with the recruitment and selection procedures by developing mandatory documentation to evidence that procedures have been performed in accordance with the existing regulatory framework.	The Agency appreciates the observation and assures the Board of the continued efforts to improve. It would like to highlight that the Board is referring to paragraph 14 of complementary personnel directive CPD/1 on the competitive selection process. However, the reference is to one specific part of the policy, and as a consequence this presumption has contributed to an inaccurate assessment of the situation and an inappropriate observation. There are certain exceptions that hiring departments can seek approval for and also re-engage former United Nations staff according to paragraphs 18 and 58 of CPD/1. With regard to the information in the audit observation memorandum, from the nine cases specified, six have	Taking into consideration the Agency's statements and the supporting documents, including the recruitment reports, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
				recruitment reports or notes. There are two cases of exception to the selection process and such exceptions are covered under the rules quoted above, i.e. paragraph 18 of CPD/1. The remaining case is related to the re-engagement of retired staff under paragraph 58 of CPD/1. Documentation for 19 sample cases was verified with the field offices and has been provided to the Board. The Agency would like to note that when the Board requested a sample of fund clearance, contracts and evaluations of individual service providers, the same was provided.				
22	2019	A/75/5/Add.4 , chap. II, para. 64	The Board recommends that UNRWA review the current roles in the refugee registration information system, and evaluate if the present roles are clear and necessary for the entity and if they create functional segregation problems among the roles assigned to users.	Review is currently under way and results of changes will be provided soon. If any changes are recommended, they will be completed by the fourth quarter of 2021.	Given the statements made by the Agency, the Board considers the recommendation to be under implementation.		X	
23	2019	A/75/5/Add.4 , chap. II, para. 65	The Board recommends that UNRWA develop a matrix of roles for the refugee registration information system based on employee positions or tasks, thus allowing the Agency to have control over the roles.	Review is currently under way and results of changes will be provided soon. If any changes are recommended, they will be completed by the fourth quarter of 2021.	Given the statements made by the Agency, the Board considers the recommendation to be under implementation.		X	

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
24	2019	A/75/5/Add.4 , chap. II, para. 71	The Board recommends that UNRWA strengthen its controls over access to the refugee registration information system by cleaning the systems and by deleting user accounts related to separated staff.	All user accounts in the refugee registration information system related to separated staff have been disabled in the UNRWA active directory. The Department of Information Management and Technology has ensured that all users whose accounts are disabled in the active directory will no longer be able to log in to the system. Supporting documents have been provided and closure of the recommendation is requested.	With the supporting documents provided, the Board considers this recommendation implemented.	X			
25	2019	A/75/5/Add.4 , chap. II, para. 72	The Board recommends that UNRWA strengthen its controls over access to the refugee registration information system by performing annual reviews of the lists of users present in the system, and validating that active credentials correspond only to current personnel within the organization.	All user accounts in the refugee registration information system related to separated staff have been disabled in the UNRWA active directory. The Department of Information Management and Technology has ensured that all users whose accounts are disabled in the active directory will no longer be able to log in to the system. Supporting documents have been provided and closure of the recommendation is requested.	With the supporting documents provided, the Board considers this recommendation implemented.	X			
26	2019	A/75/5/Add.4 , chap. II, para. 84	The Board recommends that the UNRWA Ethics Office monitor and ensure the completion of the ethics e-learning course through its ethics focal points at each field office.	The Agency pointed out that the ethics e-learning course had been migrated to Moodle as of 1 September 2020. In addition to the migration to Moodle, the Department of Human Resources had started tracking completion rates and compliance reports in the	After reviewing the Agency's statements and the supporting documents, the Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				same way as it tracked progress of completion of the other mandatory e-learning courses. As at 13 October 2020, the Department of Information Management and Technology was implementing an improved solution to integrate Moodle with the REACH database, which would make sure that all staff, including daily paid workers (on contracts of three months or longer), were able to access the ethics e-learning course on Moodle. This would further simplify the tracking and reporting activities.					
27	2019	A/75/5/Add.4 , chap. II, para. 92	The Board recommends that UNRWA ensure strict compliance with long-term agreements and verify that all such agreements are in effect at the time of issuing a purchase order.	The Agency did not accept the recommendation and has provided evidence of its compliance with the manuals to the Board for its consideration, which was not commented on in the Board's final report.	The long-term agreements had legal value and validity at the time the call-off purchase order was issued. The extension agreement had been confirmed and implemented by both parties and the Agency could not do any more on this issue. Therefore, this recommendation is considered implemented.	X			
28	2019	A/75/5/Add.4 , chap. II, para. 93	The Board recommends that UNRWA comply with the established steps in the workflow guidance to manage the creation and release of long-term agreements.	The Agency did not accept the recommendation and has provided evidence of its compliance with the manuals to the Board for its consideration, which was not commented on in the Board's final report.	The Board was provided with further explanations and supporting documents. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
29	2019	A/75/5/Add.4 , chap. II, para. 114	The Board recommends that UNRWA ensure that purchase authorizations are made before the invoices are issued by suppliers.	An email circular was sent to staff members involved in procurement activities for compliance. Closure of the recommendation is requested.	With the supporting documents provided, the Board considers this recommendation implemented.	X			
30	2019	A/75/5/Add.4 , chap. II, para. 115	The Board recommends that hard commitments be reflected in the system when they occur.	An email circular was sent to staff members involved in procurement activities for compliance. Closure of the recommendation is requested.	With the supporting documents provided, the Board considers this recommendation implemented.	X			
31	2019	A/75/5/Add.4 , chap. II, para. 116	The Board recommends that the process for raising a purchase order be aligned with the contracts signed with the suppliers.	An email circular was sent to staff members involved in procurement activities for compliance. Closure of the recommendation is requested.	With the supporting documents provided, the Board considers this recommendation implemented.	X			
32	2019	A/75/5/Add.4 , chap. II, para. 126	The Board recommends that the UNRWA Jordan field office perform the necessary procedures to use updated information related to the current replacement cost of its inventories, in order to fully comply with the IPSAS framework.	The Agency did not accept this recommendation (see paragraphs 127 and 128 of the Board's report. The Agency is of the opinion that the Board did not address the relevant department for appropriate information on the details. In addition, the Board was not able to properly assess the scenario, leading to an invalid recommendation.	Taking into consideration the Agency's response, the Board noted that no further measures had been taken. Therefore, this recommendation remains not implemented.			X	
33	2019	A/75/5/Add.4 , chap. II, para. 135	The Board recommends that UNRWA keep proper control over medicines when receiving the goods in the warehouses, by separating and grouping them into batches and ensuring that products can easily be identified and tracked inside	As at October 2020: (a) The central pharmacy has finalized segregation of the available batches there; (b) At the receiving stage, all batches of items have already been separated and controlled inside the central pharmacy store for quality	The Board was provided with a list of outbound delivery, which contained the information on material code, material description, batch number and expiry date, among other things. On the basis of this information, this	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			the warehouse, and that this information be reflected in the REACH system.	control at the Jordan Food and Drug Administration and batch control at the warehouse; (c) The central pharmacy has approached the Central Support Services Division to contact suppliers to decrease the purchase of new batches to enable batch control.	recommendation is considered implemented.				
34	2019	A/75/5/Add.4 , chap. II, para. 136	The Board recommends that UNRWA improve its controls to ensure efficiency and traceability over the distribution process in order to ensure that older batches are distributed first and keep records of where batches are distributed.	Central pharmacy has implemented control on batch numbers for the majority of medicines to ensure the distribution process of older batches first and keep records for the distributed batches on the REACH system; the remaining items are in process, although progress was interrupted by the pandemic and staff capacity being at 30–50 per cent.	Based on the statements made by the Agency, this recommendation is considered to be under implementation.		X		
35	2019	A/75/5/Add.4 , chap. II, para. 146	The Board recommends that UNRWA improve its control process of the physical stock count at the warehouse of the central pharmacy in Amman and in the REACH system so that the information is accurately reflected in the inventory.	The recommendation has already been implemented, as evidenced by the supporting documents provided, which show that the central pharmacy is managing batches at the receiving, storing and distribution levels.	With the supporting documents provided by the Agency, the Board considers the recommendation implemented.	X			
36	2019	A/75/5/Add.4 , chap. II, para. 147	The Board recommends that UNRWA carry out adjustments to the inventory of the warehouse of the central pharmacy in Amman in a timely manner and keep proper documentation of all adjustments.	The pending transaction of the concerned item, paracetamol tablet (1,118,000), has been processed in REACH and cleared from the central pharmacy store after being disposed of at the dumping	Based on the supporting documents provided, the recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
37	2019	A/75/5/Add.4 , chap. II, para. 153	The Board recommends that UNRWA activate the REACH system parameter that allows for the registration of the table records and keep it turned on throughout all operations of the Agency in order to generate proper audit records.	<p>site, as shown in the REACH adjustment document provided to the Board.</p> <p>The “SAP Security Audit” log has been active in the UNRWA ERP Central Component Production (UEP) systems since 25 August 2015. Additional controls are also in place, as follows:</p> <p>(a) UEP global settings are set to “non-modifiable”;</p> <p>(b) The related transaction codes for changing SAP global settings and SAP client maintenance are locked. Based on the above and evidence provided, the Department of Information Management and Technology recommends closure of the recommendation.</p>	The Board noted that the settings were configured in the REACH system as mentioned in the UNRWA response. Therefore, this recommendation is considered implemented.	X		
38	2019	A/75/5/Add.4 , chap. II, para. 162	The Board recommends that UNRWA apply password parameters in accordance with what is stated in its access control policy for all users agency-wide.	Implementation of the project is in progress and is expected to be completed by end of the third quarter of 2021.	With supporting documents on hand and the statements made by the Agency, the Board considers the recommendation to be under implementation.		X	
39	2019	A/75/5/Add.4 , chap. II, para. 169	The Board recommends that UNRWA define all the conditions and authorizations needed to proceed with the opening of the change table in the REACH system and document it in a formal procedure.	This type of change is governed by the Change Advisory Board process.	The Board reviewed the Change Advisory Board standard operating procedures and noted that the document covered the entire change management process. Separate procedures for emergency, expedited and pre-approved changes were also	X		

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
					provided, as well as a list of metrics to measure the performance of the change management process. Therefore, this recommendation is considered implemented.				
40	2019	A/75/5/Add.4 , chap. II, para. 170	The Board recommends that UNRWA formally inform the current service provider that the opening of the change table must go through a formal authorization by the Agency.	The applicable table is locked, and the Agency has asked the service provider not to open it without authorization. This type of change is governed by the Change Advisory Board process.	The Board noted that formal notification had been provided by UNRWA to the current service providers and that the change was governed by the Change Advisory Board process. Therefore, this recommendation is considered implemented.	X			
41	2019	A/75/5/Add.4 , chap. II, para. 177	The Board recommends that UNRWA strengthen control over access credentials by cleaning the systems and eliminating or blocking users corresponding to retired personnel or unused accounts; by strengthening communication between the Human Resources Department and the Information Management Department in the process of dealing with retired personnel; and by performing periodic reviews of the lists of users present in the systems and validating that the active credentials correspond only to current personnel within the organization.	The standard operating procedures of the Department of Information Management and Technology on the integration of REACH and the active directory establish the procedures for active directory administrators and REACH users to keep the active directory system up to date. On the basis of the evidence provided, the Department recommends closure of the recommendation.	On the basis of the supporting documents provided, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
42	2019	A/75/5/Add.4 , chap. II, para. 178	The Board recommends that UNRWA associate the personnel accounts in the REACH system with the personnel registered by the Human Resources Department, in order to facilitate and carry out a more efficient control over users.	The recommendation has been implemented, in line with the advisory of the Department of Information Management and Technology, which indicates that user accounts will be disabled after 90 days of inactivity. On the basis of the evidence provided, the Department recommends closure of the recommendation.	On the basis of the supporting documents provided, this recommendation is considered implemented.	X			
43	2019	A/75/5/Add.4 , chap. II, para. 186	The Board recommends that UNRWA evaluate all individual roles assigned to users in the REACH system and eliminate single roles from the users or document the cases in which single roles will be approved.	The recommendation is under implementation. The analysis of single roles is under way, with a view to completion by the end of the second quarter of 2021.	The Board noted that 6,809 single roles existed in the REACH system and 267 user accounts were still directly designated single roles. Therefore, this recommendation is considered to be under implementation.		X		
44	2019	A/75/5/Add.4 , chap. II, para. 201	The Board recommends that UNRWA update the policy on the filing method and the disposal of archives, establishing a method and schedule of disposal, in order to manage and protect information, especially confidential information, in accordance with current standards.	The recommendation is under implementation. The final version of the information management life cycle policy is expected to be released by the end of the third quarter of 2021.	With the statements made by the Agency, the Board considers this recommendation to be under implementation.		X		
45	2019	A/75/5/Add.4 , chap. II, para. 202	The Board recommends that UNRWA unify the regulations applicable to headquarters and the different field offices.	The recommendation is under implementation. The final version of the information management life cycle policy is expected to be released by the end of the third quarter of 2021.	With the statements made by the Agency, the Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	
46	2019	A/75/S/Add.4 , chap. II, para. 209	The Board recommends that UNRWA comply fully with the Microfinance Department operating manuals, especially with regard to issues related to follow-up procedures, to decrease the losses of the Department from loans written off and discourage other borrowers from becoming delinquent.	The Microfinance Department carried out all the needed corrective actions and supporting documents have been provided for reference.	On the basis of the supporting documents provided, this recommendation is considered implemented.	X				
47	2019	A/75/S/Add.4 , chap. II, para. 214	The Board recommends that UNRWA comply fully with the Microfinance Department operating manuals, especially with regard to issues related to project follow-up procedures, and that it maintain updated information, which may lead to a decrease in the risk of client default in the Department.	The Microfinance Department carried out all the needed corrective actions and supporting documents have been provided for reference.	On the basis of the supporting documents provided, this recommendation is considered implemented.	X				
Total number of recommendations						47	25	19	1	2
Percentage of the total number of recommendations						100	53	41	2	4

Annex II

Summary of assets written off

(United States dollars)

<i>Category</i>	<i>2020</i>	<i>2019</i>	<i>Increase/(decrease)</i>
Cash	4	3 906	(3 902)
Inventory	298 294	1 362 728	(1 064 434)
Property	31 235	917 030	(885 795)
Outstanding contribution receivables	1 265 096	175 761	1 089 335
Outstanding account receivables	342 469	210 409	132 060
Outstanding loans receivables	1 024 690	1 286 675	(261 985)
Total	2 961 788	3 956 509	(994 721)

Source: UNRWA information.

Annex III

Cases of fraud and presumptive fraud reported to the Board for the year 2020

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
20/01	Field office	Fraud	80	Fraud by presenting a fake invoice.	Investigated: substantiated
20/02	Field office	Fraud	Not determined	Child dependency benefit fraud.	Investigated: unable to substantiate
20/03	Field office	Fraud	Not determined	Subject defrauded complainant by taking 11 monthly payments (\$200 for each) pretending they were for savings.	Investigated: unable to substantiate
20/04	Field office	Fraud	Not determined	Staff member arrested several times for possessing a device that forges cheques.	Recorded for information
20/05	Field office	Mismanagement/ negligence	Not determined	Subject tried to obtain confidential information from recruitment staff.	Investigated: unable to substantiate
20/06	Field office	Fraud	0	Subject submitted a forged medical report to obtain special leave without pay.	Investigated: substantiated
20/07	Field office	Theft	Not determined	19 random access memory (RAM) cards from 19 computers located in the computer labs at an UNRWA school were lost.	Investigated: unable to substantiate
20/08	Field office	Fraud	Not determined	Maintenance costs of an old generator at a building at headquarters in Amman were considered potentially fraudulent, but no evidence was provided.	Recorded for information
20/09	Field office	Fraud	Not determined	Outside activities conducted during sick leave.	Recorded for information
20/10	Field office	Theft	651.5	Computer and gas cylinder stolen from a school.	Recorded for information
20/11	Field office	Theft	353.11	Five window shutters stolen from a school.	Recorded for information
20/12	Field office	Fraud	Not determined	Subject declared they worked in two UNRWA duty stations simultaneously.	Investigated: substantiated
20/13	Field office	Mismanagement/ negligence	Not determined	Complainant expressed concern regarding the commitment of donor project funding outside the agreed scope.	Investigated: unable to substantiate
20/14	Field office	Fraud	163 633.53	Manipulation by a cashier by changing the format of cash-in-hand reports and creating fake transfer transactions to evade detection on the computer system used by the Microfinance Department.	Investigated: substantiated
20/15	Field office	Fraud	Not applicable	Cheating during recruitment exam.	Investigated: unable to substantiate
20/16	Field office	Mismanagement/ negligence	0	Discrepancies between the bill of quantities for two schools after being measured by three different engineers.	Investigated: unable to substantiate

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
20/17	Field office	Fraud	0	The subject allowed a herder to bring his herd inside the UNRWA training centre during the coronavirus disease (COVID-19)-related lockdown before Ramadan and the herd remained inside the training centre.	Investigated: substantiated
20/18	Field office	Fraud	0	Job history misrepresentation.	Investigated: substantiated
20/19	Field office	Fraud	0	Subject was helping one of the candidates during his monitoring of the Procurement Assistant technical test.	Investigated: substantiated
Total			164 718.14		

Source: UNRWA Department of Internal Oversight Services.

Chapter III

Certification of the financial statements

Letter dated 31 March 2021 from the Director of Finance of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Chair of the Board of Auditors

Pursuant to financial regulations 11.4 and 12.2, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2020.

I certify that all transactions have been properly recorded in the accounting records and properly reflected in the Agency's financial accounts and appended statements, which I hereby certify as accurate and representative of the Agency's operating activities and the financial state of affairs as at 31 December 2020.

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

Chapter IV

Financial report for the year ended 31 December 2020

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2020, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

B. Financial and budget analysis

Summary

2. Although the challenges for UNRWA, its donors and its beneficiaries in 2020 were expanded owing to the coronavirus disease (COVID-19), the Agency has worked hard to address these challenges and adapted its operations to the new way of working. It continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5.7 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2020, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the COVID-19 challenges and the challenges associated with its political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic, political and social instability in Lebanon and the security concerns with which the Agency is faced on a daily basis.

4. Donors continued to provide support, with \$929.7 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries, address emergencies in the Gaza Strip and the Syrian Arab Republic and tackle the unexpected challenges of COVID-19 throughout its fields of operation. Following the loss of a key donor, announced in 2018, the Commissioner-General engaged with traditional and new donors to bridge the gap through 2020; however, that did not materialize into sufficient donor contributions to bridge the deficit.

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

6. The biennial budget for 2019–2020 was presented on a modified cash basis. As that basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS 24: Presentation of budget information in financial statements.

Financial performance for 2020

7. The Agency's total revenue and income for 2020 was \$982.5 million, compared with total expenses of \$1,127.6 million, resulting in a net deficit of \$145.1 million for the year.

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

Table IV.1

Summary financial performance by fund for the period ended 31 December 2020

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Total revenues	591.0	24.1	7.5	284.8	101.7	(26.6)	982.5
Total expenses	774.6	22.6	9.9	261.7	85.8	(27.0)	1 127.6
Surplus/(deficit) for the year	(183.6)	1.5	(2.4)	23.1	15.9	0.4	(145.1)

9. The programme budget recorded a deficit of \$183.6 million and the emergency appeals recorded a surplus of \$23.1 million. The deficit in the programme budget is due to the loss of a key donor in 2018 and limited contributions, compounded by unfunded end-of-service liabilities of \$951.1 million, with interest costs of \$25.4 million, service costs of \$52.6 million and actuarial losses of \$36.6 million contributed during the year. The surplus in emergency appeals is due to COVID-19-related funding for the future.

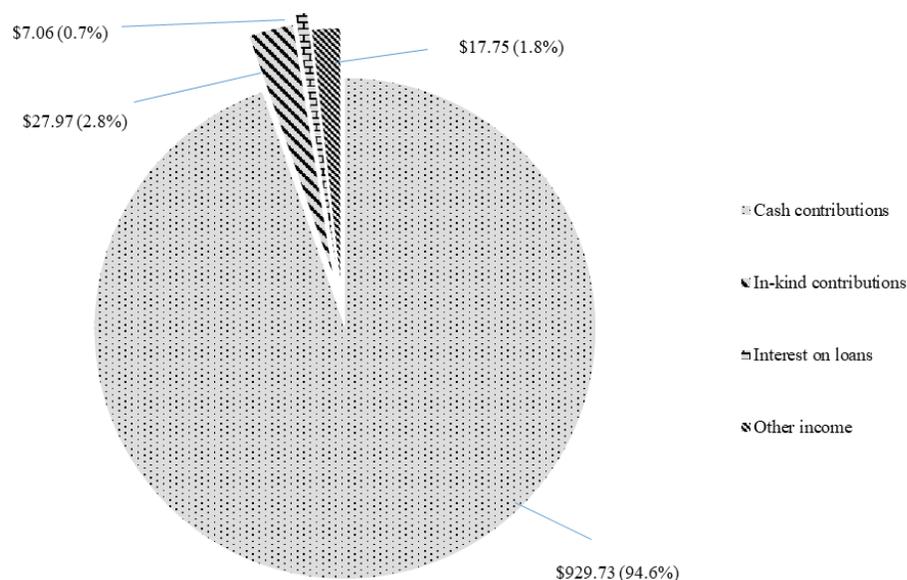
10. The restricted and project funds reflected surpluses of \$1.5 million and \$15.9 million, respectively, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a deficit of \$2.4 million, owing to the constrained financial markets arising from the impact of COVID-19.

Revenue analysis

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 95 per cent (\$929.7 million) of total revenue. In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at \$28.0 million (see figure IV.1). This is an important element, allowing the Agency to carry out its activities, and includes food and medical supplies, school textbooks, in-kind services for consultancy and project staff and the use of land for UNRWA facilities, such as schools and health clinics.

Figure IV.1
Revenue and income sources

(Millions of United States dollars)



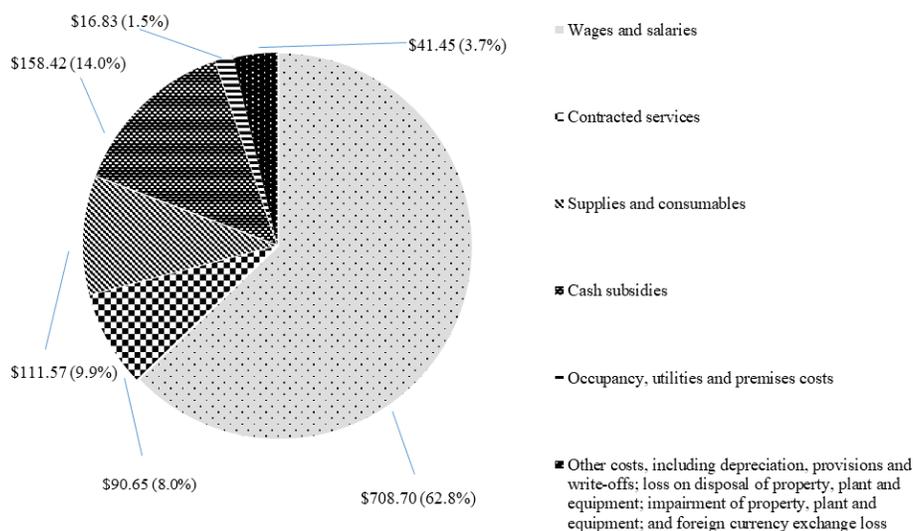
12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding assistance to Palestine refugees (most recently, resolution 75/93), persons displaced as a result of the June 1967 and subsequent hostilities (most recently, resolution 74/84) and operations of UNRWA (most recently, resolution 75/94). At its seventy-fourth session, the Assembly extended the Agency's mandate until 30 June 2023 (see resolution 74/83). The Advisory Commission of UNRWA is tasked with advising and assisting the Commissioner-General in carrying out the Agency's mandate and consists of 29 members and 4 observers. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is, at the same time, engaged in developing funding from the private sector.

Nature of expense analysis

13. The Agency spent a total of \$1,127.6 million in 2020. Staff costs of \$708.7 million represented 63 per cent of total expenses. As previously highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II
Expense analysis by nature of expense

(Millions of United States dollars)



14. As seen in figure IV.II, a total of \$90.6 million was spent on contracted services, representing expenses related to the Agency's engagement of third parties to perform work on its behalf. Of that amount, \$24.8 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency and which falls below the capitalization threshold. A total of \$23.7 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of \$111.6 million was spent on supplies and consumables, including \$65.4 million for basic commodities and \$1.4 million for fresh food. An amount of \$26.0 million was spent on medical supplies, and \$4.5 million was spent on textbooks and library books. The sum of \$3.4 million was spent on transportation supplies.

16. A total of \$158.4 million was spent on subsidies, including \$137.0 million distributed to beneficiaries to provide selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, for food security and for rent subsidies. The sum of \$9.2 million was provided as subsidies for the construction and repair of shelters, and \$4.3 million was provided for patient subsidies.

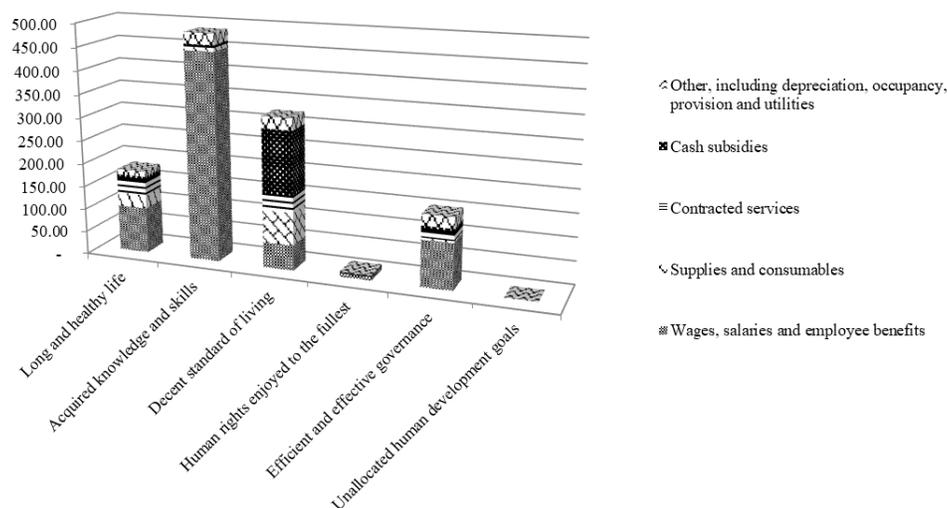
17. Occupancy and utility costs totalled \$16.8 million in 2020. Other expenses, amounting to \$41.5 million, included depreciation, provisions and write-offs, loss on disposal and impairment of fixed assets.

Human development goals and Agency programmes: expense analysis

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

Figure IV.III
Expense analysis by human development goal^a

(Millions of United States dollars)



^a \$27.0 million in inter-segment eliminations are excluded from the analysis.

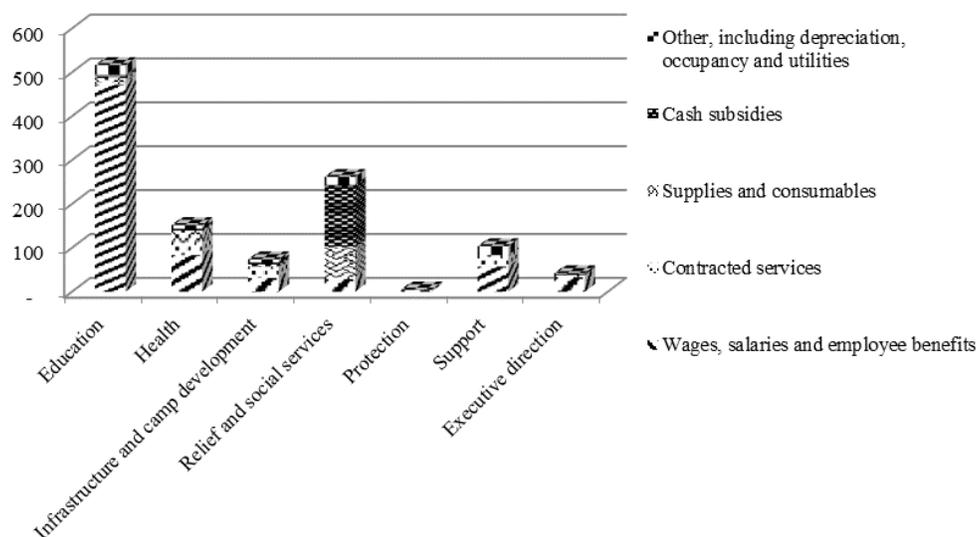
19. The Agency is functionally organized under five core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments. Figure IV.IV shows the 2020 expenses by programme and expenses for executive direction and support departments. The programmes follow a similar expense profile to those categorized by human development goal.

20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of \$180.5 million (16 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme (\$151.9 million). Approximately 55 per cent (\$83.6 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 18 per cent (\$28.0 million) spent on medical supplies and consumables and 18 per cent (\$27.7 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 3 per cent (\$4.3 million) was spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

21. An amount of \$486.0 million, representing 42 per cent of the Agency's 2020 expenses, was spent on the major goal of acquired knowledge and skills and delivered within the education programme (\$516.4 million). The objectives are to ensure universal access to and coverage of basic education, enhance education quality and outcomes against set standards and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenses in this area is spent on educational staff wages and salaries.

Figure IV.IV
Expense analysis by programme^a

(Millions of United States dollars)



^a \$27.0 million in inter-segment eliminations are excluded from the analysis.

22. An amount of \$323.6 million, or 28 per cent, of UNRWA expenses supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp improvement programmes (\$261.7 million and \$73.7 million, respectively). The objectives are to reduce abject poverty, mitigate the effects of emergencies on individuals, offer inclusive financial services and increased access to credit and savings facilities, improve employability and improve the urban environment. Of the expenses (\$70.1 million) dedicated to the pursuit of this goal, 22 per cent was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional \$136.8 million was provided in the form of cash subsidies.

23. An amount of \$152.8 million, or 13 per cent, of the Agency's 2020 expenses enables effective and efficient governance, which supports the activities aimed at accomplishing the four human development goals. Executive direction manages all aspects of the Agency's work to ensure the efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to non-refugees on an exceptional basis, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors.

24. The support departments assist the Commissioner-General in the smooth running of the Agency and ensure the effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to \$42.0 million and \$103.7 million, respectively. Of the expenses for effective and efficient governance (\$99.7 million), 31 per cent was spent on wages and salaries.

25. An amount of \$11.6 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries; safeguarding and advancing the rights of Palestine refugees; strengthening the capacity of refugees to formulate and

implement sustainable social services in their communities; and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme but also through education, health and camp infrastructure and improvement, together with the services provided to achieve the objectives of the human development goal of a decent standard of living. The Protection Division was established to provide strategic direction and coordination for the implementation of the diverse protection activities across the Agency. The Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection. The total expenses spent on the Division in pursuit of this goal were \$5.2 million.

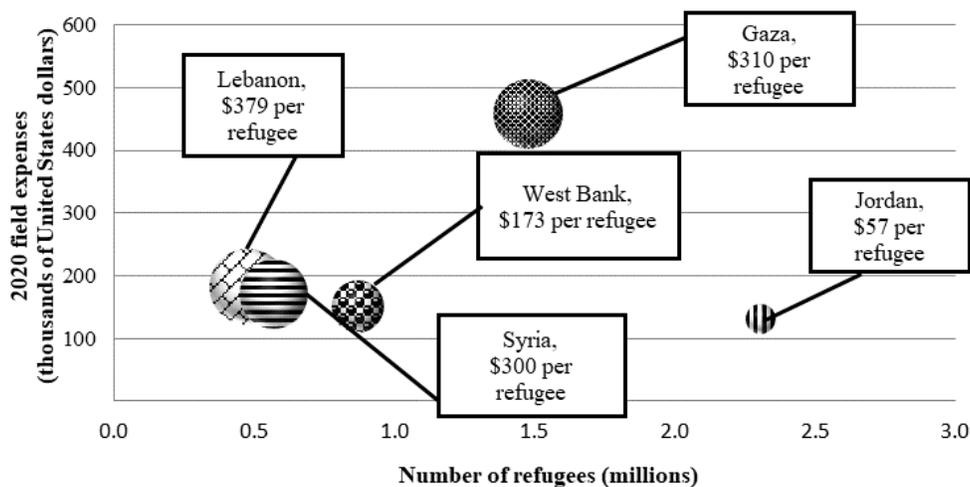
Geographical location: expense analysis

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

27. The average 2020 expense per refugee in the Gaza field office was \$310. The Gaza Strip has 1,476,706 registered Palestine refugees. Reconstruction of the extensive physical damage and destruction of the 50-day conflict in 2014 advanced despite Israeli restrictions on cement imports, machinery, steel, water pumps and elevators, which slowed progress. In addition, operations continued to be burdened by the direct costs of the ongoing blockade, such as additional staffing, transit and logistical costs as a result of Israeli requirements regarding access and the monitoring of the materials the Agency imports into the Gaza Strip. Lack of funding also remains a cause of slow progress. UNRWA continues its efforts to provide relief, education, health and other human development services in the aftermath of the hostilities and deteriorating socioeconomic conditions after almost 14 years of blockade. The Gaza field office supports 8 camps, 278 schools, 2 vocational and technical training centres, 22 primary health centres, 7 community rehabilitation centres and 7 women's programme centres.

28. The Lebanon field office has the lowest number of registered refugees, at just over 479,537, and the average expense per refugee in 2020 was \$379. Palestine refugees face challenges in relation to access to services and limitations on the right to practise certain professions, and many live in UNRWA refugee camps. The field office supports 12 camps, 65 schools, 1 vocational and technical training centre, 27 primary health centres and 8 women's programme centres. Average expense is higher in Lebanon owing to higher hospitalization and schooling costs.

Figure IV.V
Average 2020 expenses per registered refugee, by field^a



^a \$63.1 million in headquarters expenses and \$27.0 million in inter-segment eliminations are excluded from the analysis.

29. There are more than 871,537 Palestine refugees registered with the West Bank field office, with one quarter of them living in 19 refugee camps. Palestine refugees in the West Bank continue to face several socioeconomic and other protection challenges and concerns arising from the ongoing Israeli occupation. The average 2020 expense per registered Palestine refugee in the West Bank was \$173. In addition to the 19 camps, the field office supports 96 schools, 2 vocational and technical training centres, 43 primary health centres, 15 community rehabilitation centres and 19 women's programme centres.

30. The Syrian Arab Republic field office is mandated to provide services to nearly 568,730 registered Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The average 2020 expense per registered refugee was \$300. The ongoing armed conflict in the Syrian Arab Republic has, among other things, severely affected the economy, including the socioeconomic conditions of the Palestine refugee community. The field office supports 9 camps, 102 schools, the Damascus Training Centre, 23 primary health centres, 9 community rehabilitation centres and 12 women's programme centres.

31. More than 2,307,011 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan are understood to have citizenship rights, with the exception of some 171,379 Palestine refugees and their descendants displaced from Gaza as a result of the 1967 hostilities ("ex-Gazans"). Ex-Gazan Palestine refugees and their descendants do not hold Jordanian nationality and thus have difficulty accessing certain public services and face restrictions on property ownership and political participation. The expense per refugee, at \$57, representing the lowest average in 2020, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 169 schools, 2 vocational and technical training centres, 25 primary health centres, 10 community rehabilitation centres and 14 women's programme centres.

32. UNRWA headquarters comprises three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the

Commissioner-General's Office, the Department of Finance, the Information Management and Technology Department, the External Relations and Communications Department and the Protection Division, as well as the departments of education, health, relief and social services, infrastructure and camp improvement and microfinance. The headquarters function is also carried out at representative offices in New York, Washington, D.C., and Brussels and at a liaison office in Cairo. Headquarters expenses comprise primarily wages and salaries (\$39.3 million), contracted services (\$10.3 million) and provisions and write-offs (\$3.5 million), as the value added tax (VAT) and contributions receivable are managed at headquarters in the Gaza Strip and Amman.

Financial position at the end of 2020

33. The Agency's net liability increased from \$0.8 million as at 31 December 2019 to \$217.9 million as at 31 December 2020, owing mainly to the deficit recorded for the year (\$145.1 million) and actuarial loss on end-of-service liabilities (\$71.6 million).

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

Table IV.2

Summary financial position by fund as at 31 December 2020

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Current assets	85.4	16.1	44.5	107.2	136.5	(10.8)	378.9
Non-current assets	458.8	0.8	1.3	–	22.5	–	483.5
Total assets	544.2	16.9	45.9	107.2	159.0	(10.8)	862.4
Current liabilities	187.7	0.3	1.1	14.8	17.3	(10.8)	210.4
Non-current liabilities	864.5	–	5.4	–	–	–	869.9
Total liabilities	1 052.2	0.3	6.5	14.8	17.3	(10.8)	1 080.3
Net assets/equity	(507.9)	16.6	39.4	92.4	141.7	–	(217.9)

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

36. The net assets/equity balance of the projects funds showed a balance of \$141.7 million, owing primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into accumulated deficit of \$134.7 million and negative reserves of \$83.2 million.

38. The net current liabilities (current assets less current liabilities) balance for the programme budget is \$102.3 million and the net current assets (current assets less current liabilities) of the Agency were \$168.5 million as at 31 December 2020 (compared with \$254.1 million as at 31 December 2019), indicating a decrease in

short-term liquidity. The Agency's current assets amount to 43.9 per cent of its total assets, whereas current liabilities constitute 19.5 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to \$260.7 million as at 31 December 2020, a small portion of which was held by the programme budget (14.6 per cent), delaying the payment of area staff salaries for December 2020 to January 2021, and in restricted funds (3.4 per cent), with the majority falling under emergency appeals and projects (27.2 per cent and 43.6 per cent, respectively). UNRWA holds short-term investments of \$256.0 million (including bank deposits), which are classified as cash and cash equivalents.

Receivables

40. Contributions receivable represent confirmed agreements outstanding from donors that are due within 12 months and were valued, net of provision for estimated reductions in contribution revenue and doubtful accounts, at \$11.4 million as at 31 December 2020, owing to the programme budget (\$1.7 million), projects (\$7.2 million) and emergency appeals (\$2.4 million).

41. Accounts receivable, net of provision, were valued at \$9.4 million as at 31 December 2020. This amount relates primarily to significant value added tax refund claims of \$109.2 million before provision, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, as well as \$2.6 million related to the personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at \$17.7 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, \$15.6 million relates to short-term (current) loans receivable.

Inventories

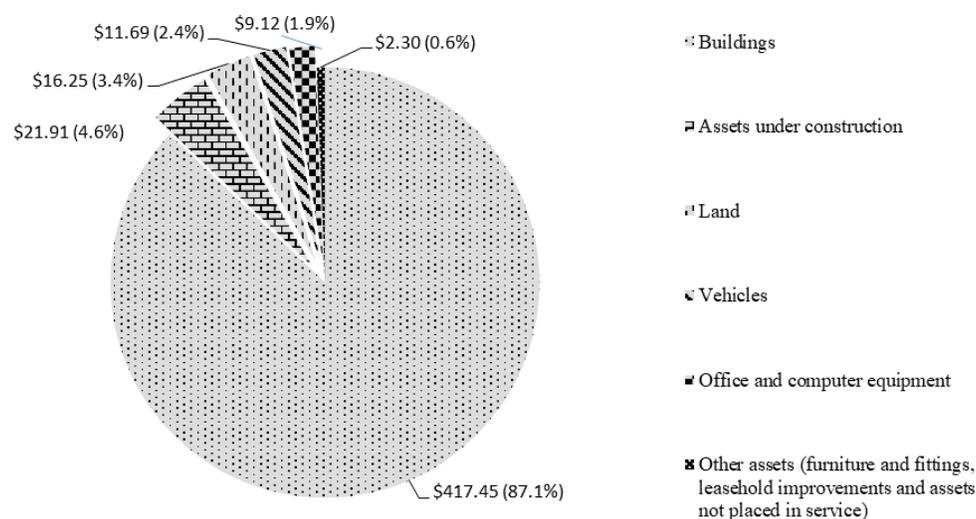
42. The value of the Agency's inventory at the end of 2020 was estimated at \$77.9 million, reflecting an increase of \$3.5 million compared with 31 December 2019, owing primarily to the increase in food commodities and pharmacy stock. Assets included shelters under construction (\$8.1 million), non-Agency installations (\$1.6 million) and warehouse inventory (\$44.4 million), as well as inventory in transit valued at \$1.4 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at \$22.3 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at \$0.2 million.

Property, plant and equipment

43. The total net carrying amount of property, plant and equipment as at 31 December 2020 was \$479.3 million, representing 55.6 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries (see figure IV.VI).

Figure IV.VI
Property, plant and equipment

(Millions of United States dollars)



44. Assets under construction amounted to \$21.9 million as at 31 December 2020, related largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the programme budget for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at \$16.3 million as at 31 December 2020. This figure appears relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

46. The Agency has significant liabilities related to post-employment and other long-term employee benefits. Those liabilities amounted to \$951.1 million as of the end of 2020, reflecting an increase of \$107.5 million during the year. The employee benefits liabilities represent 88.0 per cent of the Agency's liabilities, with \$81.3 million categorized as current liabilities and \$869.8 million as non-current liabilities. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The increase during the year is due to the change in the discount rate from 3.13 per cent to 2.57 per cent, owing to the continuing low interest rate environment of \$35.0 million, payments of \$38.7 million and actuarial loss of \$36.6 million, interest of \$25.4 million and service costs of \$52.6 million incurred during the year.

Budgetary analysis

Basis of the budget

47. The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2020–2021 programme budget (Blue Book). The budget for UNRWA includes the core requirements funded through the

programme budget, which, if exceeded, requires submission to the General Assembly, and an in-kind donation budget and a projects budget, where allocation varies on the basis of donor response.

Explanation of material differences

48. The 2020 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2020–2021, amounted to \$1,116.1 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. The final 2020 programme budget was \$1,057.1 million and is disclosed in financial statement V as “final” budget. The decrease of \$59.0 million, or 5.3 per cent, is due primarily to the decrease in the final operational budget.

C. Enhancing transparency and accountability

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

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

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

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

D. Enterprise and financial risk management

Enterprise risk management

53. A broad spectrum of risks is associated with the existence and the operations of UNRWA. The risks fall mainly into the broad categories of operational, environmental and financial risk. The management of risks is aimed at reducing the Agency’s exposure to various forms of loss and, more critically, at reducing shortcomings in the delivery of services to the Palestine refugees in the areas of education, health, relief and social services and infrastructure and camp improvement.

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

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

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

Financial risk management

57. The Agency is prone to exposure to various forms of financial risk, the greatest of which is the risk of not having sufficient financial resources to achieve the planned objectives and activities. The source of funding for operations aimed at meeting the objectives of the Agency and the needs of the refugees is predominantly the donor community. The uncertainty surrounding the timing and the actual amounts of voluntary contributions also poses some financial risk when it comes to planning. Such risk is managed in the best way possible, by considering the available information and providing for inflows in the most prudent manner.

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

59. The Agency’s employee benefits liabilities totalled \$951.1 million as at 31 December 2020. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency. UNRWA adopts a pay-as-you-go method, and the cash to be paid for the coming year is planned and budgeted. For the long-term portion of the liabilities, the matter is inherently tied to the nature of UNRWA and its temporary mandate. It is fully expected that when there is a sustainable political solution resolving the displacement of Palestine refugees, this solution will address, among other matters, the future of UNRWA activities along with the dissolution of its assets and liabilities.

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

E. COVID-19

61. UNRWA addressed the challenges of COVID-19 by quickly enacting revised ways of working in the COVID-19 era and adapting the operations of the Agency related to health, education, relief and social services, protection, infrastructure and camp improvement and microfinance to ensure that regular services continued to operate for the Palestine refugees, including through remote modalities. It also launched appeals for funding to support the various operational measures undertaken by the Agency.

62. The Department of Health adapted health provisions and ways of working to ensure that basic primary health care could continue to be provided safely to Palestine refugee communities. Rotating operational staff and sending in emergency teams to cover for colleagues under quarantine are examples of the agility of the Agency's health staff in dealing with the impact of the pandemic on refugee communities.

63. After the 2019/20 school year, a period that witnessed full school closures, the Department of Education transitioned to remote learning for the 2020/21 school year. During the transition period, field offices and headquarters reflected on lessons learned during the previous months when they had strived to continue to provide access to quality, inclusive and equitable education for all students. This occurred alongside intensive preparation for the delivery of education for the new school year, with differentiating modalities of learning in the five fields, including remote, face-to-face or hybrid/blended learning, in a constantly evolving COVID-19 context.

64. Relief assistance through the Agency's existing cash assistance and food operations was maintained and, when possible, expanded to mitigate the additional hardship created by the COVID-19 pandemic. The Department of Relief and Social Services continued to provide cash and food assistance through other methods, including its Syria regional crisis and occupied Palestinian territory emergency appeals.

65. Despite movement restrictions, protection teams ensured that activities on gender-based violence, including the global 16 days of activism against gender-based violence, and celebrations for the International Day of Persons with Disabilities and Human Rights Day could continue, with a focus on increased protection-related risks in the context of COVID-19.

66. The Department of Infrastructure and Camp Improvement continued to provide guidance and technical support to the fields in relation to COVID-19 safety measures on worksites, adherence to host Government recommendations and the resolution of issues that arose as a result of the pandemic.

67. Microfinance branch offices were able to maintain operations in Jordan, the Syrian Arab Republic and the West Bank for most of the reporting period to provide loan disbursements and low-profile lending as well as collect loan payments.

68. Two COVID-19 funding appeals were launched during the year for approximately \$152.0 million. The Agency was able to attain commitments for approximately 51 per cent, or \$77.2 million. The contributions and expenses for COVID-19 are reported through the emergency appeals portal and in note 33 to the financial statements, and amount to \$73.8 million in contributions and \$54.3 million

in expenses in 2020. The operational impact on and the response by the Agency can be found on the Agency's website.⁵

F. Responsibility

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

⁵ See www.unrwa.org/resources/emergency-appeals/updated-unrwa-flash-appeal-covid-19-response.

Chapter V

Financial statements for the year ended 31 December 2020

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

I. Statement of financial position as at 31 December 2020

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Assets			
Current assets			
Cash and cash equivalents	Note 4	260 686	268 522
Short-term loans receivable	Note 5	15 630	22 076
Contributions receivable	Note 6	11 365	50 499
Accounts receivable	Note 7	9 444	13 703
Other current assets	Note 8	3 904	4 809
Inventories	Note 9	77 915	74 401
Non-current assets			
Other non-current assets	Note 8	–	50
Long-term loans receivable	Note 5	2 065	2 805
Property, plant and equipment	Note 11	479 344	488 904
Intangible assets	Note 12	2 047	8 496
Total assets		862 400	934 265
Liabilities			
Current liabilities			
Payables and accruals	Note 13	126 183	82 666
Employee benefits	Notes 14 and 15	81 275	88 779
Other current liabilities	Note 16	1 675	7 255
Advance contributions	Note 17	1 312	1 205
Non-current liabilities			
Employee benefits	Notes 14 and 15	869 784	754 790
Other non-current liabilities	Note 16	69	345
Total liabilities		1 080 298	935 040
Net assets		(217 898)	(775)
Net assets/equity			
Revaluation and other reserves		(121 681)	(50 079)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	38 485	38 903
Accumulated surplus		(134 702)	10 401
Total net assets/equity		(217 898)	(775)

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

II. Statement of financial performance for the year ended 31 December 2020

(Thousands of United States dollars)

	<i>Reference</i>	<i>2020</i>	<i>2019</i>
Revenue			
Cash contributions	Note 20	929 735	945 079
In-kind contributions	Note 21	27 974	23 615
Interest on loans	Note 22	7 059	11 432
Interest on bank deposits	Note 23	2 574	5 664
Other revenue			
Foreign currency exchange gain	Note 24	7 655	–
Indirect support cost recovery	Note 25	156	118
Miscellaneous revenue	Note 26	7 363	14 867
Total revenue		982 516	1 000 775
Expenses			
Wages, salaries and employee benefits	Note 27	708 705	684 138
Supplies and consumables	Note 28	111 568	132 218
Occupancy, utilities and premises costs	Note 29	16 827	31 430
Contracted services	Note 30	90 646	99 054
Subsidies	Note 31	158 419	179 551
Depreciation and amortization	Notes 11 and 12	35 981	36 581
Provisions and write-offs	Note 32	5 448	4 004
Loss on disposal	Note 11	25	917
Impairment of property, plant and equipment	Note 11	–	268
Foreign currency exchange loss	Note 24	–	4 971
Total expenses		1 127 619	1 173 132
Surplus/(deficit) for the year		(145 103)	(172 357)

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

III. Statement of changes in net assets/equity for the year ended 31 December 2020

(Thousands of United States dollars)

	<i>Revaluation and other reserves^a</i>	<i>Reserves, microcredit community support programme and Microfinance Department^b</i>	<i>Accumulated surplus/deficit – unearmarked</i>	<i>Accumulated surplus/deficit – earmarked</i>	<i>Total</i>
Balance at 1 January 2020	(50 079)	38 903	(268 953)	279 354	(775)
Reclassification of funds	–	–	66 851	(66 851)	–
Surplus/(deficit) for the period	–	–	(183 565)	38 462	(145 103)
Changes in revaluation reserve for derivative financial instruments	–	–	–	–	–
Reserves, microcredit community support programme and Microfinance Department, during 2020	–	(418)	–	–	(418)
Actuarial losses on staff termination liabilities ^c	(71 602)	–	–	–	(71 602)
Total net assets/equity	(121 681)	38 485	(385 667)	250 965	(217 898)

^a See note 33.

^b See note 19.

^c See note 15.11.

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

IV. Statement of cash flow for the year ended 31 December 2020

(Thousands of United States dollars)

	2020	2019
Cash flows from operating activities		
Surplus/(deficit) for the year	(145 103)	(172 357)
Adjustment for non-cash items		
Add depreciation and amortization	35 981	36 581
Loss on disposal	21	906
Impairment of property, plant and equipment	–	268
Actuarial gains/(losses) on employee benefit liabilities	(71 602)	(67 770)
(Decrease)/increase in provision for doubtful debts	621	407
Decrease/(increase) in inventories	(3 514)	17 584
Decrease/(increase) in contributions receivable	40 385	(10 001)
Decrease/(increase) in accounts receivable	2 767	11 504
Decrease in loans receivable	6 807	4 324
Decrease in other assets	955	1 636
(Decrease)/increase in accounts payable and accruals	43 517	(1 533)
(Decrease)/increase in leave encashment and employee benefits	107 490	117 719
(Decrease)/increase in other liabilities	(5 856)	5 117
(Decrease)/increase in advance contributions	107	(9 445)
Net cash from operating activities	12 576	(65 060)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	10	11
Purchase of property, plant, equipment and adjustment	(20 004)	(29 005)
Purchase of intangible assets	–	(125)
Net cash from investing activities	(19 994)	(29 119)
Cash flows from financing activities		
Increase/(decrease) in capital reserve for Microfinance Department and microcredit community support programme	(418)	77
Net cash from financing activities	(418)	77
Net increase/(decrease) in cash	(7 836)	(94 102)
Cash balance at the beginning of the year	268 522	362 625
Cash balance at the end of the year	260 686	268 522

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

**V. Statement of comparison of budget and actual amounts for the year ended
31 December 2020**

(Thousands of United States dollars)

	Reference	Budget amounts		Actual on comparable basis	Variances: final budget and actual
		Original	Final		
International staff					
Staff costs		40 135	41 515	39 357	2 158
Area staff					
Basic salary		486 623	417 776	406 479	11 297
Hazard pay and special elements		–	779	586	193
Provident Fund Agency contribution		57 244	58 926	62 255	(3 329)
Special professional occupational allowance, special occupational allowance and others		8 690	12 862	13 159	(297)
Overtime and excess hours supplement		–	854	753	101
Currency adjustment factor		–	26	2 367	(2 341)
Special allowance		25 386	28 529	28 229	300
Health-related expenses		14 607	10 680	10 987	(307)
Other miscellaneous staff costs		–	351	74	277
Severance cash payment out		74 529	39 645	39 472	173
Limited duration contract		755	4 253	2 385	1 868
Temporary staff		19 004	21 316	19 225	2 091
Total staff costs (A)	Note 34	726 973	637 512	625 328	12 184
Non-staff costs					
Supplies		80 202	48 839	45 616	3 223
Utilities		5 517	5 400	5 148	252
Maintenance of premises		23 404	17 992	11 986	6 006
Equipment and non-capital construction		179 153	105 096	36 090	69 006
Training		7 077	2 498	647	1 851
Travel		1 363	1 563	572	991
Administrative support services		3 522	5 446	4 663	783
Consultancy services		6 790	14 216	8 936	5 280
Hospital services		28 267	22 176	21 732	444
Miscellaneous services		17 382	21 000	13 026	7 974
Subsidies to hardship cases		26 890	34 135	28 252	5 883
Subsidies to patients		6 162	4 314	4 005	309
Third-party subsidies		1 764	8 694	7 484	1 210
Other subsidies		208	17 259	13 281	3 978
Cost recovery		(2 892)	(2 303)	(1 327)	(976)
Reserves		4 364	113 278	7 858	105 420
Prior-year adjustments		–	–	–	–
Total non-staff costs (B)	Note 34	389 173	419 603	207 970	211 634
Total resources requirements (A+B)	Note 34	1 116 146	1 057 115	833 298	223 818

United Nations Relief and Works Agency for Palestine Refugees in the Near East**Notes to the 2020 financial statements****Note 1****Mission statement**

1.1 The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA or the Agency) is a United Nations agency established by the General Assembly in 1949 and is mandated to provide assistance and protection to a population of over 5.7 million registered Palestine refugees. Its mission is to help Palestine refugees in Jordan, Lebanon, the Syrian Arab Republic, the West Bank and the Gaza Strip to achieve their full potential in human development, pending a just solution to their plight. UNRWA services encompass education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance. UNRWA is funded almost entirely by voluntary contributions.

Note 2**Summary of significant accounting policies****(a) Basis of presentation**

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

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

(b) Accounting convention

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

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

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

Transactions and balances

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

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

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

Management of currency risks

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

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

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

(d) Materiality and use of judgment and estimates

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

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

(e) Significant accounting policies

Cash and cash equivalents

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

Revenue

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

Revenue from non-exchange transactions

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

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

Revenue from exchange transactions

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

Contributions receivable

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

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

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

Accounts receivable

2.20 Receivables are recognized at their nominal value.

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

Loans receivable and provision for loan losses

Loans receivable

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

Provision for impairment of loans

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

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

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

Related-party (“insider”) loans

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

Accrued interest on loans

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

Recoveries

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

Financial instruments

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

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

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

Financial risk management

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

Advances and prepayments

2.32 Advances and prepayments are recognized at their nominal value.

Inventories

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

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

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

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

Property, plant and equipment

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

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

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

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

(Percentage)

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

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

Capital work in progress

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

Intangible assets

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

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

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

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

Software acquisition and development

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

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

Impairment

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

Finance leases

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

Operating leases

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

Payables and accruals

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

Employee benefits

2.50 The Agency recognizes the following categories of employee benefits:

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

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

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

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

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

Provisions and contingent liabilities

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

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

Interest revenue

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

Indirect support cost recovery

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

Fund accounting and segment reporting

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

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

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

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

Note 3
Budget comparison

3.1 The budget for the biennium 2020–2021 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

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

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

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

Note 4
Cash and cash equivalents

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Cash in hand	4 721	4 415
Cash at banks	255 965	264 107
Total	260 686	268 522

4.2 Compared with 2019, cash at banks decreased by approximately \$7.836 million.

4.3 The Agency held funds for other United Nations entities in the amount of \$0.024 million as at 31 December 2020 (compared with \$0.474 million as at 31 December 2019).

4.4 The balances of cash and cash equivalents on hand as at 31 December 2020 were held in the currencies shown in the table below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2021.

Currency	Balance as at 31 December 2020			Balance as at 31 December 2019		
	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)
Australian dollar	15	1.313	11	183	1.434	128
Canadian dollar	5 002	1.278	3 914	135	1.309	103
Swiss franc	696	0.883	788	663	0.975	680
Danish krone	750	6.059	124	10 520	6.688	1 573
Egyptian pound	11 361	15.720	723	2 502	16.024	156
Euro	1 744	0.815	2 139	81 167	0.896	90 588
Pound sterling	414	0.740	559	7 742	0.763	10 147
Jordanian dinar	40 399	0.708	57 061	15 593	0.708	22 024
Japanese yen	16 118	103.530	156	2 016	109.470	18
Lebanese pound	5 698 218	1 507.500	3 780	2 064 165	1 508.000	1 369
New Israeli shekel	8 469	3.209	2 639	8 370	3.460	2 419
Norwegian krone	4 789	8.587	558	112 842	8.825	12 787
Swedish krona	1 022	8.179	125	176 151	9.346	18 848
Syrian pound	321 185	1 250.000	257	396 938	700.000	567
United States dollar	183 112	1.000	183 112	102 700	1.000	102 700
Emirati dirham	22	3.673	6	–	–	–
Malaysian ringgit	54	4.046	13	–	–	–
Total			255 965			264 107

Note 5

Loans receivable

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

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

(Thousands of United States dollars)

	31 December 2020			31 December 2019		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Current	14 523	1 107	15 630	20 671	1 405	22 076
Non-current	1 258	807	2 065	1 697	1 108	2 805
Total	15 781	1 914	17 695	22 368	2 513	24 881

Provision for loans receivable

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

(Thousands of United States dollars)

	2020			2019		
	<i>Microfinance Department</i>	<i>Microcredit community support programme</i>	<i>Total</i>	<i>Microfinance Department</i>	<i>Microcredit community support programme</i>	<i>Total</i>
Beginning balance	(1 157)	(35)	(1 192)	(1 621)	(45)	(1 666)
Additions	(1 401)	(3)	(1 404)	(817)	5	(812)
Less: write-off/adjustment	1 019	6	1 025	1 281	5	1 286
Ending balance	(1 539)	(32)	(1 571)	(1 157)	(35)	(1 192)

Provision for loan losses

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

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

<i>Loan status</i>	<i>Provision</i>
Current	1% general provision
1–30 days overdue	5% general provision
31–60 days overdue	10% general provision
61–90 days overdue	25% general provision
91–150 days overdue	50% general provision
151–180 days overdue	75% general provision
181–360 days overdue	100% general provision

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

<i>Loan status</i>	<i>Provision</i>
1–30 days overdue	95% special impairment
31–60 days overdue	90% special impairment
61–90 days overdue	75% special impairment
91–150 days overdue	50% special impairment
151–180 days overdue	25% special impairment
181–360 days overdue	0% special impairment

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

Note 6
Contributions receivable

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Due from Governments	4 196	44 033
Due from intergovernmental organizations	6 785	7 711
Due from non-governmental organizations	7 450	7 514
Due from United Nations organizations	698	255
Provision against contributions receivable	(7 764)	(9 014)
Total contributions receivable	11 365	50 499

6.2 Contributions receivable decreased by \$39.134 million owing to a reduction in donor pledges during 2020 for the year 2021 from various Governmental donors.

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

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

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Beginning balance	(9 014)	(9 195)
Reduction in provision/adjustment	(15)	6
Addition during the period	(2)	–
Less: write-offs	1 267	175
Ending balance	(7 764)	(9 014)

6.6 The reduction in the 2020 provision is due to an increase in write-offs of long-outstanding invoices after extensive review.

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

(Percentage)

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

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

Note 7

Accounts receivable

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

(Thousands of United States dollars)

	<i>Relevant note</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Value added tax receivable	7.2	109 182	107 949
Other accounts receivable	7.3	6 478	10 478
Less: provisions	7.5	(106 216)	(104 724)
Accounts receivable net of provisions		9 444	13 703

Value added tax receivable

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

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Value added tax receivable from the Palestinian Authority	100 883	100 875
Value added tax receivable from the Government of Israel	7 392	6 310
Value added tax receivable from the Government of Lebanon	907	764
Total	109 182	107 949

Other accounts receivable

7.3 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Miscellaneous receivable	3 580	2 493
Personal accounts of staff members	2 611	2 675
Refundable utility deposits	162	121
Due from Area Staff Provident Fund ^a	125	5 189
Total	6 478	10 478

^a See note 14.1.

7.4 Other accounts receivable have decreased compared with 2019 owing to decreases in Area Staff Provident Fund receivables at the end of the year.

Provisions and write-offs

7.5 Provisions and write-offs comprise the following:

(Thousands of United States dollars)

	31 December 2020				31 December 2019			
	Value added tax	Accounts receivable	Microfinance Department	Total	Value added tax	Accounts receivable	Microfinance Department	Total
Beginning balance	(103 640)	(969)	(115)	(104 724)	(102 596)	(965)	(100)	(103 661)
Additions	(1 677)	(11)	(14)	(1 702)	(2 752)	(30)	(15)	(2 797)
Reduction in provision/adjustment	–	44	–	44	1 708	26	–	1 734
Less: write-offs	–	166	–	166	–	–	–	–
Ending balance	(105 317)	(770)	(129)	(106 216)	(103 640)	(969)	(115)	(104 724)

7.6 The provisions for value added tax receivable and accounts receivable are estimated amounts based on the aged analysis of the outstanding amounts as at the

reporting date. These provisions have been calculated on the basis of past experience and the likelihood of collecting the outstanding amounts over the specific periods, as shown below.

(Percentage)

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

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

7.8 The 2020 additions for accounts receivable provisions (see note 7.5) reflect a net increase of \$1.702 million (compared with \$2.797 million in 2019).

Note 8 **Other assets**

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled \$3.904 million as at 31 December 2020 (compared with \$4.859 million in 2019). Included therein are prepayments to staff in the amount of \$0.045 million as at 31 December 2020 (compared with \$0.092 million in 2019).

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2020 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Current		
Advances to suppliers	3 859	4 717
Prepayment to staff	45	92
Total current	3 904	4 809
Non-current		
Advances to suppliers	–	50
Total	3 904	4 859

Note 9 **Inventories**

9.1 Inventories consist of the following:

(Thousands of United States dollars)

<i>Type</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Warehouse	44 435	33 142
Pharmacy/clinic	22 291	15 115
In transit	1 385	9 257
Production unit	152	176
Shelter under construction	8 072	3 069
Non-Agency installations	1 580	13 642
Total	77 915	74 401

9.2 Warehouse inventory comprises mainly items that are distributed to refugees or used to provide services to refugees: food, general and office supplies and motor transport. The increase in 2020 is due mainly to the increase in the procurement of rice, milk powder and other basic commodities by the Gaza field, and textbooks in the Jordan field.

9.3 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields. The increase in pharmacy/clinic inventory is due to increase in procurement of medicines and medical supplies owing to the COVID-19 pandemic mainly in the Gaza, Jordan and West Bank fields.

9.4 Inventory in transit for year 2020 decreased mainly as a result of extending the time allocated to conduct the stocktake at year-end.

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

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Raw materials inventory – embroidery	70	73
Work in progress – embroidery	1	2
Finished goods – embroidery	81	101
Total	152	176

9.7 Inventory adjustment in the amount of \$0.298 million was recorded in 2020 (compared with an impairment expense of \$1.363 million in 2019). The inventory adjustment decrease in 2020 was due mainly to smooth border movements in Gaza compared with previous periods.

9.8 In accordance with IPSAS 12, inventory has been adjusted to reflect the net realizable value based on current replacement cost. An amount of \$2.827 million has been included in the cost of supplies and consumables (compared with \$2.544 million in 2019) and disclosed in note 28 accordingly.

9.9 Inventory of shelters under construction increased by \$5.003 million owing to the ongoing construction of shelters in Lebanon, while the \$12.062 million decrease in non-Agency installations was due primarily to the handover of installations to local communities in Gaza.

Note 10

Derivative financial instruments

Nature of financial instruments

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

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

Financial derivatives

10.3 Financial derivative forward contracts, if present in a particular year, are revalued during that year; there was no impact on financial position and on financial performance in 2020.

10.4 UNRWA did not enter into any hedging contracts during 2020 owing to uncertainty in the timing of the receipt of contributions against the budgeted schedule, high volatility in currency movements and unfavourable exchange rates in the market.

10.5 As at 31 December 2020 there were no outstanding forward contracts.

Credit risk

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

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

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

(g) Providing guidance and training to improve skills of staff in order to promote best practice in the management of credit risk.

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

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

Interest rate risk

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

Foreign currency risk

10.11 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2020, 20 per cent of contributions to the programme budget were denominated in the United States dollar base currency, and 80 per cent were denominated in other currencies. The Microfinance Department lends in different currencies, according to the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank and the Syrian pound used in the Syrian Arab Republic.

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

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

10.14 As at 31 December 2020, 78 per cent of cash held in banks was denominated in the United States dollar base currency and the remainder in other currencies. An amount comprising 19 per cent of UNRWA balances were denominated in local currencies to support operating activities in field offices, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11

Property, plant and equipment

11.1 The table below presents a summary of property, plant and equipment as at 31 December 2020.

(Thousands of United States dollars)

Description	2020								2019	
	Land	Buildings	Leasehold improvements	Furniture and fittings	Equipment	Motor vehicles	Construction in progress	Assets not placed in service	Total	Total
Cost										
As at 1 January	16 250	608 525	675	5 645	53 235	41 263	19 890	9	745 492	721 460
+ Additions in year	–	15 406	–	43	2 538	4	2 017	(4)	20 004	29 006
(-) Disposals/adjustment in year ^a	–	–	–	–	399	1 530	–	–	1 929	4 974
(A) Balance as at 31 December	16 250	623 931	675	5 688	55 374	39 737	21 907	5	763 567	745 492
Depreciation										
Balance as at 1 January	–	177 734	670	2 001	42 513	27 405	–	–	250 323	224 479
+ Depreciation in year	–	22 491	5	762	4 111	2 163	–	–	29 532	29 901
(-) Depreciation on disposals/adjustments in year ^a	–	–	–	–	369	1 529	–	–	1 898	4 056
(B) Balance as at 31 December	–	200 225	675	2 763	46 255	28 039	–	–	277 957	250 323
Impairment										
Balance as at 1 January	–	6 257	–	–	1	7	–	–	6 265	5 998
+ Impairment in year	–	–	–	–	–	–	–	–	–	268
(-) Impairment reversed and on disposal in year	–	–	–	–	–	–	–	–	–	1
(C) Balance as at 31 December	–	6 257	–	–	1	7	–	–	6 265	6 265
Net book value as at 31 December (A)-(B)-(C)	16 250	417 449	–	2 925	9 118	11 691	21 907	5	479 344	488 904

^a See note 11.2.

11.2 Net cost of disposal is \$0.031 million, which comprises the following:

(Thousands of United States dollars)

	2020	2019
Original cost of disposal	1 929	4 974
Accumulated depreciation	(1 898)	(4 056)
Accumulated impairment	–	(1)
Cost of disposal as per note 11.1	31	917

11.3 The proceeds from the sale of assets and the gain and loss on the disposal of assets are shown below:

(Thousands of United States dollars)

	2020	2019
Loss on disposal	25	917
Gain on disposal	(4)	(11)
Proceeds from sale of assets	10	11
Net disposal/adjustments as per note 11.1	31	917

11.4 In addition to the active assets valued at \$479.344 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of \$75.575 million. The gain on disposal and the proceeds from the sale of assets are reported under miscellaneous revenue in the statement of financial performance for the year ended 31 December 2020 (statement II).

11.5 Asset additions decreased by \$9.002 million owing to reduced donor contributions to the Agency in this area.

Note 12 Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

Description	2020			2019	
	<i>Software acquired separately</i>	<i>Software developed internally</i>	<i>Licences and rights</i>	<i>Total</i>	<i>Total</i>
Cost					
As at 1 January	3 408	38 396	528	42 332	42 207
+ Additions in year	–	–	–	–	125
(-)/+ Disposals and adjustments in year	–	–	–	–	–
(A) Balance as at 31 December	3 408	38 396	528	42 332	42 332

Description	2020			2019	
	Software acquired separately	Software developed internally	Licences and rights	Total	Total
Amortization and impairment					
Balance as at 1 January	3 329	29 979	528	33 836	27 156
Amortization in year	52	6 397	–	6 449	6 680
(-)/+ Amortization on disposals and adjustments in year	–	–	–	–	–
(B) Balance as at 31 December	3 381	36 376	528	40 285	33 836
Net book value as at 31 December (A)-(B)	27	2 020	–	2 047	8 496

Note 13
Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	Reference	31 December 2020	31 December 2019
Supplier accounts payable	Note 13.2	28 788	24 503
Accrued expenses	Note 13.3	58 283	18 437
Other accounts payable	Note 13.5	37 648	37 201
Miscellaneous provision	Note 13.6	1 464	2 525
Total		126 183	82 666

Supplier accounts payable

13.2 Supplier accounts payable represent outstanding amounts payable to vendors for goods and services received. Measures were undertaken to reduce payments to vendors towards the end of 2020.

Accrued expenses

13.3 Accrued expenses include the following:

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Accrued expenses for services and utilities	13 741	12 218
Area staff group medical insurance	236	1 799
Accrued salaries, wages and other expenses	135	124
Other salary-related payable	43 611	3 893
Payable – reclassifications of accounts receivable balance staff	560	403
Total	58 283	18 437

13.4 The increase in other salary-related payable was owing to the delay in the payment of salaries for December 2020.

Other accounts payable

13.5 Other accounts payable consist of the following:

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Deposits received	87	228
West Bank water supply, Palestinian Authority	518	449
Funds held for other entities, including United Nations entities	184	474
Interest payable for projects	1 078	1 508
Miscellaneous accounts payable	984	1 362
Central Emergency Response Fund	30 000	30 000
Staff liabilities payable	4 821	2 542
Unearned income canteen rent	(24)	638
Total	37 648	37 201

Miscellaneous provision

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

Note 14

Employee pension fund

UNRWA Area Staff Provident Fund

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

14.2 Payments in 2020 amounted to \$97.432 million (compared with \$87.342 million in 2019) and are expected to amount to \$108.7 million in 2021, on the basis of expected increases in staff and Agency contributions. The balances outstanding with the Provident Fund as at 31 December 2020 and 2019 are shown in the table below.

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Opening balance	(5 189)	(9 151)
Employee contributions and repayments of withdrawals	66 980	61 819
Agency contributions	64 627	57 829
Withdrawals	(82 224)	(143 028)
Area Staff Provident Fund employee loans	(34 932)	(39 501)
Area Staff Provident Fund loan commission	142	167
Current account with Provident Fund	(9 528)	66 676
Total	(124)	(5 189)

United Nations Joint Staff Pension Fund: international staff

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

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

14.5 The Regulations of the Fund 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 Pension Fund will be sufficient to meet its liabilities.

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

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

14.8 The actuarial valuation as at 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2 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.

14.9 After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2019, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provisions of article 26.

14.10 Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the Fund pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2017, 2018 and 2019) amounted to \$7,546.92 million, of which 0.30 per cent was contributed by the Agency.

14.11 During 2020, contributions paid to the Fund amounted to \$7.675 million (compared with \$7.327 million in 2019). Expected contributions due in 2021 are approximately \$7.906 million.

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

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

Note 15

Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Current	81 275	88 779
Non-current	869 784	754 790
Total	951 059	843 569

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Annual leave encashment for area staff	38 634	41 912
End-of-service liability for area staff	910 615	799 668
Short-term employee benefits for international staff not funded through the United Nations regular budget	1 021	1 137
Long-term employee benefits for international staff not funded through the United Nations regular budget	789	852
Total	951 059	843 569

Short-term employee benefits for area staff

15.2 Short-term employee benefits consist of the annual leave of area staff. The amount of liability is calculated on the basis of the accumulated leave balances in the human resources module as at 31 December 2020. The total employee annual leave liability as at 31 December 2020 amounted to \$38.634 million (compared with \$41.912 million as at 31 December 2019).

End-of-service liabilities for area staff

15.3 Area staff end-of-service and termination benefit liabilities are determined by professional actuaries or calculated by UNRWA on the basis of personnel data and past payment experience. As at 31 December 2020, total employee benefits liabilities amounted to \$910.615 million (compared with \$799.668 million as at 31 December 2019). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

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

Normal and early retirement benefit

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

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

(b) The option of the extension of retirement age from 60 years to 62 years, which was withdrawn for 2018, was reinstated in 2019; the retirement age was returned to 60 in 2020 with exceptional approval to extend; and the current assumption for the purpose of valuation is 92 per cent at age 60, 50 per cent at age 61 and 100 per cent at age 62;

(c) The amount payable is calculated on the basis of the formula of base salary times 11 per cent times the number of completed years of service before 1 January

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

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

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

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

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

Termination in the interests of the Agency

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

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

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

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

Death benefits

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

Disability benefits

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

Reconciliation of end-of-service benefits

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

15.11 The amount of actuarial losses (remeasurement losses) presented in the statement of changes in net assets/equity is \$71.602 million, which includes the

impact of change in the discount rate and the salary escalation rate (set to 0 per cent in 2021), experience losses, and changes in demographic assumptions in line with experience and management expectations, which include the following:

(a) A reduction in early voluntary retirement rates by 75 per cent of the previous year's assumption;

(b) A change in the assumption that staff will leave service at the ages of 60 and 61 from 25 per cent and 0 per cent to 92 per cent and 50 per cent, respectively (the assumption that 100 per cent of staff will leave service at the age of 62 is maintained).

15.12 Interest costs and service costs amounted to \$78.032 million as at 31 December 2020 (compared with \$71.482 million for 2019). The actuarial losses are directly accounted for in the statement of changes in net assets/equity. In the 2020 valuation of end-of-service liabilities, actuarial losses were determined to be \$34.106 million owing to experience, actuarial losses from remeasurements to be \$36.555 million owing to discount rate changes during the year, and actuarial losses of \$0.941 million owing to changes in demographic assumptions.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2020 is conducted using the same assumptions (demographic and financial) as the valuation for 2019 and results in an actuarial loss of \$71.602 million. That loss is due to experience (i.e. actual experience versus assumptions).

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

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Opening balance as at 1 January	799 668	685 330
Interest costs for the year	25 447	28 094
Service costs for the year	52 585	43 388
Past service costs ^a	–	15 438
Financial remeasurements ^b	35 047	75 593
Payments in the year	(38 687)	(40 352)
Actuarial (gains)/losses	36 555	(7 823)
Total	910 615	799 668

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

^b For 2020, the discount rate (financial remeasurements) changed from 3.13 to 2.57 per cent and is included in the actuarial gains/(losses) in the statement of changes in net assets/equity.

Area staff assumptions

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

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

(Percentage)

<i>Field</i>	<i>Currency</i>	<i>Currency protection</i>	<i>Discount rate</i>	<i>Future escalation rate (2022 onward)</i>
Gaza	United States dollar	No	2.57	2.50
Gaza headquarters	United States dollar	No	2.57	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	2.57	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	2.57	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	2.57	2.50
Lebanon	United States dollars	No	2.57	2.50
Syrian Arab Republic	United States dollar	No	2.57	2.50

15.17 The discount rate is based on the United Nations AA Corporate Bonds Yield Curves for United States, developed by Aon, which has a duration of 16 years, consistent with the duration of the end-of-service liability of the Agency (16 years). In previous years, the valuations were based on the Citi Pension Liability Index – Intermediate. The change was made to ensure that consistent discount rates are used across United Nations agencies. However, owing to decreasing interest rates, the discount rate has been revised by management from 3.13 to 2.57 per cent, which is consistent with the yields on investment grade corporate United States bonds with term to maturity, consistent with the duration of the end-of-service liability.

15.18 This decrease in the discount rate has resulted in an actuarial loss of \$71.602 million for 2020 (\$67.770 million in 2019), which represents 8.95 per cent of the opening balance of the provision.

Step increments

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

Exchange rates as at 31 December 2020

15.20 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1,507.500; Syrian pound, 1,250.000.

Resignation rates

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

Early retirement rates

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

(Percentage)

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

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

Mortality

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

Disability

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

Disability rate

(Per thousand)

Age	Male	Female
Less than 45	0.50	0.75
45-54	1.00	1.50
55-62	1.50	2.25

Sensitivity analysis

15.26 The table below illustrates the sensitivity of the results to the base assumptions of a discount rate of 2.57 per cent, a salary escalation of 2.50 per cent and a provision of \$910.615 million.

(Thousands of United States dollars)

Subject	Variance	Aggregate variance	Total variance
Discount rate	+1%	-10.82%	812 301
	-1%	+12.91%	1 028 498
Salary escalation	+1%	+12.05%	1 020 616
	-1%	-10.32%	816 896
Early voluntary retirement	+1%	-0.62%	905 204
	-1%	+0.31%	913 672
Resignation rates	+1%	-0.80%	903 604
	-1%	+0.84%	918 564

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total variance</i>
Mortality	120%	+0.11%	911 897
	80%	-0.11%	909 879
Disability	120%	+0.00%	910 929
	80%	-0.00%	910 854

Maturity profile of the defined benefit obligation

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Year 1	39 860	21 082
Year 2	48 214	29 563
Year 3	49 191	54 273
Year 4	56 155	51 956
Year 5	59 595	62 776
Years 6 to 10	328 008	366 330
More than 10 years	2 192 411	1 999 738
Duration	16 years	16 years

International staff end-of-service liability

15.28 The separation costs of international staff funded from the regular budget of the United Nations (158 posts as at 31 December 2020 and 31 December 2019) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements. These liabilities related to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

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

(Thousands of United States dollars)

<i>Benefit</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Repatriation grant	216	258
Shipment	396	438
Travel	96	129
After-service health insurance	788	851
Outstanding annual leave	313	313
Total	1 809	1 989

International staff assumptions

15.30 The discount rate is assumed to be 2.57 per cent and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of after service-health insurance mortality of members of the plan will reflect those in the 2017 United Nations after-service health insurance rates of mortality for males and females.

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

Sensitivity analysis

15.32 The table below illustrates the sensitivity of the results to the base provision of \$1.809 million.

(Thousands of United States dollars)

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total variance</i>
Discount rate	+1%	-6.7%	1 689
	-1%	+8.5%	1 963
Salary escalation	+1%	+0.1%	1 812
	-1%	-0.1%	1 807
All inflation rates	+1%	+8.6%	1 965
	-1%	-6.9%	1 684
Resignation rates	+1%	–	1 810
	-1%	–	1 809
Mortality	120%	-3.4%	1 749
	80%	+4.4%	1 889

Note 16

Other current liabilities

16.1 Other current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Goods in transit payable	1 385	6 968
Donor refund payable	15	15
Finance lease liability	275	272
Total	1 675	7 255

16.2 During 2020, goods in transit decreased owing primarily to the extended time allocated to conduct the year-end processes.

Other non-current liabilities

16.3 Other non-current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Finance lease liability	69	345
Total	69	345

16.4 The composition of other liabilities is as follows:

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Current	1 675	7 255
Non-current	69	345
Total	1 744	7 600

Note 17

Advance contribution

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Received from Governments	1 312	1 205
Total	1 312	1 205

17.2 In 2020, four countries provided advances on 2021 contributions, leading to an increase in advances at the end of the year.

Note 18

Contingent liabilities, contingent assets and lease commitments

Contingent liabilities

18.1 The Agency's contingent liabilities as at 31 December 2020 arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement (goods, services and construction contracts) and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals which could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities related to these appeals amounted to approximately \$0.506 million as at 31 December 2020 (compared with \$0.086 million as at 31 December 2019).

18.3 The contingent liabilities for commercial contracts amounted to approximately \$14.037 million as at 31 December 2020 (compared with \$11.240 million as at 31 December 2019).

Contingent assets

18.4 The Agency's contingent assets represent pledges for which donor agreements have been signed but with respect to which the criteria for revenue recognition have not been met. The total amount of contingent assets outstanding as at 31 December 2020 was \$498.297 million (compared with \$553.065 million as at 31 December 2019). The decrease is due mainly to a reduction in the value of donor pledges in 2020 for the future, for various reasons.

Operating lease commitments

18.5 Operating costs include lease payments in the amount of \$3.292 million recognized as operating lease expenses during 2020 (compared with \$3.377 million in 2019). The amount includes minimum lease payments. No contingent rent payments were made.

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

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Not later than one year	52	52
Later than one year and not later than five years	226	254
Total	278	306

18.7 Most of the operating lease agreements contain renewal clauses that enable the Agency to extend the terms of the leases at the end of the original terms. Some of the agreements have escalation clauses based on a fixed percentage increase or a fixed

amount increase applied at pre-specified intervals or dates in the future. No lease agreements contain purchase options.

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

18.9 These in-kind donations for the use of land have been valued at a fair value of \$3.902 million in 2020 (compared with \$3.920 million in 2019) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors, provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of \$1.096 million from sublease payments in 2020 (compared with \$3.910 million in 2019). The decrease in subleases is due mainly to the decrease in canteen revenues from school closures as a result of the COVID-19 pandemic. Accordingly, UNRWA has received less income from school canteens. All subleases are cancellable and contain no contingent lease payments.

Finance lease commitments

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

18.12 The Agency has one finance lease starting in 2017 for medical equipment used in clinics. The present and future values are as follows:

(Thousands of United States dollars)

	2020		2019	
	Present value	Future value	Present value	Future value
Not later than one year	275	278	272	278
Later than one year and not later than five years	69	70	345	348
Ending balance	344	348	617	626

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

Note 19 Revolving loan fund

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

19.2 The composition of the revolving loan fund as at 31 December 2020 and 2019 was as follows:

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Microfinance Department	35 146	35 147
Microcredit community support programme	3 339	3 756
Total	38 485	38 903

Note 20
Cash contributions revenue

20.1 Total cash contributions revenue by source received in 2020 and 2019 was as follows:

(Thousands of United States dollars)

	<i>2020</i>	<i>2019</i>
Governments	686 846	733 813
Intergovernmental organizations	149 390	154 172
Non-governmental organizations and other entities	12 227	11 202
United Nations organizations	76 954	43 905
Sundry	4 318	1 987
Total	929 735	945 079

20.2 Governments and intergovernmental organizations reduced their contributions from various donors, while United Nations organizations increased their contributions, mainly from four donors.

Note 21
In-kind contributions revenue

21.1 Total in-kind contributions revenue by source received in 2020 and 2019 was as follows:

(Thousands of United States dollars)

	<i>2020</i>	<i>2019</i>
Governments	22 114	18 950
Non-governmental organizations and other entities	4 668	3 424
United Nations organizations	1 192	1 241
Total	27 974	23 615

Note 22

Interest on loans

22.1 Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2020 and 2019 was as follows:

(Thousands of United States dollars)

	2020	2019
Microfinance Department	6 961	11 124
Microcredit community support programme	98	308
Total	7 059	11 432

22.2 Interest on loans decreased in the Microfinance Department in 2020 owing to the economic impact of COVID-19 on businesses.

22.3 Interest on loans decreased in the microcredit community support programme in 2020, especially in Lebanon, owing to the economic impact of COVID-19 and the inflation of the United States dollar against the Lebanese pound.

Note 23

Interest revenue

23.1 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits was \$2.574 million in 2020 (compared with \$5.664 million in 2019).

23.2 Interest on bank deposits decreased in 2020 owing to the reduction in United States dollar and Jordanian dinar interest rates, as well as the liquidation of deposits in the Lebanese market.

Note 24

Currency exchange (loss)/gain

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

24.2 The realized and unrealized currency exchange rate gain increased as a result of favourable currency markets against the United States dollar, starting in the second quarter of 2020.

(Thousands of United States dollars)

	2020	2019
Realized currency exchange rate gain	10 385	2 913
Unrealized currency exchange rate (loss)	(2 477)	(7 385)
Accounts receivable income realized exchange rate (loss)	(253)	(499)
Total	7 655	(4 971)

Note 25

Indirect support cost recovery

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

25.2 The total indirect support cost recovery from projects revenue for 2020 was \$26.597 million (compared with \$33.099 million in 2019). Of this amount, \$14.641 million (compared with \$32.584 million in 2019) was used to cover the critical emergency appeal requirements during the year. The total revenue from indirect support cost was \$26.753 million (compared with \$33.217 million in 2019), offset by the cost of projects in 2020 of \$26.597 million (compared with \$33.099 million in 2019), and the remaining amount of indirect support cost recovery was \$0.156 million in 2020 (compared with \$0.118 million in 2019) from Junior Professional Officer programmes.

Note 26

Miscellaneous revenue

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2020	2019
Canteen lease revenue	1 096	3 911
Sundries	5 635	9 101
Profit on income-producing activities	60	101
Reimbursed provision revenue	669	1 892
Income received from United Nations agencies	32	42
Refunds to donors	(129)	(180)
Total	7 363	14 867

26.2 The reimbursed provision revenue reported in 2020 represents refunds of Israeli VAT provisioned in previous years. Refunds to donors represent amounts that have been recorded as revenue but are refunded to donors in accordance with the terms of donor agreements.

26.3 Canteen lease revenue decreased in 2020 as a result of school closures during the year due to COVID-19.

Note 27

Wages, salaries and employee benefits

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

(Thousands of United States dollars)

	2020	2019
International staff	41 910	41 196
Area staff		
Basic salaries, allowances and benefits	591 005	573 159
Area Staff Provident Fund contributions	64 612	58 365
Health-related expenses	11 178	11 418
Total	708 705	684 138

27.2 Basic salaries and allowances increased in 2020 as a result of a salary increase for area staff.

Note 28
Supplies and consumables

28.1 The composition of supplies and consumables in 2020 and 2019 was as follows:

(Thousands of United States dollars)

	2020	2019
Basic commodities	65 399	79 477
Clothing supplies	506	658
Fresh food	1 352	2 298
Medical supplies	26 002	26 136
Miscellaneous supplies	10 312	13 747
Sport supplies	131	211
Textbooks and library books	4 463	4 583
Transportation supplies	3 403	5 108
Total	111 568	132 218

28.2 The decrease in the consumption of basic commodities in 2020 resulted from the slow-down of distributions during the year as a result of COVID-19 lockdowns.

Note 29
Occupancy, utilities and premises costs

29.1 Occupancy, utilities and premises costs in 2020 and 2019 included the following:

(Thousands of United States dollars)

	2020	2019
Rental of premises	7 476	7 477
Maintenance of premises	4 070	17 359
Utilities	5 281	6 594
Total	16 827	31 430

29.2 The decrease in maintenance of premises costs in 2020 was due to COVID-19 lockdowns.

Note 30
Contracted services

30.1 The composition of services expenses in 2020 and 2019 was as follows:

(Thousands of United States dollars)

	2020	2019
Construction and equipment	24 806	31 479
Contractual costs	10 856	11 549
Hospital costs	23 724	25 914
Miscellaneous, including accruals	1 162	1 927
Consultancy costs	13 515	13 016
Demurrage and port charges	14 338	11 265
Training costs	1 110	1 241
Travel	1 135	2 663
Total	90 646	99 054

30.2 The decrease in construction and equipment costs in 2020 was owing mainly to COVID-19-related restrictions.

Note 31
Subsidies

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

(Thousands of United States dollars)

	2020	2019
Cash subsidies to beneficiaries	136 969	131 364
Patient subsidies	4 323	3 940
Subsidies for the construction and repair of shelters	9 158	30 458
Subsidies to third parties	7 969	13 789
Total	158 419	179 551

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

31.3 Subsidies for the construction and repair of shelters decreased significantly in 2020, owing mainly to COVID-19-related restrictions that prevented the travel of engineers to the locations.

Note 32
Provisions and write-offs

32.1 The composition of provisions and write-off expenses in 2020 and 2019 was as follows:

(Thousands of United States dollars)

	2020	2019
Provisions and write-off expenses on accounts receivable	1 702	2 797
Provisions and write-off expenses on contributions receivable	2	179
Provisions and write-off expenses on loans receivable	1 394	822
Provisions and write-off expenses for advances to international staff	–	29
Write-off of overstated receivables and others	2 350	177
Total	5 448	4 004

Note 33
Segment reporting

33.1 A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. Segment information is provided on several bases to reflect UNRWA objectives and activities. Full segment reporting is provided for sources of fund segments; segment expense reports are provided for human development goals, programmes and geographical locations.

(a) Sources of funds

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

33.3 The Agency's activities are financed through five fund groups. Each group of funds has differing parameters for utilization of the revenue.

33.4 The unearmarked fund is part of the UNRWA programme budget and is the principal means of financing the Agency's recurrent activities. The fund enables the Agency to meet obligations from authorized appropriations and is financed primarily by voluntary contributions and in-kind donations from Governments, intergovernmental and non-governmental bodies and host authorities.

33.5 The earmarked fund is also part of the UNRWA programme budget, but its use is restricted to specific activities (e.g. direct support, cash and food assistance provided through the social safety net programme) that are undertaken during a defined time period within a defined budget.

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

33.7 Emergency appeals funds are used to address emergency needs through the delivery of emergency relief, for example, food aid, shelter and medical supplies. Funds are raised mainly through the consolidated appeals process and are to be utilized during specified time periods. Pursuant to the implementation of the new enterprise resource planning system, emergency appeals funds for the Syrian Arab Republic were internally reclassified from the earmarked projects segment to the earmarked emergency appeals segment. This is also in line with donor reporting effective 2016.

33.8 Project funds are used to meet capital expenditure needs (e.g. school and health centre construction) or development needs to improve or supplement existing programmes and systems (e.g. environmental health improvement). Projects are undertaken to meet a specific objective, and contributions are time-bound and earmarked for specified purposes.

(b) Human development goals

33.9 The mission of UNRWA is to help Palestine refugees achieve their full potential in human development under the difficult circumstances in which they live. UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees, with the aim of accomplishing the goals with efficient and effective governance. Fifteen strategic objectives that guide UNRWA core activities are grouped into the four human development goals, as follows:

(a) A long and healthy life, including the objectives of: (i) ensuring universal access to quality, comprehensive primary health care; (ii) protecting and promoting family health; and (iii) preventing and controlling diseases;

(b) Acquired knowledge and skills, including the objectives of: (i) ensuring universal access to and coverage of basic education; (ii) enhancing education quality and outcomes against set standards; and (iii) improving access to education opportunities for learners with special education needs;

(c) A decent standard of living, including the objectives of: (i) reducing abject poverty; (ii) mitigating the effects of emergencies (both small-scale family and national crises) on individuals; (iii) offering inclusive financial services and increased access to credit and savings facilities, especially for vulnerable groups such as women, youth and the poor; (iv) improving employability; and (v) improving the urban environment through sustainable camp improvement and the upgrading of substandard infrastructure and accommodation;

(d) Human rights enjoyed to the fullest possible extent, including the objectives of: (i) ensuring that service delivery meets the protection needs of beneficiaries, including vulnerable groups; (ii) safeguarding and advancing the rights of Palestine refugees by promoting respect for human rights, international humanitarian law and international refugee law; (iii) strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and (iv) ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards;

(e) In addition to the above-mentioned goals, UNRWA aims for effective and efficient governance through providing overall direction and control and ensuring both efficient operations and effective financial and risk management.

(c) Programme

33.10 The Agency is functionally organized under four core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments:

(a) The education programme provides basic and secondary education for learners with special educational needs and vocational and technical training. The programme has 10 vocational training centres, which provide skills training in such fields as pharmacy, plumbing, carpentry, business and computing. The programme offers in-service training and development for teachers to develop their professional qualifications and pre-service training for new teachers. The programme also encourages the progression of students to higher education by means of scholarships;

(b) The health programme provides a network of primary health-care facilities and mobile clinics that provide the foundation of its health services, offering preventive general medicine and specialist care services tailored for each stage of life. Although the programme is focused mainly on primary health care, it also helps Palestine refugees to gain access to secondary and tertiary health-care services. The environmental health subprogramme controls the quality of drinking water, provides sanitation and carries out vector and rodent control in refugee camps;

(c) The infrastructure and camp improvement programme addresses the deteriorating living conditions of Palestine refugees in camps. The programme promotes environmentally and socially sustainable neighbourhoods. UNRWA repairs shelters and, in coordination with the host Governments, plans for rehousing and reconstruction projects after demolitions caused by armed conflict or other emergencies. The programme manages the construction and maintenance of all UNRWA facilities and installations;

(d) The relief and social services programme provides a range of direct and indirect social protection services for Palestine refugees. The relief services subprogramme provides social safety-net assistance that includes basic food support, cash subsidies and additional family income supplements for the most vulnerable Palestine refugees caught in the cycle of abject poverty. It also provides selective cash assistance, such as one-off cash grants for basic household needs in family emergencies. In addition, the subprogramme provides direct aid during emergencies caused by violence and political unrest, along with shelter rehabilitation in coordination with other programmes. The social services subprogramme promotes community-based action that enables particularly vulnerable refugees to become more self-reliant. The programme particularly addresses the needs of women, refugees with disabilities, young people and the elderly. It also helps vulnerable refugees through its microcredit programme, which is managed by community-based organizations;

(e) Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to other persons that it is mandated to serve in accordance with relevant General Assembly resolutions, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors;

(f) The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication;

(g) The Protection Division was established at UNRWA headquarters in Amman to provide strategic direction of, and coordination to, the implementation of the diverse protection activities across the Agency. In accordance with the Agency's mandate, the aim of UNRWA protection activities is to respond to the protection needs of Palestine refugees amid increasing conflict and displacement in the region. UNRWA applies a holistic approach to protection. This includes an "internal" dimension focused on realizing the rights of Palestine refugees in and through the Agency's service delivery programmes, and an "external" dimension involving engagement with relevant duty bearers to ensure respect for Palestine refugee rights. The Protection Division, through its thematic experts, covers the areas of protection mainstreaming, advocacy, child protection, gender and gender-based violence, disability and international protection.

(d) Geographical locations

33.11 Although UNRWA goals and services are delivered primarily within a programme approach, the Agency's operations are managed on a field basis. In accordance with the mandate set out by the General Assembly as the Agency's parent organ, UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic, the Gaza Strip and the West Bank. Each field provides similar services but is distinctive to some extent, owing to the particular political humanitarian and economic contexts in which it operates and the status and rights enjoyed by the Palestine refugees in it.

(e) Basis of pricing for inter-segment transfers and charges

33.12 Indirect support costs are incurred by UNRWA in support of the implementation of its non-regular budget activities that cannot be directly attributed to specific activities, projects or programmes. Programme support costs represent administrative, managerial, logistical and other support costs, including costs related to staff recruitment, budgetary and financial control, information and communications technology support, and actions in respect of procurement transport and warehousing.

33.13 Indirect support costs represent a recovery of project expenditures to ensure that non-regular activities do not constitute financial costs in terms of the Agency's regular budget.

33.14 Indirect support costs at a uniform standard rate of 11 per cent are usually charged against all contributions for non-regular budget activities except for those of the Microfinance Department, with respect to which a standard rate of 6 per cent is charged on the Department's running costs, excluding staff costs.

(f) COVID-19

33.15 UNRWA addressed the challenges of COVID-19 by quickly enacting revised ways of working in the COVID-19 era and adapting the operations of the Agency related to health, education, relief and social services, protection, infrastructure and camp improvement and microfinance to ensure that regular services continued to operate for the Palestine refugees, including through remote modalities. It also launched appeals for funding to support the various operational measures undertaken by the Agency.

33.16 The Department of Health adapted health provisions and ways of working to ensure that basic primary health care could continue to be provided safely to Palestine refugee communities. Rotating operational staff and sending in emergency teams to cover for colleagues under quarantine are examples of the agility of the Agency's health staff in dealing with the impact of the pandemic on refugee communities.

33.17 After the 2019/20 school year, a period that witnessed full school closures, the Department of Education transitioned to remote learning for the 2020/21 school year. During the transition period, field offices and headquarters reflected on lessons learned during the previous months when they had strived to continue to provide access to quality, inclusive and equitable education for all students. This occurred alongside intensive preparation for the delivery of education for the new school year, with differentiating modalities of learning in the five fields, including remote, face-to-face or hybrid/blended learning, in a constantly evolving COVID-19 context.

33.18 Relief assistance through the Agency's existing cash assistance and food operations was maintained and, when possible, expanded to mitigate the additional hardship created by the COVID-19 pandemic. The Department of Relief and Social Services continued to provide cash and food assistance through other methods, including its Syria regional crisis and occupied Palestinian territory emergency appeals.

33.19 Despite movement restrictions, protection teams ensured that activities on gender-based violence, including the global 16 days of activism against gender-based violence, and celebrations for the International Day of Persons with Disabilities and Human Rights Day could continue, with a focus on increased protection-related risks in the context of COVID-19.

33.20 The Department of Infrastructure and Camp Improvement continued to provide guidance and technical support to the fields in relation to COVID-19 safety measures on worksites, adherence to host Government recommendations and the resolution of issues that arose as a result of the pandemic.

33.21 Microfinance branch offices were able to maintain operations in Jordan, the Syrian Arab Republic and the West Bank for most of the reporting period to provide loan disbursements and low-profile lending as well as collect loan payments.

33.22 Two COVID-19 funding appeals were launched during the year for \$152.0 million. The Agency was able to attain commitments for approximately 51 per cent, or \$77.2 million. The contributions and expenses for COVID-19 are reported through the emergency appeals portal and in the present note, and amount to \$73.804 million in contributions and \$54.265 million in expenses in 2020. The operational impact on and the response by the Agency can be found on the Agency's website.⁶

⁶ See www.unrwa.org/resources/emergency-appeals/updated-unrwa-flash-appeal-covid-19-response.

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Segment reporting by fund: financial position as at 31 December 2020

(Thousands of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
Assets							
Current assets							
Cash and cash equivalents	38 160	8 798	29 235	70 927	113 538	28	260 686
Short-term loans receivable	–	1 107	14 523	–	–	–	15 630
Contributions receivable	1 712	–	–	2 415	7 238	–	11 365
Accounts receivable	19 378	41	54	335	152	(10 516)	9 444
Other current assets	3 031	2	734	90	47	–	3 904
Operational Microfinance Department account with UNRWA	–	272	–	–	–	(272)	–
Inventories	23 138	5 831	–	33 409	15 537	–	77 915
Non-current assets							
Other non-current assets	–	–	–	–	–	–	–
Long-term loans receivable	–	807	1 258	–	–	–	2 065
Property, plant and equipment	456 786	24	27	26	22 481	–	479 344
Intangible assets	2 025	–	22	–	–	–	2 047
Total assets	544 230	16 882	45 853	107 202	158 993	(10 760)	862 400
Liabilities							
Current liabilities							
Payables and accruals	105 283	289	387	13 446	17 274	(10 496)	126 183
Employee benefits	80 848	–	427	–	–	–	81 275
Operational Microfinance Department account with UNRWA	–	–	272	–	–	(272)	–
Other current liabilities	389	–	–	1 239	47	–	1 675
Advance contributions	1 182	–	–	151	–	(21)	1 312
Non-current liabilities							
Employee benefits	864 389	–	5 395	–	–	–	869 784
Other non-current liabilities	69	–	–	–	–	–	69
Total liabilities	1 052 160	289	6 481	14 836	17 321	(10 789)	1 080 298
Net assets/equity	(507 932)	16 593	39 373	92 366	141 673	28	(217 898)
Revaluation and other reserves	(122 264)	–	–	–	–	583	(121 681)
Capital reserve: microcredit community support programme and Microfinance Department	–	3 339	35 146	–	–	–	38 485
Accumulated surplus/(deficit)	(385 667)	13 254	4 227	92 366	141 673	(555)	(134 702)
Total net assets/equity	(507 932)	16 593	39 373	92 366	141 673	28	(217 898)

Segment reporting by fund: financial performance as at 31 December 2020

(Thousands of United States dollars)

	<i>Unearmarked activities</i>	<i>Earmarked activities</i>					<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
Revenue							
Cash contributions	566 450	320	–	264 146	98 819	–	929 735
In-kind contributions	–	20 032	–	5 207	2 735	–	27 974
Interest on loans	–	98	6 961	–	–	–	7 059
Interest on bank deposits	1 272	18	900	103	281	–	2 574
Other revenue							
Foreign currency exchange gain	7 887	1	(933)	802	(102)	–	7 655
Indirect support cost recovery	11 762	350	–	14 641	–	(26 597)	156
Miscellaneous revenue	3 646	3 272	548	(63)	(46)	6	7 363
Total revenue	591 017	24 091	7 476	284 836	101 687	(26 591)	982 516
Expenses							
Wages, salaries and employee benefits	638 141	4 473	6 619	40 624	19 258	(410)	708 705
Supplies and consumables	26 294	10 703	217	71 341	3 013	–	111 568
Occupancy, utilities and premises costs	8 317	4 328	370	690	3 122	–	16 827
Contracted services	35 069	856	1 174	20 936	32 600	11	90 646
Indirect support costs	–	27	28	18 684	7 858	(26 597)	–
Subsidies	28 863	188	–	109 417	19 951	–	158 419
Depreciation and amortization	35 904	–	77	–	–	–	35 981
Provisions and write-offs	1 986	2 047	1 415	–	–	–	5 448
Loss on disposal	8	–	–	–	17	–	25
Total expenses	774 582	22 622	9 900	261 692	85 819	(26 996)	1 127 619
Surplus/(deficit) for the year	(183 565)	1 469	(2 424)	23 144	15 868	405	(145 103)

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Segment reporting by human development goal: expenses as at 31 December 2020

(Thousands of United States dollars)

	<i>Long and healthy life</i>	<i>Acquired knowledge and skills</i>	<i>Decent standard of living</i>	<i>Human rights enjoyed to the fullest</i>	<i>Effective and efficient governance and support in the Agency</i>	<i>Unallocated human development goal</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	98 990	448 806	54 628	7 029	99 662	–	(410)	708 705
Supplies and consumables	29 086	7 425	70 058	475	4 524	–	–	111 568
Occupancy, utilities and premises costs	1 779	4 493	3 641	121	6 793	–	–	16 827
Contracted services	31 728	4 695	36 979	1 830	15 403	–	11	90 646
Indirect support costs	3 686	2 367	17 764	379	2 401	–	(26 597)	–
Subsidies	9 428	1 291	136 784	1 464	9 452	–	–	158 419
Depreciation and amortization	5 840	16 563	2 279	346	10 933	20	–	35 981
Provisions and write-offs	–	365	1 408	–	3 675	–	–	5 448
Loss on disposal	4	3	17	–	1	–	–	25
Total	180 536	486 009	323 558	11 644	152 844	20	(26 996)	1 127 619

Segment reporting by programme: expenses as at 31 December 2020

(Thousands of United States dollars)

	<i>Education</i>	<i>Health</i>	<i>Infrastructure and camp improvement</i>	<i>Relief and social services</i>	<i>Protection Division</i>	<i>Support department</i>	<i>Executive direction</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	471 676	83 564	31 400	28 478	3 385	57 361	33 251	(410)	708 705
Supplies and consumables	9 352	28 012	1 466	68 916	17	3 609	196	–	111 568
Occupancy, utilities and premises costs	6 648	1 064	2 023	1 106	–	5 284	702	–	16 827
Contracted services	5 976	27 748	25 030	3 878	1 069	22 388	4 546	11	90 646
Indirect support costs	3 486	2 816	3 193	15 021	213	1 340	528	(26 597)	–
Subsidies	609	4 268	8 688	142 044	455	60	2 295	–	158 419
Depreciation and amortization	18 237	4 422	1 908	823	46	10 026	519	–	35 981
Provisions and write-offs	365	–	–	1 408	–	3 675	–	–	5 448
Loss on disposal	3	3	19	–	–	–	–	–	25
Total	516 352	151 895	73 728	261 674	5 185	103 742	42 037	(26 996)	1 127 619

Segment reporting by geographical location: expenses as at 31 December 2020

(Thousands of United States dollars)

	<i>Gaza field</i>	<i>Lebanon field</i>	<i>Syrian Arab Republic field</i>	<i>Jordan field</i>	<i>West Bank field</i>	<i>Headquarters</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	289 426	87 851	51 737	132 407	108 371	39 323	(410)	708 705
Supplies and consumables	80 074	4 540	9 779	8 846	8 253	76	–	111 568
Occupancy, utilities and premises costs	3 344	3 801	945	4 012	4 085	640	–	16 827
Contracted services	38 202	21 210	4 768	5 816	10 332	10 307	11	90 646
Indirect support costs	8 202	5 556	7 254	2 512	2 528	545	(26 597)	–
Subsidies	20 995	44 692	55 027	24 840	10 896	1 969	–	158 419
Depreciation	16 472	3 039	1 623	2 654	5 445	6 748	–	35 981
Provisions and write-offs	435	23	5	616	865	3 504	–	5 448
Loss on disposal	23	2	–	–	–	–	–	25
Total	457 173	170 714	131 138	181 703	150 775	63 112	(26 996)	1 127 619

Note 34

Presentation of budget information

34.1 The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2020-2021 programme budget (Blue Book). The UNRWA budget includes the core requirements funded through the programme budget as endorsed by the General Assembly, which, if exceeded, requires submission to the Assembly; in-kind donations; and the projects budget, where allocation varies based on donor response.

34.2 As compared with the Blue Book budget, the programme budget, made available at the beginning of each financial period, reflects reduced requirements based on the end-of-year income forecast and acceptable cash shortfall. However, for the projects budget, resources are made available when contributions are received and/or, on an exceptional basis, when pledges are confirmed by donors, by means of a signed agreement, for approved project proposals.

34.3 With the adoption of IPSAS, UNRWA internally adopted an accrual budgeting system based on IPSAS. However, in compliance with the Financial Rules and Regulations, the final budget set out in financial statement V still refers to a modified cash basis budget and is used for comparison with the actual amounts.

34.4 The UNRWA budget encompasses three main entities (funding portal types): the programme budget, funded mainly by voluntary contributions, along with 158 international staff members funded through the United Nations regular budget from assessed contributions; an in-kind donations budget; and the projects budget.

34.5 The Agency's budget structure follows a results-based budgeting format, as reflected in the annual operational plans, which are derived from the medium-term strategy for the period 2016–2021.

34.6 The budgets and accounts of UNRWA are arranged on different accounting bases. The statement of financial position, the statement of financial performance, the statement of changes in net assets and the statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the

statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement V) is prepared on a modified cash basis of accounting.

34.7 As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for the presentation of the financial statements and the budget.

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

34.9 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNRWA for purposes of comparison of budget and actual amounts.

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

34.11 Presentation differences are due to differences in the format and classification schemes adopted for presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of cash flow (statement IV) for the period ended 31 December 2020 is presented below.

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
Actual amounts on a comparable basis (statement V)	797 208	36 090	–	833 298
Basis differences	(78 874)	(56 096)	–	(134 970)
Timing differences	–	–	–	–
Entity differences	7 332	12	(418)	6 926
Presentation differences	(713 090)	–	–	(713 090)
Actual amounts in the statement of cash flow (statement IV)	12 576	(19 994)	(418)	(7 836)

34.13 Open commitments, including open purchase orders and net cash flows from operating, investing and financing activities, are presented as basis differences. Revenue that does not form part of the statement of comparison of budget and actual amounts is reflected as presentation differences. Entity differences occur as the approved budget, as noted above, includes the programme budget, the in-kind donations budget and the projects budget. The cash flow statement also includes the emergency appeals fund, the Microfinance Department fund and the earmarked fund of the programme budget.

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

(Thousands of United States dollars)

	<i>Total expenses</i>
Actual amounts on a comparable basis (statement V)	833 298
Basis differences	55 755
Timing differences	–
Entity differences	238 566
Actual amounts in the statement of financial performance (statement II)	1 127 619

Explanations of material differences

34.15 Explanations of material differences between the original budget and the final budget, and between the final budget and the actual amounts, are presented below.

Original and final budgets (income and expense/capital expenditure)

34.16 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2020 budget allocation at year-end.

34.17 The 2020 programme budget, as reflected in the Blue Book for 2020–2021, amounted to \$1,116.1 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. On a modified cash basis, the final 2020 budget was \$1,057.1 million, representing a decrease of \$59.0 million, or 5.29 per cent. This is disclosed in financial statement V as “final” budget. The \$59.0 million decrease is a reflection of the decrease in the final budget, owing mainly to a decrease in the final programme budget from \$888.3 million to \$824.7 million (including in-kind) and an increase in the final projects budget from \$227.8 million to \$232.4 million, including restricted funds (earmarked projects).

Utilization of the budget

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

(a) *Staff costs.* The implementation rate is 98.1 per cent. The underutilization of \$12.1 million is due to: (i) the requirement to maintain a vacancy rate of 9 per cent for international staff (funded by assessed contributions); and (ii) underspending under extrabudgetary funds for international staff, fixed-term area staff and daily paid and limited duration contracts by \$10.5 million, resulting from the low rate of project implementation owing to lockdowns to control the COVID-19 pandemic;

(b) *Supplies.* The implementation rate is 93.4 per cent. The underutilization of \$3.2 million is due to the receipt of project funds and the commitment of funds at year-end that have been carried forward to 2021;

(c) *Maintenance of premises and equipment.* The implementation rate is 39.1 per cent. The underspending of \$75 million is due to the low rate of implementation under projects owing to the COVID-19 pandemic, which resulted in lockdowns;

(d) *Training, travel, administrative services and consultancy.* The implementation rate is 62.5 per cent. The underutilization is due to continuous management actions adopted to meet the cash shortfall under the programme budget and the impact of COVID-19 on the projects;

(e) *Hospital and miscellaneous services.* The implementation rate is 80.5 per cent. The underspending is due to projects related to service purchase orders yet to be implemented in the next financial period, in line with the lifespan of the projects, and extended hospital contracts;

(f) *Subsidies to hardship cases, subsidies to patients, third-party subsidies and other subsidies.* The implementation rate is 82.3 per cent. The underspending of cash subsidies is due to commitments of funds of grants that will be distributed early next year;

(g) *Reserves.* The reserves reflect the impact of management actions and cost control measures to reduce the cash shortfall.

Note 35
Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern. The General Assembly votes in favour of key resolutions supporting UNRWA operations every year and for the renewal of the Agency's mandate every three years. In addition, the Advisory Commission of UNRWA, which brings together the main donors as well as hosts of UNRWA operations, reaffirms its support for the Agency at a semi-annual meeting. On 13 December 2019, by its resolution 74/83, the Assembly renewed the mandate of UNRWA operations until 30 June 2023.

Note 36
Related parties

36.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2020 was as follows:

(Thousands of United States dollars)

<i>Description</i>	<i>Total remuneration</i>	<i>Outstanding advances and loans</i>	<i>Number of individuals</i>
Key management personnel	6 788	348	32
Family member of key management personnel	41	–	1
Total	6 829	348	33

36.2 Key management personnel, who include the members of the Management Committee, have authority with respect to planning, directing and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. Related parties for UNRWA include key management personnel of the Agency, the United Nations Secretariat and the Area Staff Provident Fund.

36.3 The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel

remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances.

36.4 One family member of a member of key management personnel was employed by the Agency during the year. The details of the compensation paid to said family member are provided in the disclosure above.

36.5 A company partially owned by one family member of a member of key management personnel had transactions with the Agency under a long-term agreement signed in 2016 and again in 2020. The staff member in question became part of the Management Committee in April 2019. The total value of the Agency's transactions with this company for 2020 was \$0.073 million. The company has been a supplier to the Agency since 1995, and its revenues from UNRWA account for less than 10 per cent of its operations.

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

Note 37

Subsequent events

37.1 The Agency's reporting date is 31 December 2020 for the 2020 IPSAS financial statements. As at the date of approval and signing of these accounts, there have been no material events, whether favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have had an impact on these statements. Although COVID-19 continued as a global event in 2020, the Agency continues to deliver on its mandate.

37.2 However, before the final issuance of the final statements by the Board, there was a dramatic intensification in violence in the occupied Palestinian territory, including an escalation in hostilities leading to airstrikes on Gaza and clashes in the West Bank, including East Jerusalem. In Gaza, UNRWA is already responding to the humanitarian needs of affected populations (refugees and non-refugees), including the tens of thousands of people who have sought safety in Agency schools in Gaza, as well as in designated emergency shelters, which are equipped to host internally displaced persons during times of conflict.

37.3 UNRWA has launched a flash appeal, urgently seeking approximately \$38.0 million. This is needed to respond to the immediate food, non-food, health, psychosocial, water, sanitation and hygiene and emergency response capacity needs and to carry out essential emergency interventions during and after the hostilities in Gaza. Although a ceasefire has been agreed, a complete assessment will take some degree of effort and time. Later appeals are expected to be launched on the basis of the assessment.

Note 38

Date and approval

38.1 The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2021.

