A/77/5/Add.1

United Nations

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2021

and

Report of the Board of Auditors

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

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

A/77/5/Add.1

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2021

and

Report of the Board of Auditors

United Nations • New York, 2022

Note

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

ISSN 0251-8198

[21 July 2022]

Contents

Letters of transmittal and certification

Letter dated 29 April 2022 from the Administrator, the Assistant Secretary-General/Assistant Administrator and Director, Bureau for Management Services, and the Chief Finance Officer and Comptroller of the United Nations Development Programme addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the year ended 31 December 2021, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

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

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

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

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

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

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

Letter dated 21 July 2022 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors together with the financial report and the audited financial statements of the United Nations Development Programme for the year ended 31 December 2021.

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

Chapter I

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

Opinion

We have audited the accompanying financial statements of the United Nations Development Programme (UNDP), which comprise the statement of financial position (statement I) as at 31 December 2021 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNDP as at 31 December 2021 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

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

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

The Administrator is responsible for the other information, which comprises the financial report for the year ended 31 December 2021, contained in chapter III below, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

21 July 2022

Chapter II
Long-form report of the Board of Auditors

Summary

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

The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2021. The audit was carried out at headquarters in New York, at the Global Shared Service Centres in Copenhagen and Kuala Lumpur and at country offices in Mexico and South Sudan. The Board conducted the audit of the financial statements in part remotely owing to coronavirus disease (COVID-19) pandemic travel restrictions and through on-site visits to headquarters in New York and Copenhagen.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNDP as at 31 December 2021 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

Audit opinion

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

Overall conclusion

The finances of UNDP remain sound with high levels of liquid assets. Total revenue decreased by almost $1.0 billion in 2021, compared with 2020. While total revenue had increased by $1.8 billion in 2020, the decrease in 2021 was the result primarily of a reduction of large volume multi-year agreements. UNDP funding is received on a cyclical basis.

The major part of donations is tightly earmarked and can be used only for certain projects. In 2021, voluntary contributions to regular resources increased in both absolute and relative terms compared with 2020 and accounted for 17 per cent of total UNDP voluntary contributions. Despite the significant increase, a high level of tightly earmarked contributions continues to pose challenges for management with respect to focusing on priorities and deploying resources flexibly to meet demand across all areas of activity.

Key findings

Cost recovery

UNDP is committed to providing administrative services to United Nations agencies and programmes. These services should be provided under the principle of full cost recovery. The costs recovered by UNDP represent regular resources. The Board noted that prices used to recover costs as agreed in service level agreements had not been updated upon the signature of the initial service level agreements. UNDP informed the Board that the latest general price changes, which had occurred in 2012, were communicated in an inter-office memorandum and were related to payroll services for locally and internationally recruited staff. The Board learned that other human resource management-related services had not been updated since 2004. The Board holds that neglecting to perform reviews of the accuracy of prices with regard to cost recovery hinders fulfilment of the obligation to recover costs and thereby achieve the aim of neither making a profit nor incurring a loss.

The Board noted that UNDP had not invoiced legal services provided to the Development Coordination Office for 2020 and 2021 until April 2022. The Board also noted that 2 out of 14 country offices reviewed by the Board had not recovered any costs for vehicles rented to the Development Coordination Office in 2021. The Board holds that UNDP should have measures in place for identifying whether amounts were invoiced and recovered to ensure the completeness of cost recovery.

Accountability and oversight

The Board noted that the UNDP accountability system had been established in 2008. In 2017, it was complemented by a corporate accountability framework. While the corporate accountability framework set out responsibilities and accountabilities at the bureau level, an equivalent was lacking at the country office level. The Board holds that given the highly decentralized structure of UNDP as well as the ongoing clustering of services, it is highly important for a clear set of accountabilities reflecting the current organizational structure to be defined and followed. Recommendations related to accountability that have been issued by the Office of Audit and Investigations as well as the Board show that improvements are necessary.

In 2020, the Office of Audit and Investigations carried out a performance audit of the Global Environment Facility to assess whether UNDP had put in place adequate governance and controls. UNDP responded that, inter alia, it had updated delegation of authority templates and a roles, accountability, consult and inform matrix for projects implemented by national partners. In addition, regional bureaux were to develop, based on listed areas of focus, internal oversight plans for country office transactions. The Board holds that tools and procedures established in response to the audit could be a good starting point in this context and support provided for oversight could be established for other projects as well.

The Board noted that in accordance with the performance management and development policy, the performance of UNDP staff was evaluated annually, with directors of regional bureaux evaluating the performance of resident representatives.

The Board also noted that two months after the completion deadline, the annual performance review had been completed for only 53 per cent of all directors. In the view of the Board, it is important that performance reviews be carried out through to completion in a timely manner in order that the objectives set out in the UNDP People for 2030 strategy may be achieved. The Board holds that a complete and timely performance review will further facilitate and promote transparency and accountability.

Sustainable procurement

The Board reviewed how UNDP integrated sustainability into the organization's procurement policy and strategy and how it organized the procurement function towards sustainability. The Board also reviewed the actual integration of sustainability into the procurement process.

The Board noted that UNDP had already had a long tradition of developing green and sustainable procurement initiatives well before the topic gained traction within the United Nations system and before governing bodies asked United Nations organizations to "walk the talk" on sustainability. The Board observed, however, that the lack of a comprehensive and strategic approach to sustainable procurement, including goal setting and performance measurement, constituted a significant barrier to implementation.

The Board reviewed UNDP minimum sustainability specifications and noted that (a) all specifications had not been updated since their development in 2015; (b) some specifications were outdated as they referred to obsolete standards; and (c) specifications did not address key sustainability risks related to the product category. The Board found that the minimum sustainability specifications were unknown to staff interviewed and a sample across 44 business units showed that they were not used by requisitioners.

The Board noted that specifications used by country offices requested hydrofluorocarbon refrigerants with a high global warming potential. At the same time, UNDP ran projects focused on replacing high global warming hydrofluorocarbon refrigerants with environment-friendly and energy-efficient alternatives and supported countries in the development of phase-down management plans for hydrofluorocarbons. The Board holds that UNDP should procure refrigerants with a low global warming potential.

Human resources

The Board determined that UNDP had incorrectly granted danger pay due to the COVID-19 pandemic. The Board holds that danger pay due to the COVID-19 pandemic should be granted only to a limited group of staff directly involved in operations enumerated by the International Civil Service Commission. UNDP has therefore to provide evidence in every single case that the staff activities could be clearly subsumed under the listed operations. The Board considers it necessary for the related internal controls to be reviewed.

Internal controls

In its report on the financial statements of UNDP for the year ended 31 December 2018, the Board identified room for enhancement in various areas of internal financial control. After the issuance of the Board's recommendation, UNDP performed several tasks aimed at enhancing the internal financial control environment. In January 2022, a newly established inter-bureau task force highlighted that the issue of the internal control system had come up recurrently and stated that

UNDP should collectively invest in addressing oversight and control issues as well as a cultural shift in the organization.

The Board agrees with that statement and notes that updates at the policy level aimed towards helping UNDP offices implement effective internal controls. However, based on several observations on financial control-related shortcomings, the Board determined that the action taken by UNDP had not resulted in verification of the implementation of actual controls throughout the organization. The Board holds that additional key risk-oriented controls should be identified to ensure the relevance of internal financial control procedures. In addition, UNDP should specify appropriate documentation requirements for confirming that control procedures have been performed.

Main recommendations

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

Cost recovery

(a) **Perform regular reviews of prices used for cost recovery for global services rendered under a contractual arrangement and adjust prices as identified by those reviews to avoid material shortcomings;**

(b) **Improve complete and timely cost recovery for all services provided to other United Nations entities;**

Accountability and oversight

(c) **Update the UNDP accountability system and the corporate accountability framework;**

(d) **Assess whether guidelines for oversight established for Global Environment Facility projects could be applied to other UNDP projects;**

(e) **Ensure timely completion of the annual performance review;**

Sustainable procurement

(f) **In line with established good practices and international standards, continue to integrate sustainability into the organization's procurement policy and strategy;**

(g) **In line with established good practices and international standards, develop and implement a sustainable procurement action plan which includes elements such as, but not limited to, sustainable procurement objectives and targets, clarification of responsibilities and accountabilities with regard to sustainable procurement and a performance measurement framework;**

(h) **Based on a sustainability risk analysis, develop and continuously update sustainable procurement specifications and regularly communicate those specifications to its requisitioners;**

(i) **Establish a control mechanism to ensure that country offices request non-hydrofluorocarbon refrigerants, where available and feasible, with an ultra-low global warming potential so as to comply with related provision of UNDP social and environmental standards;**

Human resources

(j) **Review its oversight functions and internal controls in place to ensure compliance with the stipulations for danger pay due to the COVID-19 pandemic;**

Internal controls

(k) **Further enhance its internal financial control system by identifying key controls with the aim of improving data quality and limiting risks of errors and by specifying documentation requirements which evidence the performance of these control procedures.**

Follow-up on previous recommendations

As at 31 May 2022, out of the 56 recommendations made for 2020 and previous years, 38 (68 per cent) had been implemented and 16 (28 per cent) remained under implementation. One recommendation (2 per cent) had not been implemented and one (2 per cent) had been overtaken by events (see annex to the present chapter).

Key facts	
170	Countries and territories where UNDP operates.
$702 million	Budget for 2021 approved by the Executive Board for regular resources.[1] Other resources do not fall within the remit of the approved budget of the Executive Board although they are accounted for in the financial statements.
$5.64 billion	Total revenue
$5.38 billion	Total expenses
$15.15 billion	Total assets
$3.57 billion	Total liabilities

A. Mandate, scope and methodology

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

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2021 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNDP as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of UNDP. The audit included a general review of financial systems and internal controls and testing of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting system and the internal financial controls and, in general, the administration and

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

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

5. The Board has also performed the annual audit of the regular resources of the UNDP Global Environment Facility trust fund and issued an unqualified audit opinion for the year ended 31 December 2021.

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

7. The audit was carried out on site at headquarters in New York in October 2021 and May and June 2022 and at the Global Shared Service Centre in Copenhagen in November 2021. The COVID-19 pandemic continued to trigger travel restrictions and affected parts of the audit of the financial statements which were carried out remotely at the Global Shared Service Centre in Kuala Lumpur in November 2021 and April and May 2022 and the country offices in Mexico and South Sudan in February 2022.

8. Recommendations on findings at country offices were issued to country offices and followed up at headquarters. They are integrated into the areas of expenses, cost recovery, sustainable procurement and internal controls.

9. In 2020, UNDP decided to replace the current enterprise resource planning system Atlas with a cloud-based system (Quantum). In the fourth quarter of 2021 the go-live was postponed from January to July 2022. Owing to issues associated with data quality and preparedness, ongoing user acceptance tests and consequently outstanding user training, UNDP postponed the go-live again. In July 2022, UNDP stated that the launch date was contingent upon a readiness assessment of a number of key variables such as data, system users and UNDP partner agencies. The readiness assessment was scheduled for 22 July 2022. As UNDP provides eight United Nations entities with the new enterprise resource planning system, the postponed start will affect their business operations as well.

10. The Board holds that the postponed start will delay the implementation of the recommendations made by the Board in its report on the financial statements of UNDP for the year ended 31 December 2020. These recommendations concern the enhancement of related business processes, including establishing means of preventing users from approving payments for themselves, integration of the currently paper-based delegation of authority process and implementation of automated controls.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

11. As at 31 May 2022, out of the 56 outstanding recommendations up to the financial year ended 31 December 2020, 38 (68 per cent) had been fully implemented, 16 (28 per cent) were under implementation, 1 (2 per cent) had not been implemented and 1 (2 per cent) had been overtaken by events. Details of the status of implementation of the recommendations are provided in the annex to the present chapter. While acknowledging the efforts of UNDP towards implementing the Board's recommendations, the Board nevertheless urges UNDP to put greater emphasis on long-standing recommendations concerning fraud prevention.

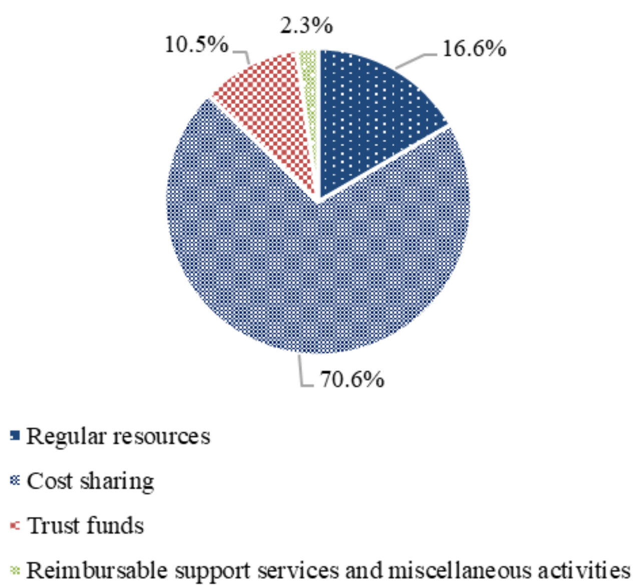
2. Financial overview

Revenue and expenses

12. UNDP revenue includes voluntary contributions, revenue from exchange transactions, investment revenue and other revenue. During 2021, total revenue amounted to $5.64 billion (2020: $6.62 billion) and total expenses amounted to $5.38 billion (2020: $5.05 billion), resulting in a surplus of $252 million (2020 surplus: $1.57 billion). The decrease was due mainly to the decrease of voluntary contributions.

13. The total voluntary contributions to UNDP amounted to $5.30 billion (2020: $6.27 billion), equivalent to 94.1 per cent of total revenue (2020: 94.8 per cent). Voluntary contributions decreased by $968 million (15.4 per cent) compared with 2020, the result primarily of a reduction of large volume multi-year agreements. UNDP funding is received on a cyclical basis and revenue is recorded at the time the agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of $881.97 million (16.6 per cent), cost sharing of $3,747.26 million (70.6 per cent), trust funds of $555.81 million (10.5 per cent) and reimbursable support services and miscellaneous activities of $118.99 million (2.3 per cent). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions to regular and other resources



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2021.

14. Total expenses in 2021 ($5.38 billion) were slightly higher compared with 2020 ($5.05 billion). For the breakdown of expenses into segments, UNDP excludes an elimination of $261.28 million to remove the effect of internal UNDP cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source. Before elimination, expenses amounted to $5.65 billion and the breakdown by segment is as follows: regular resources expenses of $833.60 million (14.8 per cent), cost sharing expenses of $3,650.87 million (64.7 per cent), trust fund

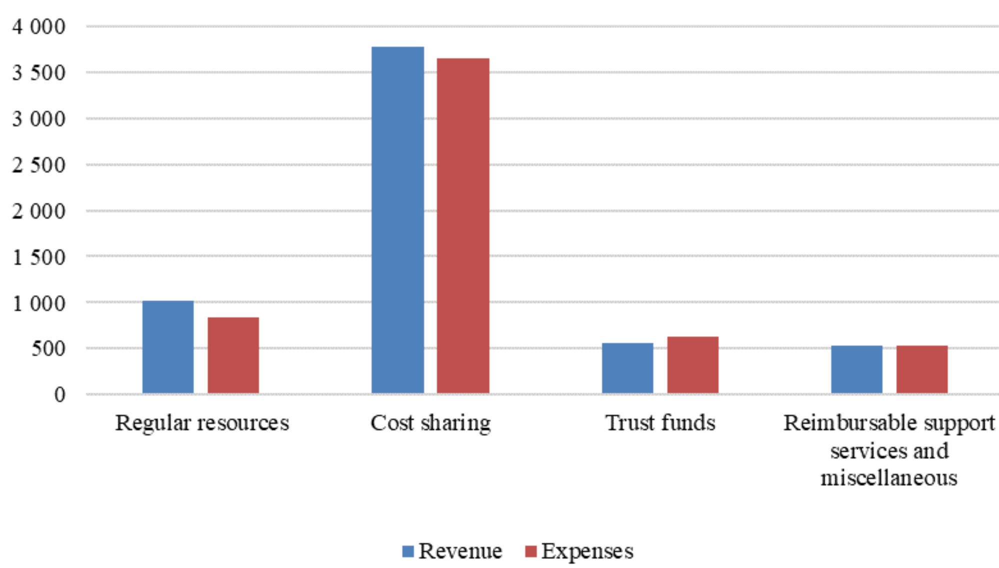
expenses of $627.95 million (11.1 per cent) and expenses for reimbursable support services and miscellaneous activities of $533.72 million (9.4 per cent).

15. The classification of the expenses by nature indicates that the largest expense category continued to be contractual services, with expenses of $2,008.58 million (37.3 per cent of overall expenses). An amount of $1,216.75 million (22.6 per cent) was spent on supplies and consumables used, $866.18 million (16.1 per cent) on staff costs, $844.39 million (15.7 per cent) on general operating expenses net of $261.28 million internal cost recovery, $349.71 million (6.5 per cent) on grants and other transfers and $99.25 million (1.8 per cent) on other expenses and depreciation and amortization.

16. Total expenses by cost classification indicate that $4,651.54 million (82.4 per cent) was spent on programme, $209.03 million (3.7 per cent) on development effectiveness, $20.73 million (0.4 per cent) on United Nations development coordination, $444.34 million (7.9 per cent) on management, $77.90 million (1.4 per cent) on special-purpose activities and $242.60 million (4.3 per cent) on other costs. The breakdown of expenses by cost classification excludes an elimination of $261.28 million to remove the effect of internal UNDP cost recovery.

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

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



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2021.

Ratio analysis

18. The analysis by the Board of the main financial ratios of UNDP (see table II.1 below) shows some significant declines in several ratios in 2021 as compared with 2020. The decrease resulted from decreases in cash, current investments and current non-exchange receivables, while current liabilities slightly increased.

Table II.1
Ratio analysis

Ratio	*31 December 2021*	*31 December 2020*
Current ratio[a]		
Current assets: current liabilities	4.10	5.54
Total assets: total liabilities[b]	4.24	4.72
Cash ratio[c]		
Cash plus current investments: current liabilities	2.57	3.55
Quick ratio[d]		
Cash plus current investments plus current accounts receivable: current liabilities	3.94	5.39

Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2021.

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

[b] A high ratio is a good indicator of solvency.

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

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

19. The current assets of UNDP as at 31 December 2021 were $7,591.31 million, or 4.10 times the current liabilities of $1,851.57 million, which indicates the Programme's ability to meet its short-term obligations. Similarly, total assets of $15,150.88 million exceeded total liabilities of $3,574.30 million, which indicates a healthy financial position. Assets include contributions committed by donors for future periods.

20. Reserves consist of the operational reserve, the endowment fund and the reserve for special initiatives. UNDP calculated its operational reserve in compliance with the methodology approved by the Executive Board. The operational reserve consists of the operational reserve for regular resources and the operational reserve for other resource activities. As at 31 December 2021, UNDP held a reserve of $301.5 million compared with a reserve of $302.2 million reported on 31 December 2020. The difference of $0.7 million represents a transfer from the operational reserve to the accumulated surplus of the year.

3. Financial statements and accounting-related matters

Expenses

21. UNDP records expenses on an accrual basis in accordance with IPSAS 1: Presentation of financial statements. Transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

22. The Board noted that UNDP had raised purchase orders for all procurements above $5,000. When the goods and services were received by UNDP, a receipt was entered into the enterprise resource planning system and the expense was recorded. No purchase order was raised for procurements below $5,000 and for transactions where no procurement was done. This included payments to and on behalf of partners. For projects implemented by partners, UNDP regularly advanced cash in accordance

with UNDP policies. After reporting of the expenses by the partner, advances were liquidated and expenses posted.

23. The Board noted that non-purchase order vouchers had been approved by a second person. For purchase order vouchers, the approval by a second person was done at the time the purchase order was raised. After the receipt was entered, expenses were accounted for without further approval if there was no material deviation from the purchase order. The Board noted that the processing of all types of accounts payable vouchers was subsequently clustered at the Global Shared Service Centre and as of October 2021, voucher processing was clustered for all regions.

Purchase orders and receipting of goods and services

24. According to the policy on purchase orders, the buyer must use multiple lines to differentiate between the various items or services when more than one type of good or service was being procured. The buyer should be as precise as possible regarding the quantity and description for each item or service included in the purchase order. According to the policy on receipt of goods and application of incoterms, project managers were responsible for verifying satisfactory receipt of goods and services in accordance with the contract or purchase order.

25. Within the sample reviewed, the Board noted two prepayments to United Nations entities where the price used for receipting in the enterprise resource planning system differed from the price according to the invoice. The two cases resulted in overstatement of expenses by $0.8 million. According to information given by UNDP, the amounts saved would later be repaid or used for different procurement activities.

26. In another case, the Board noted that UNDP had grouped multiple items into several batches instead of classifying by individual item. The Board found it difficult to reconcile the invoice with the corresponding purchase orders. The receipt was entered into the enterprise resource planning system seven months after the partner had confirmed receipt. The Board noted that UNDP had mistakenly capitalized items owing to incorrect use of catalogue codes.

27. The correct receipting of goods and services is essential not only to ensure correct accounting but also to reduce the risk of financial losses. The Board is of the view that financial losses, especially in the case of prepayments, can occur if UNDP does not know whether purchase orders were fulfilled correctly and completely. The Board holds that it is important for UNDP to be always fully aware of which goods have been received and at what price. This should be documented completely and also within the enterprise resource planning system. The Board also holds that diligence should be exercised at all levels when purchase orders are raised in order to ensure correct accounting.

28. **The Board recommends that UNDP take measures to enhance appropriate recording of purchase orders and receipts of goods and services.**

29. UNDP agreed with the recommendation.

Accounting period for expenses reported by implementing partners

30. The Board noted that according to the policy on direct cash transfers and reimbursements, advances to implementing partners and responsible parties were liquidated and expenses were recognized when the partner reported the expenses incurred from the funds advanced. The Board also noted that the policy referred to the use of specific forms (funding authorization and certificate of expenditure) but did not include guidance on the timing of recording of expenses in case of reimbursements. The policy on direct payments did not include information on when to record expenses.

31. The Board noted that according to the standard operating procedures for voucher processing used by the Global Shared Service Centre, the previous quarter end date was to be used as the accounting date for the recording of expenses from the liquidation of advances. Expenses could still be posted to the previous quarter end date between the first and the fifteenth of the following month before the accounts payable module was closed. After the accounts payable module was closed, the current processing date would be used. The standard operating procedure stated that for reimbursements and direct payments, the processing date would be used as accounting date.

32. According to the financial closure instructions for year end 2021, expenses reported were to be recorded in the accounts payable module until 18 January 2022. In cases where reports were not received on time, country offices were to estimate the amount of expenses incurred and record the estimated expense in the enterprise resource planning system.

33. The Board noted that at the end of each year, the Office of Financial Management carried out cut-off testing as an internal control measure. Cut-off testing for year end 2021 revealed an error rate of 17 per cent ($17.8 million). The amount was partially offset by an error identified during the testing of receipts and prepaid rent ($9.8 million). UNDP corrected the error in the financial statements for financial year 2021.

34. Within the samples reviewed, the Board noted 10 errors with respect to the accounting period used for expenses reported by partners. Of those 10 items, 4 were included in the testing by the Office of Financial Management. The Board noted that two of those four items had been included in the overall error and two had been judged to be recorded correctly by the country office.

35. While the Board acknowledges that UNDP had itself identified errors during cut-off testing, the errors should not have occurred in the first place. The Board holds that the sample showed that not all errors had been detected through the controls carried out.

36. In the view of the Board, the clustering of the recording of accounts payable vouchers within the Global Shared Service Centre might result in commission of fewer errors. The Board, however, still noted a high error rate at the end of 2021 when recording had already been clustered The Board holds that clearer guidance for country offices may reduce the initial error rate.

37. **The Board recommends that UNDP streamline and clarify policies for the recording of expenses reported by partners to ensure that expenses are accounted for in the correct period.**

38. UNDP agreed with the recommendation.

4. Cost recovery

General

39. In its decision 2012/27, the Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services (hereinafter referred to as the Executive Board) emphasized the principle of full cost recovery as stipulated in General Assembly resolution 62/208. In its decision 2013/9, the Executive Board recalled the need to implement Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, in particular section II.D on ensuring full cost recovery. UNDP is in addition committed to providing administrative services to United Nations entities and programmes through its global

office network, in line with requests of United Nations entities and the ability of UNDP offices to respond to them.

40. According to the UNDP universal price list and local price list policy, UNDP should enter into contractual arrangements with other United Nations entities regulating the overall framework of the relationship at corporate level. These agreements specify that UNDP will provide services on a cost recovery basis. Furthermore, the universal price list and local price list policy defines the components that are relevant for consideration in determining prices that ensure full cost recovery. According to the policy, the cost drivers are staff salaries, the time spent by personnel in providing transactional services and the share of general operating expenses, inter alia, for office space and use of essential office equipment and supplies. The costs recovered by UNDP represent regular resources, that is to say, they are non-earmarked funds.

41. The UNDP United Nations Agency Services policy stipulates that all UNDP support services should be provided on the basis of full cost recovery. The policy encompasses guidance on the costing methodology and determines that costs should be recovered through use of a true hourly cost methodology.

42. Among other United Nations entities, UNDP has signed the principles for costing and pricing services developed by the Business Innovations Group. The principles for costing and pricing services are designed to support United Nations entities in costing and then pricing services provided to another United Nations entity, including the associated information to be shared. The principles for costing and pricing services determine that an entity supplying a service should fully recover all costs that are properly associated with providing that service, with the aim being neither to make a profit nor to incur a loss. The principles also highlight the need for transparency. A breakdown of costs incurred including details on the components of each cost is therefore considered relevant to both parties' achieving a clear understanding in this regard. The principles also emphasize that reporting on income versus expenditure allows both parties to monitor compliance with the principle of full cost recovery.

43. According to the United Nations Agency Services policy, typical services that UNDP provides to United Nations entities may be classified into the following categories:

(a) Standard services;

(b) Ad hoc services;

(c) Global services;

(d) Common or shared services.

44. The United Nations Agency Services policy defines standard services as those that are provided in the same way each time they are requested and follow standard procedures across UNDP offices. The universal price list sets rates for each standard service. Global services are services provided at the global level including headquarters and global shared service centres; their prices should be determined in established contractual arrangements.

45. The Board reviewed cost recovery for global services based on a contractual arrangement at corporate level. In this regard, the Board focused on the following services rendered by UNDP to other United Nations entities:

(a) Human resource management;

(b) Financial services;

(c) Legal services.

46. The Board also reviewed transportation services provided by UNDP to the reinvigorated resident coordinator system.

Human resource management services

47. UNDP provides more than 10 United Nations entities with human resource management services such as global payroll services, benefits and entitlements services and payroll finance services, among others, as agreed. While global payroll services and benefits and entitlements services have been provided from Copenhagen since 2010 without any change in location, there was a change in location of the payroll finance unit, from New York to Kuala Lumpur, at the beginning of 2015.

48. As contractual arrangements, UNDP has established service level agreements with United Nations entities for human resource management service provision as requested by the UNDP universal price list and local price list policy. The Board reviewed 11 service level agreements established for human resource management service provision, which had been signed between 2007 and 2018.

49. While the universal price list had been updated on a yearly basis, the Board noted that prices agreed in service level agreements had not been updated since the signature of the initial service level agreements. UNDP informed the Board that the latest general price changes had occurred in 2012 and had been communicated in an inter-office memorandum. Those changes referred to locally and internationally recruited staff. The inter-office memorandum explained that the fees were based entirely on actual costs incurred by UNDP in supporting the global payroll operations that had remained unchanged since 2004. Price adjustments for other human resource management-related services were not mentioned in the inter-office memorandum. The Board therefore understands that other human resource management-related services had not been updated since 2004 as mentioned in the inter-office memorandum.

50. The Board noted during the sample review that owing to the latest price adjustments in 2012 as described above, service level agreements entered into by UNDP and relevant United Nations entities in later periods had been based on those prices. For example, service level agreements signed in 2016 were established using the same prices as those used in service level agreements entered into in 2012.

51. UNDP informed the Board that reviews had not been performed to determine whether costs recovered for human resource management-related services reflected full cost recovery. UNDP confirmed that in case a location for human resource management-related service provision changed, reviews to determine the accuracy of prices or any price adjustments did not occur. The Board noted that UNDP had not defined a clear responsibility for performing reviews on the accuracy of prices agreed in service level agreements at corporate level.

52. The Board reviewed the evolution of prices for cost recovery since 2011 based on the universal price list in comparison with prices being agreed in service level agreements. For services comparable with those mentioned in the service level agreements, prices in the universal price list for services rendered in Copenhagen had increased on average by 6 per cent each year. For instance, since 2011, the prices for benefits and entitlements services had increased by 44 per cent and the prices for recurrent personnel management services by 46 per cent. UNDP informed the Board that the increases had been driven mainly by the increase of pro forma staff costs.

53. The Board noted that UNDP had not performed reviews of service level agreements to ensure accuracy of prices for services rendered. The Board holds that such omissions hinder fulfilment of the obligation to recover costs and thereby achieve the aim of neither making a profit nor incurring a loss The Board is concerned

that prices used for recovering costs for human resource management do not reflect full cost recovery together with achievement of the aim of neither making a profit nor. incurring a loss. The Board holds that, while the recovered costs represent regular resources for UNDP, adjustments in case prices were to increase would provide additional budget flexibility for UNDP.

54. The Board holds, moreover, that the price increase for services rendered using universal price list prices indicates the necessity of price adjustments for services provided under service level agreements. Based on the number of United Nations entities for which UNDP is providing human resource management services and the significant price increases shown above, the Board also holds that using prices for cost recovery determined in 2004 and 2012 clearly indicates material shortcomings for UNDP. The Board further holds that changes in the location for service provisions would result in a need to review the prices used for cost recovery purposes, given the expectation that staff salaries and general operating expenses would be different from salaries and expenses at the previous location.

55. The Board holds that UNDP should define clear responsibilities for a regular review of the accuracy of prices recovered through service level agreements. This review and its outcome should be documented. In the case where the review reveals that price adjustments are necessary to ensure full cost recovery as claimed in the principles for costing and pricing services and the United Nations Agency Services policy, such adjustments should be communicated to the respective United Nations entities.

56. **The Board recommends that UNDP perform regular reviews of prices used for cost recovery for global services rendered under a contractual arrangement and adjust prices as identified by those reviews to avoid material shortcomings.**

57. **The Board recommends that UNDP define clear responsibility for the review of prices used for cost recovery for global services rendered under a contractual arrangement.**

58. UNDP agreed with the recommendations.

Service provisions based on a lump sum

59. UNDP renders financial services for another United Nations entity. The Board noted that UNDP had agreed the price of $112,600 for financial services with the United Nations entity in a service level agreement signed in 2009. That service level agreement stated that the amount was an estimate which excluded inflation rates. The Board noted that UNDP had invoiced that amount without adjustments in subsequent years.

60. UNDP rendered financial services for the United Nations entity initially from New York. In November 2019, the responsible unit moved from New York to Kuala Lumpur. The price recovered by UNDP from the United Nations entity remained unchanged at $112,600 afterwards.

61. In addition, UNDP provides all legal services for that United Nations entity. The Board noted that UNDP and the United Nations entity had agreed in 2006 on a yearly lump sum in the amount of $105,000. The lump sum amount had been carried forward for all years and was used until 2021, even though the UNDP Office of Legal Services had already indicated in 2010 that the price for recovering costs for legal services provision for the United Nations entity should be increased to $150,000. The Board was informed that UNDP lawyers do not use a sophisticated method of recording hours worked for the United Nations entity and that UNDP cost recovery from the United Nations entity is not based on actual hours of work performed and is instead billed on a lump sum basis.

62. UNDP performed legal services for the United Nations entity from New York at the headquarters level. The Board reviewed the development of pro forma costs reflected in the UNDP universal price list for liaison offices for other services. The Board noted that during the last 10 years, the pro forma costs had increased on average by 4.9 per cent per year. Moreover, the volume of operational activities of United Nations entities had increased over the past years, a trend that was reflected in the financial figures. The United Nations entities financial statements for 2012 showed overall revenue in the amount of $54.1 million and overall expenses in the amount of $51.0 million. The latest published financial statements from 2020 showed overall revenues in the amount of $75.7 million and overall expenses in the amount of $81.7 million. This means an increase of revenue of 37 per cent and an increase of expenses of 61 per cent.

63. The Board holds that a lump sum methodology is not accurate for the purpose of ensuring full cost recovery and transparency with the aim of neither making a profit nor incurring a loss as described in the principles for costing and pricing services. While acknowledging external factors such as the increase of pro forma costs and the increase of operational activities by the United Nations entity, the Board challenges the contention that an amount established in 2006 still reflects full cost recovery. The 2010 UNDP initiative to adjust the price for legal services provision to the United Nations entity from $105,000 to $150,000 underlines these concerns.

64. The Board holds that accurate cost recovery undertaken with the aim of neither making a profit nor incurring a loss can be realized only if UNDP tracks more accurately the hours of lawyers working on behalf of the United Nations entity. It should therefore be mandatory for such hours to be recorded and reviewed in a feasible manner.

65. **The Board recommends that UNDP use prices for cost recovery based on actual work performed relying on tracked data of actual service provisions instead of using lump sums to ensure transparency and that neither profits nor losses occur.**

66. UNDP agreed with the recommendation.

Contractual arrangements

67. The Board noted that while UNDP and another United Nations entity had not formally renewed the 2010–2011 contractual arrangement for the provision of legal services, the parties have continued to operate in accordance with its terms. Arrangements on how to regularly adjust prices and ensure full cost recovery for legal services provision are therefore due to external factors not in place.

68. The Board holds that UNDP should aim to re-establish and update the contractual arrangement with the United Nations entity for legal services provision as described in the United Nations Agency Services policy. The contractual arrangement should define procedures for when and how prices could be adjusted to ensure full cost recovery as requested under the principles for costing and pricing services and the United Nations Agency Services policy.

69. **The Board recommends that UNDP aim to re-establish a contractual arrangement for all services including legal services provided to United Nations entities at headquarters level with a view to determining arrangements for price adjustments as necessary and ensuring full cost recovery in line with the principles for costing and pricing services.**

70. UNDP agreed with the recommendation.

Transportation services for the resident coordinator system

71. UNDP continued to provide operational support to the independent and reinvigorated resident coordinator system. UNDP and the Development Coordination Office signed a memorandum of understanding for provision of services. Pursuant to that memorandum of understanding signed in 2019, UNDP provides, inter alia, transportation services to the Development Coordination Office on a cost recovery basis. The Board reviewed the process for cost recovery of transportation services. While UNDP should also forward costs for driver, fuel, maintenance, insurances and repairs to ensure full cost recovery, the Board focused within this review only on the rent portion for the vehicle.

72. The memorandum of understanding specifies that cost recovery for vehicles should include, as part of full cost recovery, the vehicle's amortization calculated based on a five-year life cycle and 8 per cent administration costs.

73. A guidance note on provision of transportation services to the resident coordinator and resident coordinator office staff issued by the UNDP Bureau for Management Services lists three different cost recovery options:

(a) Apply most recent market rental fee charged by other United Nations entities when UNDP is renting vehicles from them;

(b) Apply most updated market rental fee paid by UNDP when renting vehicle from third parties;

(c) Apply an internal cost recovery rate calculated based on average vehicle expenses for the last one to two years.

74. In the case where option (c) has been chosen, the guidance note defines the formula for calculating the rental fee. In this case the vehicle ownership cost in line with the memorandum of understanding is considered to be the amortization calculated based on a five-year life cycle.

75. The Board reviewed a sample of 14 vehicles rented from UNDP by resident coordinator offices and noted differing cost recovery approaches in place in 2021. Five country offices had recovered the historical costs of the vehicle within less than two years. While four out of the five country offices referred to market rates for establishing prices, the one remaining country office used a local price list for cost recovery. Another country office used a price selected from among prices charged by other entities which enabled it to recover the historical costs of the vehicle in less than three years. Three country offices used prices based on a five-year depreciation lifespan and two country offices used charged prices which results in a full cost recovery of the vehicle within more than five years. In response to the Board's request, two country offices indicated that they had not recovered any costs for vehicles in 2021, while one regional hub did not respond to the Board's question regarding which approach had been used for cost recovery.

76. The Board holds that UNDP should institute the use of a consistent approach to recovery of costs for rented vehicles in all country offices and other units. The Board also holds that charging market rates for cost recovery purposes is not in compliance with the principles for costing and pricing services which incorporates the aim of neither making a profit nor incurring a loss. Such market rates are established by entities with the aim of obtaining a profit. The Board therefore holds that the guidance note issued by the UNDP Bureau for Management Services should not refer to market prices. The sample review performed by the Board demonstrated that in several cases the use of market rates had resulted in profits within less than two or three years.

77. The Board holds that the calculation of cost recovery for vehicles using the formula presented in the guidance note issued by the UNDP Bureau for Management Services based on a five-year life cycle constitutes a feasible approach which could ensure the application of a consistent cost recovery methodology among country offices and other units.

78. **The Board recommends that UNDP follow a consistent approach in line with the established memorandum of understanding to recovery of costs for rented vehicles as part of transportation services which incorporates the aim of neither making a profit nor incurring a loss as agreed in the principles for costing and pricing services.**

79. UNDP agreed with the recommendation.

80. UNDP stated that the transportation services provided to the resident coordinator system is currently in the process of transitioning to the United Nations Secretariat and will be discontinued by 2023.

Completeness of cost recovery

81. The Board noted that UNDP had not invoiced legal services provided to the Development Coordination Office for 2020 and 2021 until April 2022. UNDP informed the Board that the lack of timely invoicing was due to the departure to undertake another assignment of the staff member who had provided administrative support in this regard. The UNDP Office of Legal Services gathered information related to the invoices for 2020 and 2021 upon the request of the Board. At that time, UNDP had not invoiced an amount of about $150,000 for legal services provision to the above-mentioned United Nations entity referring to 2020 and 2021.

82. As stated above, the Board noted that two country offices had not recovered any of the cost for vehicles rented to resident coordinator offices. One of the two country offices had not recovered any of the costs for the rented vehicle as part of the transportation service since the delinking of the Development Coordination Office in 2019. That country office rendered invoices upon the Board's request retroactively. The second country office had invoiced the resident coordinator office in 2019 and rendered the invoices for 2020 and 2021 upon the Board's request retroactively.

83. The Board holds that an invoicing process should be in place that ensures cost recovery in a timely manner for all services provided to the Development Coordination Office as well as other United Nations entities. UNDP should therefore have measures in place that identify whether amounts were invoiced and recovered to ensure the completeness of cost recovery.

84. **The Board recommends that UNDP improve complete and timely cost recovery for all services provided to other United Nations entities.**

85. UNDP agreed with the recommendation.

5. Accountability and oversight

Accountability system and framework

86. In its resolution 2688 (XXV), the General Assembly established the UNDP accountability system and in its resolution 62/208 of 19 December 2007, the Assembly affirmed the accountability system. The system established organization-wide accountability to programme countries, including project beneficiaries, and donors. The UNDP accountability system comprises an accountability framework and an oversight policy. It describes organization-wide processes for monitoring, analysing and improving performance in all aspects of the organization.

87. The UNDP accountability system encompasses an external perspective on accountability and oversight. It describes the oversight provided by the Executive Board and its governing bodies and the roles of independent external and internal oversight. The oversight policy details the specific procedures, tools and reporting schedule. The Board noted that the UNDP accountability system referred to outdated elements such as the Millennium Development Goals, the strategic plan 2008–2011 and the resident coordinator system anchored within UNDP.

88. The UNDP corporate accountability framework was established in 2017 and complements the UNDP accountability system by introducing a focus that is more internal. It has been developed to support the implementation of clear roles, accountabilities and decision-making throughout the organization. It establishes the roles and responsibilities of each bureau within UNDP. Regional bureaux are accountable for country office support and oversight. The corporate accountability framework does not include country offices.

89. The Board noted that in 2020, UNDP had conducted an internal study on underlying root causes of recurring audit observations. In one area of concern, it was noted that managers were often not held accountable for audit results or implementation of audit recommendations. According to the internal study, one reason for this lack of accountability lay in the fact that the corporate accountability framework set out responsibilities and accountabilities at the bureau level without there being an equivalent mechanism at the country office level. The study recommended that the Executive Office and the regional bureaux supplement the corporate accountability framework with a similar framework applying to country offices and their relationships to regional and central bureaux. UNDP informed the Board that this recommendation was no longer being pursued.

90. The Board found that UNDP had updated its fraud risk management action plan in 2021. The updated plan included the operationalization of oversight responsibilities as a separate item. The Board also found that the plan proposed to establish a corporate compliance board by January 2023. The Board further found that the fraud risk management action plan of 2016 had already included operationalization of oversight responsibilities and the establishment of a corporate compliance board.

91. In its report on the financial statements of UNDP for the year ended 31 December 2020,[2] the Board made a number of recommendations with regard to accountability and oversight. Two observations related to confirmation by managers of compliance in an annual assertion in spite of non-compliance. Two recommendations related to oversight functions that had not been carried out adequately.

92. In 2020, the Office of Audit and Investigations carried out a performance audit of the Global Environment Facility to assess whether UNDP had put in place adequate governance and controls. The audit resulted in three major conclusions:

(a) Generally, country offices appreciated the support provided by regional technical advisers and were well informed and updated by the Bureau for Policy and Programme Support;

(b) The Bureau for Policy and Programme Support/Global Environment Facility team at headquarters had not established adequate governance arrangements, including adequate oversight by regional technical advisers;

(c) Regional bureau/country office management had not put in place adequate controls or arrangements for providing oversight over project implementation.

---

[2] A/76/5/Add.1.

93. In response to the recommendation, UNDP, among others, had updated delegation of authority templates and a “roles, accountability, consult and inform” matrix for projects implemented by national partners. The matrix described roles for country offices, regional bureaux and central bureaux covering the whole project cycle from origination to project financial closure.

94. The Board noted that the Executive Office had initiated plans to update the UNDP corporate accountability framework, including the UNDP decision to establish a corporate compliance board. The current timeline for the update of the corporate accountability framework indicates that the draft is not to be finalized until 2023.

95. The Board acknowledges and welcomes the UNDP initiative to update the corporate accountability framework and establish a corporate compliance board. Given the highly decentralized structure of UNDP as well as the ongoing clustering of services, the Board holds that it is highly important to define and adhere to clear accountabilities reflecting the current organizational structure. Recommendations related to accountability that have been issued by the Office of Audit and Investigations as well as the Board show that improvements are necessary. The results of the Global Environment Facility audit demonstrate that shortcomings in the area of oversight can have negative effects on the organization.

96. **The Board recommends that UNDP update the UNDP accountability system and the corporate accountability framework.**

97. UNDP agreed with the recommendation.

98. UNDP stated that although responsibility for the implementation of the programme remains with the country offices, the processing of services has been uplifted and clustered to enhance oversight and accountability. The processing mechanism operates through the enterprise resource planning system which UNDP continues to enhance.

Organization of oversight over country offices

99. The Board noted that regional bureaux organized oversight mainly by themselves. The corporate accountability framework catalogued key functions of regional bureaux within a set of broad functional groupings. Each bureau will further develop its internal processes in order to uphold accountabilities. The programme and operations policies and procedures, however, include few specific provisions for regional bureaux. Specific provisions related, for example, to oversight over implementation and quality assurance for the harmonized approach to cash transfers.

100. The UNDP policy on quality standards for programming states that regional bureaux were responsible for spot checks of project quality assurance reports to assess their quality and accuracy and inform organizational learning. The policy stipulates that regional bureaux should spot-check a sampling of project quality assurance reports large enough to reasonably ensure the overall credibility of assessments in their region. The sampling should include a mixture of random sampling, country offices with very high value or strategically important projects and country offices with extremely high quality or extremely low quality assurance ratings.

101. The Board noted that the Regional Bureau for Asia and the Pacific had documented the sample reviewed. The bureau had rated the quality assurance of the project and compared it with the quality assurance of the country offices. Review criteria encompassed quality of the quality assurance; accuracy of the evidence provided; and organizational learning, that is, whether lessons learned had been captured. Documentation of spot checks carried out was not available in the other regional bureaux.

102. The Board holds that quality assurance is a very important part of the project cycle. Recurring audit observations, for example, with regard to project design, show that improvements are possible and necessary. In the view of the Board, documentation is important for strengthening accountability and for being able to learn from the activities carried out (in this case, spot checks).

103. **The Board recommends that UNDP maintain evidence of the spot checks of quality assurance reports.**

104. UNDP agreed with the recommendation.

105. The Board noted that regional bureaux used a number of different tools to conduct oversight. Most of the tools were compiled on Stream, a dashboard providing detailed regional and country office statistics and financial indicators. The regional bureaux also used tools provided by the Bureau for Management Services. Decisions on tool use were dependent on the respective bureau and tool availability.

106. The uses of the most important tools are listed in table II.2.

Table II.2
Variety of oversight tools used by regional bureaux

	Vital signs (self-evaluation of country offices)	*Country scan (indicators, milestones, deficiencies)*	*Oversight over Global Environment Facility projects*	*Business intelligence system*	*Tools provided by the Bureau for Management Services (e.g. integrated workplan, integrated financial dashboard)*
Europe and Commonwealth of Independent States	x	x	x		x
Africa	x	x	x		x
Asia and the Pacific	x	Uses a similar tool	x		x
Arab States				x	x
Latin America and the Caribbean					x

Source: Analysis conducted by the Board.

107. A task force on financial transactions/procurement oversight was established in response to the Global Environment Facility audit. Task force discussions led to the issuance by the Bureau for Management Services of a file which listed areas of focus (e.g. harmonized approach to cash transfers, internal control framework, voucher payments, general ledger journal entries). For each area of focus, the file established the following categories:

(a) Tasks of the country office;

(b) Tasks of the regional bureau;

(c) Tools, systems, guidance;

(d) Frequency of oversight checks by regional bureau;

(e) Evidence to be provided.

108. On this basis regional bureaux were to develop their own internal oversight plans on country office transactions. The frequency of the checks could be modified and customized by the regional bureau depending on the local context and areas of

risk/concern. For example, the Regional Bureau for Asia and the Pacific considered that most transactions were performed by the Global Shared Service Centre. The Regional Bureau for Europe and the Commonwealth of Independent States developed an application within Stream including tasks and different areas such as harmonized approach to cash transfers, asset management and project closure. The application, which covered information on what documents were needed and by when, was launched in September 2021. The bureau planned to possibly extend it to other projects in the future.

109. The Board noted other initiatives taken by regional bureaux. To address recurring audit observations with regard to project design, the Regional Bureau for Asia and the Pacific had recently put in place a pre-project appraisal committee together with the Regional Bureau for Europe and the Commonwealth of Independent States for all projects above $3 million. The committee, which consists of members of the bureau and the country office, assesses mainly whether projects have adequate capacity. The goal is for project documents to be clearer and easier to understand and to facilitate exchange of learning between country offices.

110. The Board is of the opinion that UNDP could benefit from reviewing good practices at regional bureaux to consider possible roll-out to the rest of the organization. In the view of the Board, this would be more efficient than letting each bureau find and implement a separate solution. The Board understood that while regional bureaux already exchanged ideas, whether ideas and oversight tools could be expanded to other bureaux would depend on capacity within the bureaux. For example, applications on Stream could not yet be made available to all bureaux because of time constraints within other regional bureaux.

111. The Board understood that capacities for oversight functions at regional bureaux were limited. In the view of the Board, facilitating the roll-out of good tools to the whole organization could possibly support preservation of capacities at regional bureaux.

112. The Board acknowledges that each region has its own specificities and different issues to be addressed. While a complete harmonization of oversight tools and procedures is therefore not possible or desirable, most of the tools already used by some regional bureaux could be adapted to the individual needs of other regional bureaux.

113. The oversight tools developed in response to the Global Environment Facility audit had been adjusted and customized by each bureau on the basis of local context. In the view of the Board, this shows that it is possible to produce globally relevant tools and practices while at the same time taking into account specificities of the regions. The Board holds that tools and procedures established in response to the Global Environment Facility audit could serve as a good starting point for determining what tools and procedures could be established to support oversight of other projects.

114. **The Board recommends that UNDP assess whether guidelines for oversight established for Global Environment Facility projects could be applied to other UNDP projects.**

115. **The Board recommends that UNDP facilitate the sharing of tools and best practices between regional bureaux.**

116. UNDP agreed with the recommendations.

117. UNDP management noted that the inter-bureau task force had been established with the mandate to support efforts to integrate and embed UNDP/Global Environment Facility-related oversight actions in broader organizational strategies,

including oversight and accountability mechanisms, and was working towards that end. As a result, plans are in place to develop a corporate approach to defining and managing high-risk projects and to create a single harmonized system for assessing country office oversight, capacity and performance, which can be tailored to meet the needs of bureaux, for example, with the UNDP vertical funds oversight readiness capacity assessment (ORCA) platform, as developed in response to the UNDP/Global Environment Facility audit, considered an important starting point. UNDP noted that it already facilitates the sharing of tools and best practices between regional bureaux and will continue to do so.

Enforcing accountability

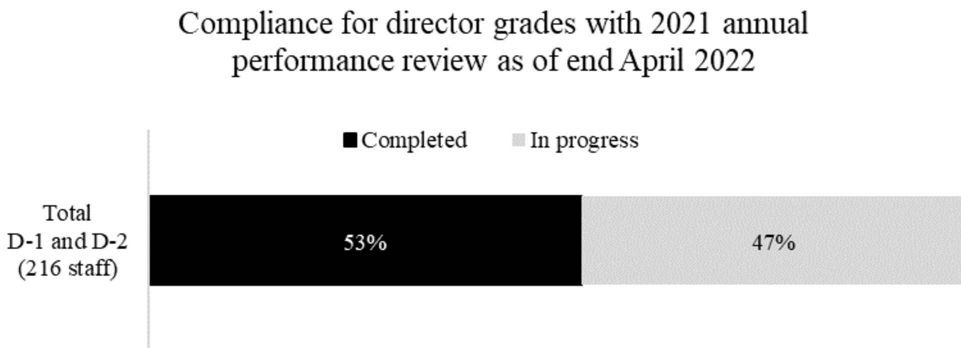
118. The Board noted that, in accordance with the performance management and development policy, the performance of UNDP personnel was evaluated annually. Regional bureau directors evaluated the performance of resident representatives. According to the applicable policy, annual performance planning took place at the beginning of the performance year and included an agreement on individual performance goals as well as learning and development goals. During the annual performance review, performance was evaluated. To ensure accountability for performance, appointments for staff members whose performance was not fully satisfactory may be terminated or may not be renewed and they will not be awarded the next within-grade salary increment when it is otherwise due. The deadline for the completion of 2021 annual performance reviews was 1 March 2022.

119. UNDP stated that the importance of performance management was highlighted by the UNDP People for 2030 strategy. The strategy included, among others, a key initiative to ensure that annual goal plans and performance reviews were completed on time. Another key initiative focused on enhancing the capacity of people managers to manage all aspects of individual performance. The performance management and development policy stated that bureau directors and office heads were accountable for effective performance management in their respective bureau/office. Unless there were reasons beyond the control of the supervisor, failure to comply with obligations should be reflected in the performance review of the supervisor.

120. The Board noted that in order to further facilitate and promote transparency and accountability in respect of performance management and development compliance, the Office of Human Resources had developed a performance management and development compliance dashboard.

121. The Board noted that at the time of the deadline for completion of the 2021 annual performance review, UNDP reported an overall compliance rate of 66 per cent in the performance management and compliance dashboard. Overall compliance for director grades was lower. In detail, the performance management and development compliance dashboard showed that two months after the deadline for completion, as of 30 April 2022, the annual performance review had been completed for only 53 per cent of all directors (see figure II.III below).

Figure II.III
2021 annual performance review compliance for all director grades (as of 30 April 2022)



Source: Analysis conducted by the Board based on data from the performance management and development compliance dashboard, retrieved on 18 May 2022.
Note: One director had not started the review.

122. The Board noted that compliance with the 2021 annual performance review at director levels varied among regional bureaux. All directors from the Regional Bureau for Latin America and the Caribbean and the Regional Bureau for Asia and the Pacific had completed the annual performance review for 2021. The compliance rate for the other three bureaux ranged from 12 to 40 per cent. The Board noted that the compliance rate was not correlated to the number of directors or the size of the bureau. Overall, 55 per cent of all directors in the regional bureaux had completed the annual performance review one month after the completion deadline.

123. The Board agrees on the importance of individual performance management and acknowledges and welcomes related initiatives. The Board is of the opinion that it is important to hold heads of country offices accountable for their tasks. The Board holds that establishing effective accountability in cases of non-compliance or poor performance could reduce recurring audit issues.

124. In the view of the Board, it is important that performance reviews be carried out completely and in a timely manner in order to achieve the objectives set out in the UNDP People for 2030 strategy. The Board holds that the annual performance review is one main element for setting goals for the new year. The Board also holds that a complete and timely performance review will further facilitate and promote transparency and accountability.

125. **The Board recommends that UNDP ensure timely completion of the annual performance reviews.**

126. UNDP agreed with the recommendation.

6. Sustainable procurement

Procurement at UNDP

127. UNDP advises on achieving the Sustainable Development Goals and runs sustainability projects around the world. In 2021, UNDP procured goods and services for $2.9 billion across more than 1,000 commodity categories worldwide from diverse supply markets. The UNDP procurement function is organized in a decentralized manner with country offices and business units managing their own procurement activities under independent delegated authority. In 2021, UNDP processed 88 per cent of purchase orders and 77 per cent of the total purchase order amount locally.

Despite the decentralized approach of UNDP to procurement, organization-wide policies and procedures apply.

Sustainable procurement: background

128. Sustainable procurement integrates requirements, specifications and criteria that are compatible with the protection of the environment, social progress and economic development. It seeks to ensure efficient use of resources, improved quality of products and services, and optimized costs.

129. Sustainable procurement forms a key part of an overall push for sustainable development by Governments and United Nations entities. With the adoption of the 2030 Agenda for Sustainable Development by all of the States Members of the United Nations in 2015, the United Nations system has been called upon to internalize the Sustainable Development Goals. Goal 12 specifically addresses the need to ensure sustainable consumption and production patterns. Related target 12.7 points to public procurement as one of the strategies for achieving the Sustainable Development Goals. The UNDP strategic plan and policy framework articulate the organization's strategic commitment to promoting the 2030 Agenda for Sustainable Development.

130. In 2009, the Procurement Network of the High-level Committee on Management adopted a joint statement on sustainable procurement intended for adaptation by each United Nations entity in accordance with its mandate.

131. Since 2011, specific guidance is available to assist with the implementation of sustainable procurement in United Nations system organizations. This guidance includes recommendations on the development of a sustainable procurement action plan and the integration of sustainable development principles in the United Nations procurement cycle. In April 2017, the International Organization for Standardization adopted the following standard: ISO 20400: Sustainable procurement – guidance, applicable to any organization, public or private, regardless of its size and location.

Sustainable procurement and UNDP procurement principles

132. Sustainable procurement is consistent with UNDP general procurement principles such as "best value for money" and "in the best interest of UNDP". Best value for money, for example, is defined by UNDP as the selection of the offer that presents the optimum combination of life cycle costs and benefits and meets business needs. Reduced energy and resource consumption throughout the life cycle results in greater efficiencies and long-term cost savings. Sustainable procurement is in the best interest of UNDP, as sustainable procurement aligns with the UNDP core mission of promoting sustainable development.

Integrating sustainability into UNDP's procurement policy and strategy

133. In order for sustainable procurement to be successfully implemented, both a high-level commitment and a well-structured approach are considered to be important in the context of good practices. High-level commitment is considered important with respect to ensuring that sustainable procurement does not remain an ad hoc activity without resources and recognition at an organizational level and is delivered consistently across an organization.

134. Pursuant to ISO 20400, consideration of sustainability should be integrated at the highest and most strategic level of the procurement function in order to establish clear intentions, directions and priorities for the whole organization in terms of sustainable procurement. High-level commitment to procurement practices that are more sustainable is generally expressed through the inclusion of sustainability

considerations in an organization's procurement policy and strategy as a means of providing the foundation and framework for action.

135. The Board found that UNDP had in place a dedicated policy on sustainable procurement which had been launched in 2013 and updated in 2020 to specifically integrate human rights, disability inclusiveness and gender provisions. That policy stipulates that all UNDP-financed or UNDP-administered programmes should aim towards practising sustainable procurement but sets no mandatory requirement for sustainable procurement. The policy provides general guidance for each step of the procurement process.

Sustainable procurement strategy/action plan

136. Good practices suggest that a sustainable procurement policy should be complemented by another key document, often called a strategy or action plan. This document presents a solid, coherent and well-coordinated approach to sustainable procurement within an organization and can help to define the mechanisms for implementing and monitoring sustainable procurement.

137. According to good practices, a sustainable procurement strategy/action plan helps (a) provide clear, practical steps focused on how to deliver sustainable procurement; (b) assign responsibilities to individuals and groups within the organization; (c) set out sustainable procurement objectives and targets as well as milestones for achievement of those objectives and targets; and (d) provide information on measurement, monitoring and auditing of performance over a set time frame.

138. Pursuant to ISO 20400, in order to ensure that it is meeting its sustainable procurement priorities, an organization should implement a performance measuring system which, inter alia, establishes a baseline measurement, associated sustainability goals and key performance indicators.

139. The Board found that UNDP had not complemented its sustainable procurement policy with a dedicated sustainable procurement strategy or action plan which defined the mechanisms for implementing and monitoring sustainable procurement within UNDP. The Board noted that UNDP had not set measurable sustainability targets or objectives for its procurement function for reporting and accountability purposes.

140. UNDP shared with the Board a draft procurement strategy for 2018–2021, which had not been approved by the management of the Bureau for Management Services. UNDP stated that the draft procurement strategy was used only as an informal workplan. The Board found that the draft included a dedicated section on sustainable procurement and listed eight key UNDP targets/objectives for sustainable procurement.

141. The Board was informed that those eight points were not based on an assessment of sustainability risks in procurement but rather they were a collection of ideas or externally driven requests. The Board noted that UNDP had not established specific goals or performance measures for the eight sustainable procurement objectives.

142. At the time of the audit, UNDP did not have in place an adopted formal procurement strategy which incorporated sustainability considerations. Given the ongoing internal discussion on the procurement strategy for 2022–2025 UNDP did not disclose any related details or share a draft. As a consequence, the Board could not establish whether sustainability consideration will be included in the new UNDP procurement strategy for 2022–2025, nor whether the new procurement strategy will include measurable targets and objectives.

143. The Board reviewed previous attempts of UNDP to implement sustainable procurement and observed that in 1995, UNDP had already launched a green office initiative. That initiative included a green procurement policy which had been included in the UNDP procurement manual issued in September 2001. Through audits in 2002–2003, the Board found, however, that UNDP headquarters and country offices had not complied with the green procurement policy.[3] In subsequent audits the Board noted that the strategy to facilitate the implementation of the green procurement policy had not been developed and implemented at the country level.[4]

144. The Board noted various further initiatives in the past 20 years that aimed at implementing sustainable procurement practices at UNDP. The Board also noted that all these initiatives had been implemented by various actors across the organization. The Board could not establish that the various initiatives were the result of a coordinated strategic approach towards sustainable procurement.

145. The Board is of the view that there are clear expectations of internalization of the Sustainable Development Goals by the United Nations system. Those expectations apply in particular to UNDP, given its work in supporting countries in their efforts to achieve the Sustainable Development Goals.

146. The Board positively notes that UNDP already had a long tradition of developing green and sustainable procurement initiatives well before the topic gained traction within the United Nations system and before governing bodies asked United Nations organizations to "walk the talk" on sustainability.

147. The Board nevertheless concludes that over the past years, UNDP had not taken a comprehensive and proactive approach to sustainable procurement. All the efforts identified by the Board to implement sustainable procurement practices lacked a strategic and coordinated approach despite readily available guidance on how to adopt such an approach to sustainable procurement within the United Nations.

148. The Board holds that a strategic approach to sustainable procurement should extend beyond the procurement function as the topic cuts across various functions and includes, for example, the identification of initial procurement needs by project staff. There was, however, no unifying element such as an action plan which would bring together individual actors or initiatives.

149. The Board considers the inclusion of sustainable procurement-related objectives and goals in the new procurement strategy 2022–2025 to be critical to the successful expression of the high-level commitment of UNDP. The Board holds that, additionally and in line with existing good practices, a well-structured approach defined in a separate sustainable procurement action plan would be an important means of facilitating the effective implementation of sustainable procurement practices.

150. The Board holds that for reporting and accountability purposes measurable targets and performance indicators are key to evaluating whether UNDP is achieving the objectives set out in the procurement strategy or sustainable procurement policy. The Board is of the view that measuring the impact of a sustainable procurement policy or related strategy helps to drive targeted improvements based on documented historic performance. The Board views such a performance framework as offering an opportunity to demonstrate transparently how UNDP walks the talk on sustainable procurement.

[3] A/59/5/Add.1, para. 362.

[4] A/61/5/Add.1, para. 398.

151. The Board concludes that, overall, the lack of a comprehensive and strategic approach towards sustainable procurement, including goal setting and performance measurement, represented a significant barrier to implementation.

152. **The Board recommends that UNDP, in line with established good practices and international standards, continue to integrate sustainability into the organization's procurement policy and strategy.**

153. **The Board also recommends that UNDP, in line with established good practices and international standards, develop and implement a sustainable procurement action plan which includes elements such as, but not limited to, sustainable procurement objectives and targets, clarification of responsibilities and accountabilities with regard to sustainable procurement and a performance measurement framework.**

154. UNDP agreed with the recommendations.

155. UNDP stated that the sustainable procurement action plan will outline priority actions and provide a phased implementation timeline.

Organizing the UNDP procurement function towards sustainability: assessing the maturity of the procurement function

156. According to ISO 20400, the procurement function should be thoroughly analysed before focusing on the implementation of sustainable procurement. This includes assessing the maturity of the procurement function and how it is represented within the organization.

157. The Board holds that the procurement function is key to enhancing programme and project delivery and ultimately achieving development project outcomes linked to the Sustainable Development Goals. While acknowledging all of the initiatives for improving procurement at UNDP, the Board is concerned that recurring issues related to procurement have been identified by internal and external audits across the organization.

158. The Board noted that:

(a) Since 2018 UNDP had conducted four reviews on various aspects of the UNDP procurement function but that none of the reviews included questions on how to organize the procurement function towards sustainability;

(b) Owing to recurring audit recommendations. procurement had remained among audit-related management priorities of UNDP since 2006–2007;

(c) The Office of Audit and Investigations had reported recurring findings in 2018 and 2021 of lack of clarity in the roles and scope of different teams, frozen positions and a high level of use of consultants in the Office of Procurement;

(d) Clustering of procurement services was not only delayed but also suspended;

(e) The procurement strategy for 2018–2021 had never been finalized or reviewed and approved by management while the new procurement strategy 2022–2025 was not yet in place at the time of the May 2022 audit.

159. The Board considers the above findings to be an indication that the procurement function is not well presented within the organization and that procurement might not be considered a core function and critical to enhancing programme and project delivery.

Organizing the UNDP procurement function towards sustainability: performance management

160. Pursuant to ISO 20400, those individuals tasked with delivering sustainable procurement should be enabled to do so. Ensuring that sustainable procurement is incorporated into performance management will help achieve cultural change. Sustainable procurement objectives and goals should be included, for example, in collective and/or individual performance agreements and objectives.

161. The Board was informed that since January 2021, UNDP required all team leads in the procurement support unit and regional procurement advisers to include performance goals in support of implementing sustainability measures across a specific category such as health procurement or construction. The Board noted that there was no general requirement for staff working in procurement or heads of procurement units to have sustainable procurement-related performance goals. This same applied to other internal stakeholders of the procurement process such as programme managers and operations managers.

162. The Board welcomes the recent introduction of specific sustainable procurement-related performance goals for selected staff. The Board considers that ensuring that sustainable procurement is incorporated in performance management to be an important instrument for fostering cultural change. The Board is consequently of the view that sustainable procurement-related performance goals should be considered for all key stakeholders of the procurement process such as local heads of procurement and requisitioners such as programme managers and operations managers.

163. **The Board recommends that UNDP include sustainable procurement-related goals that are specific, measurable, attainable, relevant and time-bound in individual performance management agreements for all procurement support unit staff.**

164. **The Board also recommends that UNDP develop and distribute examples of sustainable procurement-related individual performance goals for key internal stakeholders of the procurement process such as local heads of procurement, programme managers and operations managers.**

165. UNDP agreed with the recommendations.

166. UNDP stated that it will develop and distribute examples of sustainable procurement-related individual performance goals accordingly.

Organizing the UNDP procurement function towards sustainability: guidance on sustainable procurement

167. According to ISO 20400, appropriate tools and guidelines can assist procurement professionals in achieving sustainability objectives. Those tools can include, among others, sustainability guides per category or sector, guides on social and environmental certifications and evaluation tools. The Board reviewed UNDP programme and operations policies and procedures related to the procurement process and its findings are described directly below.

168. In the UNDP sustainable procurement policy it is stated that all UNDP-financed or UNDP-administered programmes should aim towards practising sustainable procurement but no mandatory requirement for sustainable procurement is presented. The same policy provides broad guidance for each step of the procurement process such as the use of criteria from eco-labelling and social labelling when defining the requirement but offered no further instructions.

169. The Board noted that the various policies related to the different phases of the procurement process referred only broadly to aspects of sustainable procurement. For example, the policy on procurement planning did not include requirements or references to sustainable procurement or sustainability risk assessment. The policy on requisitions stated only that in order to assure quality a reference to environmental requirements should be made. The policy on evaluation of offers did not include any instruction on the inclusion of sustainability criteria or related mandatory weighting.

170. The Board noted that the template for a request for quotations required that staff should ensure that relevant sustainability criteria were included in requirements including packaging and delivery requirements. The Board also noted that related guidance on implementing those requirements was not available.

171. The Board noted that other policies not directly related to the procurement process included more specific sustainable procurement requirements. For example, the vehicle management policy included clear guidance on what environmental factors to consider when developing specification for vehicles. The Board found that the UNDP policy on construction work included highly comprehensive requirements concerning sustainability aspects and a request that business units incorporate social and environmental sustainability objectives all through the procurement process.

172. Procurement staff interviewed referred primarily to a guidance document that had been published in 2013 and referenced in the UNDP sustainable procurement policy. This document provided guidance mainly on how to implement sustainability criteria for two solicitation methods but other parts of the procurement process were not covered.

173. The Board acknowledges and welcomes the various efforts to organize UNDP procurement functions towards sustainability. The Board holds that ensuring that UNDP staff is actually enabled to deliver the organization's sustainable procurement objectives and implement sustainable procurement-related policies is important for related effective delivery. As reflected in the observations provided above, there are still opportunities for enhancement of sustainable procurement-related guidance.

174. **The Board recommends that UNDP review existing guidance on sustainable procurement practices and continue to enable its staff to implement existing sustainable procurement requirements stipulated in UNDP programme and operations policies and procedures.**

175. UNDP agreed with the recommendation.

Integrating sustainability into the procurement process: minimum specifications

176. Integrating sustainability aspects into specifications is the most effective means of ensuring that sustainability risks are incorporated in procurement decision-making. Based on an analysis of the market a decision should be made regarding which requirements are minimum and optional.

177. In 2015, UNDP developed minimum sustainability specifications for five product categories: furniture, generators, information technology equipment, lighting and paper. The decision-making on the five product categories was not based, however, on an analysis of actual spending, sustainability risks or the market to identify available sustainability options. The Board was informed that in 2020 UNDP had mapped the sustainability risks in its procurement portfolio and developed guidelines for integrating sustainability measures for related product categories, such as construction works.

178. The Board reviewed UNDP minimum sustainability specifications and noted that (a) all specifications had not been updated since their development in 2015;

(b) some specifications were outdated as they referred to obsolete standards; and (c) specifications did not address key sustainability risks related to the product category such as environmental risks from improper disposal of fluorescent lamps that contained mercury.

179. The Board reviewed samples across 44 country offices in order to assess the actual usage of UNDP minimum sustainability specifications in current tender. The Board noted that none of the 82 solicitations reviewed had included all of the respective minimum specifications. On a more detailed level, none of the solicitations for furniture or generators used the minimum specifications. Only 18 out of the 33 solicitations sampled for information technology equipment included one out of seven minimum specifications for this product category. The remaining 15 did not include any of the seven minimum specifications.

180. During its remote audit of one country office, the Board found that specification developed for a generator had not included any of the established UNDP sustainability specifications for generators. Furthermore, the Board noted that staff involved in drafting the specifications was not aware of UNDP minimum sustainability specifications.

181. The Board holds that already integrating sustainability aspects in the phase of requirement definition and when developing specifications for the services or goods to be procured is an important factor as regards ensuring the most sustainable procurement outcome. Practical product specifications with sustainability criteria are critical to enabling the requisitioner to make informed decisions on sustainability aspects.

182. The Board holds that minimum sustainability specifications are particularly important for ensuring sustainable procurement practices, as not all requisitioners may have the required expertise and knowledge on product-specific sustainability risks. Sustainability specifications are consequently a valuable contribution of procurement as a core function supporting programme and project delivery.

183. The Board positively notes the recent efforts to develop new sustainability specifications. While welcoming that UNDP had already developed minimum sustainability specifications for selected product categories in 2015, the Board is at the same time concerned that those specifications were not updated and further developed. The Board holds that in the meantime UNDP should have developed sustainable specifications for additional products and services based on sustainability risks or market availability. The Board consequently welcomes the current efforts to develop new sustainable procurement guidelines based on a sustainability risk analysis.

184. The Board is concerned that the UNDP minimum sustainability specifications were not used across numerous business units despite the clear mandatory requirement. The Board holds that sustainability criteria are effective only if they are known and actually applied.

185. **The Board recommends that, based on a sustainability risk analysis, UNDP develop and continuously update sustainable procurement specifications and regularly communicate those specifications to its requisitioners.**

186. UNDP agreed with the recommendation.

187. UNDP stated that it will apply a sustainability-weighted procurement portfolio model methodology to identifying high-risk/high-impact categories and develop subsequent sustainable procurement guidelines. UNDP also stated that it will develop guidelines initially for the top five categories. UNDP further stated that it will continue to update the existing sustainable procurement specifications. The Bureau for Management Services will continue to work with in-house expertise in the Bureau

for Policy and Programme Support to develop additional specifications where feasible and communicate those specifications to requisitioners.

Integrating sustainability into the procurement process: refrigerants

188. The climate impact of a substance is commonly expressed as the global warming potential. The lower the global warming potential, the more climate-friendly the substance. Hydrofluorocarbons, which are often used as refrigerants in refrigeration and air-conditioning equipment, have a very high global warming potential. Non-hydrofluorocarbon refrigerants, which have ultra-low global warming potentials, exert close to no impact on climate and are more energy-efficient and can lower energy use.

189. The parties to the Montreal Protocol on Substances that Deplete the Ozone Layer reached an agreement in Kigali, Rwanda, in October 2016 to phase-down hydrofluorocarbons. The Kigali Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer introduces into the Montreal Protocol the phase-down of the production and consumption of hydrofluorocarbons based on an agreed schedule established for different groups of countries. UNDP implements hydrofluorocarbon-related activities, such as phase-down plan preparation and phase-down management plans, in 65 countries. Moreover, UNDP runs projects that aim at replacing high global warming hydrofluorocarbon refrigerants with environment-friendly and energy-efficient non-hydrofluorocarbon refrigerants.

190. In accordance with its social and environmental standards, UNDP seeks to minimize or avert unwarranted increases in greenhouse gas emissions from supported activities. UNDP ensures that alternatives are considered to reduce project-related greenhouse gas emissions. Alternative options may include, for example, use of refrigerants with low global warming potential for air conditioning and refrigeration. The Board noted that UNDP had not established guidelines or requirements on the sustainability risks related to the procurement of equipment using various types of refrigerants.

191. The Board reviewed a sample of 21 solicitations from 15 different country offices with requests for goods using refrigerants such as freezers and air-conditioning equipment and found that (a) 5 solicitations contained requests for a refrigerant with a low global warming potential; (b) specifications included in 3 solicitations contained vague phrases such as “eco-friendly refrigerant”; (c) 5 solicitations contained requests for hydrofluorocarbon refrigerants with a high global warming potential; and (d) 8 solicitations included no specification regarding the refrigerant to be used or a related global warming potential. The Board found that the lack of refrigerant specifications resulted in the receipt of products that used a hydrofluorocarbon refrigerant with a very high global warming potential.

192. The Board noted that one country office frequently procured large quantities of air-conditioning units for its construction and rehabilitations projects. The Board found that this country office specifically requested a hydrofluorocarbon refrigerant with high global warming potential that is being phased out in many regions of the world.

193. The country office stated that that specific refrigerant had been requested to replace a commonly available refrigerant on the local market that had an ozone depletion potential and a high global warming potential. The country office also stated that it had not conducted a specific analysis of the supply market for available refrigerants and that the specific hydrofluorocarbon refrigerant was identified by its engineers. The Board noted that climate-friendly non-hydrofluorocarbon refrigerants with an ultra-low global warming potential were available on the local supply market.

194. The Board holds that not using hydrofluorocarbon refrigerants is an effective way to reduce related climate and sustainability risks. The Board also holds that the results of the sample analysis clearly show that integrating sustainability aspects into specifications is important for preventing sustainability risks. The Board is concerned that refrigerants with a high global warming potential were even a requirement in some specifications. This is in contrast to UNDP projects that aim towards replacing high global warming hydrofluorocarbon refrigerants with environment-friendly and energy-efficient alternatives and is also clearly in contravention of UNDP social and environmental standards.

195. The Board acknowledges the positive intention of the country office. The Board holds, however, that the country office should have looked for available alternatives instead of using the next best product with a high global warming potential. At a minimum, the country office should have stated in the specifications that it required a non-ozone depleting refrigerant with an ultra-low global warming potential. This would have sent an important signal to the local supply market by highlighting the sustainability aspect and would not have resulted in the exclusion of more climate-friendly refrigerants.

196. **The Board recommends that UNDP establish a control mechanism to ensure that country offices request non-hydrofluorocarbon refrigerants, where available and feasible, with an ultra-low global warming potential so as to comply with related provisions of UNDP social and environmental standards.**

197. UNDP agreed with the recommendation.

Integrating sustainability into the procurement process: evaluations

198. Good practices on sustainable procurement convey that an effective means of advancing procurement sustainability is to use technical and sourcing criteria, focusing on the sustainable performances of the supplier, the product, service or work and the related production and delivery process. These criteria should reflect the preferred sustainable solution and be formulated in such a way as to reward higher performance in terms of sustainability. The total points assigned for sustainability criteria have to be weighted against other possible criteria such as quality, functionality and price. Good practices developed for United Nations entities recommend, for an ambitious approach to sustainability, that sustainability criteria should account for 20 per cent of the weight compared, for example, with price.

199. The Board reviewed the UNDP policy on evaluation of offers for requirements with respect to the policy's guidance on inclusion of sustainability criteria in the evaluations. The Board found that the evaluation policy did not include any instruction on the inclusion of sustainability criteria or mandatory weighting for sustainability.

200. The Board found that a UNDP guide to sustainable procurement provided information on how to include sustainability factors in the request for proposal evaluation process. The Board noted that in this guide it was stated that a new evaluation criteria template allocated approximately 7 per cent of points to sustainability issues. In the same guide, it was also stated that this figure could be adjusted up or down but in no instance would the sustainable procurement criteria account for less than 3 per cent of the total points.

201. The Board found that UNDP used two different corporate solicitation templates for conducting requests for proposal based on the expected contract value. The template for a request for a proposal not exceeding $200,000 did not include details on evaluation criteria or any sustainability-related weighting.

202. The solicitation template for a request for proposal exceeding $200,000 included mandatory criteria for evaluating the organizational commitment to sustainability and

allocated 3 per cent of obtainable points to those criteria. The template included an optional sustainability-related evaluation criterion and allocated 5 per cent of obtainable points to that criterion.

203. The Board noted that the majority of the requests for proposal reviewed by procurement oversight committees in 2021 were below $200,000 (83 per cent). The Board reviewed a sample of financial evaluations reviewed by procurement committees during 2021. The sample included 33 requests for proposal from 25 business units. The Board found that 18 evaluations did not use sustainability criteria, including 15 evaluations with an estimated contract amount below $200,000 and 3 evaluations with an estimated contract value above $200,000. The Board found that in the 12 evaluations that included sustainability criteria, those criteria accounted for 3–14 per cent of the obtainable points.

204. The Board holds that integrating sustainability criteria into the evaluations is an effective way of advancing procurement sustainability. The Board considers that the instructions on whether sustainability criteria should be used can be made clearer. Any instruction dealing specifically with the inclusion of sustainability factors in the evaluation process should establish a minimum weight which is not to be deviated from.

205. As the template without mandatory sustainability-related evaluation criteria resulted in no such criteria being used in the evaluation, the Board holds that this demonstrates the importance of including such criteria in corporate templates. As the majority of requests for proposal were below $200,000, UNDP missed an important opportunity to include sustainability-related evaluation criteria in its procurement.

206. **The Board recommends that UNDP revise its corporate templates for requests for proposal to include mandatory and optional sustainability criteria in all templates.**

207. **The Board recommends the inclusion of clear instructions and requirements on the use of mandatory and optional sustainability criteria for evaluation of offers in the related policy.**

208. UNDP agreed with the recommendation.

209. UNDP stated that sustainability requirements will be introduced into the online bidding templates on Quantum.

Integrating sustainability into the procurement process: contract management

210. According to good practices, from a sustainability perspective, contract management ensures that suppliers meet their sustainability commitments, and creates a mechanism for improving performance through the use of performance indicators. Including sustainability considerations in contract management activities allows for the monitoring of sustainability performance of suppliers, measuring impact, identifying areas for internal improvements and enhancing their capacity to deliver against future contracts. This is a crucial requirement for longer-term contracts with suppliers where the relationship is expected to last several years or where the sustainability risk to the organization is deemed to be higher.

211. In 2019, UNDP adopted targets committing UNDP to reducing greenhouse gas emissions from global operations by 25 per cent by 2025 and by 50 per cent by 2030. For related emissions monitoring and reporting, UNDP takes an operational control approach and limits its assessment boundary to operations that are under UNDP management control. Where emissions cannot be reduced, UNDP is offsetting emissions.

212. The October 2007 decision of the United Nations System Chief Executives Board for Coordination set the scope of the United Nations greenhouse gas inventory to emissions from facility operations and travel that can be influenced by management-level decisions.[5] Though certain emission sources are excluded from the common minimum boundary, the recommended best practice is to voluntarily document any sources of greenhouse gas emissions that are not included in the common minimum boundary under "optional emissions".

213. In 2017, UNDP established long-term agreements with three different companies to provide forwarding services to UNDP. Those services include the transport of goods using air, sea and surface shipments. The Board noted that all three contracts included key performance indicators for measuring sustainability during implementation of the contract. One performance indicator required the contractor to monitor and report on the number of carbon dioxide equivalent emissions per metric ton of UNDP shipments. In providing the data, the freight forward should also highlight any previous or planned improvements to reduce its global carbon dioxide equivalent emissions. The respective benchmarks were annual reductions of carbon dioxide equivalent emissions for UNDP shipments by 5 per cent.

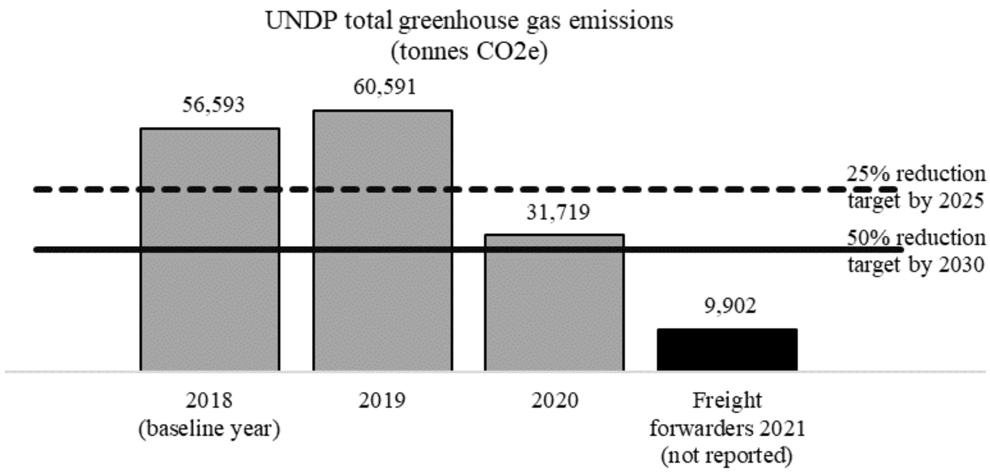
214. The Board requested the respective documentation for this performance indicator and found that it was not readily available. UNDP stated that it has not been actively monitoring the emission reduction by the freight forwarders but was collecting carbon dioxide reports from forwarders to the degree available. The Board noted that the annual emission reduction targets were not updated in the two contract amendments for each contract. UNDP stated that an initial emission benchmark and the reduction target have not been actively managed. The Board was informed that the information on the emissions had not been used in a systematic manner to drive operational freight decisions.

215. The Board noted that all greenhouse gas emissions related to UNDP freight forwarding long-term agreements had not been reported by UNDP as optional emissions in its greenhouse gas inventory.

216. Based on the available emission data for the three freight forwards for 2021, the Board calculated 9,902 tonnes of carbon dioxide equivalent emissions. This amount makes emissions from freight forwarding one of the top-three emission sources within UNDP. (See figure II.IV).

[5] CEB/2007/2.

Figure II.IV
Unreported greenhouse gas emissions related to UNDP freight forwarding long term agreements for 2021



Abbreviations: CO_2e, carbon dioxide equivalent.
Source: UNDP data analysed by the Board. Data on UNDP total emissions as of February 2022.

217. The Board welcomes that UNDP included clear emission reduction targets related to its own shipments, even before the launch of the UNDP targets committing UNDP to reduce greenhouse gas emissions from its global operations. The Board is even more concerned that UNDP did not monitor and manage these emissions over an extended time period. The Board holds that monitoring and disclosing environmental performance consistently, transparently and regularly are key for taking environmental responsibility. This is particularly important with respect to supporting any claims relating to greening and climate neutrality.

218. As the freight forwarding services contracted by UNDP are under its financial and operational control, the Board holds that, in line with best practice, UNDP should report related greenhouse gas emissions as optional emission, actively manage them and offset them to the extent possible.

219. **The Board recommends that UNDP manage the greenhouse gas emissions from its freight forwarding long-term agreements and include sustainability criteria in any extension or new contract agreements with freight forwarders.**

220. **The Board recommends that UNDP report greenhouse gas emissions related to the contracted freight forwarding services in its greenhouse gas inventory and offset them.**

221. UNDP agreed with the recommendations.

222. UNDP stated that it is ready to reassess its reporting boundaries and welcomes the suggestion to include freight forwarding in its assessment as it relates to UNDP operations. UNDP also stated that the relevant secretariat will work with the Bureau for Management Services to integrate greenhouse gas emission from freight forwarding as it relates to UNDP operations into the related UNDP footprint monitoring.

7. Environmentally sustainable operations

223. The total cost of ownership approach takes into consideration costs that will be incurred by the organization during the life cycle of the item to be purchased. This approach, which is commonly used in both the planning and the evaluation stage,

focuses on the economic evaluation/calculation of the possible costs, bringing out the so-called hidden costs of purchasing the goods, services or works, in order to identify the lowest total cost of ownership. It is used to help procurement staff and requisitioners choose a purchase that is more cost-effective and sustainable in the long run.

224. For example, solar photovoltaic systems have higher initial costs than diesel generators but the operation and maintenance costs are very low. In contrast, diesel generators have very high operating and maintenance costs. In addition, generators have an outsized impact on pollution and emit hazardous exhaust fumes. Therefore, the installation of solar photovoltaic systems compared with diesel generators results in a reduction in total cost of ownership.

225. UNDP publicly stated that reducing greenhouse gas emissions is at the core of its commitment to operational sustainability and that it has developed efficient and creative solutions to reducing its reliance on fossil fuels and natural resources. Sustainable energy use has consequently been elevated and many UNDP offices have installed solar energy technologies based on total cost of ownership considerations. According to the UNDP official website on environmentally sustainable operations, UNDP has more than 1.4 megawatt-peak of photovoltaic solar panels generating 2.7 gigawatt-hours (GWh) per year of clean, affordable and reliable electricity.

226. The Board reviewed the energy production reported for UNDP solar installations and found that the publicly reported numbers were not plausible. The Board used a common performance metric for solar systems and noted that UNDP used unrealistic energy output expectations given the locations of the solar installations. To assess the actual performance of UNDP solar installations, the Board requested an overview of all completed solar projects at UNDP facilities with details on capacity installed and yearly energy production of each site.

227. The Board noted that UNDP could not provide details on the energy produced for all of its solar installations at UNDP facilities. UNDP provided details for 20 out of 44 solar installations for 2021. UNDP stated that most data were not available centrally and that some country offices had acknowledged that their data were not accurate owing to missing or broken meters or broken systems.

228. The Board conducted a conservative estimate, based on very low output assumptions, to calculate the potential energy production for the UNDP solar installations. The Board compared this potential energy production with the reported actual production of UNDP solar installations and noted a loss of energy production in kilowatt-hours (kWh) of 58 per cent in 2021.

229. The Board welcomes the efforts of UNDP related to environmentally sustainable operations and the use of the total cost of ownership approach for its solar photovoltaic installations. However, the additional purchase price of solar photovoltaic systems will balance out only over time when the systems are properly maintained and produce the calculated and expected energy output.

230. The Board views the energy production loss calculated as an indication not only of poor output monitoring but also of solar photovoltaic installations that are not functioning properly. The Board is of the view that environmentally sustainable operations and ambitious energy production targets are achieved only when the actual performance of solar photovoltaic installations is monitored and when they are properly maintained and work effectively and efficiently. Otherwise, the most economic and environmental benefits cannot be achieved.

231. **The Board recommends that UNDP improve performance monitoring for all of its solar photovoltaic installations at its own facilities and analyse the reasons for low energy production.**

232. **The Board recommends that UNDP take necessary steps to ensure that solar photovoltaic installations at its own facilities are properly operated and maintained to enhance the most economic and environmental benefits.**

233. UNDP agreed with the recommendations and acknowledged that data collection needed to be improved. UNDP stated that it intended to strengthen this component in its environmental management tool.

8. Human resources

Danger pay due to the COVID-19 pandemic

234. Danger pay is a special allowance established for internationally and locally recruited staff who are required to work in locations where very dangerous conditions prevail. UNDP paid $4.98 million for danger pay in 2021. The Chairman of the International Civil Service Commission is responsible for approving danger pay and promulgating the list of designated danger pay duty stations.

235. On 8 April 2020, the International Civil Service Commission established criteria for danger pay due to the COVID-19 pandemic at non-designated danger pay duty stations and approved danger pay for a limited group of internationally and locally recruited staff directly involved in the following COVID-19 pandemic-related operations:

(a) Provision of clinical care to patients with confirmed/suspected COVID-19;

(b) Actual screening of patients with suspected COVID-19;

(c) Drawing or processing of potentially hazardous specimens related to COVID-19:

(d) Handling of hazardous or potentially hazardous samples taken at a laboratory or screening facility.

236. The Board noted that the International Civil Service Commission had determined in its publication of frequently asked questions regarding danger pay due to the COVID-19 pandemic that only staff with direct contact with persons with symptoms of COVID-19 shall be eligible for this special allowance.

237. The Board selected a sample of 17 payments for danger pay due to the COVID-19 pandemic in 2021 and reviewed individual eligibility, justification and authorization for this special allowance.

238. The Board noted that in two cases internationally recruited staff performing non-medical senior management functions had received danger pay due to the COVID-19 pandemic retroactively for several months without any evidence or justification based on involvement in operations or activities meeting the criteria for danger pay due to the COVID-19 pandemic. The payments were approved by a nationally recruited staff member supervised by the beneficiaries and paid out in February 2021.

239. The Board identified 12 cases where staff had received danger pay retroactively for periods of up to eight months. The Board noted that UNDP had paid the identified amounts for danger pay based on the criteria for danger pay due to the COVID-19 pandemic established by the International Civil Service Commission.

240. The Board holds that danger pay due to the COVID-19 pandemic should be granted only to a limited group of staff as required by the International Civil Service Commission. UNDP has therefore to provide evidence in every single case that the activities of the staff member could be clearly subsumed under the listed operations. The function or position of a staff member may only imply that the staff member is

generally involved in such operations but the specification by the International Civil Service Commission requires a direct assignment to those operations.

241. UNDP, however, paid these special allowances to staff members normally not involved in medical services because of their position in two cases without the necessary justification or evidence. Moreover, the Board holds that those payments were not approved correctly because the approving officer was supervised by the beneficiaries. The Board holds that supervised staff members should not be authorized to grant final approval of any allowances, benefits or entitlements of their supervisor. In addition, this ran counter to their oversight functions. The Board holds that this constituted a violation of applicable regulations and represented a case of management override. In cases where the justification for the eligibility was not given, UNDP should have followed up on those cases to exclude the possibility of fraudulent behaviour and misconduct.

242. The Board is concerned that the internal controls for such allowances are not effective in ensuring compliance. UNDP should therefore evaluate the appropriateness of the authorization process as well as the oversight mechanism in place in the identified cases.

243. The Board considers it necessary for UNDP to initiate a review of allowances paid for danger pay due to the COVID-19 pandemic to ensure a correct justification and proper documentation in all reviewed cases. Moreover, the Board considers it necessary for the related internal controls to be reviewed and updated.

244. In addition, the Board holds that in 14 identified cases of danger pay due to the COVID-19 pandemic, allowances were not calculated and approved in a timely manner. This may complicate the necessary adjustment and documentation process for indicating that related operations and activities performed by the staff member actually meet the established criteria for danger pay due to the COVID-19 pandemic.

245. The Board holds that delayed calculations and approvals result in retroactive payments for longer periods and possible overlaps of the relevant accounting period. UNDP should therefore approve and settle such allowances as early as possible to ensure correct accounting and funding as well as enable adequate proof and documentation to be provided in time.

246. **The Board recommends that UNDP evaluate the appropriateness of the authorization process in the identified cases and follow up with corrective measures.**

247. **The Board recommends that UNDP review its oversight functions and internal controls in place to ensure compliance with the stipulations for danger pay due to the COVID-19 pandemic.**

248. UNDP agreed with the recommendations.

249. UNDP stated that the danger pay due to the COVID-19 pandemic for the senior management staff had been reviewed and recovered in February 2022. The Global Shared Service Centre will work with the Office of Human Resources to ensure that the policy is followed and correctly interpreted when the country offices process payments.

Termination indemnity

250. Separation from service and the respective separation entitlements are defined in the Staff Regulations and Rules of the United Nations. A termination indemnity shall be paid for the termination of appointments limited to up to 12 months. An additional termination indemnity may be paid to staff members. The Staff Regulations and Rules of the United Nations require that a staff member whose continuing

appointment is to be terminated shall be given not less than three months written notice of such termination.

251. In its own policy on separations and terminations UNDP defined a termination of appointment as follows: "A termination of appointment is a separation from service initiated by the Organization for the purpose of (a) ending the continuing or permanent appointment of a staff member prior to the mandatory age of separation; or (b) ending the temporary or fixed-term appointment of a staff member prior to the date of expiration stipulated in the letter of appointment." UNDP determined further that the Director of the Office of Human Resources may authorize a termination indemnity of "up to 50 per cent over and above what would be paid in accordance to the United Nations Staff Regulations and Rules" in cases where the staff member's post has been abolished. The applicable amount is limited to six months and depends on the number of completed years of continuous service.

252. The Board reviewed a sample of 36 separation cases. In 12 out of these 36 cases, UNDP had agreed on the termination of a permanent or continuing appointment and in one case on the termination of a fixed-term appointment. The Board noted that UNDP had in seven cases paid additional termination indemnities of up to six months over the maximum termination indemnities. In four out of those seven cases UNDP paid a compensation in lieu of notice of three months in addition. In total UNDP paid $1.78 million in these seven cases, up to $311,445 per single case.

253. UNDP did not present a formal post reduction plan or other adequate documents for planned abolishment of posts.

254. Three out of those seven cases of separated staff involved resident coordinator positions. Those positions were based on secondments from UNDP to the Development Coordination Office owing to the delinking in 2019 (see General Assembly resolution 72/279). After the expiry of their secondments, the staff returned to UNDP and were separated by agreed termination in 2021. In these cases, the termination of appointment was agreed less than two weeks before the secondment of the UNDP staff ended and before the effective separation date. UNDP therefore decided on additional payments of cash in lieu of notice for three months.

255. The Board was informed that comparable secondments are in place. In May 2022, 44 staff members were on secondment as resident coordinators. UNDP expected that 22 out of those 44 staff members would return through 2024.

256. UNDP informed the Board that there is a strategy in place through which UNDP may consider resident coordinators to fill vacancies in management positions as internal candidates. However, as the staff had chosen to go on secondment they did not have a specific lien on a post. The Board noted that the respective resident coordinator positions were not abolished but newly occupied.

257. The Board found that in one case UNDP had agreed on termination of an appointment one day after the effective separation date and paid additional termination indemnities of six months as well as cash in lieu of notice for three months. The respective staff member had been appointed for a senior management position just one year before. The staff member's performance was evaluated as proficient at the level of the job. In 2021, UNDP hired staff at the same level or higher for 14 positions. The Board could not establish why the staff member had not been considered for any of those positions.

258. UNDP stated that it had started to review its policy after the Board's audit observation. In order to define and clarify the regulations with respect to the issue of additional termination indemnities, the review will consider specifying that the additional indemnity shall be provided not only in the case where the position is abolished.

259. The Board appreciates that UNDP started a review of its policy.

260. The Board noted that UNDP had paid high termination indemnities in 2021 in deviation to its policy. The Board holds that such indemnities should be limited to 12 months due to the Staff Regulation and Rules of the United Nations. The Board also holds that the UNDP policy in place allowed additional indemnities of up to six months only when the staff member's post had been abolished. Such abolishment should be justified by organizational needs or a downsizing within the organization and should follow a post reduction plan based on a necessary management decision or at least on an abolished post-related justification.

261. With regard to the resident coordinator positions, the Board holds that the end of the respective secondment is not comparable to an abolishment of post as required in the UNDP policy. Moreover, the Board holds that those positions were not actually abolished but filled again.

262. The Board holds that the strategy in place was not effective in reflecting the foreseeable expiration of secondments for resident coordinator positions and the need to reintegrate this staff within UNDP. Since UNDP expected up to 22 returning staff in the next years, the Board considers an updated strategy to be desirable for the reintegration of highly skilled seconded staff members returning in the future as well as for limiting termination indemnities.

263. Moreover, the Board holds that UNDP had agreed the termination of appointments too late in four cases and was therefore obliged to pay cash in lieu of notice. The Board also holds that the end of the secondment was predictable for UNDP. The Board is concerned that UNDP had agreed one termination agreement only one day after the effective separation. This implies that the applicable process had started too late and had not been planned. The Board holds that there were other job opportunities within UNDP for continuing employment of such an experienced and highly qualified manager.

264. **The Board recommends that UNDP review and update its policy on termination indemnities in line with the Staff Regulations and Rules of the United Nations to ensure that additional termination indemnities are paid according to clearly defined criteria.**

265. UNDP agreed with the recommendation.

Overtime

266. UNDP compensates overtime for national staff up to a certain level based on the United Nations Staff Regulations and Rules and as determined in its own policy on overtime compensation. UNDP paid $2.42 million in 2021 for time worked in excess of the scheduled workday or scheduled workweek or during any of the United Nations official holidays. In this regard, UNDP determined in this policy that:

(a) Supervisors were expected to arrange the work of their organizational units so that overtime would be an exceptional occurrence;

(b) Work performed during the lunch period was not considered overtime and that overtime for all staff, including drivers, should not be performed for periods longer than six hours without an unpaid break of at least 30 minutes;

(c) All overtime work needed to be authorized in advance and the availability of funds must be certified;

(d) Each office was responsible for the maintenance of accurate and current records of overtime worked and compensatory leave taken by staff.

267. UNDP also specified standard templates for overtime requests and reporting. In those templates, the requesting staff has to specify the purpose of overtime. The requested overtime must be estimated in advance for the applicable days of the week. Moreover, the budget unit must approve the availability of funds. Finally, the request has to be signed by the head of the organizational unit. The applicable overtime has to be stated in the overtime reporting sheet.

268. UNDP determined the working hours for headquarters in New York. The working hours at duty stations outside New York should be established by the respective head of office or by the UNDP resident representative. In 2021, there were no time tracking systems in place for recording the actual working hours of individual staff.

269. The Board selected random samples for national staff and identified 13 cases out of 56 reviewed where UNDP had paid overtime in 2021.

270. The Board identified 7 out of 13 cases (54 per cent) where the overtime compensation was not in line with the policy in place. The Board identified the following deviations:

(a) Overtime work was not authorized in advance;

(b) The availability of funds was not certified;

(c) Overtime hours settled and paid exceeded the number of hours requested and authorized up to 30 per cent;

(d) Overtime settled added up to more than 50 per cent of the regular working hours within longer periods;

(e) The standard templates for overtime were not used and the actual templates used did not show a necessary demarcation between normal working hours and overtime;

(f) The calculation of overtime did not consider necessary breaks for lunch periods.

271. Further, the Board identified 4 cases out of the 13 reviewed (31 per cent) where the staff members had received overtime payments for periods of up to six months retroactively and 2 cases where there was overlapping of the accounting period.

272. The Board noted that the country offices were responsible for maintaining accurate and current recording of overtime worked. The Global Shared Service Centre calculated overtime based on the documents provided by the country offices and processed the payment through payroll. Moreover, the country offices were responsible for the monitoring of overtime as well as for regularly carrying out internal controls. The Global Shared Service Centre had no authority to conduct any additional controls or centralized monitoring.

273. The Board holds that the overtime compensation procedures were not fully compliant with policy because:

(a) Overtime was not always authorized in advance as required;

(b) There was a lack of evidence of the required checks that budget was available;

(c) Use of standard templates was lacking;

(d) There were inconsistencies in the calculation and reporting forms;

(e) There was a lack of demarcation between normal working hours and overtime:

(f) Consideration of necessary breaks was lacking.

274. The Board holds that weaknesses in the overtime claim process and calculation may result in potential misconduct and financial losses to UNDP where ineligible overtime is claimed or claims are not correctly settled.

275. In the view of the Board, a late settlement of overtime makes it harder to correctly prove and adjust overtime calculation. Moreover, in the view of the Board, delayed approval and calculation results in avoidable retroactive payments as well as overlaps of the relevant accounting period.

276. The Board holds that it is necessary for UNDP to approve and settle such allowances as early as possible to ensure correct accounting and funding.

277. The Board holds effective monitoring to be essential to supervisors' control over individual workloads because UNDP has no time tracking in place and overtime should be an exceptional occurrence. The Board also holds that appropriate monitoring helps to prevent constant stress and sole responsibility and ensures that staff take necessary breaks.

278. The Board holds that it is necessary for UNDP to implement effective internal controls to ensure compliance and uniform procedures at all duty stations. This should include the required authorization in advance and use of the standard templates as well as the settlement of overtime payments in time. Finally, the Board expects that UNDP is implementing tools for adequate monitoring of overtime through the new enterprise resource planning system (Quantum).

279. **The Board recommends that UNDP ensure compliance with the existing policy.**

280. **The Board recommends that UNDP implement adequate tools for monitoring overtime as well as internal controls to ensure compliant processes at all duty stations.**

281. UNDP agreed with the recommendations.

282. UNDP acknowledged the recommendation and pointed out that country offices were responsible for ensuring compliance with the policy on overtime. The UNDP Office of Human Resources and Global Shared Service Centre will remind all offices to follow the correct procedures in terms of ensuring budget availability and that the correct template is used. UNDP stated that there is a plan to move the entire overtime process into a self-service based approval workflow process as part of Quantum.

9. Internal controls

283. In its report on the financial statements of UNDP for the year ended 31 December 2018, the Board identified room for enhancement in various areas of internal control. Findings were articulated in particular with regard to financial controls. The Board recommended that UNDP assess whether and what internal financial control procedures could be introduced by UNDP to enhance data quality and limit risks of errors by means of having standardized control procedures and appropriate documentation to evidence that control procedures have been performed. UNDP agreed with the recommendation.

284. After the issuance of the Board's recommendation, UNDP performed several tasks which aimed at enhancing its internal financial control environment. In this regard, UNDP introduced a risk appetite statement accompanied by a risk appetite statement guidance, updated its internal control framework policy including the associated guidance and established an inter-bureau task force.

285. The risk appetite statement guidance was used as part of the risk assessment exercise carried out by risk owners to support risk-informed decision-making. It

defines several categories and levels for risk appetites. A minimal risk appetite applies to an area where UNDP will establish a strong control environment designed to reduce or minimize the likelihood that a risk will occur and/or reduce the impact of any risk. A cautious risk appetite is considered to apply to an area where UNDP seeks low-risk delivery options and will pilot innovation only in a controlled environment. The UNDP assessment for financials resulted in the determination by UNDP that the reasonable risk appetite for this category lay between minimal and cautious. In comparison with the other categories assessed within the risk appetite statements, financials were considered to be the category with the lowest overall risk appetite and the distinct need for a strong control environment.

286. The internal control framework policy and associated guidance aim at providing clarity on roles, responsibilities and accountabilities in the implementation of internal controls for clustered and non-clustered processes. In this regard, the internal control framework policy and the associated guidance bring together key internal control requirements included in relevant policies to help UNDP offices implement effective internal controls. Those documents do not always describe specific detective control procedures or documentation requirements. Moreover, implementation and compliance are left to UNDP business units.

287. The inter-bureau task force comprises senior representation across all UNDP bureaux. The task force inter, alia, aims towards driving timely cross-bureau implementation of the management action plan in response to the 2020 audit of the UNDP Global Environmental Facility portfolio. In the first meeting of the newly established inter-bureau task force on 21 January 2022, the task force highlighted that the issue of the internal control system comes up recurrently. UNDP should therefore invest collectively in addressing oversight and control issues as well as a cultural shift in the organization.

288. The Board noted several control-related issues during the current audit as well as previous audits including:

(a) Lack of follow-up procedures for outstanding amounts (A/76/5/Add.1,[6] paras. 85–89);

(b) Erroneous asset or expense recognition not initially detected by physical verification exercises (A/75/5/Add.1,[7] paras. 150–154; and A/76/5/Add.1,[6] paras. 80–83);

(c) Missing review to determine whether service level agreements entered into with other United Nations entities at headquarters reflect accurate prices and are performed on a full cost recovery basis (see paras. 47–57 and 59–65 of the present report);

(d) Incorrect prices invoiced to other United Nations entities to recover costs (see paras. 71–78 of the present report);

(e) Incomplete cost recovery and lack of monitoring tools for identifying whether services rendered by UNDP became invoiced (A/76/5/Add.1,[6] paras. 85–89; and paras. 81–84 of the present report);

(f) Remittance of danger pay for ineligible persons (see paras. 234–247 of the present report).

289. The Board agrees with UNDP that for the financials category as determined within the risk appetite statement guidance, a strong control environment should be

---

[6] Available at https://documents-dds-ny.un.org/doc/UNDOC/GEN/N21/166/24/PDF/N2116624.pdf?OpenElement.

[7] Available at https://documents-dds-ny.un.org/doc/UNDOC/GEN/N20/171/80/PDF/N2017180.pdf?OpenElement.

in place. This strong control environment should reduce or minimize the likelihood that a risk will occur and/or reduce the impact of any risk in place. The Board also agrees with the remarks of the inter-bureau task force at its first meeting in which it highlighted that UNDP should invest collectively in addressing oversight and control matters.

290. Furthermore, the Board noted the updated internal control framework policy and the associated guidance and acknowledged the potential for providing a comprehensive overview on necessary control procedures. Yet, while those documents aim at helping UNDP offices implement effective internal controls, they do not delineate how to verify the actual control processes occurring throughout the organization. The Board holds that additional key controls on a risk-oriented basis should be identified to ensure that relevant control procedures are in place. The Board holds, for example, that additional controls that mitigate the risk of incomplete cost recovery due to a lack of invoicing as well as controls that verify the accuracy of prices used for cost recovery in established standard-level agreements could avert financial shortcomings for UNDP. Moreover, the updated internal control framework policy and the associated guidance do not determine documentation requirements which in the view of the Board is crucial to ensuring a standardized approach with regard to financial-related control procedures.

291. Based on the recurring findings and conclusions presented above, the Board considered the recommendation issued in the 2018 audit report to be not implemented and reiterates the need for an enhanced internal financial control environment. That enhanced environment should ensure that key controls are in place with the aim of supporting data quality and limiting risks of errors. In addition, UNDP should specify appropriate documentation requirements for determining whether control procedures have been performed.

292. **The Board recommends that UNDP further enhance its internal financial control system by identifying key controls with the aim of improving data quality and limiting risks of errors and by specifying documentation requirements which evidence the performance of these control procedures.**

293. UNDP agreed with the recommendation.

294. UNDP will identify key controls in those areas identified above, noting that there is no material misstatement to the financial statements. The exercise will be undertaken once the Quantum system has been implemented and has stabilized.

10. Information and communications technology

Postponed launch of the new enterprise resource planning system

295. In 2020, UNDP and the assigned project board started the project of replacing the current enterprise resource planning system Atlas and the satellite applications that were needed to adapt to business needs by a new solution. The decision was based on an assessment and report in 2017 and a further study in 2020. Subsequently, UNDP decided to switch to a cloud-based system. During the project cycle the Next Generation Enterprise Resource Planning project was renamed Quantum.

296. UNDP provides enterprise resource planning system services for eight partner entities and payroll services for additional United Nations entities.

297. Initially, UNDP decided to split implementation into two phases. According to the plan, phase one should start on 1 July 2021 and contain the modules sourcing including the supplier portal and human capital management with recruitment and employee profile. Phase two should contain the modules finance, supply chain and project management planning as well as the modules for the remaining human capital

management functions and payroll starting from 1 January 2022 onward. In the fourth quarter of 2021 the go-live was postponed to 5 July 2022 including all modules.

298. The Board noted that 55 per cent of the user acceptance testing had been completed in April 2022. In May 2022, UNDP stated that data quality and data preparedness were still the main issues. User training for more than 40,000 users started in May 2022. Owing to these constraints UNDP again postponed the go-live. In July 2022, UNDP stated that the launch date would be contingent upon a readiness assessment of a number of key variables such as data, system users and UNDP partner entities. The readiness assessment was scheduled for 22 July 2022.

299. UNDP agreed to address numerous recommendations made by the Board in its 2020 report. The Board holds that the postponed start of the new enterprise resources planning software will delay the implementation of the Board's recommendations. These concern the enhancement of related business processes, such as establishing means of preventing users from approving payments for themselves, integration of the currently paper-based delegation of authority process, implementation of automated controls, inclusion of the documentation of harmonized approach to cash transfers implementation, and implementation of data input controls in the vendor management process.

User, roles and rights management

300. UNDP hired an external service provider as a system integrator for the implementation of the new enterprise resource planning system who also acts as adviser.

301. The cloud service provider deploys a new release of the cloud system quarterly. This is always available to UNDP a few weeks in advance for testing in Quantum and the quarterly new releases cannot be rejected.

302. UNDP implemented an identity and access management tool operated by UNDP staff. Following a user request, an approval workflow based on predefined business personas and roles grants access. UNDP stated that Quantum will reflect the user and role restrictions of the internal control framework guide by use of the identity and access management tool and predefined conflict definitions.

303. As of March 2022, there were 43,259 users assigned in the production environment of Quantum. UNDP stated that because of the integrated single-sign-on access solution, only usernames with a proper undp.org domain in the username are able to establish a connection to the system. There were 18,280 users as of March 2022. There is therefore still work in progress being carried out in the user management team.

304. The cloud system provides by default seeded application roles and seeded user roles. Customized seeded roles are seeded roles with some changes made in order to meet customer needs. Additionally, users are able to create their own customer roles. UNDP therefore uses initially copied seeded roles and adapts them to user needs. Furthermore, UNDP uses seeded roles wherever it deems this to be possible for operations at low-level risk.

305. As of March 2022, there were 76 user roles used in the production environment of which 42 were seeded roles. Since the implementation of Quantum is ongoing, there is still work in progress.

306. The Board sought clarification on whether there is an independent risk and security approach to reviewing the secure implementation of the enterprise resource planning system and the effects of the quarterly new releases of the cloud system with regard to potential conflicts of interest.

307. UNDP stated that there is a change advisory board responsible for the analysis of the impacts of the quarterly releases. UNDP also stated that there are five levels of independent review: the system integrator; the Quantum project team within the corporate platforms; the access management team within the global support desk; the business owners who manage the internal control framework; and the partner entities using Quantum that have a seat on the change advisory board. Additionally, a full risk management shall be implemented in 2023.

308. UNDP stated that proposals on role definitions by the operational team are approved by management and the risk committee reviews the documented decisions quarterly. Additionally, roles for administrational functions and configurations were reviewed in the risk committee quarterly.

309. The Board holds that there is a sufficient risk and security approach for the implementation phase of Quantum. Nevertheless, owing to the central importance of the system for UNDP and all partner entities involved, UNDP, besides implementing the announced risk management, should consider assigning a risk adviser for an independent assessment of user, roles and rights management and the secure operation of the Quantum project after final implementation.

Quantum recurring costs and invoicing to partner agencies

310. UNDP stated total estimated costs for the implementation of the new enterprise resource planning system in the amount of $36.8 million as of April 2022. Thereof, the deferral of the go-live to July 2022, the larger scope and additional support had resulted in an extra cost of $3.66 million. UNDP stated that the major part of this additional cost was for fixed cost components such as staff costs. The costs were based on a precise calculation over three months of project and other costs.

311. During the audit for the year 2021, the Board noted the delayed invoicing of 2020 Quantum project-related costs to partner entities. The invoices were processed only in August 2021. UNDP was aware of the late invoicing and announced the invoicing of 2021 Quantum project-related costs to the partner entities in time. A recognized allocation key is used for the annual costs associated with paid staff and considered for each Quantum module.

312. UNDP stated that one United Nations entity had been invoiced half of the costs and two other United Nations entities had not been invoiced any costs as of 19 April 2022. UNDP and the one United Nations entity agreed on 23 September 2021 that the payments for 2021 would be deferred. The United Nations entity therefore has to pay 100 per cent of the 2020 project cost share and 50 per cent of the 2021 project cost share in the first quarter of 2022. The remaining project cost share will be paid until 31 January 2024. The production cost share of the one United Nations entity from 2022 on will be paid in accordance with the agreed user-based allocation key. UNDP stated that one of the two other United Nations entities which had not been invoiced will pay 1.25 per cent of its turnover independent from its real cost share.

313. UNDP and another United Nations entity agreed that for the United Nations entity’s rejoining of Quantum at that late stage, the United Nations entity would pay in sum $4.5 million. Thereof, the United Nations entity will pay $3.5 million as its portion of common project costs. A payment of $1.5 million had already been invoiced. Furthermore, the United Nations entity has to pay $1.0 million for its specific activities such as inventory, integrations and data conversion. In future, the United Nations entity will pay in accordance with the agreed allocation key. Necessary costs of licences for the United Nations entity will be allocated separately. The invoices will be sent out in June 2022.

314. **The Board recommends that UNDP further enhance the close monitoring for cost recovery of Quantum-related costs and strengthen efforts to ensure timely billing for all Quantum services provided to other United Nations entities.**

315. UNDP agreed with the recommendation.

C. Disclosures by management

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

316. The Administration informed the Board that in accordance with UNDP financial rule 126.17, UNDP had write-offs of $136,231 in 2021.

2. Ex gratia payments

317. As required by UNDP financial rule 123.01, the administration reported no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

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

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

320. In 2021, UNDP reported 35 cases of fraud or presumptive fraud to the Board. Of these 35 cases, UNDP had already resolved 6 cases with a loss for UNDP amounting to $141,015. The remaining 29 cases were still pending, with the loss for UNDP yet unknown. The latter cases involved procurement fraud, other failure to comply with obligations, entitlements fraud, theft and embezzlement, abuse of authority, misuse of resources, misrepresentation, and forgery and false certification.

321. The Board found two cases of presumptive fraud and one case of suspected misconduct and reported those cases to the Office of Audit and Investigations.

D. Acknowledgement

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

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

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

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

21 July 2022

Annex

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

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
1.	2018	A/74/5/Add.1, chap. II, para. 85	The Board recommends that UNDP assess whether and what internal financial control procedures could be introduced by UNDP to enhance data quality and limit risks of errors by means of having standardized control procedures and appropriate documentation to evidence that control procedures have been performed.	UNDP has introduced a clustered Compliance and Quality Assurance Unit which would address the issue of standardized control procedures in future periods. It provides cross-functional overview support to finance, procurement and human resources services processed in the Global Shared Service Centre; performs reviews of transactions processed by the Global Shared Service Centre and works with relevant Global Shared Service Centre service delivery teams to address any impediments/improve service. Further, the Unit promotes standardization through developing and establishing quality assurance mechanisms and leading the development of the training and onboarding process for new Global Shared Service Centre staff.	The Board appreciates the establishment of the Compliance and Quality Assurance Unit at the Global Shared Service Centre. However, the focus of this unit is currently not on identifying internal controls and not on the performance of transactional controls. In addition, the Board is not aware that the current workplan for the Unit aims towards focusing on these issues. The Board noted recurring errors not detected by control mechanisms in place. The Board therefore still holds that internal financial control procedures could be introduced by UNDP to enhance data quality and limit risks of errors including standardized control procedures and appropriate documentation for verifying whether control procedures have been performed. In order to emphasize the need of a comprehensive approach for effective internal financial controls, the Board rephrases the recommendation. The Board considers this recommendation not implemented.			X	

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
2.	2018	A/74/5/Add.1, chap. II, para. 129	The Board recommends that UNDP strengthen oversight and monitoring functions for the harmonized approach to cash transfers framework.	Oversight and monitoring of the harmonized approach to cash transfers by country offices and bureaux were assessed and capacity enhanced through revision of the harmonized approach to cash transfers, programme and operations policies and procedures platform; additional guidance and standardized templates; training for the harmonized approach to cash transfers focal points; and regular snapshot communication on key compliance issues. A further enhancement is expected when the harmonized approach to cash transfers dashboard and activities are upgraded to a cloud platform and Quantum/Quantum+.	The Board noted that UNDP had strengthened oversight and monitoring functions by introducing standardized procedures and by training regional bureaux and country offices on harmonized approach to cash transfers policies including updates. The Board considers this recommendation implemented.	X			
3.	2019	A/75/5/Add.1, chap. II, para. 77	The Board recommends that UNDP enhance the awareness of country offices and other units on how to conduct fraud risk assessments in an integrated manner, for example, by presenting good practices at regional or annual retreats for its managers.	Country offices are required to include fraud risks in their risk assessment. Guidance documents were provided in November 2021 which clearly state that fraud risk must be considered when performing risk assessments. Reminders are sent out to country offices recommending them to include fraud risks in the risk register and monitor the risk accordingly over the programme cycle. Additionally, all staff are required to complete fraud mandatory training; and as of April 2022, 92 per cent of staff had completed the training.	The Board appreciates the efforts of UNDP to enhance awareness of country offices and other units on how to conduct fraud risk assessments in an integrated manner. The Board notes that in November 2021 UNDP announced a training session to further raise awareness. The Board also notes that this training was postponed and not delivered. Good practices were not presented at regional or annual retreats of managers. UNDP could not provide evidence of increasing inclusion of fraud risks recorded in risk logs across its business units. The Board considers this to be a key indicator for enhanced fraud risk awareness. The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
4.	2019	A/75/5/Add.1, chap. II, para. 99	The Board recommends that UNDP continue to implement its Fraud Risk Management Action Plan and provide regular updates on its status to the Risk Committee that should be documented in the meeting minutes.	The Anti-Fraud Action Plan continues to be implemented; the next update will be taken to the operational performance group in May 2022. As of May 2022, 68 per cent of the actions had been completed, that is, an additional 26 action points had been completed since the last update over the interim period, bringing the total completed to 30 (out of 44 actions). Some of the remaining actions are Quantum-dependent and will be implemented alongside Quantum.	The Board appreciates that UNDP had updated its Fraud Risk Management Action Plan and presented it to the risk committee in December 2020. The Board welcomes the plan's approval in January 2021. The Board acknowledges the implementation of actions listed in the plan and encourages UNDP to implement the remaining actions. The Board considers this recommendation implemented	X			
5.	2019	A/75/5/Add.1, chap. II, para. 101	The Board recommends that UNDP enhance the awareness of country offices and other units on how to document fraud risk treatment actions in the corporate risk management tools available, for example, by presenting good practices at regional or annual retreats for its managers.	Country offices are required to include fraud risks in their risk assessment. Guidance documents were provided in November 2021 which clearly state that fraud risk must be considered when performing risk assessments. Reminders are sent out to country offices recommending them to include fraud risks in the risk register and monitor the risk accordingly over the programme cycle. Additionally, all staff are required to complete fraud mandatory training; and as of April 2022, 92 per cent of staff had completed the training.	The Board welcomes the efforts of UNDP to raise awareness of country offices and other units. The documentation provided offers guidance primarily on how to conduct fraud risk assessments. The recommendation, however, is related to enhancing awareness on how to document fraud risk treatment actions in the corporate risk management tools. The focus of this recommendation is not on the initial fraud risk assessment but rather on the local mitigation measures that respond to fraud risks identified at the country office level. This recommendation is considered to be under implementation		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
6.	2019	A/75/5/Add.1, chap. II, para. 115	The Board recommends that UNDP further enhance its efforts and continue to raise fraud awareness internally.	Guidance documents were provided at the point of the preliminary assessment. The Anti-Fraud Action Plan continues to be implemented, with a 68 per cent completion rate to date.	The Board noted that activities related to raising fraud risks internally were implemented in accordance with the UNDP Anti-Fraud Action Plan, including communication from the Administrator on the occasion of the observance of the International Anti-Corruption Day on 9 December. The Board welcomes the five risk advisory notes issued by the Office of Audit and Investigations. The Board considers this recommendation implemented.	X			
7.	2019	A/75/5/Add.1, chap. II, para. 124	The Board recommends that UNDP further enhance its continuous efforts to raise fraud awareness with external partners.	The digital communications team in the Bureau of External Relations and Advocacy has added an anti-fraud link to all UNDP local websites (country offices, regional bureaux, policy centres, etc.), linking to the UNDP accountability page. The partnership team in the Bureau of External Relations and Advocacy ensures that the policy and link are shared with Development Assistance Committee donor missions and UNDP focal points in donor capitals. Templates used with external parties (i.e. implementing partners) have been updated to include fraud-related information.	The Board noted that various good practices and enhancement opportunities identified by the Board in its report A/75/5/Add.1 had not yet been implemented. These include local procurement websites mentioning the UNDP zero-tolerance message, the UNDP vendor protest mechanism, the United Nations Supplier Code of Conduct, the anti-fraud policy and the repetition of the zero-tolerance message on, for example, local procurement web pages. The Board also noted that the UNDP good practice of proactive communication of the availability of its anti-fraud training to external stakeholders such as implementing partners had not yet been implemented. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
8.	2019	A/75/5/Add.1, chap. II, para. 136	In the meantime, the Board reiterates its recommendation that UNDP, on the basis of the above analysis, further refine its internal control framework and further recommends that UNDP streamline its internal control framework documentation in the operational guide to strengthen its implementation.	The updated internal control framework policy aligns with industry best practices, including the Committee of Sponsoring Organizations of the Treadway Commission framework and the three lines of defence model. The internal control framework operational guide is designed to help UNDP offices implement effective internal controls in both clustered and non-clustered environments. The updated internal control framework operational guideline provides better clarity and visibility on key issues; a renewed emphasis on important areas of internal control; updates for clustering changes; and more visual presentations and quick reference guides.	The Board noted the enhancements made to the UNDP internal control framework and the progress made in streamlining UNDP internal control framework documentation. The Board considers this recommendation implemented.	X			
9.	2019	A/75/5/Add.1, chap. II, para. 148	The Board recommends that UNDP assess the application of good practices such as rotation of tasks among personnel in contexts where a higher risk of fraudulent acts has been identified.	UNDP has clustered country office procurement, finance, and human resources administration functions at the Global Shared Service Centre. The Global Shared Service Centre finance unit has already started offering staff the opportunity to rotate within the Global Shared Service Centre for capacity-building. This process will be systemized to ensure that staff spend maximum time in a position, thereby reducing the risk of fraud while allowing staff to acquire an end-to-end view of all finance processes. A rotation guideline has been developed. Moreover, the UNDP mobility policy was launched on 1 January 2021.	The Board notes that the identification of higher-risk areas for fraudulent acts was limited to the Global Shared Service Centre. However, higher-risk activities such as procurement are primarily conducted locally in country offices where the rotation described would not apply. The Board noted that UNDP has started the process of designating rotational and non-rotational status to all positions. Currently, however, only the positions of resident representatives and their deputies are considered. Contexts with a higher risk of fraudulent acts have not yet been identified. Effective fraud risk mitigation measures such as task rotation		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
					within higher-risk areas have not been considered. Additional good practices beyond task rotation identified by the Board in its report A/75/5/Add.1, for example, monitoring of leave balances and mandatory vacation, had not been considered. This recommendation is considered to be under implementation.				
10.	2019	A/75/5/Add.1, chap. II, para. 154	The Board recommends that UNDP enhance awareness of the importance of fully complying with requirements in place to physically verify the existence and completeness of vehicles in country offices where matters of non-compliance were identified.	As an additional measure, UNDP has conducted a detailed review of the UNDP vehicle records in Atlas. A total of 139 business units with vehicle data in the in-service reports were selected and requested to provide external validation information to confirm the accuracy of their vehicle data in the in-service Reports. A report summarizing the review results was prepared and business units with noted issues were informed that they should work with their regional bureau to address those issues and provide updates to the general operation team. Regional bureaux were also informed directly.	As of March 2022, UNDP conducted several efforts such as confirmation procedures as well as awareness raising with regard to existence and completeness of vehicles. Therefore, the Board considers this recommendation implemented.	X			
11.	2019	A/75/5/Add.1, chap. II, para. 159	The Board recommends that UNDP establish a detective control at Global Shared Services Unit level to ensure that information entered by country offices into the enterprise resource planning system is correct and accurate.	As part of human resources clustering, the Global Shared Service Centre has been responsible for managing the entries into the system. The review of supporting documents and data entries is now managed centrally by the Global Shared Service Centre human resources team for all personnel except service contract holders in some country offices. The process for those service contract holders will also	The Board noted that UNDP had centralized at the Global Shared Service Centre the applicable processes for the following staff categories: internationally recruited staff, national staff and United Nations Volunteers. For the Service Contracts UNDP plans to finish the ongoing transition to the new national personnel services agreement contract modality by 30 June 2022. The corresponding process flows		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				be centralized once they will have transitioned to the national personnel services agreement contract modality by June 2022. Process flows and standard operating procedures will be developed and fully implemented in the third quarter 2022.	and standard operating procedures will be implemented once the transition has been completed. The Board considers this recommendation to be under implementation.				
12.	2019	A/75/5/Add.1, chap. II, para. 175	The Board recommends that UNDP periodically inform all business units about new suspensions or entities and individuals sanctioned on the recommendation of the UNDP vendor review committee.	All decisions issued by the Vendor Review Committee are shared with the business unit where the proscribed practice occurred, with copies provided to the Office of Audit and Investigations and the Office of Legal Services. The Vendor Review Committee ensures that the UNDP ineligibility list (available to all UNDP personnel) and that of the United Nations Global Marketplace are updated accordingly. UNDP personnel are reminded quarterly of the need to ensure compliance with the UNDP and United Nations Global Marketplace ineligibility lists. The verification of the vendor sanctions lists will be automated in Quantum to enable more efficient and timely verification processes.	The Board noted that UNDP periodically informed all business units on new suspensions or entities and individuals sanctioned at the recommendation of the UNDP Vendor Review Committee. The Board considers this recommendation implemented.	X			
13.	2019	A/75/5/Add.1, chap. II, para. 180	The Board recommends that UNDP expedite the clearing of the backlog of vendor cases to be reviewed by the vendor review committee.	The Vendor Review Committee prioritized addressing the backlog of cases, defined as 2014–2019 cases, with 37 of those cases having been closed since November 2020. The remaining cases will be closed in the second quarter of 2022. From the period 2020–2022, 18 cases were also closed. Moreover, the Vendor Review Committees policy is being updated.	The Board welcomes the efforts to clear the backlog of cases from 2014 to 2019 and the good progress made. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
14.	2020	A/76/5/Add.1, chap. II, para. 56	The Board recommends that UNDP increase awareness among country offices and headquarters units to ensure timely submission of documents relevant for revenue recognition of voluntary contributions and continue to monitor the late submission of such documents to determine whether additional guidance is needed.	UNDP has created significant awareness through the newly established revenue focal points channel through direct messaging, quarterly monitoring of late submissions, and revenue refresher webinars arranged for regions in September 2021. The number of offices with late submissions has substantially declined compared with 2020. Additionally, in February 2022, the Office of Financial Management requested positive assurance from all revenue focal points that all 2021 agreements had been recorded in 2021 and received over 99 per cent assurance.	The Board noted the various actions undertaken by UNDP to increase awareness among country offices and headquarters units in order to ensure timely submission of documents relevant for revenue recognition. The Board also noted the significantly reduced numbers of late submissions in 2022. The Board considers this recommendation implemented.	X			
15.	2020	A/76/5/Add.1, chap. II, para. 57	The Board recommends that UNDP ensure that all submitting units define clear responsibility and accountability for submitting documents relevant for non-exchange revenue recognition to the Global Shared Services Unit.	UNDP offices have nominated revenue focal points to define responsibility at the business unit operational level. With the annual assertion checklist defining ultimate accountability for the submission of non-exchange revenue agreements, UNDP has established a mechanism for raising awareness and effective monitoring of late submissions.	The Board noted that UNDP had defined clear responsibility and accountability for submission of documents relevant for non-exchange revenue recognition to the Global Shared Service Centre. Therefore, the Board considers this recommendation implemented.	X			
16.	2020	A/76/5/Add.1, chap. II, para. 58	The Board recommends that UNDP consider holding heads of offices accountable when documents relevant for non-exchange revenue recognition were not submitted to the Global Shared Services Unit on time, while the head of office nevertheless confirmed related compliance during the annual assertion exercise.	The 2021 annual representation statement includes a clear reinforcing message affirming that the head of each respective UNDP unit will be held accountable for any known false declarations. Offices that have submitted documents late without noting this in the annual representation, will be issued a warning letter from senior leadership.	The Board noted UNDP actions to introduce accountability measures for not submitting documents relevant for non-exchange revenue recognition on time. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
17.	2020	A/76/5/Add.1, chap. II, para. 74	The Board recommends that UNDP take into account the changes in eligible persons for the full period from 1 January to 31 December when making the necessary estimation for its decision on a roll-forward or a full validation of the benefit obligation for after-service health insurance.	UNDP had performed full actuarial valuation (not roll forward) in 2021, with census data as of 31 October 2021. This is in line with the practice jointly agreed with other United Nations entities for 2021. UNDP considers the impact from the change in staff numbers from 31 October 2021 to 31 December 2021 to be within the UNDP materiality threshold.	The Board noted that the contracted actuary had performed a full validation of the end-of-service benefits for after-service health insurance based on the census data as of 31 October 2021 in March 2022. As the contract with the current actuary expires in May 2022, the United Nations Secretariat will agree on the necessary terms and processes for subsequent periods in a new frame contract for UNDP and other United Nations entities. The Board considers this recommendation implemented.	X			
18.	2020	A/76/5/Add.1, chap. II, para. 78	The Board recommends that UNDP ensure that disposal notes for vehicles include a transparent explanation which refers to the individual circumstances under which the vehicle was disposed of to confirm that the disposal was the best option for UNDP.	The property, plant and equipment disposal policy has been updated and respective approving authorities were informed that they should request a complete asset disposal form describing all details of the vehicle disposal case.	The Board noted that UNDP had revised the policy in order to ensure that a vehicle's having clocked 100,000 km does not signal blanket approval for vehicle disposal and that a vehicle disposal case must provide clear reasons for vehicle disposal. The Board considers this recommendation implemented.	X			
19.	2020	A/76/5/Add.1, chap. II, para. 83	The Board recommends that UNDP assess measures to mitigate the risk of erroneous asset or expense recognition resulting from use of an incorrect catalogue code upon the initial purchase.	UNDP is migrating to Quantum and in the new enterprise resource planning system, the expense category is derived from the actual category. Based on the threshold, the expense or asset account should automatically be derived, which addresses the issue. Quantum also provides other attributes based on which either an asset or an expense account is derived (account derivation logic) – Direct Facility Funding (Asset Use) field.	The Board noted that sample reviews again revealed several examples of erroneous asset or expense recognition caused by use of an incorrect catalogue code upon the initial purchase. The Board will follow-up on the issue after the go-live of Quantum. The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
20.	2020	A/76/5/Add.1, chap. II, para. 89	The Board recommends that UNDP record revenue from exchange transactions in the period in which services were rendered and assess how the enterprise resource planning system could support this accounting approach to ensure an appropriate process and follow-up and complete recovery of revenue from exchange transactions.	The Office of Financial Management has guided UNDP offices on maintaining a standard process to follow up on outstanding amounts and controls to be implemented to prevent the incorrect recording of revenue. This included financial authorizations received upfront, prior to UNDP provision of services to an entity. The same communication was sent to United Nations entities through the annual agency letter. The assessment of UNDP was that billing in Quantum should be carried out automatically once the service is rendered and flagged in the system, leading to fewer general ledger journal entries, with number of ledger entries being the root cause of the issue.	The Board noted several initiatives by UNDP to address the issue. For instance, UNDP provides trainings to country offices and rendered additional guidance to highlight the need for accurate and timely recognition of revenue from exchange transactions as well as follow-up procedures. The Board noted that sample reviews again revealed several transactions for revenue from exchange transactions in the wrong period. The Board will follow up on the issue after the go-live of Quantum. The Board considers this recommendation to be under implementation.		X		
21.	2020	A/76/5/Add.1, chap. II, para. 108	The Board recommends that UNDP liaise with the Secretariat to assess the feasibility of a reimbursement process for UNDP resident representatives also serving temporarily as resident coordinators to recover costs.	The United Nations Sustainable Development Group has issued a note regarding new arrangements for covering payment costs for resident coordinators ad interim. Under the new arrangement, the Special Purpose Trust Fund for the Resident Coordinator System will cover 50 per cent of the salary costs of agency representatives serving as resident coordinators ad interim, from their fourth month of service onward.	The Board noted that UNDP had liaised with the Secretariat to assess the feasibility of a reimbursement process for UNDP resident representatives also serving temporarily as resident coordinators to recover costs. The Board further noted the new arrangement in place to cover the costs. The Board considers this recommendation implemented.	X			
22.	2020	A/76/5/Add.1, chap. II, para. 118	The Board recommends that UNDP further automate preventive controls with respect to assigning staff functions to non-staff and include all minimum control functions that must be held by staff.	UNDP enhanced the suite of monthly internal control framework monitoring reports available to offices in March 2021 and provided a series of internal control framework training sessions. Additionally, in 2021, seven human resources processes	The automated controls implemented did not include all restricted functions, such as those of HR_Administrator and HR_Position_Administrator. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				were shifted from country offices to the Global Shared Service Centre. The performance of global human resources processes in the Global Shared Service Centre will improve internal control framework compliance. Options to further enhance automated internal control framework controls and strengthen compliance monitoring tools will be explored as part of the transition to Quantum.					
23.	2020	A/76/5/Add.1, chap. II, para. 119	The Board recommends that UNDP review cases of non-compliance and analyse why country offices did not fully comply with the corporate internal control framework but still confirmed compliance during the annual assertion exercise.	UNDP analysed the Atlas role generation and user-provisioning system role assignment data and noted that, in many cases, non-staff held only UN_HR_ADMIN and/or UN_HR_POS_ADMIN roles. Those two roles are workflow/dummy roles which do not have Atlas page access and therefore do not present a control risk. The roles are no longer used. For the smaller population of users holding HR administrator and Position administrator roles, UNDP has taken action to resolve this issue. With regard to annual representation statements: internal control framework training is being delivered to all country offices in the first and second quarters of 2022, in conjunction with regional bureaux. This training reinforces the importance of country offices' ensuring the veracity of their annual representation statements.	The Board notes with concern that UNDP did not attempt to review the cases of non-compliance and analyse the reason why country offices did not fully comply with the corporate internal control framework but confirmed compliance during the annual presentation exercise. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
24.	2020	A/76/5/Add.1, chap. II, para. 129	The Board recommends that UNDP streamline in what detail and how country offices' internal control procedures need to be documented and inform heads of office accordingly.	The updated internal control framework operational guide was published in the programme and operations policies and procedures platform in December 2021. Minimum elements required to be documented in local internal control frameworks have been clarified and streamlined.	The Board welcomes the clarifications in the updated internal control framework operational guide. The Board considers this recommendation implemented.	X			
25.	2020	A/76/5/Add.1, chap. II, para. 141	The Board recommends that UNDP remind heads of office to use the template for the delegation of authority that complies with the formal requirements of the respective policy.	A written reminder on the use of templates from the delegation of authority policy was issued by the Director of the Bureau for Management Services.	The Board welcomes that a written reminder including references to the templates from the delegation of authority policy was issued by the Director of the Bureau for Management Services. The Board considers this recommendation implemented.	X			
26.	2020	A/76/5/Add.1, chap. II, para. 142	The Board recommends that UNDP explore possibilities for integration of the delegation of authority process, which is currently paper-based, into its enterprise resource planning system.	Work on revising the current delegation of authority policy, including the associated templates, is continuing. The possibility of an enterprise resource planning system integration will be discussed after the work is completed. The target date remains the third quarter of 2022.	The Board notes that the revision of the delegation of authority policy is ongoing and that the possibility of integration into the enterprise resource planning system will be discussed thereafter. This recommendation is considered to be under implementation.		X		
27.	2020	A/76/5/Add.1, chap. II, para. 148	The Board recommends that UNDP explore whether an automated control could be implemented in the enterprise resource planning system to prevent users from approving payments for themselves.	The automated control is available on all cloud workflows (requisitions, purchase orders, accounts payable invoices, payments, etc.). The system configuration prevents users from approving payments for themselves. These controls, which are now active in recruitment and in procurement sourcing, will be launched across the rest of the platform in 2022.	The Board acknowledges that the automated control is currently in place. UNDP had stated, however, that the control is active only in recruitment and in procurement sourcing and will be launched later across the rest of the platform. Therefore, this recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
28.	2020	A/76/5/Add.1, chap. II, para. 166	The Board recommends that UNDP ensure that country offices record project-related risks for all of their projects and that risk entries are complete.	Quantum and Quantum+ risk registers are being developed to capture the risk registers of projects and programmes with integration between the two registers as well as escalation mechanisms. The go-live of the Quantum+ risk register is set for the last week of April 2022. The training of trainers is scheduled for the same week.	The Board notes that the development of the new risk register is ongoing. The supporting documents received did not explain what specific mechanism/process will be established to ensure that country offices record project-related risks for all of their projects and that risk entries are complete. As of May 2022, the related dashboard reported 421 projects without risk entries. This recommendation is considered to be under implementation.		X		
29.	2020	A/76/5/Add.1, chap. II, para. 167	The Board recommends that UNDP ensure that directors of bureaux fulfil their responsibilities with regard to enterprise risk management and ensure that offices under their supervision keep their risk registers up to date.	As part of the 100 days priorities initiative and the strategic plan 2022–2025, risk management has been a focus of interest within the organization. A risk module in Quantum+ is to go live in April. The module is conceived to be dynamic and agile and not annualized as in the past risk register. A training of trainers, which is to kick off in late April/May, will be followed up by training sessions across UNDP. Update of the roles with specific enterprise risk management responsibilities is ongoing. This will include the roles and responsibilities required for the bureaux and country offices.	The Board welcomes the ongoing efforts to address the recommendation. The supporting documents received, however, did not explain what specific mechanism/process will be established to ensure that directors of bureaux fulfil their responsibilities with regard to enterprise risk management. This recommendation is considered to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
30.	2020	A/76/5/Add.1, chap. II, para. 189	The Board recommends that UNDP analyse possibilities for implementing a threshold above which regional bureaux review microassessments and assurance activities carried out for individual partners.	The harmonized approach to cash transfers guidelines have been updated to reflect the requirement that regional bureaux review documentation of significant issues and remedial action plans for partners with expected cash transfers equal to or exceeding $1 million per annum.	The Board noted that UNDP had introduced a standardized template for documenting the significant issues and action plans arising from microassessments and assurance activities. The Board also noted that UNDP had introduced a threshold above which regional bureaux are required to review the documentation. The Board considers this recommendation implemented.	X			
31.	2020	A/76/5/Add.1, chap. II, para. 190	The Board recommends that UNDP include documentation of harmonized approach to cash transfers (HACT) implementation in the new cloud-based enterprise resource planning system and that UNDP include functional controls within the system to ensure compliance with HACT policies.	Inclusion of the harmonized approach to cash transfers system controls and documentation is under discussion with Quantum/Quantum+ project teams, with priority areas being planning, management and monitoring of microassessments and assurance activities. The harmonized approach to cash transfers dashboard is scheduled to be moved to the SharePoint cloud along with other SharePoint-based tools.	The Board takes note of the discussions held; however, no decision has yet been made. The Board considers this recommendation to be under implementation.		X		
32.	2020	A/76/5/Add.1, chap. II, para. 205	The Board recommends that UNDP enhance the monitoring of annual leave taken and annual leave balances of its staff to ensure that staff use annual leave for necessary recreation as well as to prevent expiration of annual leave.	UNDP has introduced a dashboard with leave balances for individuals and their managers so that they can monitor their own and their teams' annual leave balances in real time. In addition, the Director of the Bureau for Management Services has communicated with all personnel on the subject of leave balances. Individual messages were sent to colleagues with exceptionally high leave annual balances. UNDP will explore the possibility of automated reminders once the new enterprise resource planning system is live.	The Board noted that the dashboard introduced by UNDP is working and enables staff members and their managers to effectively monitor current annual leave balances. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
33.	2020	A/76/5/Add.1, chap. II, para. 206	The Board recommends that UNDP strengthen awareness of all supervising managers to ensure that staff plan in advance a minimum of contiguous annual leave.	UNDP has launched a dashboard so that managers can monitor their teams' annual leave balances in real time and encourage personnel to take leave accordingly. UNDP will explore the possibility of generating automated reminders to individuals and their managers once the new enterprise resource planning system is live.	The Board noted that UNDP had introduced a dashboard which enables managers to effectively monitor the current annual leave balances of their supervisees. The Director of the Bureau for Management Services reminds managers to regularly discuss the individual annual leave balances of their teams. UNDP will revise the annual leave policy to include a provision encouraging managers and staff to actively plan annual leave. The Board considers this recommendation implemented.	X			
34.	2020	A/76/5/Add.1, chap. II, para. 207	The Board recommends that UNDP develop an overall strategy to reduce high annual leave balances to an appropriate level within a foreseeable period.	UNDP has implemented and continues to implement, through a strategic approach, a number of actions which include, among others, empowering managers to monitor leave balances for their teams, proactive monitoring and notifications from HR business partners as well as targeted individual notifications, and an upcoming update of annual leave policy to include a provision encouraging managers and staff to actively plan and utilize annual leave within the annual leave cycle.	The Board takes note that UNDP has implemented various tools for reducing high annual leave balances. The Board considers this recommendation implemented.	X			
35.	2020	A/76/5/Add.1, chap. II, para. 220	The Board recommends that UNDP review the home leave process, including regulations, to clearly determine the obligations of entitled staff, implement an effective reminder with deadlines and consequences and implement an effective recovery process.	The procedures in the home leave policy have been updated to reflect the obligations of staff. Automatic reminders are sent from Atlas to staff to remind them of the obligation to certify home leave and that failure to certify will lead to recovery.	The Board noted that UNDP had updated and published the home leave policy. The Board considers the recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
36.	2020	A/76/5/Add.1, chap. II, para. 221	The Board recommends that UNDP implement effective and regular controls of home leave travel to ensure that staff members fully comply with the applicable policy and procedures.	The data quality report is in place and is reviewed on a regular basis. Both home leave total points and the topic of what constitutes an acceptable minimum stay in the home country were clarified in the updated policy.	The Board takes note that UNDP will conduct spot checks for compliance on a regular basis. The Board considers the recommendation implemented.	X			
37.	2020	A/76/5/Add.1, chap. II, para. 227	The Board recommends that UNDP review and adjust the current home leave policy to ensure that the required length of stay, excluding travel time, is clearly defined.	The home leave policy has been updated and is published on the UNDP programme and operations policies and procedures platform.	The Board noted that UNDP had updated the policy with a view to clearly defining applicable lengths of stay at the home leave destination. The Board considers the recommendation implemented.	X			
38.	2020	A/76/5/Add.1, chap. II, para. 236	The Board recommends that UNDP regularly monitor all advance lump sum payments granted for home leave to avoid overpayments for longer periods.	The data quality report has been implemented to track compliance and the procedures now provide that "[i]f the staff member has not certified home leave travel and provided supporting documents within 90 days of return from home leave travel, the lump sum will be recovered".	The Board takes note that UNDP implemented a data quality report for effective home leave monitoring. The Board considers the recommendation implemented.	X			
39.	2020	A/76/5/Add.1, chap. II, para. 237	The Board recommends that UNDP ensure that the reimbursement of the lump sum paid in advance is checked whenever home leave travel is cancelled or postponed by the staff members.	The procedures now provide that "[t]he staff member must inform Benefits and Entitlements/Junior Professional Office Service Centre if the travel is postponed, cancelled or if one or more of the travellers are not traveling as this will lead to an adjustment of the lump sum".	The Board noted that UNDP implemented a new procedure for cancelling or deferment of home leave travel to recover advances for home leave travel paid. The Board considers the recommendation implemented.	X			
40.	2020	A/76/5/Add.1, chap. II, para. 252	The Board recommends that UNDP further refine the criteria for granting advance salary payments for emergency situations and that UNDP document the applicable reasons in all cases.	UNDP incorporated the audit recommendations in the salary advance policy draft. The policy is currently undergoing final clearance and is on track for approval and publication in the near future.	The Board noted that UNDP had reviewed the policy on advance salary payments and drafted a new salary advance policy in April 2022. The Board considers the recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
41.	2020	A/76/5/Add.1, chap. II, para. 253	The Board recommends that UNDP document the provision of evidence, in all applications for salary advances, that the attempt to secure emergency financing from local lending institutions or the United Nations Federal Credit Union was unsuccessful.	After having examined the practical difficulties of enforcing the Board of Auditors recommendation across UNDP operations where, often, no lending institutions exist and obtaining emergency funds on short notice is not possible, UNDP management decided to take a holistic approach and update the policy and procedures for advances, ensuring confirmation of genuine financial emergency.	The Board noted that UNDP had reviewed the policy on advance salary payments and drafted a new salary advance policy in April 2022. UNDP decided to waive proof of unsuccessful efforts to secure emergency financing from local lending institutions or the United Nations Federal Credit Union and determined that staff members would be advised to approach local lending institutions and the United Nations Federal Credit Union. The Board considers the recommendation overtaken by events.				X
42.	2020	A/76/5/Add.1, chap. II, para. 254	The Board recommends that UNDP enhance compliance with the policy regarding the frequency of salary advances for emergencies or special conditions.	UNDP incorporated the recommendations in the salary advance policy draft including limiting personal emergency advances to one every 12 months. The policy is currently undergoing final clearance and is on track for approval and publication in the near future. All salary advances are now requested via UNall which verifies when the last advance was granted.	The Board noted that UNDP had reviewed the policy on advance salary payments and drafted a new salary advance policy in April 2022. UNDP deleted the advance salary payments for special conditions and determined that no new advances may be granted before their repayment except for major medical expenses, special security reasons or specific emergency situations. The Board considers the recommendation implemented.	X			
43.	2020	A/76/5/Add.1, chap. II, para. 273	The Board recommends that UNDP continue to remind staff that only current and duly filled out vendor forms are provided in the vendor creation process.	The Global Shared Service Centre applies a rigorous screening procedure and incomplete vendor forms are returned to country offices. General reminders are regularly sent to all country offices. Supplementary training for all regions was conducted.	The Board acknowledges the efforts to address the recommendation. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
44.	2020	A/76/5/Add.1, chap. II, para. 280	The Board recommends that UNDP enhance its efforts to regularly review its vendor databases so as to exclude ineligible vendors debarred by UNDP itself.	UNDP ensures that sanctioned vendors are not engaged by the organization. UNDP is automating the verification of vendor sanctions status in the new enterprise resource planning system with a linkage to the United Nations Global Marketplace. Quantum will have a single master vendor database, which will reduce the risks of duplicate vendor entry.	The Board acknowledges the efforts to address the recommendation. The Board notes that UNDP regularly performed manual reviews of its current vendor master files to exclude ineligible vendors debarred by UNDP itself. The Board welcomes the intention to automate this control procedure within Quantum. The Board considers this recommendation implemented.	X			
45.	2020	A/76/5/Add.1, chap. II, para. 290	The Board recommends that UNDP explore possibilities for robust data input controls and regular data maintenance mechanisms in the new supplier portal which ensure accurate, complete and reliable vendor master data.	In the design of the new enterprise resource planning system, the controls are embedded across the platform, including vendor self-registration with related train stops, approvals and verification of "spend authorized" vendors.	The Board acknowledges the ongoing efforts to close this recommendation. However, implementation of the data input controls was ongoing. This recommendation is considered to be under implementation.		X		
46.	2020	A/76/5/Add.1, chap. II, para. 308	The Board recommends that UNDP strengthen procurement planning for all projects in the country office in Iraq and consolidate procurement plans in the corporate procurement management platform.	The country office has addressed this recommendation by taking multiple actions, including implementation of the procurement management and planning platform since August 2021; uploading current projected procurement plans in the procurement management and planning platform; training on the procurement management and planning platform tool; piloting Quantum training; and launch of procurement tenders.	The Board welcomes the implementation of the planning tool as well as related training. The Board considers this recommendation implemented.	X			
47.	2020	A/76/5/Add.1, chap. II, para. 309	The Board recommends that the country office in Iraq monitor procurement requests in order to identify opportunities for consolidation.	In 2021, at least 19 tenders were issued that contained lots in an effort to consolidate requirements. As of April 2022, 14 tenders had been issued that contained lots in an effort to consolidate	The Board welcomes the efforts to consolidate procurement requests. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				requirements and the country office continues to consolidate procurement requests that were deemed appropriate.					
48.	2020	A/76/5/Add.1, chap. II, para. 319	The Board recommends that the country office in Iraq expedite the evaluation process in order to finalize contracts within the stipulated bid validity periods and monitor expiry of quotations received.	The average evaluation time in 2021 was 93 days as a result of, inter alia, close monitoring and guidance by the procurement head; and strengthening of tender documents. In 2022, the timeline stands at 69 days and is expected to further improve, given the ongoing pre-qualifications exercise which will identify dozens of pre-qualified bidders in assorted bands of up to $1 million for special areas of works.	The Board acknowledges the efforts of the country office in Iraq to expedite the evaluation process. The Board considers this recommendation implemented.	X			
49.	2020	A/76/5/Add.1, chap. II, para. 320	The Board recommends that the country office in Iraq adjust the length of the bid validity period to reflect the complexity of civil works.	Management is keen on awarding all contracts within the bid validity period to obviate the need to request bid validity extensions. When awards are not possible within bid validity periods, procurement case officers are working to issue such requests prior to the expiration of the bids.	The Board notes that the country office reduced the bid validity periods for less complex civil works projects from 120 to 90 days. The Board notes that pursuant to the UNDP solicitation policy civil works or services to be procured, a sufficient validity time of 30–90 days is considered to be acceptable for evaluating offers or proposals. The Board considers this recommendation implemented.	X			
50.	2020	A/76/5/Add.1, chap. II, para. 333	The Board recommends that UNDP amend the construction works guidance note to clarify that the advantages and disadvantages of obligatory participation in a site visit must be weighed against the potential risk of collusion.	UNDP has updated the construction guidance note to reflect that pre-bid conferences/site visits are mandatory only in certain instances.	The Board acknowledges and welcomes the changes made to the construction guidance notes. The Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
51.	2020	A/76/5/Add.1, chap. II, para. 334	The Board recommends that UNDP avoid publishing contact details from staff members and consultants in advertisements and solicitation documents.	UNDP has introduced the use of procurement teams' email addresses instead of individual email addresses of staff in the system-generated solicitation templates in Quantum.	The Board welcomes the solution that will be implemented with the new enterprise resource planning system. The Board found, however, that current procurement notices and solicitation documents still included contact details for staff members and consultants. This recommendation is considered to be under implementation.		X		
52.	2020	A/76/5/Add.1, chap. II, para. 340	The Board recommends that the country office in Iraq sign a certificate of substantial completion when the whole works have been satisfactorily completed and avoid any time gaps between the substantial completion and the actual handover to the end user.	An analysis of 86 certifications demonstrated that on average, there is a span of 23 calendar days between the date of substantial completion and the date of signature/handover to the end user.	The Board notes the improved timespan of 23 days between the substantial completion and the actual handover to the end user. The Board considers this recommendation implemented.	X			
53.	2020	A/76/5/Add.1, chap. II, para. 355	The Board recommends that UNDP incorporate relocation of data to the cloud and the associated changes for backups and disaster recovery more clearly in the ICT Disaster Recovery Standards for UNDP Offices guideline.	Relevant sections of the policy have been updated in response to Board of Auditors audit recommendations to clarify the responsibilities of offices in creating their disaster recovery plans, including documenting any arrangements made with cloud providers.	The Board welcomes UNDP efforts to improve and clarify the ICT Disaster Recovery Standards for UNDP Offices guideline. The Board considers this recommendation implemented.	X			
54.	2020	A/76/5/Add.1, chap. II, para. 356	The Board recommends that UNDP provide encouragement and guidance to country offices in revising disaster recovery plans and business continuity plans and in adapting these plans to the changes in order to reflect the current backup procedure and to resume business operations in case there is no connection to the cloud.	Paragraphs of the policy have been updated in response to Board of Auditors audit recommendations and consequently offices are now required to update their business continuity plan and disaster recovery plans whenever there is a change in practices or in the type of cloud suppliers used.	The Board welcomes UNDP efforts to encourage and guide country offices with respect to revising disaster recovery plans and business continuity plans within the context of upcoming webinars in this regard. This recommendation is considered implemented.	X			

No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
55.	2020	A/76/5/Add.1, chap. II, para. 369	The Board recommends that UNDP include the mandatory use of long-term agreements and mandatory specifications for purchases in the UNDP Standards for IT Infrastructure and Services guideline.	UNDP had reached out to four suppliers and only one responded to the solicitation. The market does not seem to be interested in long-term agreements and thus it is not feasible to make their use mandatory. Nevertheless, recommendations for laptops and for monitors/docking stations were streamlined to continue with the standardization of IT equipment.	Although the attempt has failed to enter into long-term agreements to be used by all offices worldwide, the Board welcomes UNDP efforts to continue with the standardization of IT equipment and to conclude contracts for all country offices. The Board considers this recommendation implemented.	X			
56.	2020	A/76/5/Add.1, chap. II, para. 374	The Board recommends that the UNDP Standards for IT Infrastructure and Services contain mandatory wiping procedures in order to force the standardization process.	The policy has been updated to incorporate the requirement for a mandatory wiping procedure.	The Board welcomes UNDP efforts to set out a mandatory wiping procedure more clearly in the policy to guide responsible staff. This recommendation is considered to be implemented.	X			
	Total number of recommendations				**56**	**38**	**16**	**1**	**1**
	Percentage of the total number of recommendations				**100**	**68**	**28**	**2**	**2**

Chapter III
Financial report for the year ended 31 December 2021

A. Introduction

1. The financial report should be read in conjunction with the United Nations Development Programme (UNDP) audited financial statements and the accompanying notes for the year ended 31 December 2021. All amounts are expressed in United States dollars, which is the functional currency of the Programme. The financial statements are prepared for the calendar year 2021 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the financial performance and position of UNDP.

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

About the United Nations Development Programme

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

What the United Nations Development Programme offers

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

5. In addition, UNDP administers:

- *United Nations Volunteers programme*. The United Nations Volunteers programme is an organization that promotes volunteerism to support peace and development worldwide. The operations of United Nations Volunteers are reflected in the financial statements of UNDP. During 2021, 10,921 United Nations Volunteers from 173 countries supported partner United Nations entities in their peace and development activities in 160 countries of assignment.

- *Junior Professional Officers Programme*. At the end of the 2021 financial year, UNDP was managing the Junior Professional Officers Programme on behalf of 10 United Nations entities, as well as other programmes.

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

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

Financial objectives

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

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

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

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

(d) Producing annual IPSAS-compliant financial statements.

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

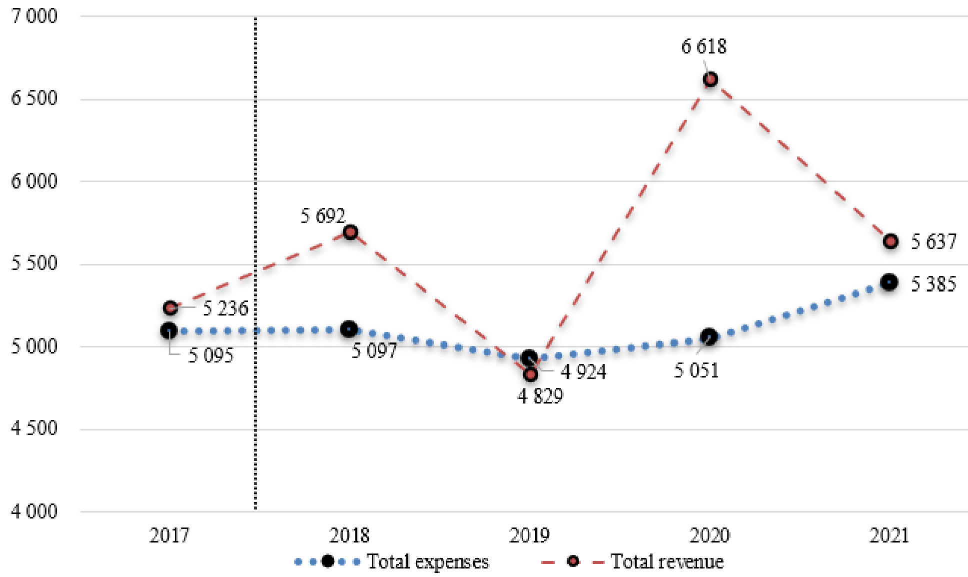
B. Summary of financial results and highlights

8. In 2021, UNDP reported total annual revenues of $5,637 million (2020: $6,618 million) and managed total assets of $15,151 million (2020: $14,299 million) (see figure III.I). UNDP recorded total contributions of $5,304 million (2020: $6,272 million), comprising $882 million (2020: $551 million) in regular resources and $4,422 million (2020: $5,721 million) in other resources.

Highlights from fiscal year 2021 compared with 2020 include:

- Decrease in total revenue by $981 million (or 15 per cent)
- Increase in total expenses by $334 million (or 7 per cent)
- Increase in programme expenses by $263 million (or 6 per cent)
- Increase in contractual services by $52 million (or 3 per cent)
- Increase in investments, excluding investments for the Multi-Partner Trust Fund Office, of $689 million (or 10 per cent)

Figure III.I
Total revenue and expenses, 2017–2021
(Millions of United States dollars)



Note: In 2019, UNDP changed its accounting policy for revenue recognition; hence, figures from 2018 onward are not comparable with those of prior years. This accounting policy change, in line with IPSAS 23: Revenue from non-exchange transactions (taxes and transfers) has resulted in revenue being recorded in full when agreements with donors are signed, provided that certain criteria are met.

9. UNDP did not identify any voluntary contributions that needed to be impaired as a result of the coronavirus disease (COVID-19) pandemic.

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

C. Financial performance[8]

Revenue analysis

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

12. The total revenue in 2021 was $5,637 million, a decrease of $981 million, or 15 per cent, from the total revenue of $6,618 million in 2020.

13. The main sources of revenue of UNDP in 2021 were as follows:

- $5,304 million, or 94 per cent, from voluntary contributions (2020: $6,272 million, or 95 per cent)
- $333 million, or 6 per cent, from exchange, investment and other revenue ($346 million, or 5 per cent, in 2020)
- The decrease in voluntary contributions was primarily as a result of a reduction in large volume multi-year agreements. UNDP funding is received on a cyclical

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

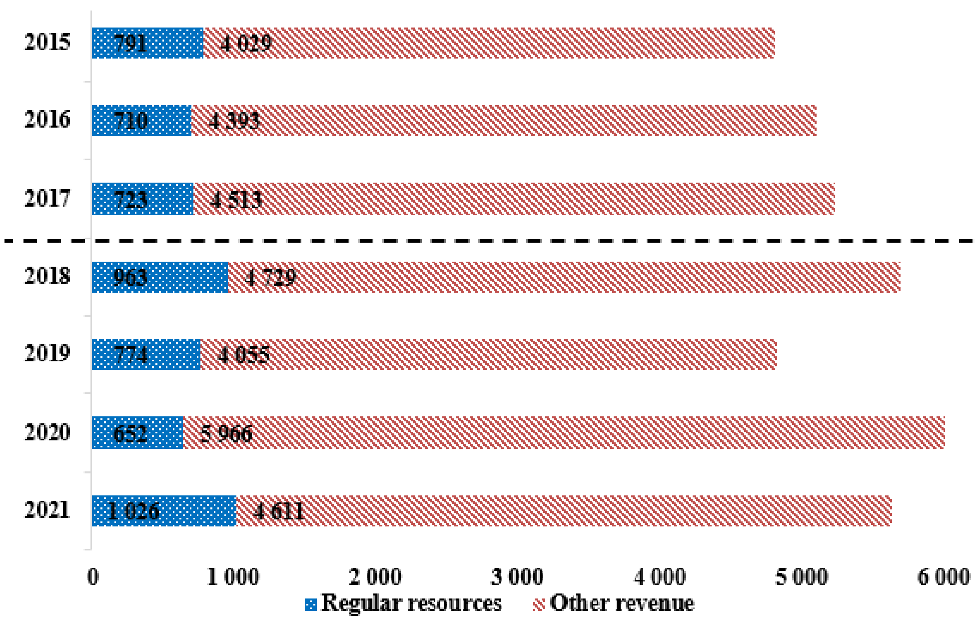
basis; the revenue from multi-year agreements with donors is recorded when those agreements are signed, provided that certain criteria are met. As a result, the top three donors' contributions in 2020 decreased by $1,047 million in 2021.

- UNDP also noted a decrease in the law and order trust fund for Afghanistan contribution owing to the political situation, which led to a decrease in the annual contribution revenue of $112 million.

Revenue by segment

14. The proportion of the Programme's non-core contributions to core contributions decreased in 2021. In 2021, total revenue from regular resources was $1,026 million (representing 18 per cent of total revenue) and other revenue was $4,611 million (representing 82 per cent of total revenue) (see figure III.II). In 2020, total revenue from regular resources represented 10 per cent of total revenue.

Figure III.II
Trend of regular resources and other revenue, 2014–2021
(Millions of United States dollars)

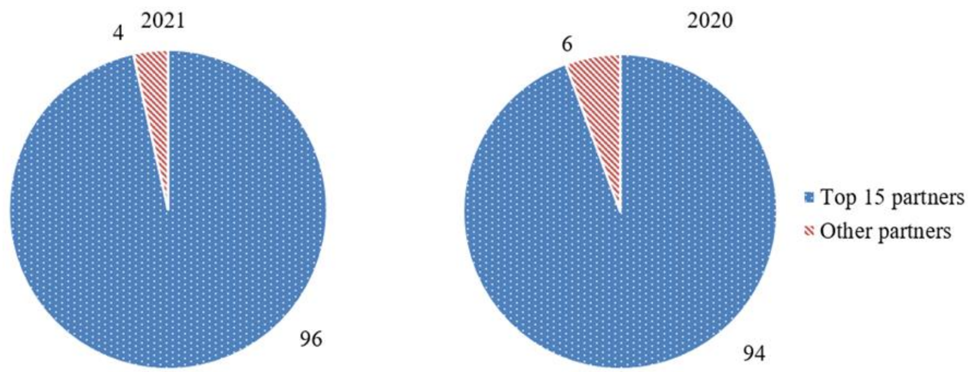


Note: In 2019, UNDP changed its accounting policy for revenue recognition; hence, figures from 2018 onward are not comparable with those for prior years. This accounting policy change, in line with IPSAS 23, has resulted in revenue being recorded in full when agreements with donors are signed, provided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

15. Within cost-sharing revenue totalling $3,778 million, third-party cost-sharing and government cost-sharing provided 65 per cent and 35 per cent of the revenue, respectively. South-South cooperation provided less than 1 per cent of total cost-sharing revenue.

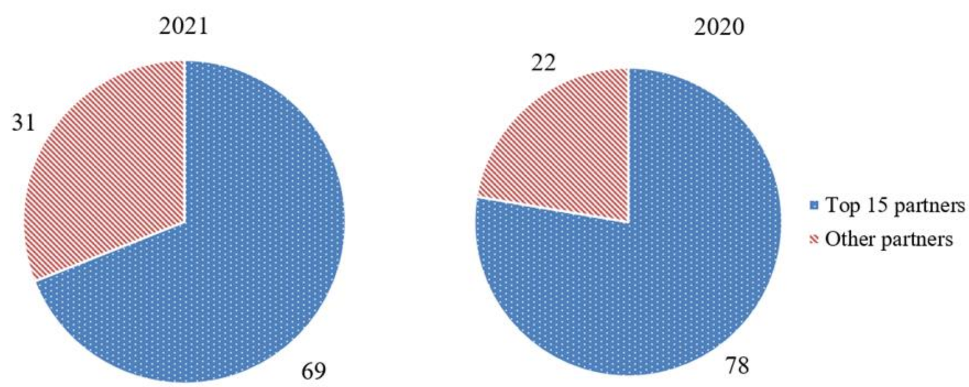
16. Both the core and non-core funding bases are concentrated in a few funding partners (i.e. donors). In 2021, 96 per cent of core revenue was received from 15 partners (2020: 94 per cent) (see figure III.III). In 2021, the largest donor of core funding accounted for 34 per cent (2020: 26 per cent) of total core contributions, amounting to $882 million.

Figure III.III
Core revenue concentration, 2020–2021
(Percentage)



17. For non-core revenue, the concentration of contributions from the largest 15 partners decreased from 78 per cent in 2020 to 69 per cent in 2021 (see figure III.IV). In 2021, the largest donor for non-core funding accounted for 11 per cent (2020: 17 per cent) of total non-core contributions, amounting to $4,422 million.

Figure III.IV
Non-core revenue concentration, 2020–2021
(Percentage)



18. An analysis of revenue by segment, excluding the elimination of internal UNDP cost recovery, shows that cost-sharing is the largest source of revenue, providing 64 per cent of the revenue of UNDP in 2021, followed by regular resources (17 per cent), trust funds (10 per cent) and reimbursable support services and miscellaneous activities (9 per cent) (see figure III.V).

19. Overall, 2021 revenue proportions by segment changed compared with the prior year, with a decrease in cost-sharing (by 5 percentage points) and a decrease in trust funds (by 4 percentage points), offset by the increase in regular resources (core, by 8 percentage points) and reimbursable support services and miscellaneous activities (by 1 percentage point), from 2020.

Figure III.V
Composition of total revenue by segment, 2020–2021
(Percentage)

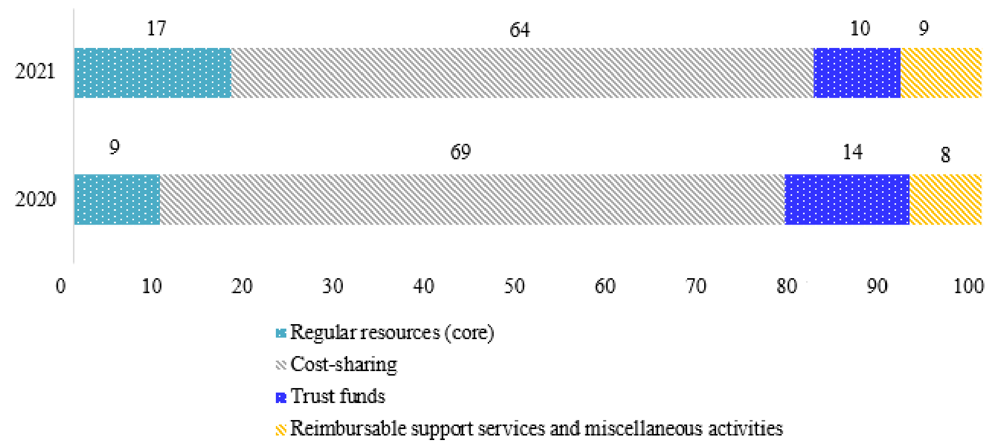
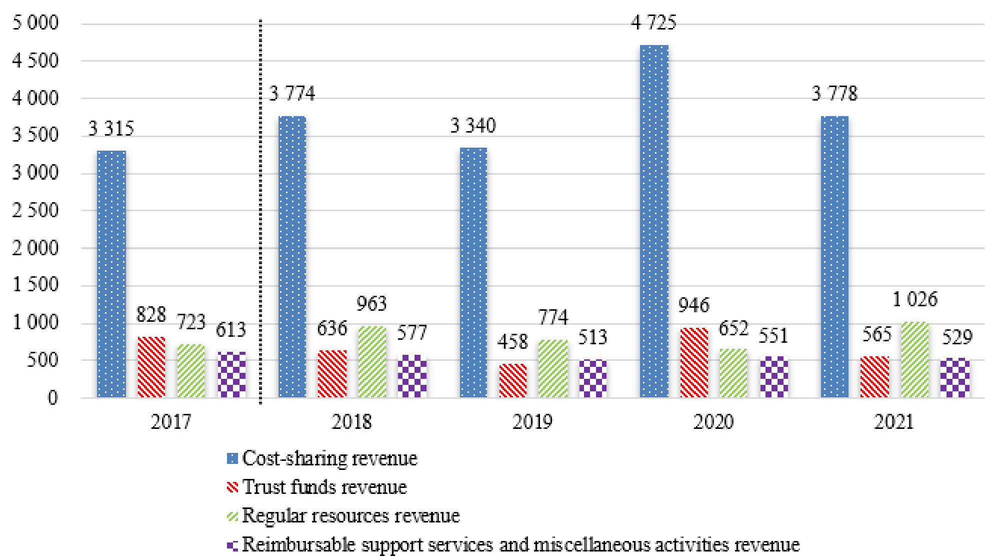


Figure III.VI
Composition of total revenue by segment, 2017–2021
(Millions of United States dollars)



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

Expense analysis

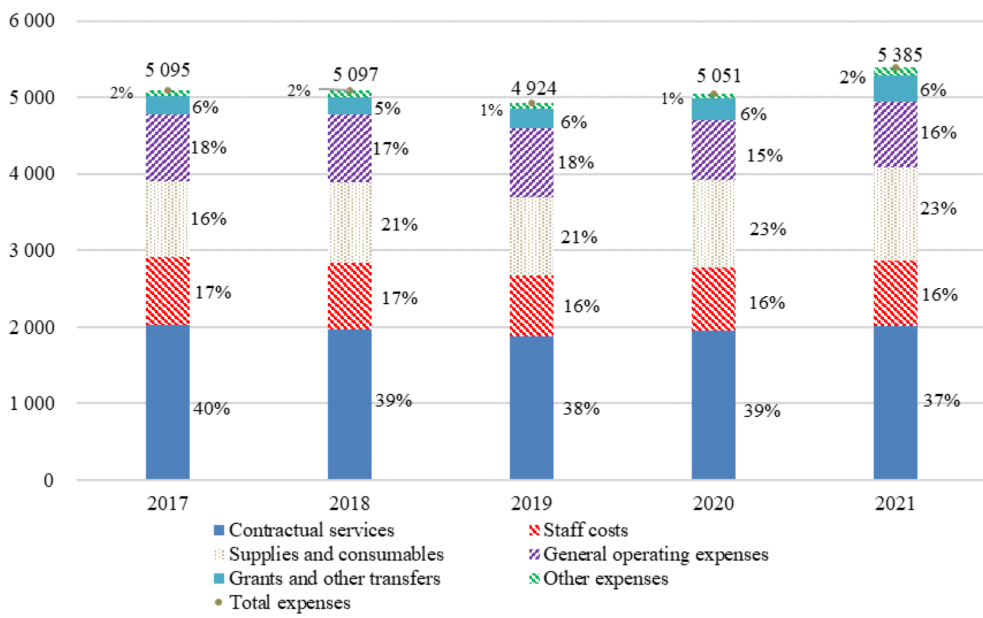
20. In 2021, UNDP expenses were $5,385 million, an increase of $334 million, or 7 per cent, from 2020 (2020: $5,051 million).

21. The largest expense category by nature continued to be contractual services, for which expenses totalled $2,009 million in 2021 (2020: $1,957 million), representing 37 per cent of total expenses (see figure III.VII). The remaining expenses in 2021 by nature were: supplies and consumables, totalling $1,217 million (2020: $1,154 million); staff costs, totalling $866 million (2020: $814 million); general

operating expenses, totalling $844 million (2020: $774 million); expenses for grants and other transfers, totalling $350 million (2020: $288 million); and other expenses, totalling $99 million (2020: $64 million).

22. Government entities and private, financial, academic and civil society organizations contributed to the achievement of the Programme’s sustainable development results and implemented $1,753 million (2020: $1,710 million) of total programme expenditures incurred in 2021.

Figure III.VII
Composition of total expenses by nature, 2017–2021
(Millions of United States dollars)

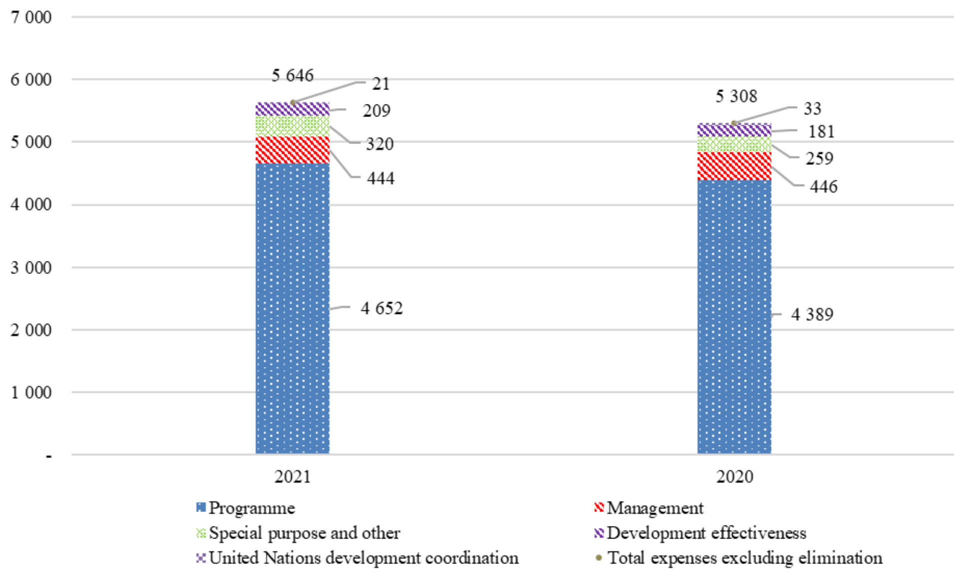


Expenses by cost classification

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

24. In 2021, of total UNDP expenses of $5,646 million (excluding the effect of the eliminations of internal cost recovery of $261 million) (2020: $5,308 million), $4,652 million, or 82 per cent, was spent on programme activities (2020: $4,389 million); $209 million, or 4 per cent, was spent on development effectiveness (2020: $181 million); $21 million, or 1 per cent, was spent on United Nations development coordination (2020: $33 million); $444 million, or 8 per cent, was spent on management (2020: $446 million); and $320 million, or 6 per cent, was spent on special-purpose and other activities to support operations administered by UNDP (2020: $259 million) (see figure III.VIII). The increase in resources spent on programme and management activities contributed in large part to the overall increase in expenses.

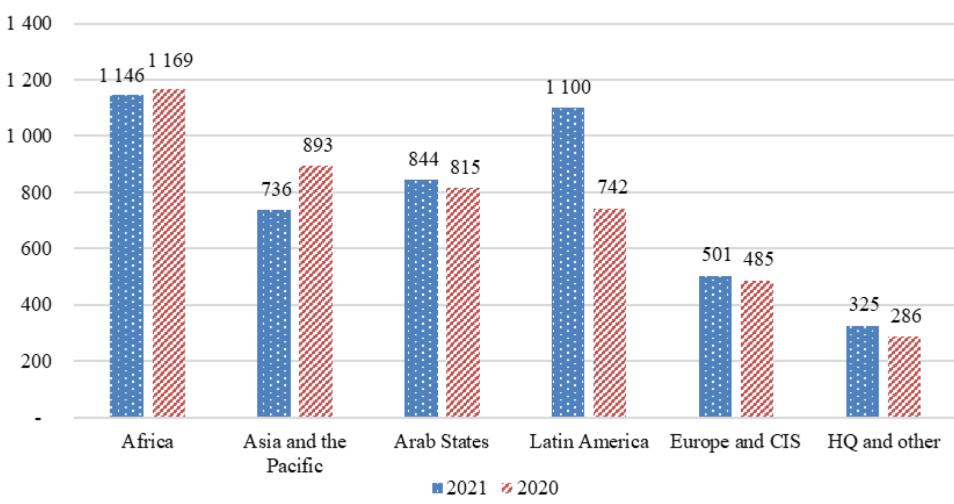
Figure III.VIII
Composition of total expenses by cost classification, 2020–2021
(Millions of United States dollars)



Programme expenses by geographical region

25. In 2021, of total UNDP programme expenses of $4,652 million (excluding the effect of eliminations), the Africa region continued to have the largest proportion, amounting to $1,146 million (25 per cent), as shown in figure III.IX.

Figure III.IX
Programme expenses by geographical region, 2020–2021
(Millions of United States dollars)

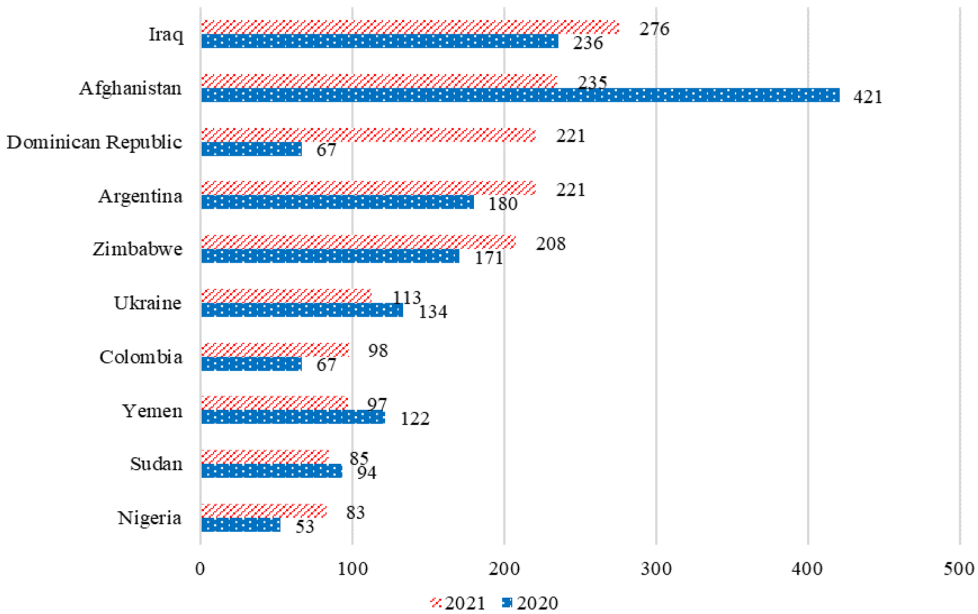


Abbreviations: CIS, Commonwealth of Independent States; HQ, headquarters.

Programme expenses by country office

26. A total of 35 per cent of UNDP programme expenses ($1,637 million of $4,652 million) was attributed to the 10 largest country offices, in Iraq, Afghanistan, the Dominican Republic, Argentina, Zimbabwe, Ukraine, Colombia, Yemen, the Sudan and Nigeria (see figure III.X).

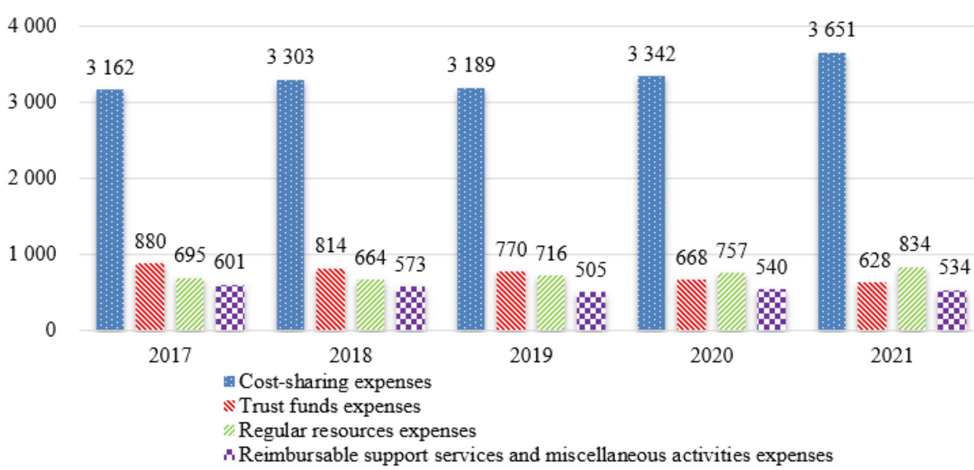
Figure III.X
Programme expenses, top 10 country offices, 2020–2021
(Millions of United States dollars)



Expenses by segment

27. Of the total expenses for 2021 (excluding the effect of eliminations), 65 per cent was funded from cost-sharing, 15 per cent from regular resources, 11 per cent from trust funds and 9 per cent from reimbursable support services and miscellaneous activities (see figure III.XI).

Figure III.XI
Total expenses by segment, 2017–2021
(Millions of United States dollars)



28. Within cost-sharing expenses, totalling $3,651 million, 65 per cent was spent on third-party cost-sharing and 35 per cent on government cost-sharing. South-South cooperation continued to account for less than 1 per cent of total cost-sharing expenses.

D. Surplus/deficit

29. In 2021, UNDP had a surplus of revenue over expenses of $252 million, compared with a surplus of $1,567 million in 2020. The decrease stemmed from the fact that UNDP funding is received on a cyclical basis, that is to say, at times, the revenue from multi-year agreements with donors is recorded in full when those agreements are signed, provided that certain criteria are met. In 2021. the decrease was driven in large part by a reduction in large volume multi-year agreements signed.

30. As a result, the top three donors' contributions in 2020 were reduced by $1.0 billion in 2021. In the fourth quarter of 2021, UNDP signed agreements with donors amounting to $2.0 billion compared with $2.4 billion in 2020 for multi-year core and non-core programmes and projects that will be implemented in future periods.[9] Of that amount, agreements totalling $0.9 million were signed in December 2021 compared with $1.6 billion in December 2020.

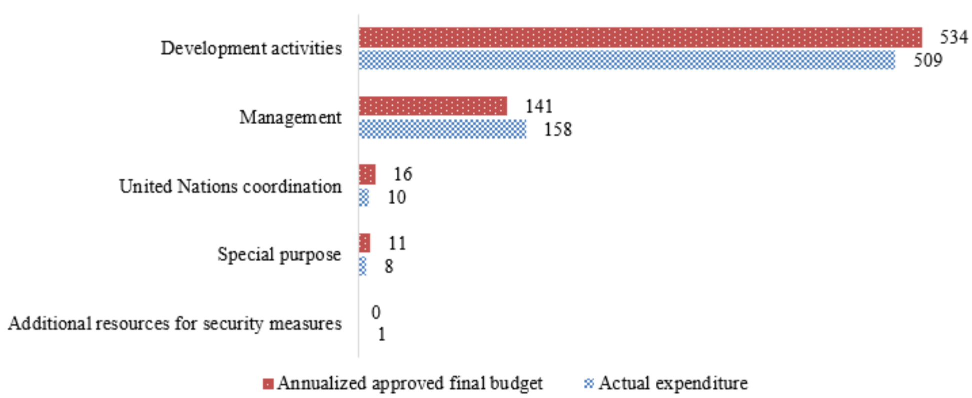
E. Budgetary performance

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

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

33. The budget of UNDP is prepared on a modified cash basis and is presented in the financial statements as statement V (a), comparison of budget and actual amounts (regular resources). In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is also included in note 6, Comparison to budget.

Figure III.XII
Budget utilization rates for 2021
(Millions of United States dollars)

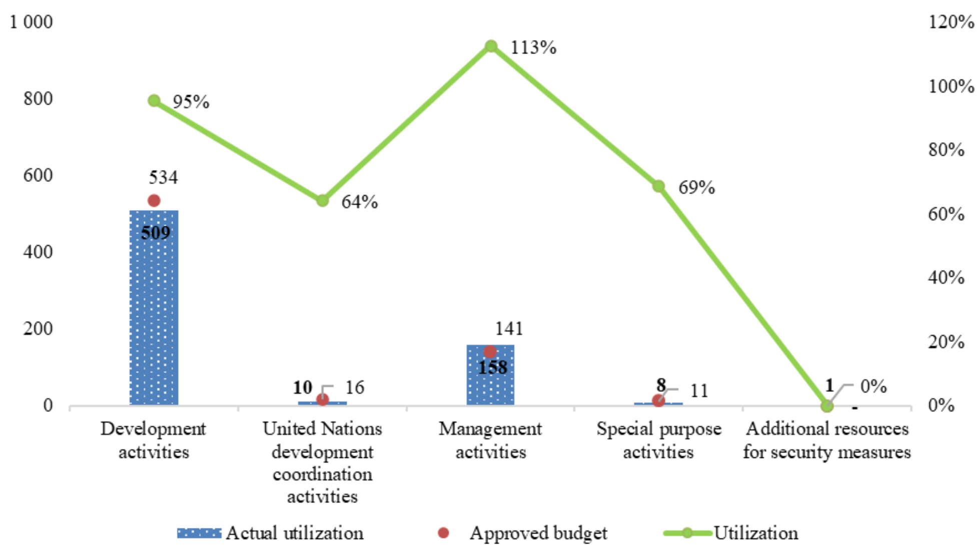


[9] References to "core" signify the "regular resources" segment, while references to "non-core" signify the "cost-sharing", "trust funds" and "reimbursable support services" segments in aggregate.

34. For the four-year period 2018–2021, expenditures for all cost classification categories remained within the 2018–2021 approved budget. During 2021, the final year of the quadrennium, UNDP revised the annual spending limits for the programmatic and institutional components of the integrated budget upward based on the level of voluntary contributions received and the liquidity requirement for regular resources, including the level of expenditures in the first three years of the four-year period of the strategic plan. This resulted in higher expenditures for management activities compared with those under the 2021 annualized budget (see figure III.XII), whereas, for the quadrennium 2018–2021, management activities remained within the approved budget.

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

Figure III.XIII
2021 budget versus actual utilization
(Millions of United States dollars and utilization in percentages)



F. Financial position

Assets

36. At year-end 2021, UNDP held assets of $15,151 million (2020: $14,299 million), which comprised investments of $8,954 million (2020: $7,894 million), cash and cash equivalents of $964 million (2020: $1,177 million) and non-exchange receivables of $4,742 million (2020: $4,805 million). The majority of investments and cash and cash equivalents will be used for development activities funded through cost-sharing and trust funds. Cash and investments include cash and investments held on behalf of the Multi-Partner Trust Fund Office.

37. Overall, assets increased by $852 million, or 6 per cent, over the prior year. The change is attributable mainly to an increase in investments of $1,060 million, a decrease in receivables from non-exchange transactions of $63 million and a decrease in cash and cash equivalents of $213 million.

Liabilities

38. The total liabilities of UNDP increased by $545 million, or 18 per cent, from $3,029 million in 2020 to $3,574 million in 2021. The change is attributable mainly

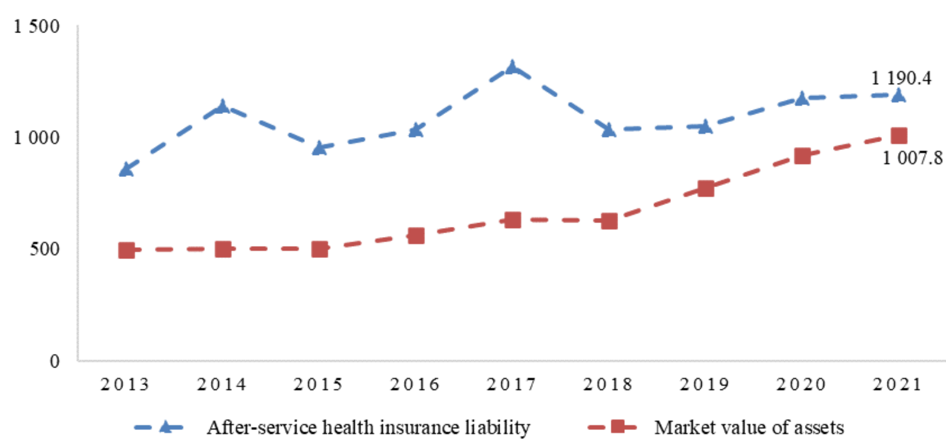
to funds held in trust for the Multi-Partner Trust Fund Office, which increased by $418 million; accounts payable, which increased by $80 million; and employee benefits, which increased by $19 million.

39. The after-service health insurance benefit liability, which was actuarially valued, is $1,190 million (2020: $1,174 million) (see figure III.XIV). The increase of $16 million in the after-service health insurance liability in 2021 is due largely to an increase in the health-care cost trend and a higher number of participants, offset in part by an increase in the discount rate.

40. UNDP holds $1,007.8 million in cash and investments to fund its after-service health insurance liabilities (85 per cent funded) (2020: $917.8 million and 78 per cent funded). UNDP decided to make a one-time cash injection of $49.7 million to further fund the after-service health insurance liability, thereby increasing the funded position to 89 per cent in 2022. The decision to further fund the liability was made in 2021 and implemented in 2022. UNDP continues to bridge the funding gap based on the full funding strategy, which is informed by a periodic asset-liability study.

41. In 2021, UNDP created an external investment portfolio for its end-of-service/repatriation liabilities and essentially changed its investment managers (from internal to external). The same external investment managers who manage the after-service health insurance portfolio now also manage these investments, and on the same terms.

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



Liquidity

42. UNDP exceeded the minimum liquidity requirement for regular resources mandated by the Executive Board with 6.4 months of average expenditures (2020: 7.2 months).

Net assets/equity

43. Net assets/equity reached $11,576 million (see table III.1), comprising accumulated surpluses of $11,275 million and reserves of $301 million; $10,402 million represents the accumulated non-core balances,[10] which increased by

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

1 per cent (2020: $10,289 million). The total accumulated surplus balance includes non-cash receivables of $4,800 million (2020: $4,862 million). A significant portion of accumulated surpluses is therefore not immediately available for programme delivery. Under its Financial Regulations and Rules, UNDP is permitted to spend only when the cash is received.

44. In 2021, $0.7 million was released to the accumulated surpluses from the operational reserve, in accordance with the operational reserve formula approved by the Executive Board in its decision 1999/9. In 2020, $16 million was released to the operational reserve from the accumulated surpluses.

45. During 2021, net assets/equity increased by $306.8 million as a result of the combined effect of the following factors: (a) surplus of $252.0 million; (b) change in fair value of available-for-sale investments of $(18.4) million; (c) actuarial gains of $63.8 million; and (d) change in funds with specific purposes of 9.4 million.

Financial position by segment

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

Table III.1
Summary financial position by segment as at 31 December 2021
(Millions of United States dollars)

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

Summary financial position by segment as at 31 December 2020
(Millions of United States dollars)

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

G. Accountability, governance and risk management

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

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

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

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

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

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

Internal controls

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

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

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

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

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

(d) Monitor the effectiveness of internal controls.

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

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

(b) Oversight controls: these controls are designed to monitor the operational effectiveness of "front-line" controls and mitigate related risks and are exercised by regional offices and headquarters divisions. The functions are financial performance monitoring, planning and budgeting processes, quality management and assurance, results and performance management;

(c) Independent internal oversight and advisory controls: these controls are performed internally within UNDP and are designed to provide independent and objective assurance and advice on the efficiency and effectiveness of processes and controls put in place by management. They are undertaken by the Office of Audit and Investigations, the Independent Evaluation Office and the Ethics Office, which issue annual reports to the Executive Board of UNDP;

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

Enterprise risk management

52. UNDP launched an updated enterprise risk management policy in March 2019 in order to become an effective and more agile organization that incorporates responsible risk-taking into its decision-making processes. The revisions to the enterprise risk management policy were focused on enhancing the following:

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

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

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

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

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

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

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

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

54. The enterprise risk management policy represents a unified approach to risk management which is applied across all levels of the organization, from the project level to the corporate level, with escalation mechanisms in place. Accountability for enterprise risk management follows the line hierarchy: the line manager of each unit is accountable for risk management within that manager's area of responsibility. In this regard, the three lines of defence provide the organization with the basis for a well-defined risk governance structure.

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

56. UNDP is investing in a new enterprise resource planning platform (Quantum), which is scheduled to go live in 2022. Quantum will provide UNDP with a more integrated view of its data and enable more comprehensive risk identification, monitoring and management.

Financial risk management

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

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

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

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

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

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

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

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

Accounting matters

Critical accounting estimates

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

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

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

Adoption of new accounting standards

63. IPSAS 41: Financial instruments was issued in 2018, with an effective date of 1 January 2022, which was subsequently deferred by one year to 1 January 2023 through an IPSAS final pronouncement, entitled "COVID-19: deferral of effective dates", issued in 2020. The impact of the adoption of IPSAS 41 on the financial statements of UNDP is currently being assessed, as it will be implemented on 1 January 2023.

64. IPSAS 43: Leases was issued in January 2022 with an effective date of 1 January 2025. IPSAS 43 supersedes IPSAS 13: Leases and introduces the right-of-use model for lessees. On the basis of the right-of-use model, once the new standard has been adopted and the validity of any transitional provisions has expired, most leases will be required to be capitalized, resulting in an increase in the amount of capitalized assets and the recording of related lease liabilities. The impact on annual financial performance is expected to be broadly neutral as depreciation of leased assets and interest costs on the related lease liabilities will replace the currently recorded lease expenses. The impact of IPSAS 43 on the financial statements of UNDP upon adoption, including the impact of consequential amendments to other standards, is currently being assessed.

65. Exposure draft 68: Improvements to IPSAS, 2019, was initially due to become effective in 2021 but was subsequently deferred to 1 January 2023 through an IPSAS final pronouncement, entitled "COVID-19: deferral of effective dates", issued in 2020. The proposed standard is not expected to have a significant impact on the financial statements of UNDP upon its adoption. However, the impact of the improvements that will become effective with the adoption of IPSAS 41 is currently being assessed.

66. In February 2020, the IPSAS Board issued three exposure drafts for comment (exposure draft 70: Revenue with performance obligations; exposure draft 71: Revenue without performance obligations; and exposure draft 72: Transfer expenses). Exposure draft 70 is expected to replace IPSAS 9: Revenue from exchange transactions; exposure draft 71 would replace IPSAS 23: Revenue from non-exchange transactions (taxes and transfers); and exposure draft 72 is a draft of a new standard. UNDP provided to the IPSAS Board its comments on exposure drafts 70 and 71. Should these exposure drafts result in the issuance of new IPSAS standards that are substantially equivalent in scope and content to the relevant exposure drafts, they are likely to affect the UNDP financial statements significantly. The key impact of exposure draft 71 is that for all earmarked contributions, revenue recognition will be deferred until UNDP meets its obligations. Under the current IPSAS 23, UNDP recognizes substantially all voluntary contributions revenue upon signature of the relevant contribution agreement. UNDP expects that there will be sufficient time for implementation once the standards have been approved and that such implementation will require additional resources.

67. The impact of exposure drafts 70 and 72 is currently being assessed. It is expected that the three exposure drafts will become published IPSAS standards by the end of 2022. The new standards resulting from these exposure drafts are not expected to be mandatory before 2025.

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

Transactions with related parties

69. UNDP transacts with related parties and discloses information on key management personnel in note 30 to the financial statements. Further information is as follows:

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

Audit services and fees

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

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

	2021	*2020*
UNDP	1 036	1 036
UNDP-GEF	87	87
Total	**1 123**	**1 123**

Abbreviations: GEF, Global Environment Facility.

H. Implementation of the Next Generation Enterprise Resource Planning project

71. The Next Generation Enterprise Resource Planning (Quantum) project was approved in May 2020. Its objective is to replace the current enterprise resource planning system, namely, Atlas, which was implemented in 2004, with a modern cloud-based architecture anchored in the Oracle Cloud enterprise resource planning solution, which will support the #NextGenUNDP way of working, in accordance with the new strategic plan for the period 2022–2025. The adoption of Quantum is aligned with the aspirations and capabilities set out in both the information technology and digital strategies, thereby representing a major milestone in the digitalization of UNDP, as described in the strategic plan.

72. In June 2021, a new recruitment process (with more than 1,300 cases registered by end of January 2022) and the new integrated procurement sourcing module were launched as part of the Quantum project. As at 31 December 2021, the Quantum architecture, data migration, the change strategies and the design had been validated and approved. The new “Quantum+ CPS” (corporate planning systems) module was launched on 1 February 2022. It will be followed by additional features, such as the management of programme requests (the former System for Tracking Advisory Requests and Services, or the “STARS” platform) and the new learning management system, that pave the way for the full implementation of the Quantum architecture in September 2022.

73. The total UNDP project costs of the Information and Technology Management Unit for the period 2020–2022 are estimated at $24.6 million. The move to a cloud-based architecture also provides an opportunity to reduce the ongoing information technology operating costs for enterprise resource planning by $1.8 million per annum once Atlas has been fully decommissioned. Various other productivity gains and benefits are expected through improvements in digital engagement and ways of working.

I. Achievements in 2021

74. In 2021, UNDP completed the first phase of the clustering of services into its Global Shared Service Centre. This corporate initiative supports the UNDP strategic plan and the Secretary-General’s reform agenda on business operations. The scale of work included 88,852 vendors, which were created across the five regions, resulting

in the standardization of the vendor management process. The process of receiving and allocating deposits, which are comprised mainly of donor funds, was also aligned and stabilized, with over 31,839 deposit transactions being processed in 2021. The UNDP Global Shared Service Centre continues to service other agencies and programmes, including through the provision of payroll services to more than 50 different organizations. In 2022, the next phase of the clustering process will be the optimization of processes and systems to ensure the stability and efficiency of clustered services.

75. In 2021, the Multi-Partner Trust Fund Office portfolio grew both in terms of contributors and contributions. More than $1.8 billion was contributed to United Nations pooled funds managed by the Multi-Partner Trust Fund Office – the highest level of contributions since the Office was established in 2003.

76. Despite the continued constraints owing to the pandemic, UNDP programme delivery in 2021 was $4.7 billion, its highest programme delivery volume in more than a decade.

77. In 2021, consistent with prior years, of every dollar spent, 91 cents went to programmes and services for achievement of development results.

78. UNDP continued to be the operational backbone of the United Nations system in 2021. It disbursed $1.8 billion in 111 currencies through its payroll system, more than half of which (52 per cent) was on behalf of partner United Nations organizations. UNDP supported $2.82 billion in financial transactions for approximately 118 United Nations entities and other agencies in over 170 countries. This included $57.9 million of expenses related to services provided to the resident coordinator system.

79. In 2021, UNDP also provided common premises for other agencies in at least 126 countries, where they could avail of common services, such as travel management.

80. UNDP continues to remain one of the world's most transparent organizations, with a score of 96.6 per cent on the 2020 Aid Transparency Index, a rise of 1.2 percentage points over its score in the previous (2018) index. The next such index score is expected to be published in the second half of 2022. By opening its books in this way, UNDP increased its accountability to its donors and partners. As the most transparent United Nations agency and the third most transparent development organization in the world, according to the Aid Transparency Index, UNDP remains committed to the highest standards of accountability and transparency and will continue to invest in robust accountability and oversight systems at all levels.

Chapter IV

Financial statements for the year ended 31 December 2021

United Nations Development Programme

I. Statement of financial position as at 31 December 2021

(Thousands of United States dollars)

	Reference	*31 December 2021*	*31 December 2020*
Assets			
Current assets			
Cash and cash equivalents	Note 7	566 485	838 512
Cash and cash equivalents, Multi-Partner Trust Fund Office	Note 7	397 175	338 780
Investments	Note 8	3 154 762	3 883 409
Investments, Multi-Partner Trust Fund Office	Note 8	645 195	532 044
Receivables, non-exchange transactions	Note 9	2 466 743	2 844 574
Receivables, other	Note 10	57 653	56 217
Advances issued	Note 11	289 795	217 523
Loans to Governments	Note 13	507	507
Inventories	Note 12	12 991	12 317
Total current assets		**7 591 306**	**8 723 883**
Non-current assets			
Investments	Note 8	4 738 045	3 320 863
Investments, Multi-Partner Trust Fund Office	Note 8	416 364	157 868
Loans to Governments	Note 13	2 265	3 011
Receivables, non-exchange transactions	Note 9	2 275 736	1 960 710
Property, plant and equipment	Note 14	121 588	125 081
Intangible assets	Note 15	5 478	7 067
Receivables, other	Note 10	100	100
Total non-current assets		**7 559 576**	**5 574 700**
Total assets		**15 150 882**	**14 298 583**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 16	267 572	187 560
Advances payable	Note 17	24 150	15 099
Funds received in advance and deferred revenue	Note 18	240 333	241 009
Funds held on behalf of donors	Note 18	13 676	7 550
Funds held in trust, Multi-Partner Trust Fund Office	Note 19	1 030 581	871 005
Employee benefits	Note 20	260 568	249 190
Other current liabilities	Note 21	14 686	3 808
Total current liabilities		**1 851 566**	**1 575 221**

United Nations Development Programme

I. Statement of financial position as at 31 December 2021 (continued)

	Reference	*31 December 2021*	*31 December 2020*
Non-current liabilities			
Funds held in trust, Multi-Partner Trust Fund Office	Note 19	416 365	157 868
Funds received in advance and deferred revenue	Note 18	16 585	13 246
Employee benefits	Note 20	1 289 674	1 282 305
Other non-current liabilities	Note 21	111	120
Total non-current liabilities		**1 722 735**	**1 453 539**
Total liabilities		**3 574 301**	**3 028 760**
Net assets/equity			
Reserves	Note 22	301 457	302 160
Accumulated surpluses	Note 23	11 275 124	10 967 663
Total net assets/equity		**11 576 581**	**11 269 823**
Total liabilities and net assets/equity		**15 150 882**	**14 298 583**

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

United Nations Development Programme

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

(Thousands of United States dollars)

	Reference	*2021*	*2020*
Revenue			
Voluntary contributions	Note 24	5 304 025	6 272 482
Revenue, exchange transactions	Note 25	115 897	147 715
Investment revenue	Note 26	135 488	118 458
Other revenue	Note 27	81 455	79 392
Total revenue		**5 636 865**	**6 618 047**
Expenses			
Contractual services	Note 28	2 008 577	1 956 845
Staff costs	Note 28	866 185	814 310
Supplies and consumables used	Note 28	1 216 749	1 154 090
General operating expenses	Note 28	844 390	773 957
Grants and other transfers	Note 28	349 706	287 894
Other expenses	Note 28	82 239	47 883
Depreciation and amortization	Note 28	17 013	15 867
Total expenses		**5 384 859**	**5 050 846**
Surplus/(deficit) for the year		**252 006**	**1 567 201**

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

United Nations Development Programme

III. Statement of changes in net assets/equity for the year ended 31 December 2021

(Thousands of United States dollars)

		2021			2020
	Reference	*Reserves*	*Accumulated surpluses*	*Total net assets/equity*	*Total net assets/equity*
Balance at the beginning of the year		**302 160**	**10 967 663**	**11 269 823**	**9 695 305**
Changes in net assets/equity					
Transfers from reserves/accumulated surplus	Note 22, 23	(700)	700	–	–
Funds with specific purposes	Note 22, 23	(3)	9 370	9 367	(762)
Changes in fair value of available-for-sale investments		–	(18 371)	(18 371)	79 534
Actuarial gains/(losses)	Note 20	–	63 756	63 756	(71 455)
Current year surplus and deficit	Statement II	–	252 006	252 006	1 567 201
Total changes in net assets/equity		**(703)**	**307 461**	**306 758**	**1 574 518**
Balance at the end of the year		**301 457**	**11 275 124**	**11 576 581**	**11 269 823**

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

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2021

(Thousands of United States dollars)

	Reference	*2021*	*2020*
Cash flows from operating activities			
Surplus/(deficit) for the year	Statement II	252 006	1 567 201
Adjustments to reconcile surplus/(deficit) for the year to net cash flows			
Depreciation and amortization	Note 28	17 013	15 867
Impairments	Note 28	2 092	4 933
In-kind contributions (donated goods)		(3 205)	(23)
Amortization of premium/(discount) on investments		12 141	(9 623)
(Gains)/losses on foreign exchange translation		82 354	(106 279)
Losses on disposal of property, plant and equipment		2 575	1 255
Changes in assets			
(Increase)/decrease in receivables, non-exchange transactions[a]		(9 399)	(677 753)
(Increase)/decrease in receivables, other[b]		(79 026)	(104 688)
(Increase)/decrease in advances issued[c]		(79 200)	36 868
(Increase)/decrease in inventories	Note 12	(674)	(3 190)
Changes in liabilities, net assets/equity			
(Decrease)/increase in accounts payable and accrued liabilities		80 057	(519)
(Decrease)/increase in advances payable	Note 17	9 051	(26 195)
(Decrease)/increase in funds received in advance and deferred revenue	Note 18	2 663	(34 050)
(Decrease)/increase in funds held on behalf of donors	Note 18	6 126	(1 584)
(Decrease)/increase in funds held in trust, Multi-Partner Trust Fund Office	Note 19	418 073	156 462
(Decrease)/increase in employee benefits		83 532	77 501
(Decrease)/increase in other liabilities		11 499	(4 825)
(Decrease)/increase in funds with specific purposes	Note 23	9 367	(762)
Cash flows from/(used in) operating activities		**817 045**	**890 596**
Cash flows from investing activities			
Purchases of investments	Note 8	(6 127 390)	(6 254 106)
Maturities of investments	Note 8	5 582 658	5 736 573
(Increase)/decrease in investments, Multi-Partner Trust Fund Office[d]	Note 8	(371 858)	(99 390)
(Increase)/decrease in investments managed by external investment managers[e]		(174 135)	(65 141)
Interest and dividends received		75 002	117 542
(Increase)/decrease in loans to Governments	Note 13	746	507
Purchases of property, plant and equipment		(12 269)	(13 760)
Disposals of property, plant and equipment		1 410	23 732
Purchases of intangible assets	Note 15	(1 602)	(2 452)
Disposals of intangible assets	Note 15	1 165	96
Cash flows from/(used in) investing activities		**(1 026 273)**	**(556 399)**

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2021 (continued)

	Reference	*2021*	*2020*
Cash flows from financing activities		**–**	**–**
Cash flows from/(used in) financing activities		**–**	**–**
Increase/(decrease) in cash and cash equivalents, including Multi-Partner Trust Fund Office		**(209 228)**	**334 197**
Effect of exchange rate changes on cash and cash equivalents		**(4 404)**	**30 583**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: beginning of year		**1 177 292**	**812 512**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: end of year	Note 7	**963 660**	**1 177 292**

[a] This amount includes an adjustment for foreign exchange translation of $72.204 million.
[b] This amount includes an adjustment for interest and dividends received of $75.002 million in cash, as well as an adjustment for foreign exchange translation of $1.058 million.
[c] This amount includes an adjustment for foreign exchange translation of $6.830 million.
[d] This amount includes purchases of $(1.416) billion and maturities of $1.044 billion.
[e] This amount includes net purchases of bonds $(91.752) million and equity investments of $(82.383) million.

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

United Nations Development Programme

V (a). Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2021

(Thousands of United States dollars)

	Approved budget 2021		*Actual expenditure on comparable basis (note 6)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	423 726	423 726	401 494	22 232
Development effectiveness	110 023	110 023	107 599	2 424
Subtotal	**533 749**	**533 749**	**509 093**	**24 656**
United Nations development coordination activities	**16 034**	**16 034**	**10 285**	**5 749**
Management activities				
Recurring	133 750	133 750	147 135	(13 385)
Non-recurring	7 000	7 000	11 255	(4 255)
Subtotal	**140 750**	**140 750**	**158 390**	**(17 640)**
Special-purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	11 056	11 056	7 575	3 481
Subtotal	**11 056**	**11 056**	**7 575**	**3 481**
Total	**701 589**	**701 589**	**685 343**	**16 246**
Budget from additional resources for security measures (in accordance with Executive Board decision 2017/31)	–	–	906	(906)
Grand total	**701 589**	**701 589**	**686 249**	**15 340**

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

United Nations Development Programme

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

(Thousands of United States dollars)

	Approved budget 2018–2021		*Actual expenditure on comparable basis (note 6)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	1 585 700	1 585 700	1 546 262	39 438
Development effectiveness	395 400	395 400	340 277	55 123
Subtotal	**1 981 100**	**1 981 100**	**1 886 539**	**94 561**
United Nations development coordination activities	**143 900**	**143 900**	**119 212**	**24 688**
Management activities				
Recurring	552 600	552 600	542 395	10 205
Non-recurring	28 000	28 000	27 812	188
Subtotal	**580 600**	**580 600**	**570 207**	**10 393**
Special-purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	44 200	44 200	32 908	11 292
Subtotal	**44 200**	**44 200**	**32 908**	**11 292**
Total	**2 749 800**	**2 749 800**	**2 608 866**	**140 934**
Budget from additional resources for security measures (in accordance with Executive Board decision 2017/31)	7 000	7 000	5 399	1 601
Grand total	**2 756 800**	**2 756 800**	**2 614 265**	**142 535**

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

United Nations Development Programme
Notes to the financial statements 2021

Note 1
Reporting entity

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

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

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

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

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

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

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

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

Basis of measurement

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

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

Foreign currency

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

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

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

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

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

Critical accounting estimates

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

Future accounting changes

3.9. IPSAS 41: Financial instruments was issued in 2018, with an effective date of 1 January 2022, which was subsequently deferred by one year to 1 January 2023 through an IPSAS final pronouncement, entitled “COVID-19: deferral of effective dates”, issued in 2020. The impact of the adoption of IPSAS 41 on the financial statements of UNDP is currently being assessed as it will be implemented on 1 January 2023.

3.10. Exposure draft 68: Improvements to IPSAS, 2019, was initially due to become effective in 2021 but was subsequently deferred to 1 January 2023 through an IPSAS final pronouncement, entitled “COVID-19: deferral of effective dates”, issued in 2020. The proposed standard is not expected to have a significant impact on the financial statements of UNDP upon its adoption. However, the impact of the improvements that will become effective with the adoption of IPSAS 41 is currently being assessed.

3.11. IPSAS 43: Leases was issued in January 2022 with an effective date of 1 January 2025. IPSAS 43 supersedes IPSAS 13: Leases and introduces the right-of-use model for lessees. On the basis of the right-of-use model, once the new standard has been adopted and the expiration of the validity of any transitional provisions has expired, most leases will be required to be capitalized, resulting in an increase in the amount of capitalized assets and the recording of related lease liabilities. The impact on annual financial performance is expected to be broadly neutral as depreciation of leased assets and interest costs on the related lease liabilities will replace the currently recorded lease expenses. The impact of IPSAS 43 on the financial statements on UNDP upon adoption, including the impact of consequential amendments to other standards, is currently being assessed.

3.12. In February 2020, the IPSAS Board issued three exposure drafts for comment (exposure draft 70: Revenue with performance obligations; exposure draft 71: Revenue without performance obligations; and exposure draft 72: Transfer expenses). Exposure draft 70 is expected to replace IPSAS 9: Revenue from exchange transactions; exposure draft 71 would replace IPSAS 23: Revenue from non-exchange transactions (taxes and transfers); and exposure draft 72 is a draft of a new standard. UNDP provided to the IPSAS Board its comments on exposure drafts 70 and 71. Should these exposure drafts result in the issuance of new IPSAS standards that are substantially equivalent in scope and content to the relevant exposure drafts, they are likely to affect the UNDP financial statements significantly. The key impact of exposure draft 71 is that for all earmarked contributions, revenue recognition will be deferred until UNDP meets its obligations. Under the current IPSAS 23, UNDP recognizes substantially all voluntary contributions revenue upon signature of the relevant contribution agreement.

3.13. The impact of exposure drafts 70 and 72 is currently being assessed. It is expected that the three exposure drafts will become published IPSAS standards by the end of 2022. The new standards resulting from these exposure drafts are not expected to be mandatory before 2025. UNDP expects that there will be sufficient time for implementation once the standards have been approved and that such implementation will require additional resources.

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

Authorization to submit financial statements for audit

3.15. These financial statements were approved and certified by the Administrator, the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer/Comptroller of UNDP. In accordance with the Financial Regulations and Rules of UNDP, these financial statements were authorized to be submitted for audit on 30 April 2022.

Note 4
Significant accounting policies

Financial assets classification

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

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables

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

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

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

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

4.9. Advances issued represent cash transferred to executing entities/implementing partners (see note 34.2 for the definition of executing entities/implementing partners) as an advance. Advances issued are initially recognized as assets and subsequently converted to expenses when goods are delivered or services are rendered by the executing entities/implementing partners and confirmed by receipt by UNDP of certified expense reports as applicable, i.e. financial reports, funding authorization and certificate of expenditure forms or project delivery reports. Once those certified expense reports are received, UNDP recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the end of the reporting year, either from the statements submitted by the entities for audit or from the unaudited statements of the entities.

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

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

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

Fair value through surplus or deficit

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

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

Inventories

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

Property, plant and equipment

4.16. All items of property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses. It is noted that, on adoption of IPSAS and its transitional provisions, for opening balances, initial capitalization of property, plant and equipment was at fair value. Historical cost includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired for nil or nominal consideration, the fair value at the date of acquisition is deemed to be its cost. The threshold for the recognition of property, plant and equipment as an asset is $5,000 or more per unit. For leasehold improvements, the capitalization threshold is $50,000.

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

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

4.19. Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (see paras. 4.51–4.53, on leases).

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

Estimated useful lives of property, plant and equipment

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

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

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

Intangible assets

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

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

4.25 Costs incurred for configuration, customization and subscription fees in connection with cloud-based software-as-a-service solutions are recognized as operating expenses when the services are received, since the systems utilized do not meet the criteria for recognition as controlled assets.

4.26. Costs incurred for the development of software code that enhances, modifies or creates additional capability to existing on-premises systems and satisfies the recognition criteria for an intangible asset are recognized as intangible software assets and amortized over the remaining useful life of the software on a straight-line basis.

4.27. The assessment of whether the costs incurred for integrating and bridging controlled software with software-as-a-service solutions meet recognition criteria for capitalization as intangible software assets may involve making key judgments, including whether a separate asset can be reliably measured.

4.28. Amortization is recognized in surplus or deficit in the statement of financial performance provided on a straight-line basis on all intangible assets of finite life and at rates that will write off the cost or value of the assets to their estimated residual values. The useful lives of intangible software assets are reviewed at least annually.

Any change in useful lives, including those resulting from such enhancements, are accounted for prospectively as a change in the accounting estimate.

Estimated useful lives of intangible assets

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

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

Impairment of non-cash generating assets

4.30. Property, plant and equipment and intangible assets are classified as non-cash generating assets and are reviewed for impairment at each reporting date. None of UNDP property, plant and equipment and intangible assets are held with the objective of earning a commercial return. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use.

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

Financial liabilities classification

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

Other financial liabilities

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

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

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

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

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

Fair value through surplus or deficit

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

Funds received in advance and deferred revenue

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

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

4.45. The Regulations of the Pension Fund state that its Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary.

The practice of the Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

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

Defined benefit plans

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

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

Other long-term employee benefits

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

Termination benefits

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

Leases

Operating lease

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

Finance lease

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

Right-to-use arrangements

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

Revenue recognition

Contributions (non-exchange revenue)

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

4.55. Enforceability of agreements occurs upon signature.

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

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

Revenue from exchange transactions

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

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

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

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

Expense recognition

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

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

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

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

Commitments, provisions and contingencies

Commitments

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

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

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

(c) Non-cancellable minimum lease payments;

(d) Other non-cancellable commitments.

Provisions

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

Contingencies

Contingent assets

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

Contingent liabilities

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

Note 5
Segment reporting

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

Regular resources

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

Cost-sharing

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

Trust funds

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

Reimbursable support services and miscellaneous activities

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

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

Segment reporting: statement of financial position as at 31 December 2021

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2021	*31 December 2020*	*31 December 2021*	*31 December 2020*	*31 December 2021*	*31 December 2020*	*31 December 2021*	*31 December 2020*	*31 December 2021*	*31 December 2020*
Assets										
Current assets										
Cash and cash equivalents	115 775	224 963	303 392	394 188	70 567	114 774	76 751	104 587	566 485	838 512
Cash and cash equivalents, Multi-Partner Trust Fund Office	397 175	338 780	–	–	–	–	–	–	397 175	338 780
Investments	779 803	944 688	1 602 842	1 891 985	371 582	547 698	400 535	499 038	3 154 762	3 883 409
Investments, Multi-Partner Trust Fund Office	645 195	532 044	–	–	–	–	–	–	645 195	532 044
Receivables: non-exchange transactions	122 706	191 679	1 963 881	1 988 554	368 792	647 082	11 364	17 259	2 466 743	2 844 574
Receivables, other	54 651	54 114	1 220	1 288	178	147	1 604	668	57 653	56 217
Advances issued	26 700	27 089	208 057	154 015	53 980	35 906	1 058	513	289 795	217 523
Loans to Governments	–	–	–	–	–	–	507	507	507	507
Inventories	494	332	11 441	10 987	3	11	1 053	987	12 991	12 317
Total current assets	**2 142 499**	**2 313 689**	**4 090 833**	**4 441 017**	**865 102**	**1 345 618**	**492 872**	**623 559**	**7 591 306**	**8 723 883**
Non-current assets										
Investments	1 139 520	743 579	2 425 924	1 655 487	566 387	485 139	606 214	436 658	4 738 045	3 320 863
Investments, Multi-Partner Trust Fund Office	416 364	157 868	–	–	–	–	–	–	416 364	157 868
Loans to Governments	–	–	–	–	–	–	2 265	3 011	2 265	3 011
Receivables, non-exchange transactions	257 622	–	1 324 333	1 617 461	667 344	332 345	26 437	10 904	2 275 736	1 960 710
Property, plant and equipment	33 478	33 197	19 009	18 478	2 202	2 765	66 899	70 641	121 588	125 081
Intangible assets	248	75	182	–	–	–	5 048	6 992	5 478	7 067
Receivables, other	39	41	20	20	16	16	25	23	100	100
Total non-current assets	**1 847 271**	**934 760**	**3 769 468**	**3 291 446**	**1 235 949**	**820 265**	**706 888**	**528 229**	**7 559 576**	**5 574 700**
Total assets	**3 989 770**	**3 248 449**	**7 860 301**	**7 732 463**	**2 101 051**	**2 165 883**	**1 199 760**	**1 151 788**	**15 150 882**	**14 298 583**

Segment reporting: statement of financial position as at 31 December 2021 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2021	*31 December 2020*	*31 December 2021*	*31 December 2020*	*31 December 2021*	*31 December 2020*	*31 December 2021*	*31 December 2020*	*31 December 2021*	*31 December 2020*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	120 447	51 371	98 058	86 072	11 636	15 334	37 431	34 783	267 572	187 560
Advances payable	529	208	6 396	3 181	4 039	2 601	13 186	9 109	24 150	15 099
Funds received in advance and deferred revenue	222 993	208 598	2 399	21 529	–	233	14 941	10 649	240 333	241 009
Funds held on behalf of donors	12 438	7 047	970	322	168	80	100	101	13 676	7 550
Funds held in trust, Multi-Partner Trust Fund Office	1 030 581	871 005	–	–	–	–	–	–	1 030 581	871 005
Employee benefits	245 180	235 537	9	2	–	3	15 379	13 648	260 568	249 190
Other current liabilities	9 765	2 787	3 590	–	88	24	1 243	997	14 686	3 808
Total current liabilities	**1 641 933**	**1 376 553**	**111 422**	**111 106**	**15 931**	**18 275**	**82 280**	**69 287**	**1 851 566**	**1 575 221**
Non-current liabilities										
Funds held in trust, Multi-Partner Trust Fund Office	416 365	157 868	–	–	–	–	–	–	416 365	157 868
Funds received in advance and deferred revenue	–	–	–	–	–	–	16 585	13 246	16 585	13 246
Employee benefits	901 263	878 017	21	–	–	–	388 390	404 288	1 289 674	1 282 305
Other non-current liabilities	111	120	–	–	–	–	–	–	111	120
Total non-current liabilities	**1 317 739**	**1 036 005**	**21**	**–**	**–**	**–**	**404 975**	**417 534**	**1 722 735**	**1 453 539**
Total liabilities	**2 959 672**	**2 412 558**	**111 443**	**111 106**	**15 931**	**18 275**	**487 255**	**486 821**	**3 574 301**	**3 028 760**
Net assets/equity										
Reserves	157 456	157 159	–	–	3 000	3 000	141 001	142 001	301 457	302 160
Accumulated surpluses/(deficits)	872 642	678 732	7 748 858	7 621 357	2 082 120	2 144 608	571 504	522 966	11 275 124	10 967 663
Total net assets/equity	**1 030 098**	**835 891**	**7 748 858**	**7 621 357**	**2 085 120**	**2 147 608**	**712 505**	**664 967**	**11 576 581**	**11 269 823**
Total liabilities and net assets/equity	**3 989 770**	**3 248 449**	**7 860 301**	**7 732 463**	**2 101 051**	**2 165 883**	**1 199 760**	**1 151 788**	**15 150 882**	**14 298 583**

Segment reporting: statement of financial performance for the year ended 31 December 2021

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total UNDP*	
	2021	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Revenue												
Voluntary contributions	881 970	551 143	3 747 262	4 675 378	555 807	932 105	118 986	113 856	–	–	5 304 025	6 272 482
Revenue, exchange transactions	3 160	2 705	527	165	2	2	115 143	144 843	(2 935)	–	115 897	147 715
Investment revenue	97 787	51 573	25 361	45 468	7 524	11 199	4 816	10 218	–	–	135 488	118 458
Other revenue	42 728	46 191	5 219	4 393	2 133	2 918	289 721	281 729	(258 346)	(255 839)	81 455	79 392
Total revenue	**1 025 645**	**651 612**	**3 778 369**	**4 725 404**	**565 466**	**946 224**	**528 666**	**550 646**	**(261 281)**	**(255 839)**	**5 636 865**	**6 618 047**
Expenses												
Contractual services	172 797	160 506	1 411 969	1 350 311	346 295	372 224	77 516	73 804	–	–	2 008 577	1 956 845
Staff costs	310 860	283 349	219 321	202 060	43 182	41 732	292 822	287 169	–	–	866 185	814 310
Supplies and consumables used	93 583	101 467	1 020 726	909 332	71 854	98 778	30 586	44 513	–	–	1 216 749	1 154 090
General operating expenses	159 621	150 512	718 151	649 807	108 890	106 924	119 009	122 553	(261 281)	(255 839)	844 390	773 957
Grants and other transfers	36 174	31 632	258 627	208 379	54 512	46 631	393	1 252	–	–	349 706	287 894
Other expenses	57 204	26 109	19 426	19 787	2 804	925	2 805	1 062	–	–	82 239	47 883
Depreciation and amortization	3 363	3 220	2 647	2 647	417	412	10 586	9 588	–	–	17 013	15 867
Total expenses	**833 602**	**756 795**	**3 650 867**	**3 342 323**	**627 954**	**667 626**	**533 717**	**539 941**	**(261 281)**	**(255 839)**	**5 384 859**	**5 050 846**
Surplus/(deficit) for the year	**192 043**	**(105 183)**	**127 502**	**1 383 081**	**(62 488)**	**278 598**	**(5 051)**	**10 705**	**–**	**–**	**252 006**	**1 567 201**

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

Note 6
Comparison to budget

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

6.2. Statements V (a) and V (b) reflect the comparison of budget and actual amounts for the year ended 31 December 2021 and for the quadrennium 2018–2021, respectively. The presentation of activities and associated budget expenditures in statement V reflects the cost classification categories approved by the Executive Board of UNDP, that is: (a) development activities: (i) programme; and (ii) development effectiveness; (b) United Nations development coordination activities; (c) management activities: (i) recurring; and (ii) non-recurring; (d) special-purpose activities: (i) capital investments; and (ii) non-UNDP operations administered by UNDP; and (e) budget for additional resources for security measures, in accordance with Executive Board decision 2017/31. It is noted that statement II reflects expenses by nature.

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

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

6.5. Statements V (a) and V (b) show the comparison between the final approved budget and actual amounts calculated on the same basis as the corresponding budget. Explanations of material differences between the final approved budget and the actual amounts are presented below. Statements V (a) and V (b) also provide further details regarding budgetary performance for the year 2021 and cumulative performance for the quadrennium 2018–2021, which is also the four-year period covered by the strategic plan.

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

6.7. During 2021, the final year of the quadrennium, UNDP revised the annual spending limits for the programmatic and institutional components of the integrated budget upward on the basis of the level of voluntary contributions received and the liquidity requirement for regular resources, including the level of expenditures in the first three years of the four-year period covered by the strategic plan and in line with the approved integrated budget plan for the same time period.

6.8. Accordingly, as shown in statement V (b), for the four-year period 2018–2021, expenditure remained within the 2018–2021 approved budget levels as follows:

- Development activities: actual utilization of $1,886.5 million, representing 95.2 per cent of the approved budget of $1,981.1 million
- United Nations development coordination activities: actual utilization of $119.2 million, representing 82.8 per cent of the approved budget of $143.9 million
- Management activities: actual utilization of $570.2 million, representing 98.2 per cent of the approved budget of $580.6 million
- Special-purpose activities: actual utilization of $32.9 million, representing 74.4 per cent of the approved budget of $44.2 million
- Budget for additional resources for security measures: actual utilization of $5.4 million, representing 77.1 per cent of the budget approved in 2020 of $7 million

6.9. In accordance with statement V (a), actual expenditure in 2021 compared with approved budget levels is as follows:

- Development activities: actual utilization of $509.1 million, representing 91.9 per cent of the annualized approved budget of $553.7 million
- United Nations development coordination activities: actual utilization of $10.3 million, representing 64.4 per cent of the annualized approved budget of $16.0 million
- Management activities: actual utilization of $158.4 million, representing 112.5 per cent of the annualized approved budget of $140.8 million
- Special-purpose activities: actual utilization of $7.6 million, representing 68.5 per cent of the annualized approved budget of $11.1 million
- Budget for additional resources for security measures: actual utilization of $0.9 million, representing 36.0 per cent of the remaining $2.5 million from the $7.0 million approved in the 2020 budget

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual budget expenditure on a comparable basis as presented in statement V (a)	**(679 022)**	**(7 227)**	**–**	**(686 249)**
Basis differences	(1 396)	1 730	–	334
Entity differences	1 497 463	(1 020 776)	–	476 687
Increase/(decrease) in cash and cash equivalents from statement IV	**817 045**	**(1 026 273)**	**–**	**(209 228)**

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

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

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

Note 7
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
United Nations Development Programme		
Cash held in bank accounts	347 258	455 469
Cash held by external investment managers	37 227	32 550
Petty cash and project cash	283	140
Money market funds	137 540	33 436
Money market instruments	24 997	342 410
Bonds	20 238	–
Impairment	(1 058)	(25 493)
Total cash and cash equivalents	**566 485**	**838 512**
Held in trust for multi-donor trust funds		
Cash held in bank accounts	3 927	4 752
Money market funds	310 755	164 047
Money market instruments	82 493	169 981
Total cash and cash equivalents: funds held in trust	**397 175**	**338 780**
Total cash and cash equivalents and funds held in trust	**963 660**	**1 177 292**

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

7.2. The decrease in impairment of $24.435 million was due to the reversal of the provision for the Cuban peso of $25.493 million, since the official exchange rate reflects the actual exchange rate as at 1 January 2021, and a provision of $1.058 million for a currency that is currently unusable in the Syrian Arab Republic.

7.3. The exposure to UNDP from credit, market and currency risks and its risk management activities related to its financial assets are disclosed in note 29.

Note 8
Investments

8.1
Total investments

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current investments		
Investments managed by UNDP	3 147 101	3 875 973
Investments managed by external investment managers	7 661	7 436
Total current investments	**3 154 762**	**3 883 409**
Non-current investments		
Investments managed by UNDP	3 704 657	2 442 991
Investments managed by external investment managers	1 033 388	877 872
Total non-current investments	**4 738 045**	**3 320 863**
Total investments	**7 892 807**	**7 204 272**

Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current investments		
Investments, Multi-Partner Trust Fund Office	645 195	532 044
Non-current investments		
Investments, Multi-Partner Trust Fund Office	416 364	157 868
Total investments, Multi-Partner Trust Fund Office	**1 061 559**	**689 912**

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

8.2
Total investments managed by the United Nations Development Fund: held to maturity

(Thousands of United States dollars)

	1 January 2021	*Purchases*	*Maturities*	*Amortization*	*Others*	*Reclassification non-current to current*	*31 December 2021*
Current investments							
Money market instruments	2 514 429	2 825 971	(3 906 025)	2 027	(2)	294 989	1 731 389
Bonds	1 361 544	192 565	(1 432 050)	(3 182)	–	1 296 835	1 415 712
Total current investments	**3 875 973**	**3 018 536**	**(5 338 075)**	**(1 155)**	**(2)**	**1 591 824**	**3 147 101**

	1 January 2021	*Purchases*	*Maturities*	*Amortization*	*Others*	*Reclassification non-current to current*	*31 December 2021*
Non-current investments							
Money market instruments	–	344 894	–	95	13	(294 989)	50 013
Bonds	2 442 991	2 763 941	(244 583)	(10 870)	–	(1 296 835)	3 654 644
Total non-current investments	**2 442 991**	**3 108 835**	**(244 583)**	**(10 775)**	**13**	**(1 591 824)**	**3 704 657**
Total investments held to maturity	**6 318 964**	**6 127 371**	**(5 582 658)**	**(11 930)**	**11**	**–**	**6 851 758**

8.2.1. As at 31 December 2021, UNDP did not have any impairment on held-to-maturity investments.

8.2.2. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 29.

8.3
Investments managed by external investment managers: available-for-sale financial assets

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current investments		
Bonds	7 574	6 920
Bonds, fair value adjustments	87	516
Total current investments	**7 661**	**7 436**
Non-current investments		
Equities	533 305	450 922
Equities: fair value adjustments	122 890	124 465
Bonds	378 810	283 678
Bonds: fair value adjustments	(1 617)	18 807
Total non-current investments	**1 033 388**	**877 872**
Total investments managed by external investment managers available for sale	**1 041 049**	**885 308**

8.3.1. The available-for-sale portfolio represents investments managed by external investment managers for after-service health insurance and end-of-service liabilities. In addition to the above investments, $37.23 million (2020: $32.55 million) in after-service health insurance and end-of-service investments have been classified under cash and cash equivalents.

8.3.2. Total after-service health insurance investments, including cash and cash equivalents, amounted to $1,007.85 million (2020: $917.86 million). Total end-of-service investments, including cash and cash equivalents, amounted to $70.43 million (2020: nil). In 2021, UNDP changed its end-of-service portfolio investment managers (from internal to external). The same external investment managers who manage the after-service health insurance portfolio now also manage these investments, and on the same terms.

8.3.3. As at 31 December 2021, UNDP did not have any impairment on available-for-sale investments.

8.3.4. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 29.

8.4
Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	1 January 2021	*Purchases*	*Maturities*	*Amortization*	*Reclassification non-current to current*	*31 December 2021*
Current investments						
Money market instruments	399 805	896 476	(865 000)	409	49 980	481 670
Bonds	132 239	100 622	(141 903)	(458)	73 025	163 525
Total current investments	**532 044**	**997 098**	**(1 006 903)**	**(49)**	**123 005**	**645 195**
Non-current investments						
Money market instruments	–	49 946	–	34	(49 980)	–
Bonds	157 868	369 217	(37 500)	(196)	(73 025)	416 364
Total non-current investments	**157 868**	**419 163**	**(37 500)**	**(162)**	**(123 005)**	**416 364**
Total investments, Multi-Partner Trust Fund Office	**689 912**	**1 416 261**	**(1 044 403)**	**(211)**	**–**	**1 061 559**

8.4.1. As at 31 December 2021, UNDP did not have any impairment on investments for the Multi-Partner Trust Fund Office.

Note 9
Receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Contributions receivable, current	2 467 623	2 845 454
Impairment[a]	(880)	(880)
Contributions receivable, current, net	**2 466 743**	**2 844 574**
Contributions receivable, non-current	**2 275 736**	**1 960 710**
Total receivables: non-exchange transactions	**4 742 479**	**4 805 284**

[a] There was no additional impairment recognized in 2021. There was no reversal of impairment recognized in prior periods.

Ageing of receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Past due	129 437	133 263
Due in future periods	4 613 042	4 672 021
Total receivables: non-exchange transactions	**4 742 479**	**4 805 284**

9.1. Contributions receivable include $4.61 billion (2020: $4.67 billion) committed to UNDP by donors in signed agreements for future periods and $380.33 million (2020: $191.68 million) in receivables from regular resources.

9.2. The $129.44 million (2020: $133.26 million) in past due contributions receivable represents the amount that is already due to UNDP based on the schedule of payments in the signed donor agreements.

9.3. Contributions receivable of $4.36 billion (2020: $4.61 billion) are restricted, in that they are used for project implementation activities to support specified purposes consistent with the policies, aims and activities of UNDP.

9.4. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 29.

Note 10
Receivables: other

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current		
Receivables from United Nations entities	312	4 508
Investment receivables	18 301	18 014
Receivables from third parties	38 442	33 729
Receivables from staff	264	446
Other financial assets	2 277	202
Miscellaneous receivables	4 398	1 662
Total receivables: other, current, gross	**63 994**	**58 561**
Impairment[a]	(6 341)	(2 344)
Total receivables: other, current, net	**57 653**	**56 217**
Non-current		
Security deposits	100	100
Total receivables: other, non-current, gross	**100**	**100**
Total receivables: other, net	**57 753**	**56 317**

[a] Impairment of other receivables increased by $3.997 million in 2021. Impairments of $4.228 million were recorded in 2021 against a reversal of impairment recognized in the prior period of $0.231 million.

Ageing of receivables: other

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Less than or equal to 6 months	27 984	25 962
Over 6 months	36 110	32 699
Total receivables: other, gross	**64 094**	**58 661**

Receivables: United Nations entities

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	–	4 444
Receivables from other entities for reserve for field accommodation	24	28
United Nations University	283	4
Others	5	32
Total receivables, other, from United Nations entities	**312**	**4 508**

10.1. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 29.

Note 11
Advances issued

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Operating funds issued to Governments and non-governmental organizations not yet implemented	105 848	75 461
Operating funds issued to United Nations entities not yet implemented	109 216	94 976
Prepayments	60 614	33 270
Advances to staff	15 704	15 416
Total advances issued, gross	**291 382**	**219 123**
Impairment[a]	(1 587)	(1 600)
Total advances issued, net	**289 795**	**217 523**

[a] Impairment of advances issued decreased by $0.013 million to $1.587 million in 2021. Impairments of $0.128 million were recognized in 2021, less a reversal of impairment recognized in the prior period of $0.141 million.

Ageing of advances

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Less than or equal to 6 months	254 968	204 941
Over 6 months	36 414	14 182
Total advances issued, gross	**291 382**	**219 123**

Note 12
Inventories

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Medical supplies and equipment	11 273	9 591
Information technology supplies and consumables	609	230
Office supplies	738	764
Fuel	38	6
Publications	40	70
Human development reports	6	1
Crisis supplies and equipment	12	12
Other project-related inventories	275	1 643
Total inventories	**12 991**	**12 317**

Note 13
Loans to Governments

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current		
Loans to Governments	507	507
Total current loans to Governments	**507**	**507**
Non-current		
Loans to Governments	2 265	3 011
Total non-current loans to Governments	**2 265**	**3 011**
Total loans to Governments	**2 772**	**3 518**

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

13.2. As at 31 December 2021, loans to Governments consisted of loans issued to the Governments of Cabo Verde, the Comoros, Guinea-Bissau and Sao Tome and Principe.

13.3. As the current balance of loans to Governments had been paid down, the next current portion of $0.5 million was reclassified from non-current to current at the end of the year.

Note 14
Property, plant and equipment

14.1. UNDP has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which comprise 25 per cent of property, plant and equipment assets, are utilized in the delivery of UNDP programmes and projects. Management assets, which comprise 75 per cent of property, plant and equipment assets, are used for non-project specific operations at UNDP country offices and headquarters.

Property, plant and equipment

(Thousands of United States dollars)

	Land	*Buildings*	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Leasehold improvements*	*Total*
Balance at 1 January 2021								
Cost	7 175	46 466	970	23 359	101 350	13 106	30 020	222 446
Accumulated depreciation	–	(9 386)	(541)	(13 829)	(54 290)	(5 019)	(14 300)	(97 365)
Carrying amount as at 1 January 2021	**7 175**	**37 080**	**429**	**9 530**	**47 060**	**8 087**	**15 720**	**125 081**
Year ended 31 December 2021								
Additions and adjustments	281	2 724	57	1 417	9 102	962	964	15 507
Disposals, cost	–	–	(81)	(2 611)	(10 023)	(780)	–	(13 495)
Depreciation	–	(2 062)	(40)	(1 412)	(7 864)	(572)	(3 037)	(14 987)
Disposals, accumulated depreciation/depreciation	–	–	35	1 864	7 308	265	38	9 510
Impairment	–	–	–	–	(7)	(21)	–	(28)
Recategorization	–	(48)	(7)	26	49	337	(357)	–
Carrying amount as at 31 December 2021	**7 456**	**37 694**	**393**	**8 814**	**45 625**	**8 278**	**13 328**	**121 588**
Balance at 31 December 2021								
Cost	7 456	49 142	939	22 191	100 471	13 604	30 627	224 430
Accumulated depreciation	–	(11 448)	(546)	(13 377)	(54 846)	(5 326)	(17 299)	(102 842)
Carrying amount as at 31 December 2021	**7 456**	**37 694**	**393**	**8 814**	**45 625**	**8 278**	**13 328**	**121 588**

14.2. As at 31 December 2021, assets under construction of \$0.4 million (2020: \$0.5 million) were included under leasehold improvements.

14.3. As at 31 December 2021, UNDP had an impairment of property, plant and equipment amounting to \$0.028 million (2020: \$0.068 million).

Note 15
Intangible assets

(Thousands of United States dollars)

	Software internally developed	*Software acquired*	*Trademarks, copyrights and licences*	*Assets under development*	*Total*
Balance as at 1 January 2021					
Cost	19 397	28	16	2 512	21 953
Accumulated amortization	(14 857)	(23)	(6)	–	(14 886)
Carrying amount as at 1 January 2021	**4 540**	**5**	**10**	**2 512**	**7 067**
Year ended 31 December 2021					
Additions and adjustments	697	19	–	886	1 602
Disposals	–	–	–	(1 165)	(1 165)
Amortization	(2 017)	(5)	(4)	–	(2 026)
Recategorization	1 886	–	–	(1 886)	–
Carrying amount as at 31 December 2021	**5 106**	**19**	**6**	**347**	**5 478**
Balance as at 31 December 2021					
Cost	21 980	47	16	347	22 390
Accumulated amortization	(16 874)	(28)	(10)	–	(16 912)
Carrying amount as at 31 December 2021	**5 106**	**19**	**6**	**347**	**5 478**

15.1. As at 31 December 2021, UNDP did not have any impairment of intangible assets (2020: nil).

Note 16
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Accruals	100 815	81 330
Payables to United Nations entities	91 783	31 390
Payables to third parties	69 592	65 689
Other financial liabilities	154	694
Payables to staff	4 566	4 370
Investments settlements payable	662	4 087
Total accounts payable and accrued liabilities	**267 572**	**187 560**

Payables to United Nations entities

(Thousands of United States dollars)

	31 December 2021	31 December 2020
United Nations current account	23 943	11 122
World Health Organization	6 670	6 187
United Nations Relief and Works Agency for Palestine Refugees in the Near East	3 819	4 184
Joint United Nations Programme on HIV/AIDS (UNAIDS)	2 465	2 693
United Nations Capital Development Fund	16 332	271
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	10 767	–
United Nations Population Fund	17 642	456
United Nations coordination levy	3 209	3 530
Other United Nations entities	6 936	2 947
Total payables to United Nations entities	**91 783**	**31 390**

Note 17
Advances payable

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Operating funds payable to Governments and non-governmental organizations	1 098	1 968
Operating funds payable to executing entities/implementing partners	23 052	13 131
Total advances payable	**24 150**	**15 099**

Note 18
Funds received in advance, deferred revenue and funds held on behalf of donors

(a) Funds received in advance and deferred revenue

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Current		
Funds received in advance	3 109	21 827
Deferred revenue, Department of Safety and Security	–	–
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	14 217	10 574
Deferred revenue, non-exchange transactions	14	10
Clearing accounts with United Nations entities	119 218	105 513
Common service funds received in advance from United Nations entities	103 775	103 085
Total current funds received in advance and deferred revenue	**240 333**	**241 009**

	31 December 2021	31 December 2020
Non-current		
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	16 579	13 246
Deferred revenue, other	6	–
Total non-current funds received in advance and deferred revenue	**16 585**	**13 246**
Total funds received in advance and deferred revenue	**256 918**	**254 255**

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

(b) Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Refunds to donors	13 676	7 550
Total funds held on behalf of donors	**13 676**	**7 550**

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

Note 19
Funds held in trust: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Current		
Multi-Partner Trust Fund Office	1 030 581	871 005
Total current funds held in trust: Multi-Partner Trust Fund Office	**1 030 581**	**871 005**

	31 December 2021	*31 December 2020*
Non-current		
Multi-Partner Trust Fund Office	416 365	157 868
Total non-current funds held in trust: Multi-Partner Trust Fund Office	**416 365**	**157 868**
Total funds held in trust: Multi-Partner Trust Fund Office	**1 446 946**	**1 028 873**

19.1. This amount represents funds provided by donors to the Multi-Partner Trust Fund Office for future disbursement. In 2021, UNDP, in its role as administrative agent, received net cash inflows from donors of $1,821.573 million (2020: $1,574.761 million) and released $1,407.237 million (2020: $1,423.157 million). The increase of net cash inflows also includes $4.090 million (2020: $10.789 million) of interest and investment income and a net movement of other assets and liabilities of $0.355 million (2020: $0.175 million).

Note 20
Employee benefits

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current		
Annual leave	91 094	88 777
Medical insurance plan	128 701	121 639
After-service health insurance	21 692	20 870
Repatriation entitlements	9 542	7 673
Home leave	7 226	8 123
Termination benefits	500	490
Workers' compensation	836	901
Contributions payable to the United Nations Joint Staff Pension Fund	649	276
Death benefits	254	221
Other employee benefits	74	220
Total current employee benefit liabilities	**260 568**	**249 190**
Non-current		
After-service health insurance	1 168 732	1 153 023
Repatriation entitlements	98 358	109 193
Workers' compensation	15 667	14 859
Home leave	4 282	2 649
Death benefits	2 635	2 581
Total non-current employee benefit liabilities	**1 289 674**	**1 282 305**
Total employee benefit liabilities	**1 550 242**	**1 531 495**

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

20.2. As at 31 December 2021, liabilities for after-service health insurance, repatriation entitlements, workers' compensation and death benefits were determined by an actuarial valuation of the defined benefit obligation as at 31 December 2021.

Defined benefit plans

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Defined benefit obligation as at 31 December 2020	**1 173 893**	**116 866**	**2 802**	**15 761**	**1 309 322**
Increase of the obligation					
Current service cost	41 762	10 293	89	581	52 725
Interest cost	36 618	3 028	68	142	39 856
Actuarial losses on disbursements	–	–	36	–	36
Actuarial losses from change in financial assumptions	–	–	157	454	611
Actuarial losses from change in demographic assumptions	–	–	–	–	–
Actuarial losses due to experience adjustments	–	–	–	459	459
Decrease of the obligation					
Actual benefits paid	(13 215)	(6 060)	(262)	(893)	(20 430)
Actuarial (gains) on disbursements	(8 369)	(1 849)	–	–	(10 218)
Actuarial (gains) from change in financial assumptions	(40 265)	(14 379)	–	–	(54 644)
Actuarial (gains) from change in demographic assumptions	–	–	–	–	–
Actuarial (gains) due to experience adjustments	–	–	–	–	–
Recognized liability as at 31 December 2021	**1 190 424**	**107 899**	**2 890**	**16 504**	**1 317 717**

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Current service cost	41 762	10 293	89	581	52 725
Interest cost	36 618	3 028	68	142	39 856
Total employee benefits expenses recognized	**78 380**	**13 321**	**157**	**723**	**92 581**

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Actuarial gains/(losses) from change in assumptions and experience adjustments	40 265	14 379	(157)	(913)	53 574
Actuarial gains/(losses) on disbursement	8 369	1 849	(36)	–	10 182
Total actuarial gains/(losses) recognized	**48 634**	**16 228**	**(193)**	**(913)**	**63 756**

20.8. In 2021, the net actuarial gain of $63.756 million was attributable mainly to the actuarial gain related to after-service health insurance from a change in financial assumptions of $40.265 million.

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

(Thousands of United States dollars)

	2021	*2020*	*2019*	*2018*	*2017*
After-service health insurance					
Defined benefits obligation	1 190 424	1 173 893	1 047 179	1 036 847	1 316 407
Experience adjustment on plan liabilities	(27 887)	–	47 926	(188 125)	118 690
Duration[a]	21	21	22	18	–
Repatriation					
Defined benefits obligation	107 899	116 866	105 166	93 273	105 675
Experience adjustment on plan liabilities	(11 510)	–	1 271	(7 187)	7 892
Duration[a]	9	10	10	9	–
Death benefits					
Defined benefits obligation	2 890	2 802	2 797	1 427	2 084
Experience adjustment on plan liabilities	169	–	29	(571)	(143)
Duration[a]	8	8	8	8	–
Workers' compensation					
Defined benefits obligation	16 504	15 761	14 293	13 319	15 460
Experience adjustment on plan liabilities	459	271	(541)	(1 398)	1 488
Duration[a]	19	18	18	17	–

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

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

(Thousands of United States dollars)

	2022	2023	2024	2025	2026	2027–2031
After-service health insurance	22 379	24 333	26 217	28 070	29 996	179 849
Repatriation	9 799	8 141	7 278	6 774	6 613	33 664
Death benefits	260	243	233	228	222	1 004
Workers' compensation	832	809	787	767	745	3 448

20.11. At the end of 2021, UNDP had $1,007.85 million in cash and investments to fund the after-service health insurance liability. This resulted in a funding position of 85 per cent (2020: 78 per cent) of the total liability of $1,190.42 million at the end of 2021.

20.12. UNDP decided to make a one-time cash injection of $49.7 million to further fund the after-service health insurance liability, thereby increasing the funded position to 89 per cent in 2022. The decision to further fund the liability was made in 2021 and implemented in 2022.

20.13. The next actuarial valuation will be conducted in line with the United Nations common system process.

Actuarial assumptions

20.14. In line with several United Nations system organizations, UNDP undertakes a full valuation every second year and a roll-forward valuation in the interim year. A roll forward is undertaken if the change is within limits specified in the UNDP after-service health insurance materiality policy. The last actuarial valuation for after-service health insurance, repatriation, workers' compensation and death benefits was completed as at 31 December 2021. The two important assumptions used by the actuary to determine defined-benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate. The principal actuarial assumptions used to determine the defined benefit obligation are as follows:

	2021	2020
Discount rate:		
(a) After-service health insurance	3.16 per cent	2.95 per cent
(b) Repatriation benefits	2.70 per cent	2.21 per cent
(c) Death benefits	2.56 per cent	2.00 per cent
(d) Workers' compensation	3.09 per cent	2.69 per cent
Health-care cost-trend rates:		
(a) United States of America, non-Medicare plans	5.17, grading down to 3.95 per cent after 10 years	5.31, grading down to 3.65 per cent after 14 years
(b) United States of America, Medicare plans	5.03, grading down to 3.95 per cent after 10 years	5.15, grading down to 3.65 per cent after 14 years

	2021	*2020*
(c) United States of America, dental plans	4.53, grading down to 3.95 per cent after 10 years	4.59, grading down to 3.65 per cent after 14 years
(d) Non-United States of America, Switzerland	3.44, grading down to 2.25 per cent after 7 years	3.64, grading down to 2.75 per cent after 8 years
(e) Non-United States of America, eurozone	3.75, remaining at 3.75 per cent after no projection of years	3.73, grading down to 3.25 per cent after 6 years
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.97–9.27 per cent
Rate of inflation	2.00 per cent	2.20 per cent
Per capita medical claim cost (varies by age)	$1,020–$15,344	$975–$14,571
Actuarial method	Projected unit credit method	Projected unit credit method

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

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

	2021		*2020*	
Mortality rate, active employees	*At age 20*	*At age 65*	*At age 20*	*At age 65*
Male	0.00062	0.00495	0.00056	0.00450
Female	0.00034	0.00263	0.00037	0.00287

	2021		*2020*	
Mortality rate, retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.01113	0.00062	0.00913
Female	0.00035	0.00570	0.00035	0.00561

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

Rate of retirement: staff in the Professional and higher categories with 30 or more years of service	*2021*		*2020*	
	At age 55	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.75	0.16	0.70
Female	0.20	0.75	0.20	0.80

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

Rate of marriage at retirement for active beneficiaries	*2021*	*2020*
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

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

(Thousands of United States dollars)

	+0.5 per cent	*-0.5 per cent*
Effect of discount rate change on end-of-year liability	(114 136)	132 322
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	127 053	(110 918)

United Nations Joint Staff Pension Fund

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

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

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

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

20.24. The latest actuarial valuation for the Fund was completed as at 31 December 2019, and the valuation as at 31 December 2021 is currently being performed. A roll forward of the participation data as of 31 December 2019 to 31 December 2020 was used by the Fund for its 2020 financial statements.

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

20.26. 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 the present report, the General Assembly had not invoked the provision of article 26.

20.27. Should article 26 be invoked owing either to an actuarial deficiency during the ongoing operation or to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization’s contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2018, 2019 and 2020) amounted to $7,993.15 million, of which 6 per cent was contributed by UNDP.

20.28. During 2021, UNDP contributions paid to the Fund amounted to $158 million (2020: $147 million). The amount includes the organizational share as well as the contributions made by the participants. Contributions due in 2022, dependent on staffing levels and changes in pensionable remuneration, are expected to be about $162 million.

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

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

Note 21
Other liabilities

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Current		
Unapplied deposits	1 119	1 264
Other payables	13 567	2 544
Total other current liabilities	**14 686**	**3 808**
Non-current		
Reimbursable deposits	111	120
Total other non-current liabilities	**111**	**120**
Total other liabilities	**14 797**	**3 928**

Note 22
Reserves

(Thousands of United States dollars)

	31 December 2020	Movements	31 December 2021
Endowment fund	3 000	–	3 000
Operational reserve	299 001	(700)	298 301
Reserve for special initiatives	159	(3)	156
Total reserves	**302 160**	**(703)**	**301 457**

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

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

22.3. At 31 December 2021, the balance in the operational reserve for regular resources was $157 million. At its annual session in 1999, the Executive Board approved a change of basis for the calculation of the operational reserve for regular resources, which is the sum of the following components:

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

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

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

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

22.4. In addition, the Executive Board approved the establishment of an operational reserve for other resource activities. At 31 December 2021, the balance of the operational reserve for other resource activities was $141 million. The basis for the calculation of the operational reserve for other resources is the sum of the following components:

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

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

22.5. While the reserve calculation for other resources is based on cost-sharing, trust funds and reimbursable support services and miscellaneous activities, the operational reserve for other resources is only presented as part of net assets/equity for reimbursable support services and miscellaneous activities in the table in note 5, Segment reporting: statement of financial position as at 31 December 2021.

22.6. The operational reserve for other resource activities includes the reserve for field accommodation. The reserve for field accommodation was established in 1979 at a maximum level of $25 million to construct housing for United Nations international staff at the country offices. In 1989, the Governing Council authorized UNDP to expand the scope of the reserves to include financing for United Nations system common premises, intended to accommodate the office needs of the agencies of the Joint Consultative Group on Policies. The financial position and performance of the reserve for field accommodation is presented in note 34.4, Reimbursable support services and miscellaneous activities.

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

22.8. On calculating the operational reserves in 2021, a net transfer to the accumulated surpluses of $0.7 million was made according to the Executive Board-approved formulas.

Note 23
Accumulated surpluses

(Thousands of United States dollars)

	31 December 2020	*Movements*	*31 December 2021*
Accumulated surpluses[a]	10 503 972	252 706	10 756 678
Funds with specific purposes[b]	143 953	9 370	153 323
Actuarial gains/(losses)	179 362	63 756	243 118
Changes in fair value of available-for-sale investments	140 376	(18 371)	122 005
Total accumulated surpluses	**10 967 663**	**307 461**	**11 275 124**

[a] The movement in accumulated surpluses of $252.7 million consists of the surplus for the year of $252.0 million and a transfer from the operational reserve of $0.7 million.
[b] The funds with specific purposes include security; information and communications technology; United Nations Volunteers; learning; personnel; and other.

23.1. Of the total accumulated surpluses of $11,275 million, $10,402 million represents the accumulated non-core balance[11] (2020: $10,289 million). The total accumulated surpluses include non-cash receivables of $4,800 million (2020: $4,862 million).

Note 24
Voluntary contributions

(Thousands of United States dollars)

	2021	*2020*
Contributions	5 322 349	6 303 617
Government contributions to local office costs	25 118	19 317
Subtotal contributions and government contributions to local office costs	**5 347 467**	**6 322 934**
Contributions in kind	21 895	15 490
Less: returns to donors of unused contributions	(65 337)	(65 942)
Total voluntary contributions, net	**5 304 025**	**6 272 482**

24.1. Contributions in kind comprise primarily donated right to use of land and buildings of $18.687 million (2020: $15.394 million), as well as donated goods, such as computer equipment and supplies received from donors, of $3.208 million (2020: $0.096 million).

24.2. Under its Financial Regulations and Rules, UNDP is permitted to spend only up to the amount of cash received and available cash on hand.

24.3. In 2021, the amount of cash received amounted to $5.393 billion (2020: $5.565 billion).

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

24.4. The table below provides an indication of the contributions and government contributions to local office costs recognized in 2021 and the year to which the revenue pertains.

(Thousands of United States dollars)

	2021			2020	
By year	*Core*	*Non-core*		*Core*	*Non-core*
Current year			**Current year**		
2021	480 241	254 184		355 759	1 295 154
Subtotal current year	**480 241**	**254 184**	**Subtotal current year**	**355 759**	**1 295 154**
Future years			**Future years**		
2022	123 585	2 213 721	2021	192 539	2 518 772
2023 and beyond	257 622	2 018 114	2022 and beyond	–	1 960 710
Subtotal future years	**381 207**	**4 231 835**	**Subtotal future years**	**192 539**	**4 479 482**
Total contributions and government contributions to local office costs	**861 448**	**4 486 019**	**Total contributions and government contributions to local office costs**	**548 298**	**5 774 636**
Grand total contributions and government contributions to local office costs	**5 347 467**		**Grand total contributions and government contributions to local office costs**	**6 322 934**	

24.5. UNDP funding is received on a cyclical basis: the revenue from multi-year agreements with donors is recorded when those agreements are signed, provided that certain criteria are met. In the fourth quarter of 2021, UNDP signed agreements with donors for contributions amounting to $1.965 billion (fourth quarter of 2020: $2.430 billion) for multi-year core and non-core programmes and projects which will be implemented in future periods.[12] Of this, agreements totalling $0.944 billion were signed in December 2021 (December 2020: $1.636 billion).

24.6. Due to the nature of cyclical funding, the top three donors' contributions decreased by $1.047 billion, from $2.187 billion in 2020to $1.140 billion in 2021. There was also a reduction in the law and order trust fund for Afghanistan contribution owing to the political situation, which led to a decrease in the annual contribution revenue of $112 million.

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

Note 25
Revenue: exchange transactions

(Thousands of United States dollars)

	2021	*2020*
Department of Safety and Security	15 107	29 922
Reimbursement for management and support services	53 503	76 742
United Nations Volunteers programme	1 922	1 845
Implementation support services fees	1 827	2 655
Payroll management services fees	9 965	9 805
Procurement handling fees	10 398	9 563
Training fees	2 535	2 613
Rental revenue	8 522	3 843
Multi-Partner Trust Fund Office administrative agent fees	12 020	10 709
Sales and royalties from sale of publications	2	–
Other exchange revenue	96	18
Total revenue from exchange transactions	**115 897**	**147 715**

Note 26
Investment revenue

(Thousands of United States dollars)

	2021	*2020*
Investment revenue	135 488	118 458
Total investment revenue	**135 488**	**118 458**

26.1. Investment revenue is represented as follows:

(Thousands of United States dollars)

	2021	*2020*
Interest plus amortized discount, net of amortized premium earned on fixed income instruments and bank account balances	56 911	94 556
Dividends earned on the UNDP investment portfolio	7 084	6 601
Realized gain on sale of investments	71 493	17 301
Total investment revenue	**135 488**	**118 458**

26.2. The large decline in interest plus amortized discount, net of amortized premium earned on fixed income instruments and bank account balances, is as a result of extremely low interest rates in 2021 caused, in part, by the economic situation brought about by the COVID-19 pandemic. The increase of 14 per cent in UNDP overall investment income is owing to the higher realized gain on sale of investments.

Note 27
Other revenue

(Thousands of United States dollars)

	2021	*2020*
Foreign exchange gains	41 209	44 306
Common system and miscellaneous revenue	38 894	32 798
General management services fees	1 352	2 288
Total other revenue	**81 455**	**79 392**

Note 28
Expenses

(Thousands of United States dollars)

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2021	*2021*	*2020*	*2020*
28.1 Contractual services				
Contractual services	1 860 700	1 958 337	1 828 821	1 911 105
United Nations Volunteers-related expenses for contractual services	44 049	50 240	40 574	45 740
Total contractual services	**1 904 749**	**2 008 577**	**1 869 395**	**1 956 845**
28.2 Staff costs				
Salary and wages	192 659	574 581	166 888	533 956
Pension benefits	34 889	105 460	30 069	98 071
Post-employment and termination	20 564	101 796	18 571	97 579
Appointment and assignment	10 578	26 381	8 537	17 069
Leave benefits	6 917	18 105	9 390	28 786
Other staff benefits	62 823	39 862	60 818	38 849
Total staff costs	**328 430**	**866 185**	**294 273**	**814 310**
28.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	382 488	395 952	477 721	496 717
Medical, pharmaceutical and agricultural supplies	476 471	485 646	452 166	464 387
Information technology supplies and software maintenance	46 834	57 014	39 269	47 378
Information technology and communications equipment	236 669	253 837	76 989	96 266
Security and office supplies	20 934	23 923	47 072	49 265
Other consumables used	319	377	79	77
Total supplies and consumables used	**1 163 715**	**1 216 749**	**1 093 296**	**1 154 090**

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2021	*2021*	*2020*	*2020*
28.4 General operating expenses				
Travel	111 962	121 272	110 451	121 273
Learning and recruitment	239 674	248 946	193 107	200 560
Rent, leases and utilities	82 653	173 367	78 176	153 818
Communications	92 430	127 258	85 283	114 656
Freight	52 844	54 438	62 140	63 596
Professional services	32 951	37 165	35 563	40 658
Security	18 440	30 496	20 635	34 138
Reimbursement	1 772	3 843	986	11 654
Contribution to jointly financed United Nations activities	3 120	10 421	3 464	12 310
Contribution to information and communications technology	2 279	5 454	1 969	4 581
Insurance/warranties	4 774	5 888	4 939	5 754
Miscellaneous operating expenses	256 656[b]	25 842[c]	232 823	10 959
Total general operating expenses	**899 555**	**844 390**	**829 536**	**773 957**
28.5 Grants and other transfers				
Grants	323 069	325 405	277 803	279 122
Transfers	2 759	24 301	(2 825)	8 772
Total grants and other transfers	**325 828**	**349 706**	**274 978**	**287 894**
28.6 Other expenses				
Sundries	12 778	13 988	13 723	15 610
Foreign exchange losses[d]	10 064	63 584	7 161	25 948
Losses on sale of fixed assets and intangible assets	2 014	2 575	1 184	1 255
Ex gratia payments	–	–	–	137
Impairments[e]	112	2 092	894	4 933
Total other expenses	**24 968**	**82 239**	**22 962**	**47 883**
28.7 Depreciation and amortization				
Depreciation	4 208	14 987	4 293	13 708
Amortization	87	2 026	36	2 159
Total depreciation and amortization	**4 295**	**17 013**	**4 329**	**15 867**
Total expenses	**4 651 540**	**5 384 859**	**4 388 769**	**5 050 846**

[a] Total expenses include $4.652 billion of programme expenses and the remaining $733 million represents development effectiveness, United Nations development coordination, management, special purposes and other. See note 34.1, Total expenses by cost classification, for details.
[b] Included in the total miscellaneous operating expenses of $26 million, $261 million represents internal cost recovery, of which $211 million represents programme expenses. Internal cost recovery has been eliminated from the total miscellaneous operating expenses, which amounted to $287 million prior to the elimination.
[c] Total miscellaneous operating expenses include $4 million of administrative service fees for United Nations agencies.
[d] Foreign exchange losses of $63.6 million include the effect of exchange rate changes on cash and cash equivalents of $4.4 million.
[e] Total impairments of $2.09 million include gross impairments of $2.95 million, less impairments previously recognized of $0.99 million and actual write-offs of $0.13 million.

Note 29
Financial instruments and risk management

29.1. The risk management policies of UNDP, along with its investment policy and guidelines and Financial Regulations and Rules, aim to minimize potential adverse effects on the resources available to UNDP to fund its activities. In its operations, UNDP is exposed to a variety of financial risks, including:

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

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

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

29.2. UNDP manages its working capital investment portfolio centrally within the Treasury Division. Investment activities are overseen by an Investment Committee, comprising senior management, which meets quarterly to review its investment portfolio performance and to ensure that investment decisions comply with the established investment policy and guidelines. The principal investment objectives as stated in the UNDP Investment Policy and Guidelines are:

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

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

(c) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters;

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

29.3. As at 31 December 2021, the working capital portfolio was classified as held-to-maturity financial assets. Holdings include cash, money market instruments and fixed-income securities.

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

29.5. UNDP has outsourced the investment management of its after-service health insurance funds and the end-of-service/repatriation liability to two external investment managers in order to ensure an adequate level of investment return, given the nature of funding these post-employment benefit liabilities. As at 31 December 2021, the after-service health insurance portfolio and the end-of-service/repatriation portfolio were classified as available-for-sale. Holdings include cash and cash equivalents, fixed-income securities and equities.

29.6. The external investment managers are governed by the investment guidelines. The guidelines ensure that all the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. The guidelines identify eligible instruments for global equities and fixed income investments and specify asset class limits. Reporting by and oversight of the investment managers occurs formally through quarterly after-service health insurance investment committee meetings. These guidelines are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

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

(a) Financial assets

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus and deficit*	*31 December 2021 book value*	*31 December 2020 book value*
Cash and cash equivalents	–	–	566 485	–	566 485	838 512
Investments	6 851 758	1 041 049	–	–	7 892 807	7 204 272
Receivables: non-exchange transactions	–	–	4 742 479	–	4 742 479	4 805 284
Receivables: other	–	–	55 631	2 122	57 753	56 317
Advances issued	–	–	289 795	–	289 795	217 523
Loans to Governments	–	–	2 772	–	2 772	3 518
Total financial assets	**6 851 758**	**1 041 049**	**5 657 162**	**2 122**	**13 552 091**	**13 125 426**

(b) Financial liabilities classification

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus and deficit*	*31 December 2021 book value*	*31 December 2020 book value*
Accounts payable and accrued liabilities	267 572	–	267 572	187 560
Advances payable	24 150	–	24 150	15 099
Funds held in trust, Multi-Partner Trust Fund Office	1 446 946	–	1 446 946	1 028 873
Funds held on behalf of donors	13 676	–	13 676	7 550
Other liabilities	14 797	–	14 797	3 928
Total financial liabilities	**1 767 141**	**–**	**1 767 141**	**1 243 010**

29.8. Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2021, the book value of those assets exceeded the market value by $16.826 million (2020: the market value exceeded the book value by $47.927 million). Available-for-sale assets are carried at fair market value based on quoted prices obtained from knowledgeable third parties. The carrying values for loans and receivables are a reasonable approximation of their fair value.

29.9. As at 31 December 2021, UNDP had $2.122 million (2020: $0.494 million in financial liabilities) in financial assets recorded at fair value through surplus or deficit arising from forward foreign exchange contracts in various currencies and notional amounts managed by external investment managers.

29.10. For the year ended 31 December 2021, a net gain of $7.215 million (2020: net loss of $2.660 million) related to financial assets and liabilities recorded at fair value through surplus or deficit was recognized in the statement of financial performance.

Valuation

29.11. The table below presents the fair value hierarchy of the Programme's available-for-sale financial instruments carried at fair value as at 31 December 2021.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial instruments at fair value through surplus or deficit	–	2 122	–	2 122
Available-for-sale financial assets				
Equities	656 195	–	–	656 195
Bonds	384 854	–	–	384 854
Liabilities				
Financial instruments at fair value through surplus or deficit	–	–	–	–
Total	**1 041 049**	**2 122**	**–**	**1 043 171**

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

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

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

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

Analysis of United Nations Development Programme credit risk

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

29.14. As at 31 December 2021, UNDP operates bank accounts in 149 countries, which exposes it to the risk of the collapse of local financial institutions. UNDP has established risk assessment criteria to assess the creditworthiness of financial institutions before new bank accounts are opened and limits of local currency holdings are approved and monitored centrally by the UNDP Treasury Division. In addition, UNDP, using zero-balance accounts, permits local offices to draw funds in United States dollars and euros from a headquarters-managed master account to periodically replenish local currency accounts. Zero-balance accounts are designed to automatically transfer excess balances to the master account for investment in short-term money market instruments. The arrangement minimizes excess balances in local bank accounts.

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

29.16. UNDP utilizes credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's (S&P) and Fitch, to categorize and monitor credit risk on its financial instruments. As at 31 December 2021, investments managed by UNDP were in high-quality fixed-income instruments, as shown in the table below (presented using S&P's rating convention).

Concentration by credit rating: United Nations Development Programme-managed investments

(Thousands of United States dollars)

31 December 2021	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*A-*	*Not rated*	*Total*
Money market instruments	134 884	119 982	811 415	714 990	–	–	131	1 781 402
Bonds	2 680 523	1 190 301	812 786	386 419	326	–	1	5 070 356
Total	**2 815 407**	**1 310 283**	**1 624 201**	**1 101 409**	**326**	**–**	**132**	**6 851 758**

31 December 2020	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*A-*	*Not rated*	*Total*
Money market instruments	802 505	427 391	934 450	299 963	–	50 000	120	2 514 429
Bonds	2 238 358	664 847	628 348	272 982	–	–	–	3 804 535
Total	**3 040 863**	**1 092 238**	**1 562 798**	**572 945**	**–**	**50 000**	**120**	**6 318 964**

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

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2021	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds	11 931	2 212	11 295	6 045	8 661	2 703	10 079	3 984	39 368	288 576	384 854
Total	**11 931**	**2 212**	**11 295**	**6 045**	**8 661**	**2 703**	**10 079**	**3 984**	**39 368**	**288 576**	**384 854**

31 December 2020	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds	10 792	2 096	6 490	4 411	3 016	2 318	7 096	6 917	37 134	229 651	309 921
Total	**10 792**	**2 096**	**6 490**	**4 411**	**3 016**	**2 318**	**7 096**	**6 917**	**37 134**	**229 651**	**309 921**

Note: The externally managed investments are governed by investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of $240.080 million (2020: $193.376 million), with the remaining balance of $48.496 million (2020: $36.275 million) comprising government bonds.

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

29.18. The credit risk exposure of UNDP on outstanding non-exchange receivables is mitigated by the Financial Regulations and Rules of UNDP, which require that, for non-regular resources, expenses be incurred after receipt of funds from donors. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk assessment criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities (as shown in the table below) that do not have significant credit risk. UNDP periodically reviews the amounts for collectability and records an impairment against these receivables when deemed appropriate. As at 31 December 2021, an impairment of $0.880 million was recorded against the outstanding non-exchange receivables.

Receivables: non-exchange transactions by entity type

(Thousands of United States dollars)

	31 December 2021	*31 December 2021*
Government entities	1 257 505	1 296 342
Non-governmental entities	3 484 974	3 508 942
Total receivables: non-exchange transactions	**4 742 479**	**4 805 284**

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

29.19. The top three donors, accounting for 50 per cent (2020: 48 per cent) of the outstanding non-exchange receivable balances, are all multilateral donors, as shown in the table below. Based on historical payment patterns, UNDP believes that all non-exchange receivable balances are collectable, as the amounts are presented net of the impairment of $0.88 million.

Non-exchange receivables: top three outstanding balances

(Thousands of United States dollars)

No.	*Balance*	*Percentage of total*	*Entity type*
1	882 459	19%	United Nations pooled fund
2	858 473	18%	United Nations pooled fund
3	631 817	13%	Multilateral agency
Subtotal	**2 372 749**	**50%**	
Other	2 369 730	50%	
Total	**4 742 479**	**100%**	

Analysis of United Nations Development Programme liquidity risk

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

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

Liquidity analysis

(Thousands of United States dollars)

	31 December 2021	Percentage	31 December 2020	Percentage
Cash balances	383 710	5	462 666	6
Cash equivalents	182 775	2	375 846	5
Total cash and cash equivalents	**566 485**	**7**	**838 512**	**11**
Current investments	3 154 762	37	3 883 409	48
Non-current investments	4 738 045	56	3 320 863	41
Total current and non-current investments	**7 892 807**	**93**	**7 204 272**	**89**
Total investments, cash and cash equivalents	**8 459 292**	**100**	**8 042 784**	**100**

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Money market funds	137 540	33 436
Money market instruments	24 997	342 410
Bonds	20 238	–
Cash equivalents	**182 775**	**375 846**

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

Analysis of market risk to the United Nations Development Programme

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

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

(a) Fair value of financial assets and liabilities;

(b) Future cash flows.

29.25. A portion (13 per cent) of the UNDP investment portfolio is classified as available-for-sale investments that are carried at fair value through net assets/equity, which expose UNDP to interest rate risk. However, a significant portion (87 per cent) of the portfolio is classified as held to maturity, which is not marked to market and therefore net assets and surplus or deficit reported in the Programme's financial statements are not significantly affected by changes in interest rates.

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2021*	*31 December 2020*
Held-to-maturity investments	Amortized cost	6 851 758	6 318 964
Available-for-sale investments	Fair value	1 041 049	885 308
Total investments		**7 892 807**	**7 204 272**

29.26. In the held-to-maturity portfolio, UNDP invests in United States dollar-denominated certificates of deposits, commercial paper, time deposits and interest bearing or discounted bonds, including fixed-rate, floating-rate and callable notes. As at 31 December 2021, UNDP had $110.893 million (2020: $419.326 million) in outstanding floating rate fixed-income securities, with maturities ranging from one month to three years.

29.27. The table below presents the interest sensitivity of UNDP investments based on the duration of its securities. The sensitivity is limited to the fixed-income investments classified as available for sale, which are marked to market through net assets/equity, and changes in interest rates would therefore have no impact on the UNDP surplus and deficit.

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

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2021	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
384 854	100 basis point increase	(8 165)	–
384 854	50 basis point decrease	4 082	–

Note: Bond instruments only, excluding equity investments (see table in para. 29.11 above).

Foreign exchange risk

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

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

29.30. UNDP actively manages net foreign exchange exposure in 10 major currencies against the United States dollar using foreign exchange forward and option contracts. These currencies are: the Australian dollar, the Canadian dollar, the Danish krone, the euro, the Japanese yen, the New Zealand dollar, the Norwegian krone, the pound sterling, the Swedish krona and the Swiss franc.

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

(Thousands of United States dollars)

	United States dollar	*Euro*	*Swedish krona*	*Other*	*31 December 2021 total*	*31 December 2020 total*
Cash and cash equivalents	407 479	33 556	307	125 143	566 485	838 512
Investments	7 634 285	140 406	5 691	112 425	7 892 807	7 204 272
Receivables, non-exchange	3 827 374	556 182	96 569	262 354	4 742 479	4 805 284
Total cash and cash equivalents, investments, and receivables: non-exchange	**11 869 138**	**730 144**	**102 567**	**499 922**	**13 201 771**	**12 848 068**

The above table depicts the top three currencies of the organization by volume.

(b) Foreign exchange sensitivity analysis

(Thousands of United States dollars)

	Currency depreciation		*Currency appreciation*	
	Surplus/(deficit)	*Net assets*	*Surplus/(deficit)*	*Net assets*
Euro (10 per cent change)	(66 616)	–	80 835	–
Swedish krona (10 per cent change)	(9 313)	–	11 410	–
Pound sterling (10 per cent change)	(7 985)	–	9 434	–

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

29.31. At 31 December 2021, UNDP held investments and cash and cash equivalents balances in several non-United States dollar currencies. Cash and cash equivalents were held in non-United States dollar currencies primarily to support local operating activities in programme countries, where a large portion of payments are made in local currency. UNDP maintains a minimum level of assets in local currencies, and, whenever possible, converts excess local currency balances in bank accounts into United States dollars.

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

Equity price risk

29.33. In 2021, UNDP held equity investments in its externally managed after-service health insurance portfolio and end-of-service/repatriation portfolio. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNDP surplus and deficit.

Price sensitivity of equity investments

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2021	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
656 195	5 per cent increase	32 810	–
656 195	5 per cent decrease	(32 810)	–

29.34. Despite the volatility in financial markets witnessed in 2021 due partly to the impact of the COVID-19 pandemic, the principal of the UNDP working capital portfolio remains safe, as it holds high-quality assets, with the aim being to preserve principal in line with its investment policy. Investment income earned on funds invested in the working capital, after-service health insurance and end-of-service/repatriation portfolios increased from $118.5 million in 2020 to $135.5 million in 2021, owing to a higher realized gain on sale of investments.

29.35. UNDP actively monitors ratings of its investment holdings and investment counterparties in accordance with its investment guidelines.

29.36. Any changes, due to market volatility, in the value of the UNDP after-service health insurance portfolio and end-of-service/repatriation portfolio, which is classified as available-for-sale, have no impact on the reported surplus and deficit. See note 20, Employee benefits, for additional disclosure on the changes to the after-service health insurance liability in 2021.

Note 30
Related parties

Key management personnel

30.1. The leadership structure of UNDP consists of an Executive Group, which, at the end of 2021, comprised 13 members. The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the mandate of UNDP. Collectively, the Executive Group has four tiers, comprising: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); and a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and the Chief of Staff and Director, Office of the Administrator (ex officio).

Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	13	3 238	1 144	4 382	3 872
Close family members of key management personnel	–	–	–	–	–
Total	**13**	**3 238**	**1 144**	**4 382**	**3 872**

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

30.3. Other entitlements include contributions by UNDP for key management personnel to the United Nations Joint Staff Pension Fund of $0.68 million (2020: $0.63 million).

Loans

30.4. Staff advances are available to UNDP staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations. As at 31 December 2021, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNDP staff.

United Nations system

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

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

Note 31
Commitments and contingencies

Open commitments

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Property, plant and equipment	18 929	6 157
Goods	386 011	443 955
Services	494 902	495 822
Total open commitments	**899 842**	**945 934**

31.1. As at 31 December 2021, commitments of UNDP for the acquisition of various goods and services contracted but not received amounted to $899.842 million.

Lease commitments by term

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Obligations for property leases		
Less than 1 year	72 163	69 725
1–5 years	94 725	65 542
Beyond 5 years	23 367	24 160
Total property lease obligations	**190 255**	**159 427**

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Obligations for equipment leases		
Less than 1 year	90	105
1–5 years	65	155
Beyond 5 years	–	–
Total equipment lease obligations	**155**	**260**

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

31.3. UNDP has approximately 427 operating lease agreements for land and buildings. The majority of lease agreements are under commercial terms. In 2021, approximately 101 agreements were for space provided to UNDP by host Governments on a free-of-charge basis and recorded as contributions in kind which primarily comprise donated use of land and buildings of $18.687 million (2020: $15.394 million), (see note 24, Voluntary contributions). Rent for all operating leases is reported within rent, leases and utilities expense (see note 28, Expenses).

Contingent assets

31.4. At 31 December 2021, UNDP has a contingent asset for a compound in South Sudan over which there is an ownership dispute. Owing to that dispute, UNDP has not recognized the land and buildings in the compound as property, plant and equipment. The fair value of the land and buildings was last assessed by independent valuators in 2018 at $51.368 million.

Contingent liabilities

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

31.6. As at 31 December 2021, corporate and commercial and administrative law claims totalled $3.748 million. No impairment or allowance for loss has been recorded, as the occurrence, amount and timing of outflow is not certain. UNDP does not expect the ultimate resolution of any of the proceedings to which it is party to have a significant adverse effect on its financial position, performance or cash flows.

31.7. UNDP is a partner organization with the United Nations International Computing Centre, which is based in Geneva. The memorandum of understanding between the two organizations provides for the financial responsibility of both partner organizations should any third-party claim or liability arise within certain conditions. As at 31 December 2021, there were no such claims.

Note 32
Disaster Mitigation Fund

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Opening balance	**23**	**11**
Total revenue	1 019	1 056
Total expenses	(1 019)	(1 044)
Closing balance	**23**	**23**

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

Note 33
Events after reporting date

33.1. The reporting date for UNDP is 31 December of each year. The date of certification and transmittal of the financial statements is 30 April of the year after the financial year end (the date of signing of these financial statements).

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

Note 34
Additional disclosure

34.1
Total expenses by cost classification

(Thousands of United States dollars)

	2021
Development	
Programme	4 651 540
Development effectiveness	209 031
United Nations development coordination	20 734
Management	444 339
Special purpose	77 900
Other	242 596
Elimination[a]	(261 281)
Total expenses	**5 384 859**

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

34.2
Programme expenses by executing entity/implementing partner and responsible party

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

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

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	84 066	1 334 514	303 719	(23)	1 722 276
International non-governmental organizations	157	12 136	9 121	–	21 414
National non-governmental organizations	2 575	1 947	4 309	–	8 831
Food and Agriculture Organization of the United Nations	–	5	–	–	5
International Maritime Organization	–	–	715	–	715
United Nations Human Settlements Programme (UN-Habitat)	–	116	–	–	116
United Nations Educational, Scientific and Cultural Organization	–	–	277	–	277
United Nations Industrial Development Organization	–	–	454	–	454
United Nations Office for Project Services	554	6 955	58 726	–	66 235
United Nations Office on Drugs and Crime	–	680	–	–	680
United Nations Volunteers programme	–	1	–	18 273	18 274
Other United Nations entities	–	(2)	(20)	–	(22)
United Nations Development Programme	319 913	2 287 108	205 264	–	2 812 285
Total programme expenses	**407 265**	**3 643 460**	**582 565**	**18 250**	**4 651 540**

34.2 (b)
Programme expenses by responsible party

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

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	67 220	926 989	244 347	9	1 238 565
International non-governmental organizations	4 360	114 074	13 284	–	131 718
National non-governmental organizations	10 680	141 892	21 927	–	174 499
Food and Agriculture Organization of the United Nations	93	1 932	2 149	–	4 174
International Fund for Agricultural Development	–	–	380	–	380
International Labour Organization	231	591	–	–	822
International Maritime Organization	–	–	715	–	715
International Organization for Migration	23	1 736	157	–	1 916

	Regular resources	Cost-sharing	Trust funds	Reimbursable support services and miscellaneous activities	Total
Joint United Nations Programme on HIV/AIDS (UNAIDS)	7	1 516	–	–	1 523
Executive Office of the Secretary-General	–	–	423	–	423
Pan American Health Organization	–	1 111	–	–	1 111
United Nations Capital Development Fund	882	1 854	386	–	3 122
United Nations Children’s Fund	90	14 705	707	–	15 502
United Nations Conference on Trade and Development	502	229	–	–	731
Department of Economic and Social Affairs of the United Nations Secretariat	–	12	–	–	12
Department of Peacekeeping Operations of the United Nations Secretariat	–	488	126	–	614
Department of Political and Peacebuilding Affairs of the United Nations Secretariat	–	40	–	–	40
Economic Commission for Africa	–	20	–	–	20
Economic and Social Commission for Asia and the Pacific	–	–	17	–	17
United Nations Educational, Scientific and Cultural Organization	–	433	498	–	931
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	232	7 523	78	–	7 833
United Nations Environment Programme	–	2 488	620	–	3 108
Office of the United Nations High Commissioner for Refugees	–	92	23	–	115
United Nations Human Settlements Programme (UN-Habitat)	–	8 545	–	–	8 545
United Nations Industrial Development Organization	–	1 089	454	–	1 543
United Nations Institute for Training and Research	–	736	404	–	1 140
Latin American Institute for the Prevention of Crime and the Treatment of Offenders	–	12	–	–	12
Office of Counter-Terrorism	–	229	–	–	229
United Nations Office for Project Services	–	16 308	59 541	–	75 849
United Nations Office on Drugs and Crime	250	2 891	68	–	3 209
Office for the Coordination of Humanitarian Affairs of the United Nations Secretariat	–	1	–	–	1
United Nations Population Fund	268	5 543	–	–	5 811
United Nations Relief and Works Agency for Palestine Refugees in the Near East	–	244	640	–	884
United Nations System Staff College	–	74	–	–	74
United Nations University	–	427	234	–	661
United Nations Volunteers programme	–	1	–	18 261	18 262
World Food Programme	125	2 853	155	–	3 133
World Health Organization	593	13 080	1 355	–	15 028
World Tourism Organization	1	57	10	–	68
Other United Nations entities	–	132	–	–	132
United Nations Development Programme	321 708	2 373 513	233 867	(20)	2 929 068
Total programme expenses	**407 265**	**3 643 460**	**582 565**	**18 250**	**4 651 540**

34.3
Programme expenses by geographical region

(Thousands of United States dollars)

	Africa	*Arab States*	*Asia and the Pacific*	*Europe and Commonwealth of Independent States*	*Latin America and the Caribbean*	*Global and others*	*Total*
Expenses							
Contractual services	310 162	425 098	456 604	215 138	378 319	119 428	1 904 749
Staff costs	106 794	67 846	45 353	14 521	13 689	80 227	328 430
Supplies and consumables used	365 117	139 339	91 331	178 698	373 662	15 568	1 163 715
General operating expenses	326 352	164 255	124 468	74 482	160 585	49 413	899 555
Grants and other transfers	30 830	39 750	14 778	17 593	164 935	57 942	325 828
Other expenses	4 568	6 698	2 710	484	8 310	2 198	24 968
Depreciation and amortization	1 921	641	629	462	502	140	4 295
Total	**1 145 744**	**843 627**	**735 873**	**501 378**	**1 100 002**	**324 916**	**4 651 540**

34.4
Reimbursable support services and miscellaneous activities

34.4 (a)
Statement of financial position

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers Programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Assets								
Current assets								
Cash and cash equivalents	54 977	2 549	10 285	3 364	3 165	1 505	906	76 751
Investments	290 432	13 473	54 344	17 782	11 762	7 955	4 787	400 535
Receivables, non-exchange transactions	2 681	468	5 198	2 676	341	–	–	11 364
Receivables, other	1 250	–	–	326	1	27	–	1 604
Advances issued	864	–	29	165	–	–	–	1 058
Loans to Governments	–	–	–	–	–	507	–	507
Inventories	926	–	25	102	–	–	–	1 053
Total current assets	**351 130**	**16 490**	**69 881**	**24 415**	**15 269**	**9 994**	**5 693**	**492 872**
Non-current assets								
Investments	439 573	20 391	82 251	26 913	17 801	12 040	7 245	606 214
Loans to Governments	–	–	–	–	–	2 265	–	2 265
Receivables, non-exchange transactions	23 070	18	3 349	–	–	–	–	26 437
Property, plant and equipment	53 778	15	877	3 668	–	8 561	–	66 899
Intangible assets	2 398	–	2 650	–	–	–	–	5 048

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers Programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Receivables, other	21	–	–	4	–	–	–	25
Total non-current assets	**518 840**	**20 424**	**89 127**	**30 585**	**17 801**	**22 866**	**7 245**	**706 888**
Total assets	**869 970**	**36 914**	**159 008**	**55 000**	**33 070**	**32 860**	**12 938**	**1 199 760**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	4 665	5	14 656	3 406	14 701	(2)	–	37 431
Advances payable	619	12 399	44	109	15	–	–	13 186
Funds received in advance and deferred revenue	14 217	700	–	10	–	14	–	14 941
Funds held on behalf of donors	–	–	–	100	–	–	–	100
Employee benefits	15 387	–	(2)	2	(8)	–	–	15 379
Other current liabilities	799	–	–	51	387	6	–	1 243
Total current liabilities	**35 687**	**13 104**	**14 698**	**3 678**	**15 095**	**18**	**–**	**82 280**
Non-current liabilities								
Funds received in advance and deferred revenue	16 579	–	–	–	–	6	–	16 585
Employee benefits	388 436	–	–	–	(46)	–	–	388 390
Total non-current liabilities	**405 015**	**–**	**–**	**–**	**(46)**	**6**	**–**	**404 975**
Total liabilities	**440 702**	**13 104**	**14 698**	**3 678**	**15 049**	**24**	**–**	**487 255**
Net assets/equity								
Reserves	116 001	–	–	–	–	25 000	–	141 001
Accumulated surpluses	313 267	23 810	144 310	51 322	18 021	7 836	12 938	571 504
Total net assets/equity	**429 268**	**23 810**	**144 310**	**51 322**	**18 021**	**32 836**	**12 938**	**712 505**
Total liabilities and net assets/equity	**869 970**	**36 914**	**159 008**	**55 000**	**33 070**	**32 860**	**12 938**	**1 199 760**

34.4 (b)
Statement of financial performance

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers Programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Revenue								
Voluntary contributions	62 768	(4 087)	41 418	4 193	14 694	–	–	118 986
Revenue, exchange transactions	81 707	368	2 161	25 856	–	5 051	–	115 143
Investment revenue	3 778	48	497	493	–	–	–	4 816
Other revenue	280 198	10	5 420	4 092	–	1	–	289 721
Total revenue	**428 451**	**(3 661)**	**49 496**	**34 634**	**14 694**	**5 052**	–	**528 666**

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers Programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Expenses								
Contractual services	53 580	2 232	16 913	4 774	2	15	–	77 516
Staff costs	264 247	91	4 596	10 699	13 189	–	–	292 822
Supplies and consumables used	21 560	3 641	2 280	2 996	–	109	–	30 586
General operating expenses	94 685	658	5 863	15 191	2 605	7	–	119 009
Grants and other transfers	384	–	–	9	–	–	–	393
Other expenses	2 290	(364)	828	52	–	(1)	–	2 805
Depreciation and amortization	9 359	2	586	336	–	303	–	10 586
Total expenses	**446 105**	**6 260**	**31 066**	**34 057**	**15 796**	**433**	–	**533 717**
Surplus/(deficit) for the year	**(17 654)**	**(9 921)**	**18 430**	**577**	**(1 102)**	**4 619**	–	**(5 051)**

34.5 Cost-sharing: government, third-party and South-South: statement of financial performance

(Thousands of United States dollars)

	Third-party cost-sharing	*Government cost-sharing*	*South-South cost-sharing*	*Total*
Revenue				
Voluntary contributions	2 446 513	1 295 245	5 504	3 747 262
Revenue, exchange transactions	216	311	–	527
Investment revenue	7 807	17 554	–	25 361
Other revenue	2 678	2 541	–	5 219
Total revenue	**2 457 214**	**1 315 651**	**5 504**	**3 778 369**
Expenses				
Contractual services	1 011 224	397 296	3 449	1 411 969
Staff costs	198 095	20 654	572	219 321
Supplies and consumables used	489 073	530 034	1 619	1 020 726
General operating expenses	530 033	186 781	1 337	718 151
Grants and other transfers	135 608	122 815	204	258 627
Other expenses	11 518	7 882	26	19 426
Depreciation and amortization	2 114	527	6	2 647
Total expenses	**2 377 665**	**1 265 989**	**7 213**	**3 650 867**
Surplus/(deficit) for the year	**79 549**	**49 662**	**(1 709)**	**127 502**

34.6 (a)
Top four trust funds: statement of financial position

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Assets				
Current assets				
Cash and cash equivalents	30 481	3 105	4 661	2 432
Investments	161 031	16 410	24 637	12 857
Receivables, non-exchange transactions	286 692	–	22 125	1 200
Receivables, other	84	–	1	–
Advances issued	30 001	39	106	7 433
Inventories	1	–	–	–
Total current assets	**508 290**	**19 554**	**51 530**	**23 922**
Non-current assets				
Investments	243 723	24 837	37 290	19 459
Receivables, non-exchange transactions	638 365	–	3 557	–
Property, plant and equipment	969	693	5	38
Receivables, other	16	–	–	–
Total non-current assets	**883 073**	**25 530**	**40 852**	**19 497**
Total assets	**1 391 363**	**45 084**	**92 382**	**43 419**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	5 332	49	2 855	82
Advances payable	195	25	–	1 223
Funds held on behalf of donors	79	–	–	88
Total current liabilities	**5 606**	**74**	**2 855**	**1 393**
Total liabilities	**5 606**	**74**	**2 855**	**1 393**
Net assets/equity				
Accumulated surpluses/deficits	1 385 757	45 010	89 527	42 026
Total net assets/equity	**1 385 757**	**45 010**	**89 527**	**42 026**
Total liabilities and net assets/equity	**1 391 363**	**45 084**	**92 382**	**43 419**

34.6 (b)
Top four trust funds: statement of financial performance

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Revenue				
Voluntary contributions	385 885	(120)	29 287	13 762
Investment revenue	3 010	443	521	246
Other revenue	1 493	–	640	–
Total revenue	**390 388**	**323**	**30 448**	**14 008**
Expenses				
Contractual services	180 531	68 057	23 050	5 206
Staff costs	16 640	776	2 192	120
Supplies and consumables used	35 753	557	2 186	5 975
General operating expenses	57 064	4 358	4 225	2 772
Grants and other transfers	42 586	–	1	1 555
Other expenses	1 434	(1)	17	190
Depreciation and amortization	181	150	3	7
Total expenses	**334 189**	**73 897**	**31 674**	**15 825**
Surplus/(deficit) for the year	**56 199**	**(73 574)**	**(1 226)**	**(1 817)**

34.7 (a)
Funding windows: statement of financial position

34.7.1. The funding windows were established in 2016 as the Programme's pooled thematic funds, with four windows: (1) Sustainable development and poverty eradication; (2) Climate change and disaster risk reduction; (3) Governance for inclusive and peaceful societies; and (4) Emergency development response to crisis and recovery. In 2019, UNDP management approved the redesign of the funding windows to align more directly to its core mandate and the strategic plan (2018–2021) as well as donor priorities. Four new windows were created: (1) Poverty and inequality; (2) Governance, peacebuilding, crisis and resilience; (3) Nature, climate and energy; and (4) Gender equality and women's empowerment. The 2021 UNDP financial statements present each funding window separately, in view of their distinct nature, including each of the original four.

Funding windows: statement of financial position

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*	*Poverty and inequality*	*Gender equality and women's empowerment*
Assets								
Current assets								
Cash and cash equivalents	728	492	1 166	140	13 124	6 475	1 436	127
Investments	3 840	2 598	6 158	742	69 368	34 224	7 589	671
Receivables, non-exchange transactions	–	–	–	–	49 090	–	–	–
Receivables, other	–	6	4	–	23	–	–	–
Advances issued	83	192	3	12	12 641	1 846	39	86
Inventories	2	–	–	–	–	–	–	–
Total current assets	**4 653**	**3 288**	**7 331**	**894**	**144 246**	**42 545**	**9 064**	**884**
Non-current assets								
Investments	5 813	3 933	9 321	1 125	104 990	51 798	11 486	1 015
Receivables, non-exchange transactions	–	–	–	–	15 214	–	–	–
Property, plant and equipment	–	277	–	51	95	–	–	–
Total non-current assets	**5 813**	**4 210**	**9 321**	**1 176**	**120 299**	**51 798**	**11 486**	**1 015**
Total assets	**10 466**	**7 498**	**16 652**	**2 070**	**264 545**	**94 343**	**20 550**	**1 899**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	48	166	514	2	2 071	15	31	15
Advances payable	–	–	–	–	9	2 376	–	34
Other current liabilities	–	–	–	–	72	–	–	–
Total current liabilities	**48**	**166**	**514**	**2**	**2 152**	**2 391**	**31**	**49**
Total liabilities	**48**	**166**	**514**	**2**	**2 152**	**2 391**	**31**	**49**
Net assets/equity								
Accumulated surpluses	10 418	7 332	16 138	2 068	262 393	91 952	20 519	1 850
Total net assets/equity	**10 418**	**7 332**	**16 138**	**2 068**	**262 393**	**91 952**	**20 519**	**1 850**
Total liabilities and net assets/equity	**10 466**	**7 498**	**16 652**	**2 070**	**264 545**	**94 343**	**20 550**	**1 899**

34.7 (b)
Funding windows: statement of financial performance

34.7.2. Included in Governance, peacebuilding, crisis and resilience, voluntary contributions of $81 million are voluntary contributions of $16 million from the funding windows related to the COVID-19 pandemic for the following funds: (a) COVID-19 pandemic – country response; (b) COVID-19 pandemic – regional response; (c) COVID-19 pandemic – development effectiveness; and (d) Crisis response – COVID-19 pandemic. In terms of expenses, the COVID-19 pandemic funding windows incurred $68 million of the total expenses from the Governance, peacebuilding, crisis and resilience window of $113 million.

Funding windows: statement of financial performance

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*	*Poverty and inequality*	*Gender equality and women's empowerment*
Revenue								
Voluntary contributions	–	(21)	25	–	81 456	13 720	18 912	1 719
Investment revenue	91	71	48	19	1 672	590	42	8
Other revenue	–	–	–	(32)	24	–	–	–
Total revenue	**91**	**50**	**73**	**(13)**	**83 152**	**14 310**	**18 954**	**1 727**
Expenses								
Contractual services	3 297	2 842	5 782	1 107	43 774	2 152	6	186
Staff costs	348	1 574	1 508	50	17 094	485	–	231
Supplies and consumables used	736	1 647	323	795	20 644	38	18	1
General operating expenses	1 192	2 272	1 722	627	27 608	1 595	48	152
Grants and other transfers	41	400	69	506	3 248	4 554	–	–
Other expenses	159	(47)	19	20	672	254	1	–
Depreciation and amortization	–	36	–	7	14	–	–	–
Total expenses	**5 773**	**8 724**	**9 423**	**3 112**	**113 054**	**9 078**	**73**	**570**
Surplus/(deficit) for the year	**(5 682)**	**(8 674)**	**(9 350)**	**(3 125)**	**(29 902)**	**5 232**	**18 881**	**1 157**

34.8
All trust funds established by the United Nations Development Programme: schedule of financial performance

(Thousands of United States dollars)

Name of the trust fund	*Net assets 31 December 2020*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2021*
Fund manager: UNDP Africa				
African Peer Review Mechanism of the New Partnership for Africa's Development	18	–	–	18
Belgium: trust fund in support of the elections project in the Democratic Republic of the Congo	2	–	–	2
EEC: support for the national mine action strategy: support for the launch of the Mine Action Centre in Casamance	(10)	–	10	–
Justice and security trust fund for Liberia	197	1	(28)	170
UNDP: trust fund for the Mozambique mine clearance programme	281	1	(279)	3
UNDP: trust fund for the United Nations Educational and Training Programme for Southern Africa	11	–	–	11
Total UNDP Africa	**499**	**2**	**(297)**	**204**
Fund manager: UNDP Arab States				
EEC/Sudan: post-conflict community-based recovery and rehabilitation programme	27	–	–	27
EEC/Sudan: promotion of equality, tolerance and peace through the dissemination of the Comprehensive Peace Agreement and of the Transitional Legal Framework in Southern Sudan	3	–	–	3
EEC: trust fund for local government and country recovery in South Sudan	28	–	–	28
Information and communication technology trust fund for Egypt	369	5	–	374
Trust fund for poverty alleviation in the Arab region	–	–	(7)	(7)
UNDP: trust fund for the Programme of Assistance to the Palestinian People	4 967	33	(316)	4 684
Total UNDP Arab States	**5 394**	**38**	**(323)**	**5 109**
Fund manager: UNDP Asia and the Pacific				
Law and order trust fund for Afghanistan	118 584	323	(73 897)	45 010
Trust fund in support of the full implementation of the Convention on Cluster Munitions in the Lao People's Democratic Republic within the framework of the Vientiane Declaration on Aid Effectiveness	271	2	1	274
UNDP-Republic of Korea trust fund	6	–	–	6
UNDP-Republic of Korea trust fund in support of the Tumen River Area Development Programme	2 582	12	(246)	2 348
Total UNDP Asia and the Pacific	**121 443**	**337**	**(74 142)**	**47 638**

Name of the trust fund	*Net assets 31 December 2020*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2021*
Fund manager: UNDP Bureau for Policy and Programme Support				
Forest Carbon Partnership Facility	6 341	468	(3 206)	3 603
Multilateral Fund for the Implementation of the Montreal Protocol	90 753	30 448	(31 674)	89 527
Global Environment Facility trust fund	1 329 558	390 388	(334 189)	1 385 757
Trust fund to combat desertification and drought	8	–	(8)	–
UNDP Energy Account	101	1	(12)	90
UNDP: thematic trust fund for crisis prevention and recovery	6 355	(105)	(208)	6 042
UNDP: democratic governance thematic trust fund	888	2	32	922
UNDP: thematic trust fund on energy for sustainable development	(1)	–	19	18
UNDP: thematic trust fund on environment	7 608	(247)	(3 220)	4 141
UNDP: gender thematic trust fund	(8)	7	1	–
UNDP: thematic trust fund on information and communications technology for development	122	–	89	211
UNDP: thematic trust fund on poverty reduction for sustainable development	199	–	44	243
UNDP: thematic trust fund on HIV/AIDS	83	1	(1)	83
UNDP: trust fund for crisis, post-conflict and recovery situations	(11)	–	11	–
UNDP: trust fund for public-private partnerships for the urban environment	26	–	–	26
UNDP: trust fund for sustainable social development, peace and support to countries in special situations	2 001	11	(469)	1 543
Total UNDP Bureau for Policy and Programme Support	**1 444 023**	**420 974**	**(372 791)**	**1 492 206**
Fund manager: UNDP Bureau of External Relations and Advocacy				
UNDP-Republic of Korea: Sustainable Development Goals trust fund	1 314	1 145	(1 241)	1 218
UNDP: trust fund for international partnership	203	1	(59)	145
UNDP: trust fund for the private sector in development	1 129	7	(128)	1 008
UNDP-Republic of Korea: Millennium Development Goals trust fund for programming fund-based cooperation	673	5	(6)	672
Total UNDP Bureau of External Relations and Advocacy	**3 319**	**1 158**	**(1 434)**	**3 043**
Fund manager: UNDP Europe and the Commonwealth of Independent States				
UNDP-Russian Federation: trust fund for development	61 945	7 254	(10 576)	58 623
EEC trust fund for integrated support for decentralization in Albania	2	–	–	2
Total UNDP Europe and Commonwealth of Independent States	**61 947**	**7 254**	**(10 576)**	**58 625**
Fund manager: UNDP Geneva				
UNDP: trust fund for innovative partnerships with national Governments, local authorities, the private sector, non-governmental organizations, academic institutions and foundations	3 361	1 008	(1 617)	2 752
Total UNDP Geneva	**3 361**	**1 008**	**(1 617)**	**2 752**
Fund manager: UNDP Latin America and the Caribbean				
International Commission against Impunity in Guatemala	51	–	–	51
UNDP-Spain: trust fund for integrated and inclusive development	286	2	–	288
Total UNDP Latin America and the Caribbean	**337**	**2**	–	**339**

Name of the trust fund	*Net assets 31 December 2020*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2021*
Fund manager: UNDP Technical Cooperation among Developing Countries				
India, Brazil and South Africa Facility for Poverty and Hunger Alleviation	11 152	2 082	(890)	12 344
Pérez-Guerrero Trust Fund for South-South Cooperation	8 157	259	(252)	8 164
United Nations Fund for South-South Cooperation	43 843	14 008	(15 825)	42 026
Total UNDP Technical Cooperation among Developing Countries	**63 152**	**16 349**	**(16 967)**	**62 534**
Fund manager: UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services				
Climate change and disaster risk reduction	25 488	73	(9 423)	16 138
Emergency development response to crisis and recovery	5 193	(13)	(3 112)	2 068
Gender equality and women's empowerment	693	1 727	(570)	1 850
Governance for peaceful and inclusive societies	16 006	50	(8 724)	7 332
Governance, peacebuilding, crisis and resilience	292 295	83 152	(113 054)	262 393
Nature, climate and energy	86 720	14 310	(9 078)	91 952
Poverty and inequality	1 638	18 954	(73)	20 519
Sustainable development and poverty eradication	16 100	91	(5 773)	10 418
Total UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services	**444 133**	**118 344**	**(149 807)**	**412 670**
Total trust funds	**2 147 608**	**565 466**	**(627 954)**	**2 085 120**

Abbreviations: EEC, European Economic Commission; UNDP, United Nations Development Programme.

22-09530 (E) 180822