

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

**Financial report and audited
financial statements**

for the year ended 31 December 2016

and

Report of the Board of Auditors



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Note

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

Contents

<i>Chapter</i>	<i>Page</i>
Letter of transmittal	5
I. Report of the Board of Auditors on the financial statements: audit opinion	6
II. Long-form report of the Board of Auditors	9
Summary	9
A. Mandate, scope and methodology	14
B. Findings and recommendations	15
1. Follow-up of previous years recommendations of the Board	15
2. Financial overview	15
3. Management of property and staff medical insurance	19
4. Asset management.	21
5. Results-based management.	24
6. Treasury and cash management	26
7. Payroll processing and payments	26
8. Procurement and contract management	30
9. Programme and project management.	37
10. Internal control management	40
11. Microcredit community support programme.	41
12. Human resources management.	42
13. Management of subsidies	49
14. Health programme management.	50
15. Information and communications technology	51
16. Department of Internal Oversight Services	53
17. Microfinance Department	55
C. Disclosures by management	59
1. Write-off of losses of cash, receivables, and property	59
2. Ex gratia payments	59
3. Cases of fraud and presumptive fraud	60
D. Acknowledgement	60

Annexes

I.	Follow-up of the implementation of previous years' Board's recommendations up to 31 December 2015.....	61
II.	Summary of assets written off	95
III.	Cases of fraud and presumptive fraud reported to the Board for the year 2016	96
III.	Certification of the financial statements	98
IV.	Financial report for the year ended 31 December 2016	99
A.	Introduction	99
B.	Financial and budget analysis.....	99
C.	Enhancing transparency and accountability	110
D.	Enterprise and financial risk management.....	111
E.	Responsibility	112
V.	Financial statements for the year ended 31 December 2016	113
I.	Statement of financial position as at 31 December 2016	113
II.	Statement of financial performance for the year ended 31 December 2016	114
III.	Statement of changes in net assets/equity for the year ended 31 December 2016	115
IV.	Statement of cash flow for the year ended 31 December 2016	116
V.	Statement of comparison of budget and actual amounts for the year ended 31 December 2016	117
	Notes to the 2016 financial statements.....	118

Letter of transmittal

Letter dated 30 June 2017 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2016.

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor-General of India
Chair of the Board of Auditors

Chapter I

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

Opinion

We have audited the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled “Auditor’s responsibilities for the audit of the financial statements”. We are independent of UNRWA, in accordance with the ethical requirements 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 sufficient and appropriate to provide a basis for our opinion.

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

The Commissioner-General of UNRWA is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor’s report thereon.

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

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

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

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

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

Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNRWA to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

report. However, future events or conditions may cause the Agency to cease to continue as a going concern.

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

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

Report on other legal and regulatory requirements

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

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

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(Signed) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

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

30 June 2017

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to more than 5 million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs approximately 30,251 area staff and 229 international staff at its five fields of operations in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

UNRWA is primarily funded through voluntary contributions. In 2016, total contributions were \$1,242.14 million of which voluntary contributions were \$1,194.30 million (96 per cent) and total expenses amounted to \$1,316.78 million.

The Board of Auditors audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2016 in accordance with General Assembly resolution 74 (I) and in conformity with the International Standards on Auditing. The audit was carried out through the examination of financial transactions and operations at UNRWA headquarters in Amman and at its field offices in Jordan, Gaza, Lebanon and the West Bank.

Scope of the report

The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly; it has been discussed with UNRWA 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 present fairly the financial position of UNRWA as at 31 December 2016 and its financial performance and cash flows for the 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 UNRWA operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined four key UNRWA programmes: the health programme; the education programme; the relief and social services programme; and the infrastructure and camp improvement programme. The report also includes a brief commentary on the status of implementation of the recommendations made in previous years.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

The Board also issued a separate unqualified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2016, which were prepared in accordance with the International Financial Reporting Standards. UNRWA Provident Fund is a profit-oriented business entity and therefore falls into the category of Government Business Enterprise, thereby making the Standards applicable as a financial reporting framework under paragraph 6 of IPSAS 1. In addition, the Board performed an annual audit of the Microfinance Department and issued an unqualified opinion on its financial statements for the year ended 31 December 2016.

Overall conclusion

The Board noted improvement in the Agency's internal control system, which involved updating the procurement manual and developing an anti-fraud and anti-corruption policy. UNRWA also carried out reforms by transitioning from the provision of in-kind food assistance to a cash-based transfer approach in some field offices. This approach is expected to improve efficiency by reducing the administrative and distribution costs associated with the delivery of in-kind assistance to refugees. The introduction of the new SAP enterprise resource planning system known as REACH in 2015 has also substantially improved the preparation of financial statements and provided a new chart of accounts, changes in programme reporting structure, funding classification, project accounting, grant management and other processes. Despite these management initiatives, the Board noted that the application of the policies introduced and of the manual remained a challenge to staff at the lower level, which indicates a need for awareness training. Further, while the introduction of enterprise resource planning is a positive step, adequate definition of the chart of accounts is still required in order to allow Provident Fund financial statements to be generated. Other areas where scope for improvement was noted were in procurement and contract management; payroll processing, asset management; programme and project management, medicines and medical supplies management, human resources management, treasury and cash management and information and communications technology.

Key findings

The Board has identified a number of issues that need to be considered by management in order to enhance the effectiveness of UNRWA operations. In particular, the Board highlights the key findings set out below.

Payroll processing and payment

Deficiency in payroll processing

(a) The Board found recurring erroneous overpayments and underpayments of international staff entitlements during the period of 1 January 2016 to 31 December 2016 that resulted in a series of adjustments after detection of the errors. Total adjustment per month due to the erroneous postings ranged from \$38,567 to \$120,411. The errors were mainly due to human error; system issues; and inadequate review and validation of data before being posted in the payroll for processing. These deficiencies made it difficult for UNRWA to meet its obligation of ensuring that staff members receive their monthly salaries on time, especially for those staff with erroneous negative net salary.

Management of property and staff medical insurance

Lack of insurance framework to guide insurance policies for UNRWA properties

(b) UNRWA has no insurance framework to provide for overall governance of insurance practice within the Agency. An insurance framework is necessary for UNRWA as it serves to define clear roles and responsibilities for management of insurance matters, draw clear decision lines on what is to be insured and the value for which it is to be insured and guide management of the insurance portfolio in terms of risk exposures and the development of valuation methodologies to be used for insurance purposes. The Board considers that in the absence of an insurance framework UNRWA lacks a proper basis for managing insurance for its assets and human resources.

Human resources management

High staff turnover rate for managerial post

(c) In the financial years 2015 and 2016, there were a number of staff separations at managerial level at the Professional level (P-5) and above. From January to December 2016, a total of 47 international staff (2015: 53 staff) left the Agency, including 15 (32 per cent) in the posts of directors, deputy directors and chiefs. This is slightly lower than the percentage of staff separations in 2015, when 20 out of 53 staff (38 per cent) of the same category separated from the Agency. Staff turnover at managerial level as at December 2016 was 26¹ per cent (2015: 35 per cent), while the overall turnover for international staff was 21² per cent (2015: 24³ per cent). The Board is of the view that, in order to address the problem properly, UNRWA needs to gain an understanding of the fundamental reasons for the high staff turnover through designing comprehensive questionnaires for separating staff. The current exit questionnaires which are completed by separated staff include complex and generic questions which limit detailed assessment and recording of the separation factors for further management action. High staff turnover at managerial levels may affect the smoothness and continuity of business operations.

Results-based management

Lack of continuity on formulation of the key performance indicators

(d) From a review of 73 performance indicators in the results-based management system, the Board noted that 30 indicators had no baseline, 29 indicators were carried forward from 2015 but that the baseline was not derived from the actual review result of year 2015. The Board also noted that the indicators in the annual operational plans are not updated further to the release of the actual review results of the previous year. The lack of an updated baseline in the results-based management system for some key performance indicators may compromise the ability of UNRWA to monitor the performance of planned improvements. The Board also noted that the Agency takes three months to issue the final review report of the prior year performance. This period is longer than necessary, given that most of the information required is already available from the quarterly and semi-annual review reports.

¹ The total number of staff at managerial level (above the P-5 level) is 57, while the number of separated staff (above the P-5 level) is 15.

² This percentage is obtained by dividing the total number of separated staff (47) by the total number of international staff (229).

³ This percentage is obtained by dividing the total number of separated staff (53) by the total number of international staff (220) in 2015.

Procurement and contract management

Selection of second-lowest compliant evaluated bidder

(e) The Board found one case at the Jordan field office in which the tender for the collection of solid waste from four camps was offered to both the first and the second lowest compliant bidders on the ground of diversifying the risks of failure in service delivery, since the first lowest bidder⁴ has never worked with the Agency before. This arrangement increased the cost by \$63,728⁵ (15 per cent), in contravention of paragraph 10.1.1 (a) of the UNRWA procurement manual (2015), which requires a tender to be awarded to the lowest compliant evaluated bidder. The Board is of the view that the highlighted risk of failure in service delivery by a new vendor at the award stage is not justifiable as this would have been mitigated during tender evaluation by considering vendors' performance experience, availability of equipment, staffing level and financial stability to get confidence about the vendor's ability to deliver the intended service. The Board also considers that due diligence could have been carried out to get more confidence about the performance of the successful bidder before awarding the tender.

Information and communications technology

Non-compliance with the change management procedure by field offices

(f) The Board identified a number of changes made in the infrastructure services at the Jordan, Lebanon, Gaza, Syrian Arab Republic and West Bank field offices. The changes included installation of local area networks, virtual local area networks, upgrade of exchange servers and installation of internet gateways. However, these changes at all field offices were not approved by a change advisory board, as required under technical instruction No. 11, as the field offices had no active board. Implementing service change without following the approval procedure may result in disruption of operational services and consequently affect the business operations of the Agency.

Recommendations

The Board has made several recommendations arising from its audit that are contained in the body of the report. The main recommendations are that UNRWA:

Payroll processing and payment

Deficiency in payroll processing

(a) **(i) Review the configuration of the REACH system in order to identify all errors and system defaults in relation to the staff earnings and deductions generated; and (ii) improve the review process for payroll processing and posting to minimize human error and retrain human resources staff in the light of the frequent occurrence of payroll processing errors;**

Management of property and staff medical insurance

Lack of insurance framework to guide insurance policies for UNRWA properties and staff medical insurance

(b) (i) Develop an insurance framework which will govern insurance practice in the Agency such as the definition of roles and responsibilities, clear decision lines regarding assets to be insured and for how much, the management

⁴ The second bidder has been working with the Agency in the same service for more than 10 years.

⁵ The first bidder offered a price of \$414,237, while the second bidder offered a price of \$477,966.

of insurance portfolios in terms of risk exposures and the development of valuation methodologies for insurance purposes; and (ii) assess the risk exposure of their assets as the basis for deciding on the nature of assets to be insured and the value to be covered by the insurance;

Human resources management

High staff turnover rate for managerial post

(c) (i) Identify and review the factors under the Agency's control and include them in the staff well-being matters to improve retention of staff; and (ii) customize and simplify the exit questionnaire for easy completion and conduct oral exit interviews to capture a wide range of separation reasons for decision-making and document the results in the appropriate file;

Results-based management

Lack of continuity with regard to the formulation of the key performance indicators

(d) (i) Update the provisional baseline in the results-based management system immediately upon release of the annual results review report to reflect the true baseline; and (ii) minimize the time taken to release the annual results review report so that the challenges and recommendations noted for improvement are capitalized in the operational plan for the current year;

Procurement and contract management

Selection of second-lowest compliant evaluated bidder

(e) (i) Award contracts to the lowest technically compliant evaluated bidder, as required by the procurement manual (2015); and (ii) ensure that the evaluation criteria are detailed enough and take into account vendors' past performance, equipment available, qualified staff and financial stability and perform due diligence to confirm their ability to deliver the intended service before award;

Information and communications technology

Non-compliance with the change management procedure by field offices

(f) Establish a change advisory board at all field offices, to ensure compliance with the change management procedure as established in technical instruction No. 11.

Key facts

More than 5 million	Population of Palestinian refugees served by UNRWA
30,251	UNRWA area staff (local staff)
229	UNRWA international staff
\$288.56 million	Procurement cost in 2016
702 schools, 18,037 teachers and 515,260 students	\$487.53 million spent in education programme in 2016
8.55 million	Patients visiting UNRWA health centres annually
143 health centres, 499 doctors and 1,117 nurses	\$145.65 million spent in health programme
\$1,134.40 million	Final budget for 2016
\$1,274.69 million	Total revenue for 2016
\$1,316.76 million	Total expenses for 2016

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Middle East (UNRWA) was established by General Assembly resolution 302 (IV) of 8 December 1949 and became operational on 1 May 1950. It is a subsidiary organ of the Assembly within the United Nations system. The mandate of UNRWA is to help Palestinian refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving more than 5 million Palestinian refugees in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank. UNRWA is also one of the largest employers in the Middle East, with approximately 30,251 staff, most of whom are Palestinian refugees.

2. The Board of Auditors has audited the financial statements of UNRWA and has reviewed its operations for the year ended 31 December 2016 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA and the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency. 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 in order to form an opinion on the financial statements.

4. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations in accordance with regulation 7.5 of the Financial Regulations and Rules of the United Nations. Specific areas covered during audit include treasury and cash management, education programme management, health programme management, budget management, procurement and contract management, property management, relief and social services programme management, human resources management, assets management, project and programme management, results-based management and information and communications technology.

B. Findings and recommendations

1. Follow-up to previous recommendations of the Board

5. Of the 67 recommendations for the period up to 31 December 2015, 38 (57 per cent) have been fully implemented, 26 (39 per cent) are under implementation, one (1 per cent) was not implemented, while two (3 per cent) were overtaken by events. While noting considerable improvements in the implementation status, the Board still urges UNRWA to redouble its efforts to implement the outstanding recommendations. Details regarding the status of the previous year's audit recommendations are summarized in annex I.

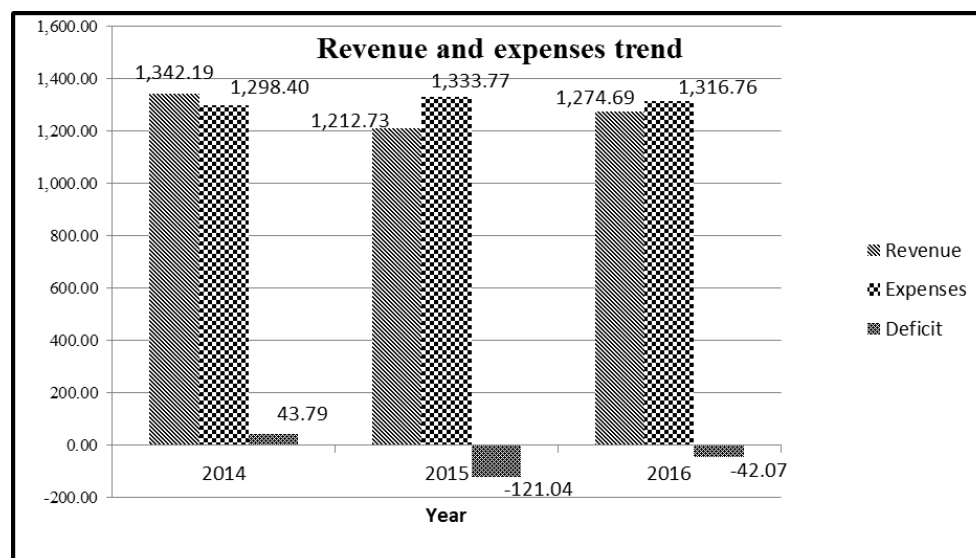
2. Financial overview

Financial performance

6. Total revenue during the year under review was \$1,274.69 million (2015: \$1,212.73 million), against total expenses of \$1,316.76 million (2015: \$1,333.77 million), resulting in a deficit of \$42.07 million (2015: \$121.04 million). The trend indicates some improvement in the Agency's financial performance during 2016 compared with the previous year whereby the overall deficit declined by 65 per cent, from \$121.04 million in 2015 to \$42.07 million in 2016. The decrease in deficit is mainly due to an increase in revenue by 5 per cent, from \$1,212.73 million in 2015 to \$1,274.69 million in 2016, coupled with a marginal decrease in expenses of 1 per cent. The comparative revenue and expenses trend for three years is shown in figure I.

Figure I
Comparative revenue and expenses

(Millions of United States dollars)



7. The programme budget, which finances the core activities of the Agency, reflected a substantial decrease in deficit by 62 per cent, from \$127.64 million in 2015 to \$48.34 million in 2016. The decline in deficit for the programme budget was mainly attributable to an increase in revenue for the programme budget by 6 per cent, from \$639.05 million in 2015 to \$676.35 million in 2016, while the related expenses decreased by 5 per cent, from \$766.69 million in 2015 to \$724.69 million in 2016. The emergency appeals fund also closed with a deficit of \$10.77 million (2015: \$0.52 million), which resulted from a timing difference in the recognition of revenue and expenses, whereby revenue with respect to this fund was recognized in a prior year after meeting the recognition criteria, while the corresponding expenses were incurred and accounted for in 2016. All other funds closed with a surplus. Financial performance by fund is summarized in table 1.

Table 1
Financial performance by fund

(Millions of United States dollars)

Description	Unearmarked activities			Earmarked activities			Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Revenue	676.35	22.27	11.14	372.87	245.31	(53.24)	1 274.69
Expenses	724.69	20.71	8.85	383.64	231.92	(53.05)	1 316.76
Surplus/(deficit)	(48.34)	1.55	2.29	(10.77)	13.39	(0.19)	(42.07)

Source: UNRWA financial statements for 2016 (note 33).

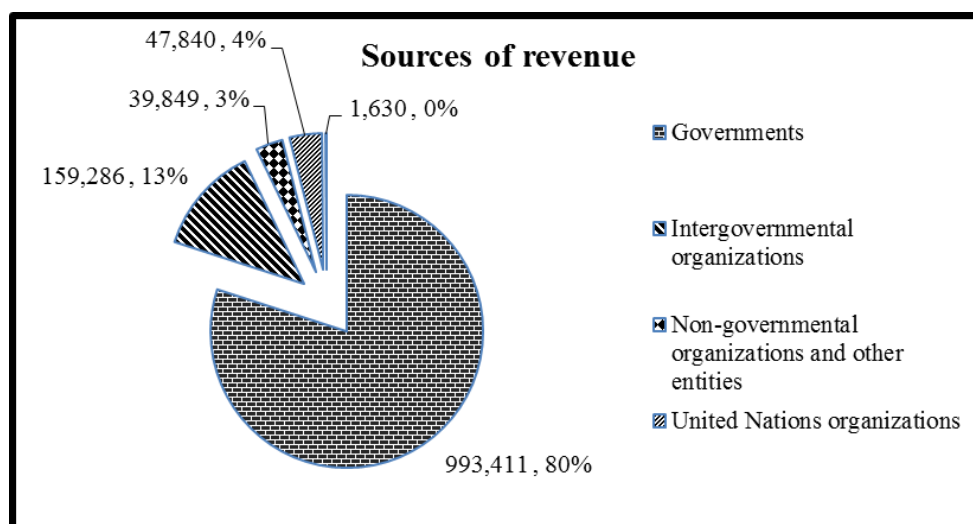
Revenue analysis

8. Of the total contribution of \$1,242.02 million received during 2016 (2015: \$1,178.73 million), \$1,194.18 million (2015: \$1,132.78 million), or 96 per cent, represents voluntary contributions from various donors, while the remaining balance

of \$47.84 million (2015: \$45.95 million), equivalent to 4 per cent, was received from the United Nations regular budget and other United Nations agencies. An increase of \$61.40 million (5 per cent) in the voluntary contributions was a result of resource mobilization efforts with existing partners, re-engaged former partners and diversification of the contributions base within and outside the region of operations.

Figure II
Contributions received, by source

(Thousands of United States dollars)

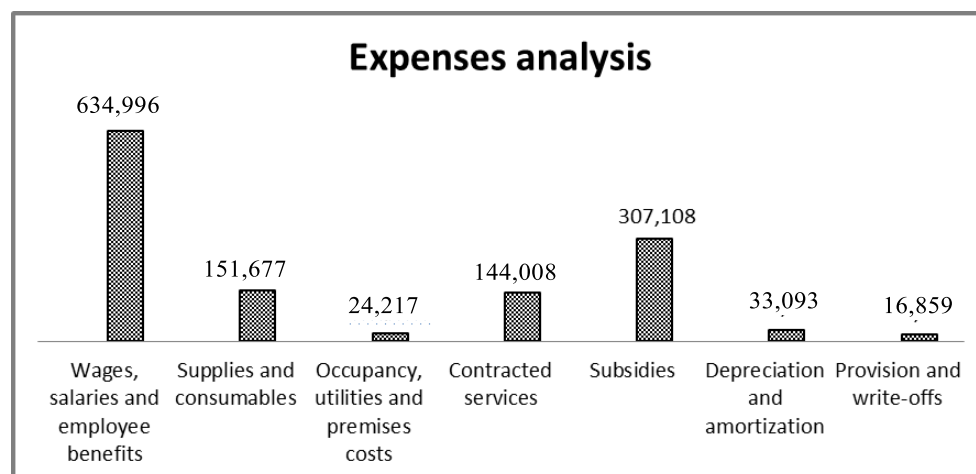


Source: UNRWA financial statements 2016.

Expense analysis

9. The Agency recorded a marginal decrease in expenses, from \$1,333.78 million in 2015 to \$1,316.76 million in 2016. Wages, salaries and employee benefits, which represent 48 per cent of the total expenses, decreased by 11 per cent, from \$709.94 million in 2015 to \$635 million in 2016. The decrease in wages, salaries and employee benefits is a result of the austerity measures implemented in respect of recruitment and decline in severance provision. The reported figure for wages, salaries and employees benefits consists of area staff costs of \$525.07 million (2015: \$599.68 million), or 83 per cent, and international staff costs of \$44 million (2015: \$45.15 million), or 7 per cent. The remaining amount of \$65.93 million represents UNRWA contributions to the area staff provident fund of \$57.34 million (2015: \$55.53 million), or 9 per cent, and health-related expenses of \$8.59 million (2015: \$9.58 million), or 1 per cent. The composition of the total expenses for 2016 is shown in figure III.

Figure III
Composition of expenses
 (Thousands of United States dollars)



Source: Extracted from UNRWA financial statements for 2016.

Statement of financial position

Net assets and reserves

10. Net assets/equity decreased by 27 per cent, from \$196.10 million reported in 2015, to \$142.63 million in 2016. The decline was attributed to factors such as the reported actuarial losses of \$5.04 million, loss on revaluation of financial instruments of \$6.52 million and a deficit of \$42.08 million recorded during the year.

Cash and cash equivalents

11. The Agency's statement of financial position closed with cash balance of \$267.23 million as at December 2016 (2015: \$308.78 million), a decrease of 13 per cent compared with the previous year. Of the cash balance of \$267.23 million, only \$7.76 million (2014: 41.76 million), or 2.9 per cent, was available for the programme budget, which finances core operations of the Agency. A substantial proportion of the cash balance relates to emergency appeals funds of \$159.68 million (60 per cent) and to project funds of \$63.10 million (23 per cent). The remaining balance relates to restricted funds of \$28.02 million (10.5 per cent) and the microfinance fund of \$8.68 million (3.2 per cent). Cash projections with respect to the programme budget for 2017 indicate a budget deficit from August until December 2017 whereby the budget deficits for August, September and October are \$4.3 million, \$37.70 million and \$61.50 million, respectively, while those for November and December are \$81.50 million and \$115.10 million, respectively.

Inventories

12. The inventory balance decreased by 25 per cent, from \$101.91 million in 2015 to \$76.76 million in 2016; the decline is mainly due to the transition from the provision of in-kind food assistance to a cash-based transfer approach in the Jordan, Lebanon and West Bank field offices. This approach resulted in a significant reduction in inventory balance.

Ratio analysis

13. Table 2 contains key financial ratios analysed from the financial statements, mainly from the statements of financial position and financial performance.

Table 2

Ratios of key financial indicators

Ratio	2015 (all funds)	Programme budget 2016	2016 (all funds)
Cash/total assets ^a	0.30	0.01	0.27
Current ratio (Current assets/current liabilities) ^b	2.63	0.43	2.94
Cash ratio (Cash + short-term investments/current liabilities) ^c	1.56	0.06	1.76
Total assets/total liabilities ^d	1.24	0.68	1.17
Quick ratio ^e (Cash + short-term investments + accounts receivable: current liabilities)	1.74	0.24	1.91
Defensive interval ratio (days) ^f (Current assets/total expenses)	141.89	27.06	109.67

^a A high indicator (1 and above) depicts a healthy financial position of the Agency.

^b A high ratio (1 and above) indicates an entity's ability to pay off its short-term liabilities.

^c A ratio below 1 is a reflection that there is insufficient cash to settle current liabilities.

^d A high ratio (1 and above) is a good indicator of solvency.

^e Quick ratio is a better indicator of the Agency's liquidity, a higher ratio means a more liquid current position (equal or above 1).

^f A favourable indicator is the number of days above 30.

14. Overall, the key financial indicators remain sound and UNRWA continues to have a high ratio of current assets to current liabilities and total assets to total liabilities. However, the programme budget is still experiencing a declining trend in liquidity position. As at the year-end, it had only \$0.43 current assets to finance each dollar of its outstanding debt, as compared with \$0.65 in 2015. Likewise, quick ratio had only \$0.24 (2015: \$0.46) to cover each dollar of immediate current liabilities. The two ratios are below the normal threshold indicators of 1.5 and 1, respectively. The cash-to-current liabilities ratio for the programme budget has declined significantly, from 0.26 in 2015 to 0.06 or 77 per cent, indicating insufficient cash to finance its current liabilities when they fall due. The defensive interval ratio, which measures how long the Agency can run its operations without additional funds from donors, indicates a decline from 50 days in 2015 to 27 days for the programme budget. This implies that the Agency would be unable to run its core operations even for one month in case of delays in receiving funds from donors.

3. Management of property and staff medical insurance

15. UNRWA has entered into contracts with various insurance companies to cover risks for its assets and human resources. The insurance policies in place include insurance for motor vehicles and for fire and third party liability insurance on properties. Insurance policies are also in place on cash in transit, marine cargo for all international consignments, and group medical insurance for area staff. From the review of the Agency's insurance policies, the Board noted the following deficiencies, which reflect the lack of adequate control over insurance contracts.

Deficiencies on property insurance

16. The insurance contract on fire and third-party liability on properties has been extended each year since 2013, covering asset value of \$161.1 million at an average premium of \$82,939 per year. However, with the exception of vehicles, none of the other insurance policies on assets is supported by an analysis to show how the Agency arrived at the value of the annual premium to be paid, the number of specific assets insured and the extent of insurance cover.

17. This deficiency is mainly attributable to the lack of an insurance framework to define the overall governance of insurance practice within the Agency. An insurance framework is vital to provide a clear definition of roles and responsibilities for the management of insurance matters, drawing clear decision lines regarding what is to be insured and the value to be insured, guidance on the management of insurance portfolios in terms of risk exposures and the development of valuation methodologies to be used for insurance purposes.

18. UNRWA has been renewing its insurance policies, but the lack of analysis of such policies supported by a proper insurance framework means that the Agency takes its decisions thereon without full consideration of the risk exposure or thorough assessment of the nature of the assets to be insured and the value to be covered by the insurance. UNRWA informed the Board that the Director of Administrative Support is currently finalizing the terms of reference for a consultant to perform a risk assessment and evaluate the risk exposure which will form the basis for the framework.

19. UNRWA agreed with the Board's recommendation that it (a) develop an insurance framework to govern insurance practice by defining roles and responsibilities, drawing clear decision lines regarding what and how much to be insured, management of insurance portfolio in terms of risk exposures and developing valuation methodologies for insurance purposes; and (b) assess the risk exposure of the Agency's assets and use its assessment as a basis for deciding on the nature of the assets to be insured and the value to be covered by the insurance.

Unreconciled monthly insurance premium at the West Bank field office

20. On 11 June 2013, UNRWA and a contractor entered into a three-year service contract for provision of a group medical insurance policy for the area staff at the West Bank field office. UNRWA was required to pay the contractor an amount of \$4.00 million per year, starting with a payment of \$800,981, from 1 May 2013, and thereafter 10 equal instalments of \$320,392 from 1 July 2013. On 29 April 2016, UNRWA entered into a new service contract of \$4.04 million per year for provision of a group medical insurance policy for a period from 1 May 2016 to 30 April 2017 at the West Bank field office.

21. Paragraph 4.2.2 of the two contracts requires the contractor to submit monthly statements on the payments made by UNRWA, together with all supporting documentation. Likewise, paragraph 4.2.2.1 of the contracts require UNRWA to certify each monthly payment associated with the statement submitted by the contractor with regard to delivery of services and make corrections to the amounts set forth in the contractor's statements and effect payment for the corrected and certified amounts.

22. However, UNRWA did not certify and reconcile any of the monthly payment as per provisions of the two contracts to authenticate the accuracy of the figure and the quality of the service delivered. UNRWA stated that, while the certification and reconciliation are not conducted on the monthly statements submitted by the

contractor, the process is under way, including discussion with human resources department on how to conduct the reconciliation to comply with the provisions of the contract. Non-certification of monthly statements submitted by the contractor means that the Agency does not validate the quality of the service delivered and confirm accuracy of the monthly actual expenditure.

23. UNRWA-West Bank field office agreed with the Board's recommendation to (a) certify the monthly statements submitted by the contractor to authenticate the quality of service delivered and the accuracy of monthly actual expenditure, and (b) reconcile monthly statement submitted by the contractor against the submission made by the staff to validate the accuracy of the information submitted by the contractor.

4. Asset management

Capitalization of assets

24. The Board reviewed the fixed assets register and identified 41 assets with a total value of \$53,993 from the Lebanon, Jordan and Syrian Arab Republic field offices with acquisition value per unit of less than \$2,000 which were included in the fixed asset register contrary to UNRWA Financial Reporting Policy which set a capitalization threshold of \$2,000 and above per unit.

25. The Board also noted that camp infrastructures from the Lebanon field office with gross carrying amount of \$2.26 million were capitalized in 2013 and 2014. This is contrary to paragraph 1.1 of the UNRWA Property Management Manual which excludes camp infrastructure from UNRWA property, plant and equipment because the Agency lacks control over the camps.

26. UNRWA informed the Board that the monthly asset capitalization checklist is in place and that the Information Management Services Department is currently reviewing the configuration of capitalization threshold of \$2,000 into the REACH system. With respect to capitalized camp infrastructures, UNRWA explained that 96 per cent of the works noted are at Nahr el-Bared and Shatila Camps which are under the Agency's responsibility. Therefore, UNRWA will review the Property Management Manual to include camps which are controlled by the Agency and ensure it is in line with IPSAS policy.

27. The Board recommends that UNRWA (a) develop preventive control measures in the REACH system to ensure that all assets below capitalization threshold of \$2,000 are tracked outside the fixed asset register; and (b) review the Property Management Manual to align it with IPSAS Financial Reporting policy on the recognition of camp infrastructure which are controlled by UNRWA.

Assets without physical identification code in the fixed asset register

28. The Board noted that UNRWA does not assign physical identification number to assets in the fixed asset register maintained in REACH system on a consistent basis. For example, out of 1,749 vehicles sampled, 352 (20 per cent) vehicles were not allocated with physical identification number in the asset register. Also physical identification numbers⁶ of other assets are maintained in stand-alone systems or spreadsheet at different departments or sections. For instance, the physical identification numbers for buildings are maintained by the engineering department through the Facilities Management Information System, for vehicles maintained by

⁶ Physical identification numbers are different from the asset numbers generated in the REACH system.

the Procurement and Logistics Division in the fleet management system while equipment details are maintained by the Property Management Unit in a spreadsheet. None of the stand-alone systems has a unique identifier to link with the system-generated asset number in the asset register in the REACH system. The Board considers that the lack of a unique code for each asset in the asset register within the REACH system to link with decentralized information hinders physical inspection and could reduce the level of management and audit assurance on the existence of non-current assets in the financial statements.

29. Further, the number of vehicles maintained by the fleet management system was different from the number of vehicles in the fixed asset register. While the fleet management system shows 1,449 vehicles, the fixed asset register indicates 1,749 vehicles. UNRWA explained that the fleet management system does not indicate the vehicles which are not in use; however, after excluding those not in use, the fixed asset register still had 180 vehicles more than the fleet management system. UNRWA also assured the Board that it had started allocating physical identification numbers in the REACH system while reconciliation of the number of vehicles in REACH system and the fleet management system was in progress and expected to be completed in the second quarter of 2017.

30. The Board is of the view that a fixed asset register becomes more meaningful when it is linked to the physical identification code of an asset for easy tracing and monitoring of the asset. The lack of a physical identification code in the fixed assets register in REACH system increases the risk of unlawful use or disposal of the asset without management knowledge.

31. UNRWA agreed with the Board's recommendation to (a) expedite allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system for easy traceability and monitoring of the assets; (b) develop a unique physical identifier to link the REACH system with other systems used to record fixed assets; and (c) expedite reconciliation of the number of vehicles in the REACH system and the fleet management system records.

Inadequate notifications on asset movement

32. According to paragraph 3.2.1 (c) of the UNRWA property management manual, any transfer of property within a field office or headquarters requires full details of the item(s) being transferred to be given in writing to the Property Management Unit, including the manufacturers' details and identification numbers and the name of the final user and updates records in the PMS.

33. The assets inspection report from the Lebanon field office for the year 2016 highlighted weaknesses in notifying the Property Management Unit about newly acquired and transferred assets within the field offices. The assets included 12 items, consisting of photocopiers, computers, printers and scanners, which were transferred from one school to another or from one user to another, seven newly acquired assets and two donated assets which were transferred directly to the end users at different locations; and all of these transfers were made without notification to the Unit. The inspection report also indicated that 16 assets at different locations were found to be beyond repair during the survey but were recorded by the Unit as active assets.

34. The Board also noted that UNRWA reported attractive⁷ assets valued at \$29.71 million, but that these assets are recorded manually on a spreadsheet, which

⁷ Attractive assets refer to assets which are above \$500 and below \$2,000, which are susceptible to theft or misuse and have more than one year's useful life.

increases the risk of errors in records. Manual recording was begun as a temporary measure when the barcode system in the old enterprise resource planning system of the Agency (RAMCO) was frozen in April 2015 to allow development of the interface on the platform that is aligned with the new enterprise resource planning system (REACH). This exercise was expected to be completed in 2016, but had not yet started as at April 2017.

35. UNRWA explained that when the barcode system was frozen,⁸ a number of items were purchased and installed in their final destinations without passing through the Property Management Unit. LFO-PMU is drafting a standard operating procedure on the acquisition, transfer and survey of assets. This standard operating procedure will be communicated to installation managers and heads of programmes through awareness sessions to be held at the field offices and head office. The Board considers that the weaknesses noted were mainly due to the lack of an electronic system for recording and inadequate information flow between other sections and the Unit on the movement of assets acquired, surveyed⁹ and transferred to other locations. This deficiency may result in misleading information regarding the status, custody and location of the assets in the property management system and misuse of the assets without management knowledge.

36. The Board recommends that UNRWA Lebanon field office (a) ensure that sections and departments provide timely notifications to the Property Management Unit on the new acquisitions, surveyed and transferred assets to allow manual recording and numbering of assets as a short-term solution pending the reactivation of the barcode system; (b) improve communication and build awareness among custodians on raising survey requests and adherence to transfer procedures to ensure timely dissemination of information to the Property Management Unit for updating the assets records; and (c) expedite the reactivation process of the barcode system in the REACH system for easy tracking and monitoring of acquired assets and surveyed and transferred assets from one location to another.

Accounting for comprehensive maintenance costs

37. The policy on maintenance of UNRWA premises of 2016 classifies the maintenance of premises into three levels: level 1 and 2 represent normal maintenance which is routine in nature and does not result in extension of useful life, while level 3 involves activities connected with keeping the premises in a good operating condition and extending the useful life of an asset. Likewise, the UNRWA financial reporting policy on property, plant and equipment (P.7) requires that for property, plant and equipment parts which are replaced at regular intervals their cost should be recognized in the carrying amount of an item of the property, plant and equipment if the recognition criteria are met.

38. From the review of four contracts relating to comprehensive maintenance costs at the Jordan field office, the Board noted that activities related to concrete block works, roofing, extensions and elevators amounting to \$425,000, which extend the asset's useful life, were expensed during the year instead of being capitalized. Although the amount involved is not material, this practice is against the requirement of UNRWA financial reporting policy and it overstates expenses and understates assets by the same amount.

⁸ Barcode frozen period refers to a period during which the barcode system in RAMCO was turned off.

⁹ Surveyed refers to assets which have been identified as beyond repair.

39. The Board was informed that the comprehensive maintenance costs are expensed because during the budgeting process all maintenance including comprehensive maintenance were classified under expense account codes, regardless of the nature of the activities and magnitude of the amount involved. The Agency is in the process of reviewing its financial technical instruction to reflect the changes made in the maintenance policy for further guidance to the field offices on classification of maintenance and the related accounting treatment. Management also stated that capitalization would require significant effort as budget carryover has already taken place and the asset under construction process needs to be re-run. However, they promised to adjust the reassessed amount of \$425,000 in the 2017 financial statements.

40. **The Board recommends that UNRWA (a) review the financial technical instruction to bring it into line with the new maintenance policy for guiding the field offices on maintenance level classification and accounting treatment; and (b) ensure that all costs relating to comprehensive maintenance activities which improve the performance or extend the useful life of an asset are classified under capital account codes during the budgeting process.**

5. Results-based management

Lack of SMART criteria on key performance indicators

41. The common monitoring matrix under the annual operational plan for 2016 for the West Bank field office showed instances where some key performance indicators used to measure the achievement of programmes' strategic objectives are not specific and measurable as required by the SMART (specific, measurable, attainable, realistic and time-bound) logical framework matrix described in the UNRWA Project Cycle Management Manual (2008).

42. From the review of the annual operational plan, the Board noted that some performance indicators were not specific and measurable; for example, the indicator on the number of UNRWA staff members trained on protection does not specify the number of UNRWA staff to be trained or the percentage of male and female staff to be trained.

43. UNRWA explained that its process for developing indicators for the common monitoring matrix has been drawn from past experience, global best practices and internationally agreed indicators. The process involves extensive consultations across fields and programmes and, in some cases, with donors. UNRWA further insisted that this process is not an exact science and that there is often room for improvement, particularly in the cases that are less well defined, such as protection¹⁰ response. UNRWA also commented that improvements can be made in some areas, to provide further disaggregation of data, in particular by gender, and that it has begun making necessary changes. The Board considers that it is important for the key performance indicators to meet the SMART criteria to facilitate more informed managerial decision-making and better performance measurement for field offices' operations. Whenever the development of indicators calls for additional or different considerations, then management should ensure that the SMART logical framework matrix is used as the basis for such decisions. This would also assist management in properly assessing the extent to which UNRWA had progressed towards achieving its set target from the baseline, as indicated in the common monitoring matrix for the annual operational plan.

¹⁰ Protection response is a strategic objective in the medium-term strategy whereby UNRWA has planned to protect staff and Palestinian refugees against various risks.

44. The Board recommends that UNRWA review and identify the key performance indicators which are not in line with SMART criteria and revise them accordingly.

Lack of continuity on formulation of the key performance indicators

45. The medium-term strategy for 2016-2021 states that UNRWA will adopt an annual cycle for operational planning. The annual operational plan captures the expected outputs, performance indicators, baselines, annual targets, inputs and activities to be carried out towards achievement of the expected outputs. The results-based management system was designed for monitoring, record keeping and providing timely reports and information for decision-making.

46. From a sample of 73 performance indicators in the results-based management system for the West Bank field office, the Board noted that 30 indicators had no baseline and that 29 indicators which were carried forward from 2015 had a baseline that was not derived from the review result of year 2015. Further, indicators in the annual operational plans were not updated after the release of actual review results of the previous year contrary to guideline on preparation of AOP issued by Planning Department. The lack of an updated baseline in the results-based management system for some key performance indicators compromises the management capacity to monitor performance of planned improvements in the programmes.

47. The Board also noted that, for the period ended 31 December 2015, the annual results review report was issued in March 2016, indicating that the Agency took three months to issue the final review report for the prior year's performance. The Board considers that that period is too long, given that most of the necessary information is already available from the quarterly and semi-annual reviews conducted and the respective reports issued. Delay in issuing the final review report of the prior year performance limits the Agency from addressing in a timely manner the challenges encountered and optimizing the planned interventions on the current operational plan.

48. UNRWA stated that it has incorporated an end-of-year estimate column into the annual operational plan as a baseline, as at the time of preparation of the plan the final performance result was not known. They further commented that they would review the approved annual operational plans after the annual results review and change the end-of-year estimate to prior year actual. If there was a significant difference between the end-of-year estimate and the prior year actual, then appropriate action would be taken. However, during the final audit in April 2017 the Board noted that there were still some activities which had been carried forward from 2015, but there were no baselines and targets in the annual operational plan of 2017. For example, the indicator on the percentage of students identified with a disability who receive support to meet their specific needs does not specify the baseline and target.

49. The Board recommends that UNRWA (a) update the provisional baseline in the results-based management system immediately upon release of the annual results review report to reflect the true baseline; and (b) minimize the time taken to release the annual results review report so that the challenges identified and the issued recommendations for improvement are considered in the preparation and implementation of the operational plan of the current year.

6. Treasury and cash management

Assessment of hedge effectiveness

50. UNRWA has entered into several forward contracts for preservation of the value of contributions received in non-United States dollars. In 2016, the Agency reported derivative financial assets (unrealized gains) of \$56,000 and derivative financial liabilities (unrealized losses) of \$7,000. The net balance of \$49,000 was reported in the statement of change in net asset/equity as a revaluation reserve resulting from hedge accounting.

51. The Board reviewed the Agency's current hedging policy and found that the method adopted by the Agency for assessing hedge effectiveness was not indicated. The Board further noted that testing of hedging effectiveness was not done as required under paragraph 98 (a and e) of IPSAS 29. Lack of assessment of hedge effectiveness limits the Agency in identifying transactions considered to be effective and which would therefore qualify for hedge accounting treatment in accordance with paragraph 106 of IPSAS 29. The Board was informed that UNRWA will ensure that the hedge effectiveness is assessed at year-end in accordance with IPSAS 29 and that the results are documented in line with the hedging policy.

52. The Board recommends that UNRWA (a) review its hedging policy to indicate the method applicable for assessing hedge effectiveness; and (b) ensure that hedge effectiveness is assessed to identify the forward contracts which qualify for hedge accounting during the preparation of financial statements.

7. Payroll processing and payments

Deficiencies in payroll reconciliation

53. In April 2015, UNRWA began using a new enterprise resource planning system called REACH, which replaced the legacy system named RAMCO. In the REACH system, all payroll-related transactions are processed by the Human Resources Department. The Finance Department receives validated reports (ZPY10)¹¹ from the Human Resources Department summarizing all payments and deductions, and also receives another report (ZPY9)¹² from the Information Management Department which includes all employees and their monthly net payable. On the basis of the reports received from the Human Resources Department and the Information Management Department, finance staff generate the ZPY22¹³ report from the payroll system for reconciliation of net payables. The Board reviewed activities performed within the monthly payroll processing cycle and noted the following deficiencies, which need management attention for improvement.

(a) International staff payroll reconciliation

54. International staff payroll reconciliation is carried out on an ad hoc basis rather than a monthly basis. As a result, monthly payroll posting remains unreconciled for a long period. As at December 2016 there were 3,410 uncleared transactions, amounting to \$451,142, of which 3,140 transactions (92 per cent), worth \$189,728, were pending from 2015. Delayed monthly payroll reconciliation and long unreconciled payroll transactions indicate that the Agency is not identifying and rectifying errors on time. This deficiency might lead to misstatement

¹¹ ZPY10 refers to the report which summarizes all payments and deductions posted by the Human Resources Department.

¹² ZPY9 refers to the list of all net salaries for payments to employees (bank and cash payments).

¹³ ZPY22 refers to the detailed report on net payroll payables posted by the Human Resources Department.

of the employee benefits balance reported. In addition, the reconciliation is based on the net payables (gross minus deductions) rather than the gross amount, which means that errors relating to deductions are not covered in the reconciliation.

55. The Board considers that the deficiencies noted are mainly due to lack of documented instructions that conform to the REACH system regarding the performance of payroll reconciliation, timing of reconciliation and time frame for clearance of unreconciled transactions. UNRWA explained that instructions on how to perform payroll reconciliation have been formalized in training presentations. The presentations include detailed steps on how the reconciliation is to be performed for payroll reconciliation, similar to any other account reconciliation, and frequency (which is monthly). The Board notes the Agency's response, but considers that the presentation mentioned is not a formal document guiding the payroll reconciliation process.

(b) Area staff payroll reconciliation

56. The Board also reviewed the payroll reconciliation for area staff and limited-duration contract staff at headquarters in Amman as at December 2016 and found 2,591 pending transactions, amounting to \$1.32 million, of which 2,135 transactions (82 per cent), amounting to \$298,548, were from 2015, while 456 transactions, amounting to \$1.02 million, were from 2016. During the final audit in April 2017, the Board found 2,065 transactions, amounting to \$121,680, which were still pending, of which 1,996 transactions (97 per cent), amounting to \$304,445, were from 2015 and the remaining balance of 69 transactions, amounting to \$182,773, were from 2016. UNRWA stated that most of the outstanding items were attributable to technical problems in the REACH system in 2015, owing to inadequate configuration at its initial stage, but that it had now managed to resolve the problems and continue clearing the pending transactions from 2015.

57. The Board recommends that UNRWA update the financial technical instruction to formalize the performance of payroll reconciliation and define the relevant payroll report to be used for payroll reconciliation, timing of reconciliation and time frame for clearance of unreconciled transactions for accuracy and completeness of the payroll process.

58. The Board also recommends that UNRWA (a) increase the scope of payroll reconciliation by considering the gross payable amount posted by the Human Resources Department, which includes all deductions, rather than following the current practice of reconciling only the net payable amount; and (b) expedite the clearance of long outstanding transactions to avoid possible misstatement in the financial statements.

Deficiency in the payroll processing for international staff

59. UNRWA processes salaries and other employee benefits for international staff through the payroll system and the Human Resources Department is responsible for the execution of all payroll posting, including the posting of all payroll updates such as pay scale, incremental changes and other staff entitlements. The Human Resources Department is also responsible for posting and updating payroll master data, which can be done monthly, annually or at any time required by the relevant directive, such as the post adjustment rates issued by the International Civil Service Commission at the beginning and middle of the month. The Board reviewed monthly salary payslips of international staff for the period from January to December 2016 and noted the deficiencies outlined below in the payroll process for international staff which need management intervention for improvement:

(a) Reoccurrence of erroneous overpayments and underpayments: During the period from November 2015 to December 2016, there were consistent erroneous overpayments and underpayments of staff entitlements. During this period, adjustments to 67 staff entitlements necessitated by the errors amounted to \$514,552, consisting of salaries and post adjustments (\$7,110); other benefits (\$213,028); and deductions (\$294,413). Some of the erroneous payments had to be recovered in subsequent months.

(b) A sample review of salary pay slips for 25 out of 229 international staff showed the following anomalies:

- Non-deduction of contributions to pension fund: pension contributions amounting to \$53,898¹⁴ for one employee were not deducted and submitted to the United Nations Joint Staff Pension Fund, contrary to International Staff Rule 6.1 and article 21 of the Pension Fund regulations, which requires staff members who have fixed-term appointments for six months or longer to be participants of the Pension Fund, provided that participation is not excluded by the letter of appointment. One staff member, whose appointment started on 25 January 2013 and ended in October 2016, did not contribute to the Pension Fund. The staff member did not contribute on the basis of approval by the Pension Fund as an exceptional case, in response to a request by the Agency indicating that the staff member was contributing to his national pension scheme. However, there was no evidence that he had made any contributions to his national pension scheme. Further to expiry of the exceptional approval by the Pension Fund, on 24 March 2016, the staff member was required to contribute to the Pension Fund from April 2016 to September 2017, when his contract will expire. UNRWA attributed this weakness to an oversight in reactivating in the system upon change of letter of appointment and expiry of the exceptional approval from the Pension Fund, but assured the Board that the issue would be corrected soon.
- Erroneous excessive deductions from employees' salaries: 5 of the 25 employees did not receive monthly salaries, owing to erroneous deductions from their monthly gross salaries, which caused negative balances in the employee's accounts. For example, one employee had negative gross earnings of \$6,367¹⁵ for September 2016 after an erroneous deduction of \$23,000 as rental subsidies from August 2015 to August 2016. The staff member concerned did not receive a salary payment for September 2016 as the system does not process negative net payment. UNRWA attributed the over or under payments to human error and a fault in the system setting. They explained that the International Staff Payroll Section has developed strategies to ensure the accuracy of payroll and restructuring of the section. UNRWA informed the Board that performance review of the Section had identified deficiency in staff capacity; as a result the Information Management Department has developed a plan to retrain human resources staff on the basis of lessons learned and by taking into account the frequency of payroll errors.

60. The Board considers that recurring deficiencies in payroll processing are a reflection of inadequate review and validation of payroll posting in the payroll system. UNRWA stated that the case identified concerning employee statutory salary deductions is not representative of a systemic shortcoming and that employee deductions for the United Nations Joint Staff Pension Fund are processed properly. However, the Board is still of the view that since the weakness noted is based on the sample tested, UNRWA needs to review the payroll processing for international staff

¹⁴ Of the total \$53,898, \$45,514 was given exceptional approval, while \$8,384 was not approved.

¹⁵ The gross salary before erroneous deduction of \$22,999.99 was \$16,632.

to rule out the possibility that the deficiency is widespread and to prevent recurrence of such cases.

61. **UNRWA agreed with the Board's recommendation that it (a) review the configuration of the REACH system in order to identify all errors and system faults relating to staff earnings and deductions generated; (b) improve the review process for payroll posting to minimize human error and consider retraining human rights staff on the basis of lessons learned and by taking into account the frequency of payroll processing errors; and (c) ensure that employee statutory salary deductions for the pension fund are made and submitted to the Pension Fund each month.**

Recognition of staff assessment cost

62. Staff assessment cost is an amount deducted from the gross earnings of all United Nations staff members as required under the United Nations Staff Regulations and Rules, regardless of their nationality. Staff assessment deductions are credited to the Tax Equalization Fund. Those Member States that do not impose income tax on United Nations earnings receive a portion of the Fund as an offset against their assessments for the United Nations regular budget and peacekeeping and tribunal budgets. When staff members have to pay national income taxes on their United Nations earnings, they are reimbursed from the Fund irrespective of the total amount of staff assessment deducted from their salaries.

63. UNRWA prepares its biennium budget, which incorporates staff cost for both area staff and international staff on the basis of the gross amount of approved number of staff in each category. The implementation of the biennium budget under the regular budget involves the preparation of monthly estimates of net payroll expenditure, which are sent to United Nations Headquarters with the actual expenditure for the previous month to account for what has been spent. However, the Board noted in its review of the international staff costs of \$44 million (gross \$47.41 million minus the assessment cost of \$3.41 million) under wages, salaries and employee benefits, that staff assessment costs of \$3.41 million for 2016 and \$2.74 million for 2015 were netted off against the gross amount for wages, salaries and employee benefits of \$47.40 million and \$47.89 million, respectively, rather than the staff assessment costs being recorded first as receipts and then as payments to account for the amount withheld at Headquarters. As a result of this treatment, Agency contributions and expenses were understated by \$3.41 million and \$2.74 million in the 2016 and 2015 financial statements, respectively. Reporting contributions and expenses without including the staff assessment cost part amounts to netting off financials statements items, which is contrary to paragraph 48 of IPSAS 1.

64. The Board was informed that staff assessment cost is normally deducted by United Nations Headquarters and retained in the Tax Equalization Fund.¹⁶ That being the case, the amount of wages, salaries and employees benefits for international staff received from Headquarters under the regular budget excludes staff assessment, but each month UNRWA reports to Headquarters the total staff assessment cost. They further commented that inclusion of the staff assessment as part of contribution and expense has an impact on the statement of financial performance (with relatively minor percentages as compared with contribution and expense). To recognize the staff assessment retained by Headquarters as contribution would require the consent of Headquarters.

¹⁶ The Tax Equalization Fund was established to equalize the net pay of all staff members, whatever their national tax obligations.

65. Despite management explanations, the Board considers that by netting off staff assessment cost from gross earnings, UNRWA understates expenses and contributions. In addition, the analysis of budget versus actual for salaries, wages and employee benefits under statement V in the financial statements might be misleading owing to the fact that the budget will include staff assessment cost while that cost is excluded in the actual amount.

66. The Board recommends that UNRWA (a) consider inclusion of staff assessment cost for international staff wages, salaries and employee benefits reported in the financial statements; and (b) recognize the staff assessment cost retained at United Nations Headquarters and consider it as part of the contribution from Headquarters.

8. Procurement and contract management

Deficiency in management of Hospitalization Service Contracts

67. In its previous report (see [A/70/5/Add.4](#), para. 56) the Board recommended that UNRWA ensure that all service contracts were signed before service delivery to make them legally binding; and conduct performance evaluations of previous services rendered before extending service contracts. In 2016, the Board continues to note similar cases whereby 19 out of 20 hospitalization contracts sampled at the Lebanon field office were signed late by periods ranging from three to four months after starting provision of the service. This practice is contrary to paragraph 11.2 of the UNRWA procurement manual, which requires the contracts to be approved and signed by the Awarding Authority before provision of services starts. Further, 18 of the 20 contracts were extended without the performance evaluation being conducted for the previous service contracts as criteria for extension. The Lebanon field office submitted performance evaluation which showed that the evaluation was carried out after the award letters had been issued to the service provider, contrary to paragraph 13.6.5 of the UNRWA procurement manual (2015).

68. UNRWA attributed the delay to long administrative procedures to be followed prior to signing of the contracts. They also stated that administrative procedures had been implemented to ensure presentation of the hospitalization contracts for approval and signature by the awarding authority before continuation of services in January 2017. The evaluation of the hospitals' performance will be conducted in 2017 prior to the sending of any letter of interest to the hospitals.

69. However, the Board remains concerned that the use of hospitalization services without a signed contract might impede the Agency from enforcing performance by contracted hospitals or from seeing legal remedies in the event of contractual disputes. In addition, reviews performed by the Board on hospitalization contracts entered into in 2017 showed that, despite management explanations, in 39 cases services started on 1 January 2017, while the contracts were signed from 25 to 46 days after commencement of the service provision.

70. The Board recommends that UNRWA (a) streamline the administrative procedures followed before signing the contracts to shorten the process and ensure that all contracts are signed before delivery of services; and (b) perform evaluation of previous services received before extending service contract.

Inadequate management of contract renewals

71. Para 13.6.5 of UNRWA procurement manual 2015 allows for renewal of contract with an existing vendor for more than one period but for each case the

sponsoring officer¹⁷ must evaluate whether the interests of the Agency would be best served by the requested renewals or through a new solicitation, taking into consideration the existing vendor's performance and market conditions. However, the manual does not provide for a limit to the number of renewals after which the contract has to be advertised.

72. At UNRWA headquarters in Amman, 7 out of 10 service contracts reviewed by the Board were renewed more than twice on the basis of good performance by the vendor without considering the market conditions, whereby the Agency might obtain alternative better performing vendors at more competitive prices, or evaluation of vendors' performance. For instance, the contracts for supply, delivery, installation, training and commissioning of a satellite-wide area network, including the operation; management and maintenance of the network have been renewed nine times since 2000 without consideration of market conditions or vendor performance.

73. In addition, for the period of January 2016 to October 2016 the evaluation reports on performance of vendors under service contracts were not supported by data showing end-user satisfaction with services rendered to them. For example, with regard to the contract for provision of mobile services at UNRWA headquarters in Amman and the Jordan field office, the evaluation was carried out by two staff (one from the Jordan field office and one from headquarters in Amman) on the basis of their own judgment and no information was obtained from the end users to support the evaluation summary. Lack of systematic data collection for the evaluation of vendors' performance impedes transparency and objectivity during the evaluation process.

74. The Board also noted one case wherein the service contract includes a provision for automatic renewal and another case with indefinite contract duration. The Board considers that if the contract renewal process is not properly managed, it will provide room for unlimited contract renewals, which will eventually impede other competent vendors and affect fair competition and transparency in the procurement process. UNRWA stated that they would amend the procurement manual to include a limit for non-competitive renewal of contracts.

75. UNRWA agreed with the Board's recommendation that it (a) review its procurement manual to include limits for contract renewals in order to enhance fair competition and obtain best value for money; and (b) improve the data collection process to include end users' satisfaction as part of vendors' performance evaluation and ensure that renewal of contract takes into account the results of the Agency's market assessment.

Delayed granting of local purchase authority resulting in emergency procurement of medical supplies at high cost

76. In UNRWA, medical items are centrally procured whereby purchase requisitions are issued by Field Office Health Programme while purchase orders are raised by the Procurement and Logistics Division at headquarters in Amman. Health programme in field offices in coordination with Health Department at the headquarters prepare procurement plan for medical inventory items indicating the time frame for each stage, from raising the purchase requisition to delivery of goods to end users. Unlike the previous years, in 2016, the field office and Health Department did not prepare a defined time frame to indicate when to raise purchase requisitions and when procured goods will be delivered to end user.

77. In its previous report (A/71/5/Add.4, chap. II, para.75), the Board recommended that UNRWA improve coordination between the Procurement and

¹⁷ Sponsoring officer refers to the head of user department/division.

Logistics Division and users at the field offices to ensure that all procurement requirements are identified and communicated to the Procurement and Logistics Division at headquarters on a timely basis, to avoid the unnecessary shortening of the tender periods; perform regular reviews of lead time and inventory balances to avoid emergency orders; and review the grounds for waivers to ensure that they are consistent with current good practice. In 2016 the Board continues to note similar cases of emergency procurements resulting from lack of procurement plan and inadequate coordination between the Gaza field office and the Health Department at the headquarters in Amman. For example, on 27 April 2016 the Gaza field office raised three¹⁸ purchase requisitions with the expectation that the consignment would be delivered in August 2016, but the Procurement and Logistics Division at headquarters in Amman did not act in a timely manner on the request, and as a result, on 29 September 2016 allowed the field office to procure the requested medical items on the local market to avoid stock-out. When the authority to purchase locally was granted, the field office had already been out of stock for a month.

78. Owing to the emergency nature of the required items, on 3 October 2016, the Gaza field office invited suppliers to bid for 5 rather than 10 working days for procurement of 46 different medical items that were out of stock. The tender of \$647,220 was eventually awarded to 14 vendors on 20 November 2016 without approval of the Local Committee on Procurement owing to the emergency nature of the procurement, and the Board was informed that management was preparing for post facto approval. The waiver to reduce the number of days for emergency procurement was approved on 2 October 2016. However, this is contrary to paragraph 6.8.h (1) of the UNRWA procurement manual (2015), which does not allow waivers on emergency procurement resulting from poor planning.

79. The Board found that, owing to the emergency nature of the procurement, the Agency incurred an additional cost of \$320,953, as summarized in table 3 below:

Table 3
Additional cost due to emergency procurements

<i>Details</i>	<i>Additional cost (\$)</i>
Five items were awarded to the second-lowest bidder at \$311,463, rather than \$225,970, as offered by the lowest bidder. This was done to meet the required delivery date.	85 493
Twenty-six items were awarded to the first lowest bidder at a cost of \$540,833. However, had the Agency used the price in the long-term agreement, the items would have cost \$305,373	235 460
Total	320 953

Source: Board's analysis.

80. Despite the high cost incurred through emergency procurement, 58 per cent of the items had not been fully delivered as at December 2016, while delivery was due, and therefore the objective of the emergency procurement was not met. The Board is of the view that, given the sensitivity of the procurement of essential medicine for refugees, the Procurement and Logistics Division at headquarters in Amman and the Health Department need to clearly define and communicate to all field offices the timing for raising a purchase requisition, in order to avoid emergency procurements, which are likely to be at high prices, and stock-out situations. The Board also noted

¹⁸ The three purchase requisitions were Nos. 121600125, 1216000126 and 1216000127.

that the Gaza field office has 45 local long-term agreements for various items. The field office uses medicine and medical supplies with an annual average value of \$16.54 million. However, there is no long-term agreement for medical supplies which could be used during emergency need as the prices are fixed for the long-term agreement period.

81. The Board was informed that the Gaza field office would seek guidance from the Procurement and Logistics Division at headquarters in Amman on the establishment of long-term agreements with local suppliers. They also commented that, if local purchase authority is obtained on time from the Division, the awarding authority will automatically opt for the lowest compliant offers.

82. The Gaza field office agreed with the Board's recommendation that (a) in coordination with Health Department and the Procurement and Logistics Division at headquarters in Amman, it establish a timeline for raising purchase requisition on medical items on the basis of the procurement plan in order to avoid stock-out and emergency procurement, which could lead to higher costs; and (b) consider entering into long-term agreements with local suppliers that offer competitive prices and meet the required specifications, to be used for emergency needs of medical supplies.

Awarding the contract to the second-lowest compliant evaluated bidder

83. Paragraph 10.1.1 (a) of the UNRWA procurement manual (2015) requires the procurement contract to be awarded to the qualified supplier whose offer substantially conforms to requirements set forth in the solicitation document and offers the lowest-cost and technically compliant offer to the Agency.

84. UNRWA outsourced services for solid waste removal from the Palestinian refugee camps at Baqa'a, Jerash, Suf and Husn in the Jordan field office and the evaluation committee identified two companies as technically and financially responsive. The committee proposed one company as the lowest technically compliant evaluated bidder for all four camps. However, the Local Committee on Procurement, the Director of Administrative Support and the awarding authority decided to allocate Baqa'a camp to the second-lowest evaluated bidder as a way of diversifying the risk of failure in service delivery, as the successful bidder had never worked with UNRWA. Under this arrangement, solid waste removal for Baqa'a camp was awarded to the second-lowest bidder, who had worked with UNRWA for more than 10 years, at a price of \$477,966 (JD 338,400) while tender for the remaining 3 camps (Jerash, Suf and Husn) was awarded to the successful bidder at a price of \$267,797 (JD 189,600). The Board noted that the price of the first bidder in Baqa'a camp was \$414,237 while that for the second bidder was \$477,966; therefore awarding the Baqa'a camp tender to the second bidder increased the cost by \$63,728 (15 per cent).

85. Two weeks after the start of the contract (18 November, 2016), the second bidder submitted a termination letter to withdraw provision of service in Baqa'a Camp for the reason that estimations in the tender documents were wrong and needed to be revised. The contract was discontinued as of 16 February 2017 and UNRWA awarded the contract to the first bidder for \$310,678 for the remaining nine months.

86. UNRWA stated that it had complied with the evaluation and award criteria, taking into account principles of procurement, including value for money and risk management. The Board is of the view that offering the contract to the second bidder at a higher price than the successful bidder runs contrary to the UNRWA procurement manual, and that the risk of failure in service delivery for the new vendor is not a valid justification since it could be mitigated through performing due

diligence, including a comprehensive evaluation review with regard to the vendor's performance, experience, availability of equipment, staffing level and financial stability in order to have confidence about its ability to deliver the intended service. The Board also noted that the Jordan field office had no contract management plan setting out guidance on risk management and assistance with contract monitoring and reporting the key performance indicators.

87. **The Board recommends that UNRWA (a) comply with the procurement manual by awarding contracts to the lowest technically compliant evaluated bidders; (b) ensure that contract management plans are developed for strategic and important contracts and used as a tool for monitoring the implementation of contracts and reporting the key performance indicator measures as required by the procurement technical instruction; and (c) perform a comprehensive evaluation review and ensure that the evaluation criteria are detailed enough to include vendors' past performance, equipment, qualified staff and financial stability, in order to confirm its ability to deliver the intended service before award.**

Lack of proactive procurement actions

88. From the review of 8 service contracts and 14 goods contracts, the Board noted that two (25 per cent) service contracts were approaching their expiry dates but no initiatives had been taken by the Contract Management Unit to call for new tenders or renewal of the existing tenders (see table 4).

Table 4
Contracts approaching their expiry dates as at November 2016

<i>Contract No</i>	<i>Details</i>	<i>Contract amount (thousands of United States dollars)</i>	<i>Expiry date</i>	<i>Remarks</i>
MPLS 011/2008 (PO No. 5116000436)	Networking and upgrading services for UNRWA headquarters and field offices	2 141 996	31 December 2016	As at 30 November 2016 there was no request from the user on whether to renew or retender. Owing to the limited time for competitive tendering, in December 2016 they decided to extend the tender to 30 June 2017.
SC/12/00/3398/0000 (PO No. 5116001427)	Provision of marine cargo insurance policy covering all risks for UNRWA shipments	110 000	31 December 2016	As of 30 November 2016 there was no request from the user on whether to renew or retender. In December 2016 the contract was extended for one year, to December 2017.

Source: Procurement files.

89. In addition, the procurement process for two of the cases reviewed started 44 to 90 days before expiration of the existing contracts and, in one case, started after expiration of the contract, which limited the time available for competitive tendering. The delayed start of the procurement process necessitated a waiver of the procurement procedures for renewing the contract in order to complete the process before the contract expiration dates.

90. Further, procurement processes for two of the cases reviewed by Board started early, but signing of the contracts was delayed. For example, the award of one tender on provision of vehicles insurance service was in August 2016, but the contract had not been signed as at December 2016.

91. UNRWA attributed the delay in signing the contract to the long period taken to review the draft contracts. The Board considers that UNRWA needs to improve its process for tracking contracts and enhance communication between the Procurement

and Logistics Division and users for the early commencement of procurement processes. Adequate communication between the Division and users coupled with proactive procurement actions will minimize unnecessary waivers and enhance transparency and competitive tendering.

92. UNRWA agreed with the Board's recommendation that it (a) remind and advise user departments, through the Contract Management Unit, to start the renewal process or re-tendering within six months before the contract expiration in order to allow enough time for the procurement process; and (b) streamline the review process for contracts to ensure timely completion of procurement processes before expiration of existing contracts.

Delayed termination of contract for improvement of Shu'fat Girls School

93. On 28 May 2015, UNRWA engaged a contractor for improvement of external works at Shu'fat Basic Girls School, with a contract sum of \$381,271 for 22 weeks from 29 June 2015 to 29 November 2015. Article 5 (c) of the contract provides for cancellation of the contract when the events becomes apparent to the Agency such that the work is progressing slowly and cannot be reasonably completed within the fixed date. In this event, the Agency has to notify the contractor in accordance with article 19 of the contract and make other arrangements for the completion of the works; the contractor shall however be liable for all expenses incurred and a charge of 15 per cent for overhead expenses.

94. As at November 2016, 84 per cent of the work was not yet complete and the contractor had suspended work since 30 September 2015 owing to lack of work permits for staff. The engineer certificates showed the total executed work as amounting to \$157,874, of which only \$31,000 was paid to the contractor from the programme budget¹⁹ since the invoice had not been submitted to the donor to release the project funds. The Board noted that invoices were not submitted to the donor until the contract expired; implying that all the pending claims would be paid from the programme budget as even the funding period had also expired.

95. While the contract period expired on 29 November 2015 and the funding from the donor expired on 31 December 2016, the Board did not find any evidence of communication between the Agency and donor to extend the funding duration. UNRWA stated that communication was carried out by telephone and email but that the donor did not respond until the funding period expired; however, no evidence was produced to confirm the management's explanations. Nor was there any involvement of the legal officers with regard to legal advice on actions to be taken when it became apparent to the Agency that the work could not reasonably be completed on the fixed date. Further, there were no regular meetings or communication between engineers, the External Relations and Communication Department and project officers to discuss the pace of project implementation against the expiration date for the funding. The Board also noted a lack of communication between the implementers²⁰ and the UNRWA executive office regarding the progress of the project and their decision on the way forward after the work had been suspended by the contractor.

96. UNRWA attributed the slow pace of implementation to an instruction provided by the school administration which requested the contractor to work after school hours and during the weekend to avoid disturbance to students during class hours. However, the Board considers that that arrangement should have been considered during the early stage of the contract and communicated to the donor in order to fix

¹⁹ Programme budget refers to regular budget to meet the operating expenses.

²⁰ Implementers refers to engineers, user department and project coordinator.

the duration of the contract and funding for the project. The Board believes that a proactive decision was required from the management to apply provision of article (5) (c)²¹ of the contract in order to hire another contractor to complete the work before expiration of the donor funding period. This also highlights the need to increase the awareness of the agency engineers with regard to efficient contract management in order to avoid such deficiencies.

97. UNRWA agreed with the Board's recommendations that it (a) solicit other sources of funds to complete the remaining work for the project; (b) conduct training for the engineering team on the contract management process to ensure that it takes proactive decisions based on the terms and conditions of contract in order to avoid failures in completing projects; (c) involve legal officers when their intervention is required in events, such as slow progress, which indicate that the work cannot reasonably be completed on the fixed date and that negotiation with donors is needed in order to prolong the funding period; (d) hold regular meetings to discuss the status of project implementation and the expiry date of the donor funding involving engineers, the External Relations and Communication Department and project officers and maintain regular communication with the executive office in view of a final decision.

Delay in termination of maintenance contract of 12 shelters at Jalazone Camp

98. On 1 April 2015, UNRWA signed a contract for the construction of 12 shelters at Jalazone Camp with a contract sum of \$309,029 and a contract period of 24 weeks from 4 May 2015 to 18 October 2015. On 24 June 2015 (seven weeks after commencement of the contract), the UNRWA site engineer evaluated the work and identified that the contractor was underperforming and that only 4 per cent of the works had been completed.

99. UNRWA notified the contractor on 24 June 2015, on 21 July 2015 and on 22 December 2015 that the work was behind schedule and that the quality of work was below UNRWA standard. On 22 December 2015, nine weeks after the agreed completion date lapsed, UNRWA reminded the contractor of the poor quality of work and delay in completion of the contract and at the same time extended the contract for 45 days to allow completion of the remaining work.

100. The contract was terminated on 18 February 2016 (i.e. 16 weeks from the day the contract was supposed to be completed) when the project was at 36 per cent of its completion and the contractor was charged a sum of \$43,820 as liquidated damages. As at the time of termination, a total amount of \$63,400 had been paid to the contractor. After the termination of the contractor, UNRWA decided to use the alternative of a self-help programme²² to complete the remaining work.

101. The Board is of the view that, owing to the poor quality and slow progress of work, it was reasonable for UNRWA to terminate the contract early. UNRWA explained that the contract was not terminated on time owing to the nature of the project and its impact on the local community. Given the culture of the construction sector at the West Bank Field office, no contractor would be ready to complete the work of a terminated contractor without a clearance from the two parties, that is, the new contractor would need the consent of the terminated contractor. However, the Board noted that after termination of the contract, management advertised the same

²¹ Article (5) (c) provides for cancellation of the contract when events becomes apparent to the Agency such that the work is progressing slowly and cannot reasonably be completed by the fixed date.

²² Self-help refers to the use of local refugee contractors under the supervision of UNRWA engineers.

work and other contractors expressed their interest in continuing with the work, although management subsequently decided to use self-help to avoid high costs from contractors. While management stated that the contractor was rectifying all the works which were identified to be below standard, no evidence was provided to confirm that the substandard works noted had indeed been rectified by the contractor.

102. The Board was further informed that UNRWA would ensure that Infrastructure and Camp Improvement Department staff were involved in drafting a policy to be agreed by field office management outlining how they would ensure close monitoring of contracts.

103. UNRWA agreed with the Board's recommendation that it ensure close monitoring of the contracts and in case the work was below standard and there was delay in implementation, apply remedies in accordance with the contract conditions and, if feasible, terminate the contract as matter of urgency to avoid further delay in the completion of the project and cost escalation, considering the associated risk and benefits.

Lack of training on new procurement manual and technical instruction

104. On 1 January 2016, UNRWA issued Procurement and Logistics Division technical instruction No. 1 (PLDTI1) to supplement the revised UNRWA procurement manual (2015). The technical instruction defines the principles of contract management, roles and responsibilities of all staff responsible for contract management. While recognizing the Agency's efforts in providing guidance for procurements and contract management activities, the Board noted that users of the technical instruction and the procurement manual, including staff from procurement departments, lacked adequate knowledge of the revised procurement manual and the requirement of the newly introduced PLDTI1. At the Jordan field office, some staff, including senior staff, were not aware of the new PLDTI1 and its requirements.

105. Without awareness training on the changes and newly introduced documents, it is unlikely that the staff will comply with the procurement procedures or that management will achieve the objectives of issuing such documents. The Board was informed by management at the Jordan field office that the Procurement and Logistics Division technical instruction was officially received on 27 November 2016 and that the Procurement and Logistics Division at the Jordan field office planned to conduct training on its application in 2017.

106. UNRWA agreed with the Board's recommendation that it conduct training for both procurement personnel and user departments in order to raise the level of awareness and improve compliance with the procurement manual (2015) and the new Procurement and Logistics Division technical instruction No. 1 (PLDTI1) of January 2016.

9. Programme and project management

Inadequate management of project

107. On 4 February, 2016, UNRWA signed a memorandum of understanding with a donor for financial assistance of \$8 million in respect of maintenance, repair and expansion works for education and health facilities. The Board reviewed implementation of the related project and noted a number of deficiencies, as detailed below:

(a) Absence of project proposal: Paragraph 4.2 of the project process manual requires a project proposal to be developed to accommodate previous analysis of beneficiaries' needs, the necessary costs and resources, risk and assumptions in

order to allow for smooth project implementation. However, UNRWA used the project outline rather than the project proposal to solicit funds. A project outline is a simple concept note which highlights the idea in summary while a project proposal is a detailed document which provides detailed analysis on how the project is to be implemented and the associated risks. Lack of a project proposal limits the Agency from detailed and predefined information about tangible risks and proposed mitigation to facilitate successful project implementation.

(b) Lack of precise survey and design of construction and maintenance projects: the number of schools planned to undergo maintenance was reduced from five to four schools owing to the increased scope and cost of the project. UNRWA explained that the initial workplan, which included rough estimates and high-level requirements, was submitted to the donor under pressure of limited time to secure the project funding, and was agreed with the donor. However, after signing the agreement, the detailed workplan was prepared, including the detailed requirements and scope of works, detailed designs and a bill of quantities. The change was therefore made because a survey and preparation of the bill of quantities revealed that the cost of works was above the allocated funding owing to the condition of the premises and the number of students to be accommodated. As a result, the scope was expanded from maintenance to construction of new schools, thereby causing a reduction in the number of schools. UNRWA also stated that they had requested and obtained the donor's approval to reduce the number of schools from five to four. Nevertheless, the Board considers that the changes highlight the lack of precise survey and design of the comprehensive maintenance of the school premises at the time the project outline was developed.

(c) Inadequate project workplan: the project process manual (2011) requires the workplan to set out the activities necessary to achieve the objectives of the project, identifies the logical sequence of detailed activities and their expected duration, allocates responsibilities among key stakeholders and breaks down activities into specific tasks. However, the Board noted that the workplan for comprehensive maintenance and planned maintenance of 10 health centres at an estimated cost of \$4.58 million did not indicate the series of activities to be performed at different phases to enable evaluation and monitoring of the project undertakings. In addition, the workplan did not indicate the allocation of responsibilities among the key implementers of the project.

(d) Delay in completion of the project: The project was scheduled to be completed by 31 December 2016; however, the progress report submitted to the donor as at November 2016 indicated that project completion had been extended to August 2017 as a large part of the maintenance, repair and expansion works for the health facilities had not been completed. UNRWA attributed the delay to factors such as lack of enough engineers to supervise all education and health activities at the same time. However, the Board considers that the delay was also caused by the lack of a detailed workplan. Delayed completion of the project affects timely service delivery to beneficiaries and might result in cost escalation.

(e) Inadequate project reporting: while the funding agreement requires UNRWA to submit to the donor a monthly detailed technical and financial report on the progress of implementation of the project, only one report, for the month of November, has been submitted as at December 2016. UNRWA stated that, while narrative reports were not submitted on a monthly basis, in line with the agreement, the Jordan field office would ensure submission of the reports in line with the fund agreement. The Board reviewed the progress as at April 2017 and noted one report of March 2017, which was submitted by the Jordan field office to the External Relations and Communication Department for submission to the donor. However, no supporting evidence was provided to confirm that the report had been submitted

to the donor on a monthly basis. Non-compliance with a donor's requirement may jeopardize relations with the donor.

108. The Board recommends that the Jordan field office (a) ensure that project proposals with a detailed workplan are prepared, in the interests of efficient project implementation and monitoring and to solicit funds; (b) improve preliminary survey and design of construction and maintenance projects and, where feasible, prepare cost estimates on the basis of more detailed information to enable improved accuracy of the cost estimate to be submitted to the donor in order to avoid major changes in the scope of work during project implementation; and (c) ensure that monthly reports are submitted to the donor to comply with the funding agreement.

Entry restriction for building materials for the camp improvement projects

109. During the visit to Shatila and Burj el-Barajneh camps at the Lebanon field office, the Board noted a number of challenges faced by the camps' management. These included delay in the implementation of UNRWA camp improvement projects owing to restrictions on entry for building materials into the camps. This situation deters the communities in the camps from expanding or maintaining their shelters in response to natural population growth.

110. A progress report on construction of 12 projects in the two camps which were under implementation during 2016 showed that completion of six projects had been delayed. These included the construction of 51 shelters which were waiting for the approval of the building materials from the Lebanese army force and the delayed period for completion of the projects ranged from six to 21 months.

111. The procedures for approving entry of building materials into the camp requires UNRWA to submit in advance to the Lebanese army force the documents supporting acquisition of the building materials needed for construction of shelters. However, the Board noted that the request for approval did not take into account the approval time of two to three months, as the requests for approval of the building materials were processed when the projects had already started and when materials were needed by the contractors. In this case, there had been no immediate projection after signing the contract as to when materials would be required with a view to ordering them early enough to meet the approval time of the Lebanese army force.

112. The Board also noted that the risk assessments were not included in the project proposals for the reviewed projects as required by paragraph 4.2 of the UNRWA project process manual (2011). The Board considers that risk assessment is a vital tool for any project evaluation as it minimizes unnecessary delay in the implementation of the project. Risk assessment for the project is also important for the success of the project and delivery of the outputs within the intended time frame and budget.

113. The Board is of the view that, had there been a plan for issuing a request for approval of entry of building materials immediately after signing the contract, the delay could have been minimized or avoided and the projects completed on time.

114. The Board recommends that the Lebanon field office (a) plan in advance the appropriate time for lodging a request for approval from the Lebanese army force on entry of building materials into the camps immediately after signing a contract, in order to ensure smooth implementation of the project; and (b) ensure that project risks assessment is conducted and included in the project proposal as required by the UNRWA project process manual (2011).

10. Internal control system

Lack of governance documents on the intranet

115. In UNRWA, access to the information on the intranet is granted to employees and external parties through established control procedure whereby credentials for accessing intranet are issued to requestors further to formal approval. The Intranet facility was developed at the Agency to enable the sharing of organizational documents such as rules, regulations, directives, circulars, standards, manuals, forms, job descriptions, plans and reports.

116. The Department of Security and Risk Management has developed a number of governance documents, including standard operating procedures for access control, an incident reporting template, office security guidelines and emergency and security procedures. These were intended as reference documents for personnel, United Nations visitors, United Nations vehicles and other visitors such as contracted service companies' personnel and vehicles. The documents are kept by the Department of Security and Risk Management and can be accessed upon request. The Board found that that arrangement is inefficient, as it requires personnel of the Department to respond to each request for these important documents from employees and visitors. Consequently a wide range of stakeholders are unfamiliar with the security procedures and guidelines. For example, employees and visitors are supposed to wear their ID and visitors to wear badges that can be clearly seen when they are within the Agency's facility. These requirements are currently not enforced by security personnel and staff members are not complying owing to inadequate awareness of the rule and its significance.

117. UNRWA explained that, as part of its three-year strategy, the Department of Security and Risk Management intends to update the Agency's security governance framework, its policies and guidelines and provide a "best practice" guide to area staff in the field. It is expected that this effort will result in the implementation of policies, guidelines and standard operating procedures that will impact the daily operations and behaviour of staff.

118. The Board is of the view that the wide circulation and online awareness campaign of these governance documents and other security-related information, such as principles, goals and programmes, to employees and visitors to the Agency are crucial in improving security awareness and practice in the Agency.

119. UNRWA agreed with the Board's recommendation that it develop and deploy a web page for the Department of Security and Risk Management on the Agency intranet in order to improve sharing of security governance documents and other key security-related information and to use the page as a platform to carry out an online security awareness campaign.

Lack of a business continuity plan for headquarters and field offices

120. According to security incidents records, 188 incidents of civil unrest were reported at the Lebanon field office from January to October 2016 which resulted in disruption of service delivery in some area within the field office. Likewise, 33 incidents of civil unrest occurred in the same period that necessitated the closure of all offices in the area. Closure of the offices affected delivery of services such as health and schools services to Palestinian refugees in the field office.

121. In its assessment of the Agency's capability to continue delivery of critical services in an event of major incident, the Board identified that UNRWA has not developed business continuity plans that will ensure the delivery of critical services to clients both at headquarters and the field offices in the event of major incidents,

as required under the UNRWA information security policy. The lack of a business continuity plan causes the Agency to react in an ad hoc manner to major incidents that threaten safety and security of employees, as well as continuity of critical services.

122. UNRWA explained that business continuity planning has been prioritized for headquarters functions in Gaza and Amman. Development of business continuity plans for other fields will follow as part of the development of an Agency-wide emergency management framework, which is due to be completed by December 2017.

123. The Board recommends that UNRWA expedite the process of developing business continuity plans for headquarters and field offices to improve continuity of service delivery and enhance the security and safety of the Agency resources during major incidents.

11. Microcredit community support programme

124. The aim of the microcredit community support programme is to promote the socioeconomic development of the refugee communities and specifically aims at increasing the individual household assets of vulnerable Palestinian refugees through supporting community-managed initiatives that will provide Palestinian refugees with access to financial products and non-financial services.

Delayed implementation of the microcredit community support programme contract

125. On 14 May 2014, the Lebanon field office entered into contract for developing a web-based management information system for the microcredit community support programme to enhance management of loan portfolio and overall programme performance. The agreed implementation period was from 2 June 2014 to 21 September 2015, including one year of maintenance and support of the system. The agreed contract sum was \$23,100, payable in four instalments: \$8,085 each as first and second instalments, \$4,620 for the third instalment and \$2,310 for the final instalment, which will be retained for a grace period of one year.

126. The Board found that the contract was behind schedule and, on 27 November 2015, the completion date was extended from 21 September 2015 to 31 December 2015 to allow for completion of the remaining work. On 18 March 2016, UNRWA and the contractor agreed to extend the contract again from 1 January 2016 until completion of the final obligation under contract under the same terms and provisions as in the initial agreement without any extra cost on the part of UNRWA. The Board considers that, by providing unlimited completion time, UNRWA has surrendered its contractual rights to enforce the contractor to complete the project on time.

127. The Board also noted that the contract had no clause requiring deduction of liquidated damages on delayed performance of the contract. The contract has a clause which requires UNRWA to demand the successful supplier to submit performance security to guarantee the performance of the contract, but the Lebanon field office did not demand the performance security. The Board also noted that the Agency had no implementation plan which could indicate the completion time for each stage of the contract. As at December 2015 the field office had paid the contractor all the instalments, amounting to \$20,790, except for retention money of \$2,310, while the contractor had developed only 70 per cent of the web-based management information system, contrary to clause 4.2 of the contract.

128. The Lebanon field office attributed the delay to significant internal changes in the contractor's staff, who were initially engaged in management information

system development: this had resulted in inefficiency in data migration. The Board is of the view that the Lebanon field office needs to closely monitor the implementation of the contract to ensure that the system is developed in line with the contract specification. Delayed implementation of the system means that UNRWA cannot achieve its aim of improving management of loan portfolio and overall programme performance on time.

129. UNRWA agreed with the Board's recommendation to (a) expedite the installation of the management information system for better management of loan portfolio and overall programme performance; and (b) closely monitor the implementation of the contract to ensure that the system is developed in line with the contract specification and avoid extension of contract without specifying the end date thereof.

130. The Board also recommends that in future UNRWA (a) consider inclusion of a liquidated damages clause and demand submission of performance security for service contract to enforce performance of the contractor; and (b) ensure that any implementation of the project is supported by an implementation plan which will indicate the completion time for each stage of the contract.

Loan not approved by the Loan Committee

131. Paragraph 8 of direct lending microcredit support programme guidelines (2012) requires all direct lending products under the programme, such as soft loans, housing improvement loans and entrepreneurial loan, business loans and European Union Loans at the Lebanon field office to be approved by the Loan Committee. The Board found that, from January to October 2016, the Lebanon field office issued 221 loans for different lending products, of which 24 (11 per cent of all loans) housing loans, amounting to \$108,000, were issued without obtaining approval from the Loan Committee as required under the guidelines.

132. The Lebanon field office stated that housing loans were approved based on the guideline of 2005 instead of 2012 by mistake but that going forward all loan products will be approved by the Loan Committee as required under the 2012 guideline. Issuing loans on the basis of outdated guidelines, and without approval from the Loan Committee indicated deficiency in the loan issuing process.

133. The Lebanon field office agreed with the Board's recommendation that it strengthen controls over the loans approval process and ensure that all loans are approved by the Loan Committee as required under the direct lending Microcredit support programme guidelines (2012).

12. Human resources management

High staff turnover in managerial level posts

134. In the financial years 2015 and 2016, UNRWA experienced a number of staff separations at the managerial level, from the professional level (P-5) and above. In 2016, 47 international staff (2015: 53 staff) left the Agency from January to December, 2016. These included 15 (32 per cent) staff members in the posts of directors, deputy directors and chiefs. The 2016 rate of separation is slightly lower than that noted in December 2015, when 20 (38 per cent) out of 53 staff of the same category separated from the Agency. Staff turnover at managerial level as at

December 2016 was 26²³ per cent (2015: 35 per cent) while the overall turnover for international staff is 21²⁴ per cent (2015: 24²⁵ per cent).

135. The Board is of the view that the high staff turnover rate is caused by lack of a retention policy which could address the major causes of staff turnover such as career dissatisfaction, short-term contracts, and lack of flexible work arrangements which are under the Agency's control. UNRWA incurs substantial costs when the staff turnover is high. For the period from January to August 2016, staff separation-related costs amounted to \$370,806 (2015: 675,503) for costs such as appointment, assignment grants and travel on separation. The Board understands that the payments are in line with the United Nations common system standard and are contractual rights of staff members. However, the Board is concerned that high staff turnover, especially for top management and international staff have cost and operational implications for the Agency in terms of appointment, separation, recruitment and stability of the business operations. For example, since 2012, five directors have been recruited to serve in the Department of Internal Oversight Services, which consequently affects stability of the department since each director comes with a different leadership style.

136. UNRWA stated that the high rate of staff turnover was mainly caused by factors such as regional conflicts, lack of spouse employment opportunities in the Areas of operations and limited international posts within UNRWA, in particular at senior levels, which limited career prospects. They further explained that they were planning to review retention factors during the setup of the general staff well-being function in 2017 to enhance the Agency's image as an employer of choice.

137. However, the Board is of the view that UNRWA needs to understand the fundamental reasons for the high staff turnover. This could easily be done through exit questionnaires, but the questionnaires in use are complex and contain generic questions which limit detailed assessment and recording of the separation factors for further action by the management. The exit questionnaire mostly comprises open-ended questions which were left blank, while there is no oral interview to supplement the questionnaire. As a result, it becomes difficult for management to capture all employees' reasons for leaving the Agency in order to enable management to improve the working conditions and eventually minimize the rate of staff turnover.

138. UNRWA also commented that oral interview does not provide more information than a simplified form. Furthermore, arranging such interviews would require additional resources and might distract staff from already complex operations in times of scarce human resources. However, the Board still considers oral interview to be important, as it supplements the open-ended questions which were left blank by separated staff. The Board is also of the view that the oral interview can be carried out by the available staff because the staff are not separated in groups and it can be completed within a short period of time.

139. The Board recommends that UNRWA (a) identify and review low retention factors within the Agency control and include them in the general staff well-being matters to improve retention of key staff; and (b) customize and simplify the exit questionnaire for easy completion and conduct oral exit

²³ The total number of staff at managerial level (above the P-5 level) is 57, while the number of separated staff (above the P-5 level) is 15.

²⁴ This percentage is obtained by dividing the number of separated staff (47) by the total number of international staff (229).

²⁵ This percentage is obtained by dividing the number of separated staff (53) by the total number of international staff (220) in 2015.

interviews to capture a wide range of separation reasons for the purposes of decision-making and document the result in the appropriate file.

Lack of performance evaluation for individual consultants and contractors

140. In its 2015 audit report (see [A/71/5/Add.4](#), chap. II, para. 63), the Board highlighted the need for UNRWA headquarters in Amman and the Jordan field office to conduct performance evaluation and keep records for the consultants and contractors engaged and ensure that all hiring departments include measurable outputs and performance indicators in their terms of reference for the monitoring and evaluation of results. During the year under review, the Board reviewed 20 contracts for individual consultants and contractors and found that the hiring directors at the Lebanon field office did not conduct performance evaluation on the completed assignments of the hired individual consultants and contractors. In addition, the relevant terms of reference did not include measurable outputs of the assigned task in terms of objectives, targets and performance indicators as a baseline against which to evaluate the performance of the individual contractors and consultants.

141. UNRWA explained that, on 13 December 2016, it issued a complementary personnel directive (CPD/1) on the contracting of individual service providers, which was operationalized on 1 January 2017. The new directive includes provisions on pre-contracting requirements, including development of terms of reference, specifying, inter alia, objectives of the contract, tangible and measurable outputs of the work and realistic deadlines. Performance evaluation of individual service providers is now mandatory, using a standard form provided in annex to the Directive. The Board notes management initiatives and considers that the documents introduced should now be used in ensuring that performance evaluation is conducted and measurable output and performance indicators are included in the terms of reference for consultants and contractors.

142. The Board reiterates its previous recommendation that UNRWA (a) conduct performance evaluation of individual consultants and contractors in order to comply with the complementary personnel directive (CPD/1); and (b) ensure that all hiring departments develop and include measurable outputs and performance indicators in their terms of reference for individual consultants and contractors hired, for the monitoring and evaluation of results.

Management of salary advances for international staff

143. From a sample of 11 international staff files, the Board reviewed the process of issuing salary advances to international staff to evaluate the level of compliance with international staff rule 3.16 and noted the following deficiencies, which need management intervention for improvement.

(a) Lack of ceiling on the amount of salary advance to be granted: unlike the area staff rule and the salary advance policy, which provides the ceiling amount of salary advance to be granted, the international staff rule does not provide a limit for salary advances to be granted to staff or a basis for computation of the advance. Due to this deficiency, there were instances where an international staff member was granted a salary advance up to \$36,270 above the monthly salary for reasons such as payment of house rent, school fees and, in one case, for the acquisition of an apartment. According to UNRWA, advances are granted on the basis of justification provided and circumstances. UNRWA also stated that the system was configured to provide an alert when the requested advance reached 25 per cent of the monthly salary but that it could be overruled in view of local requirements. However, the Board noted that the requirement mentioned was not documented anywhere.

(b) Undefined repayment period: The staff rule does not specify a maximum recovery period for the salary advance granted. Currently, the assignment of a recovery period is at the discretion of the approving authority. As a result, one staff member (9 per cent) from the 11 staff files reviewed was given a recovery period of 24 months to liquidate the granted salary advance. A salary advance given with a recovery period that goes beyond the budget year means that funds intended to be available for implementation of the current activities will only be available in future periods, and this may affect the current year's activities.

(c) More than one outstanding salary advance at a time: four (36 per cent) of the 11 international staff sampled were granted new salary advances before liquidating their outstanding balances. One was granted a new salary advance before liquidating the previous balance in each of the previous three years. The REACH system work flow (PYI-030-0100) has a prerequisite restriction on advancing salary to a staff member who has an outstanding advance, but this control was not complied with. UNRWA commented that it provided a new salary advance before liquidating the previous one in exceptional cases, where a first advance on rent was provided with a longer recovery period and the following annual full rent payment was already due for the staff member. Multiple salary advances affected employee net payment through multiple deductions.

(d) Inadequate review of salary advance process: in three instances, the actual salary advance deduction in the system was different from the approved amounts. For instance, the system deducted \$1,250 per month from one employee who was required to repay \$2,059.79 per month in six months. Application of the unapproved deduction rate increased the repayment period from 6 to 10 months. The deduction was approved to start from July but started from August 2015 and ceased in March 2016 before recovery of the remaining balance of \$2,359. Management commented that suspension of salary advance deduction before full recovery was an oversight and that they had resumed deduction of the remaining balance in December 2016.

144. The Board considers that the weaknesses noted are mainly due to an inadequate review process for the information posted in the system and the lack of detailed salary advance policy for international staff. The policy would define a minimum requirement, including the eligibility criteria, limitation in amount, liquidation time limit and restriction on more than one salary advance. Lack of defined limitation on the amount to be advanced and the liquidation period might affect the budget of the current year as most of the granted liquidation period extends beyond the financial year.

145. UNRWA stated that all staff salary advances were issued in line with the existing rules, which were sufficiently comprehensive and hence an additional salary advance policy would be redundant. They further explained that most advances related to rental subsidy advances, which could be easily recovered from the subsidy owed to staff over the duration of their contracts. While acknowledging the management explanations, the Board considers that a salary advance policy will provide more guidance on eligibility criteria, amount to be advanced, liquidation time limit and restriction on more than one salary advance, none of which is adequately covered under the existing staff rule.

146. The Board recommends that UNRWA (a) develop a detailed salary advance policy for international staff, which will define the application of international staff rule 3.16 and indicate the eligibility criteria, limitation in amount, liquidation period and restriction on multiple salary advances; and (b) improve the review process to ensure that monthly deductions and repayment periods recorded in the system align with those which has been approved.

Delay in recruitment process for area and international staff

147. Paragraph 20 of UNRWA personnel directive No. PD/A4/PART II/Rev.7 (Area staff selection policy) requires all recruitment processes to be completed within 90 days from the date of publication of the vacancy announcement to the date when a selection decision is made by the relevant authority. In addition, paragraph 89 (g) of international staff personnel directive No. I/104.2/Rev.4 requires international staff posts to be filled within 120 days from the date of advertisement to the date of selection decision.

148. In its report (see [A/71/4/Add.4](#), chap. II, para. 87), the Board recommended that UNRWA reduce the length of the recruitment process by improving coordination within the hiring departments. In 2016, the Board noted similar cases of delay in the recruitment process for the field offices visited and at headquarters in Amman as shown below:

- At the Gaza field office, recruitments of 211 (94 per cent) out of 225 area staff posts advertised and filled in 2016 took a period ranging from 94 to 337 days.
- At the West Bank field office, the recruitment process for 13 (52 per cent) of the 25 area staff posts advertised during the year took a period ranging from 95 to 265 days. This is beyond the maximum target period of 90 days.
- At headquarters in Amman, 4 out of 10 recruitment cases for international staff were delayed for periods ranging from 12 to 37 days beyond the 120 days provided for in the directive.

149. The Gaza field office stated that the delay in the recruitment process was due to limited capacity of the recruitment team, as there were only seven staff, who received and screened a large number of applicants, ranging from 40,708 in 2015 to 43,436 in 2016, taking into consideration that UNRWA was the only United Nations employer in Gaza. In addition, the freezing of various posts as a result of austerity measures had affected the recruitment team with regard to increasing its capacity. The West Bank field office informed the Board that the delay in the recruitment process was due to the learning curve for the Recruitment Section with regard to implementation of the more detailed interview report, resulting in delays in submission of the initial new format interview reports, re-advertisement of posts owing to poor performance by candidates interviewed, and unexpected one-month travel of the hiring manager and area staff on duty during the recruitment process.

150. At headquarters in Amman, the Board was informed that the delay in recruitment of international staff was caused by high workload, especially when one member of staff was on leave. The recruitment section has four staff for processing recruitment of all staff (international and area staff). However, the Board still considers that UNRWA needs effective recruitment planning and regular updates on ongoing recruitments and follow-ups with the hiring departments. In addition, the Agency needs to assess what constitutes a reasonable number of staff to be in that section against the workload and consider utilization of staff from other sections during peak times in order to minimize the delay in the recruitment process.

151. The Board is of the view that, the recruitment process needs to be conducted in an organized manner to minimize delays which might impact service delivery to refugees. UNRWA needs to update the recruitment roster, in particular for the posts of core services, such as teachers, health officers and Relief and Social Services Officers.

152. The Board recommends that (a) headquarters in Amman and the Gaza field office assess what constitutes a reasonable number of staff to be in the recruitment section against the workload and consider the use of staff from

other sections within the department during peak times in order to minimize frequent delays in the recruitment process; (b) the Gaza field office ensure that the recruitment roster is updated regularly and effectively used to fill relevant posts especially core services, such as teachers, health officers, and relief and social services officers.

153. The Board also recommends that the West Bank field office (a) establish succession plan on recruitment section so that the absence of one person does not obstruct the recruitment process; and (b) streamline the recruitment process among the hiring departments and human resources and ensure that the detailed interview reports are submitted for appointment within an agreed period of the completed interviews with a view to minimizing delays in the recruitment process.

International staff recruitment process

Lack of overall evaluation criteria for interview panel members

154. Paragraph 54 (o) and (p) of international staff personnel directive No. I/104.2/Rev.4 requires the submission of a selection report containing various information, including recommendations on the candidate to be appointed. The directive also requires that, where more than one candidate is found suitable, the report should indicate a comparative analysis and rationale for the relative rankings. If the panel recommendation is not made on a consensus basis, the reason for any diverging view must be documented.

155. The Board noted 2 out of 10 reviewed cases in which at least two candidates were found suitable for the relevant post but there was no ranking of the respective candidates to reflect the overall performance for each candidate both quantitatively and qualitatively. The two cases related to the post of the Chief Donor, Relations Division in Jerusalem and the Director of Operations in the West Bank field office. In one case, the panel rejected reference checks and past performance as part of the overall performance of the candidates. Instead, they relied only on their interview performance, which is not the procedure prescribed in paragraph 54 (I) and (n) of international staff personnel directive No. I/104.2/Rev.4. The panel members had divergent views on the approach used in selection of the candidate and claimed that they had been misguided as to the requirements of personnel directive No. I/104.2/Rev.4.

156. The Board is of the view that the deficiencies noted are mainly due to lack of clear rating criteria for panel members when ranking more than one candidate found suitable for the post. Absence of rating criteria resulted in inconsistent recommendations by panel members on the candidate to be selected.

157. UNRWA stated that ranking of candidates was fully compliant with the international staff selection policy and was currently carried out on the basis of a qualitative comparative analysis of candidates, while the adoption of quantitative assessment measures were currently being explored, which would require a complete reassessment of the Agency's framework, which had significant resource implications. They also explained that reference checks and performance evaluation reports were used to confirm a panel's assessment of candidates other than in the test, but they did not of themselves constitute a basis for suitability for a post.

158. **The Board recommends that UNRWA ensure compliance with international staff personnel directive No. I/104.2/Rev.4 for the purposes of effective panel recommendation by developing both quantitative and qualitative comparative analysis for ranking candidates and use it as the basis for panel recommendations.**

Clearance of international staff during separation

159. International staff rule 3.18 (d) and (e) requires deductions from salaries and other emoluments due to staff members to be made each pay period for the purposes of avoiding indebtedness to the Agency or indebtedness to third parties when any deduction for this purpose is authorized by the Commissioner General. In addition, paragraph 9 of UNRWA financial technical instruction No. 10 states that, “from the amount due to a separating staff member, Chief Accounts Division will recover all amounts due by that staff member to the Agency. If there is reason to believe that Accounts Division has not been informed of all amounts due to the Agency at the time of separation, Chief, Accounts Division will withhold a reasonable portion of the separation benefits payable to cover such late charges, but all reasonable effort will be made to settle the account as rapidly as possible”.

160. UNRWA deducts \$2,000 and \$1,000, respectively, from final employment entitlements for fixed-term and short-term staff contracts. However, there is no documented policy or guideline governing deductions of the stated amount. The deduction is made before an international staff member separates and it is intended to cover unanticipated expenses not paid, and a full or unspent balance thereof is reimbursed to the staff member within six months after separation. Records reviewed by the Board for 40 international staff separated in 2016 showed that a total of \$21,500 was not deducted and withheld from the net salaries of 11 separated staff, two of them because they had negative net salaries justifying non-retention. Further, separated staff salaries withheld in 2016 for 26 staff were paid back after 7 to 10 months, rather than six months, as prescribed in step 12 of the separation package form for international staff.

161. The Board was informed that the Human Resources and Finance Departments would work together to improve efficiency in deducting and refunding the amounts. Management attributed the deficiency in the process to factors such as hiring departments’ delays in confirming whether there were any pending matters relating to the separating staff. The Board considers that the Human Resources department, in coordination with the user department, needs to take proactive measures to ensure that the required amount is deducted from the separated staff payments and paid back on time after a period of six months has elapsed.

162. UNRWA agreed with the Board’s recommendation that it (a) strengthen the clearance review process to ensure that deductions are made from all international staff members’ payments before they separate and a refund is made immediately after a six-month period has elapsed; and (b) formalize the clearance procedures, deducted amount and withholding period for the amount retained from a separated staff member through personnel directive or policy for reference.

Payment of separation benefits to area staff

163. One area staff member from the Lebanon field office separated on 24 August 2016, giving the explanation that it was in the interest of the Agency, and was paid separation benefits of \$27,374. The nature of the interest of the Agency was not disclosed to enable the Board to establish the legitimacy of the amount paid. The payment included a full month’s salary for August 2016 of \$1,393, leave encashment in lieu of 37.4 days of \$3,134, termination indemnity of \$9,054 and payment of an additional indemnity of \$13,793. The agreement shows that the basis for calculation of the additional indemnity was full salary payment until the end of the contract in June 2017 of \$13,793 minus termination indemnity of \$9,054, which would give an additional indemnity amount of \$4,876. However, UNRWA

erroneously paid an additional indemnity of \$13,793, which resulted in an overpayment of \$8,917.

164. In addition, the Board noted that two staff whose contracts were terminated owing to misconduct were paid year-end separation benefits amounting to \$28,484.97, contrary to paragraph 2 (c) of UNRWA area staff rule 109.9, which prohibits payments of termination indemnity in case of misconduct. The Board was informed that payments for the respective staff members were based on paragraph 39 of DP A/10 of January 2017, which refers to area staff rule 109.9(1) (E) of 2017, which allows for payment to staff terminated for some pre-defined misconduct. However, the Board noted that the applicable staff rule is that of 2016, which has no such provision. The Board is of the view that the irregularity indicates inadequacies in reviewing separation benefits before payments as required under the area staff rule.

Separation benefits for international staff

165. From the review of five separated international staff sampled, the Board noted that one staff member, who was also a director of the Microfinance Department, was paid a year-end leave encashment of \$33,452.88 for untaken leave of 39.5 days. However, according to the model database used by actuary and finance for calculation of outstanding annual leave for all international staff at 31 December 2015, the staff member concerned had no outstanding leave balance (zero days). The amount was paid under the UNRWA Main Fund after the initial claim was rejected by the Microfinance Department on the ground that the staff member had no accrued leave because of being on leave for 78 days from 15 February 2016 to 31 May 2016, which is more than the annual leave encashment entitlement of 60 days under staff rule No. 109.7. In addition, the Board found that, during the whole period of 78 days, the staff member was paid full monthly salary, while the actual entitlement for that staff member was salary for only 60 days of annual leave encashment for 2016.

166. UNRWA agreed that the staff member had been on leave for several weeks until 31 May 2016 and had exhausted his leave balance and that the error was caused by failure of the staff to enter his leave in the e-leave system. They confirmed that the staff member was not entitled to any leave encashment and had promised to take immediate action to recover the overpaid amount. The Board is of the view that such payments highlight a weakness in ensuring compliance with international staff rule 109.7, as the case could have been scrutinized further before payments were made from the UNRWA main fund account.

167. The Board recommends that UNRWA (a) expedite the process of recovering the overpaid amount from separation benefits; (b) improve the review process for the computation of staff separation benefits before payment is made; (c) ensure that the accrued annual leave balance in the e-leave system is supported by confirmation from the hiring department before authorizing the leave encashment in order to avoid overpayment; and (d) adjust the overpaid amount for area staff and international staff in the financial statements to recognize the account receivable and derecognize the expense by the same amount.

13. Management of subsidies

Implementation of the cash-based transfer through the e-card system

168. On 1 April, 2016, the Jordan field office launched the e-card system to deliver cash-based transfers to social safety net programme²⁶ families in partnership with

²⁶ The social safety net programme is implemented through the relief and social services programme for assessment, enrolment and maintenance of a database for those refugees eligible to benefits.

the World Food Programme and the Jordan Ahli Bank through automated teller machine (ATM) cards. This replaced the previous modality of delivering food and cash assistance to social safety net programme families. Beneficiaries under the new modality receive \$28.75 (JD 20.35) per person for each quarter through Jordan Ahli Bank ATMs, including JD 10 as cash assistance and JD 10.35 to facilitate food purchases at specified shops.

169. From the review of implementation of the new cash-based transfer through e-card system, the Board noted that 1,457 out of 11,794 families (12 per cent) are located in areas where there are no Jordan Ahli Bank branches or ATMs and, as at December 2016, UNRWA has managed to serve only 636 (44 per cent) families through a mobile ATM; however, the machine is not convenient for beneficiaries because it is not available all the time.²⁷ In addition, the Board noted that the system configuration allows only one withdrawal for each quarterly distribution cycle and that, therefore, beneficiaries cannot withdraw the balance of their entitlement of cash from the ATM if they erroneously withdraw less than the intended amount. In that event, they have to wait until the following distribution cycle.

170. The Board was informed that the single withdrawal was decided by the Director of Operations as an exceptional practice for the first rounds of the new modality in order to counter the glitches that recipients and banks had experienced in the initial phase. In the third quarter, some of the beneficiaries had withdrawn lower amounts and as a result they had waited until the fourth quarter. The costs for multiple cash withdrawal options would increase and the decision was to reduce overhead costs as far as possible. The conceptual decision to allow for one withdrawal per distribution cycle could be revisited only if the comprehensive evaluation taking place in 2017 took into consideration the trade-off in terms of overall cash available versus overhead costs. The Board acknowledges the cost-conscious decision to allow one withdrawal per distribution cycle, but is of the view that measures are needed to fulfil the objective of improving the service delivery to refugees in an effective and cost-efficient manner.

171. The Board considers that the UNRWA-Jordan field office needs to establish an appropriate solution for serving families located in areas where there is no ATM, since the mobile ATM does not achieve the primary objective of the use of e-cards at a satisfactory level.

172. The Board recommends that UNRWA (a) expedite expansion of the mobile ATM to areas where families are not directly reached by the Jordan Ahli Bank service and establish an appropriate solution to meet the primary objective of the e-card system; and (b) in collaboration with the World Food Programme and Jordan Ahli Bank, enhance the ATM system to resolve the system configuration issue that interferes with the beneficiaries' ability to withdraw their deposits.

14. Health programme management

Management of essential medicines and medical supplies

173. UNRWA inventory management policy on the management of medical stores requires the Agency to maintain a buffer stock of approximately 25 per cent of all annual requirements for all essential medical supplies at any given time. Also, on 3 October 2013, the Jordan field office established a mechanism for tracking and monitoring 12 essential drugs. The 12 essential drugs include those related to high-risk diseases such as high blood pressure and asthma. Under the current practice,

²⁷ The scheduled average time as indicated in discussion with management is two to four hours per day.

drug shortages are managed and tracked through quarterly reports on pharmacy indicators (12 tracer items).²⁸

174. The quarterly results review report for the health programme at the Jordan field office indicated that, in the second and third quarters, health centres experienced a drug stock-out, whereby the percentage of health centres with no stock-out of 12 tracer medicines was 88 per cent (target 97.3 per cent) and 56 per cent (target 97.3 per cent), respectively. The Board reviewed the extent of stock-outs at the health centres, and noted that, in the third quarter, 11 health centres out of 25 were affected, compared with three health centres in the second quarter (see table 5).

Table 5
Number of health centres noted with stock-out

<i>Vital and essential medicines</i>	<i>Number of health centres with stock-out and number of days</i>			<i>Total</i>
	<i>11-21 days</i>	<i>22-30 days</i>	<i>More than 30 days</i>	
Metformin	3	4	4	11
Salbutamol inhalation	3	0	1	4
Ferrous oral solution	2	1	1	4
Iron & folic acid Tablet	1	0	0	1

Source: Board's analysis from the third-quarter 2016 stock-out report.

175. UNRWA attributed the drug stock-outs to delay in receipt of medicines from suppliers and lack of supply chain visibility, as UNRWA is able to see only the orders in the REACH system and what is available in the Central Pharmacy, but it does not have live information on consumption rates for clinics to give a full picture of what is available in total, when it might run out and what is in transit, as a result of which they rely on quarterly stock checks of pharmacy and clinics to obtain a complete picture. UNRWA also believes that it has complete international long-term agreement coverage for medicines, with better prices and quality than local suppliers owing to bulk ordering and an expanded supplier base. It can also cover any potential stock-outs by assigning local procurement authority to the field offices to meet any urgent needs.

176. While acknowledging the current arrangement, the Board considers that the cases of drug stock-outs noted highlight the need for the proper and effective use of the REACH system to monitor consumption rates for each quarter and in forecasting demand to avoid stock-out cases. Drug stock-outs have for a long time impeded the UNRWA objective of delivering reliable health services to Palestinian refugees.

177. The Board recommends that UNRWA: (a) conduct quarterly review on drug consumption for health centres and use them in forecasting consumption and stock requirements; and (b) ensure the effective use of the REACH system by the Procurement Division and the Health Department in monitoring consumption rates and determining stock levels and reorder points.

²⁸ The 12 tracer items are the pharmacy indicators that serve to measure the availability and stock-outs of vital and essential medicines at the Agency's health centres. A stock item is out of stock when it is unavailable for at least 10 days.

15. Information and communications technology*Lack of documented disaster recovery plans for the Lebanon field office*

178. The UNRWA information security policy (Rev 1.1; Para. 5.10.2) requires disaster recovery plans for electronic information assets to be developed, maintained and tested regularly. Additionally, under section A; paragraph 2, of technical instruction No. 7, the development, maintenance and testing of information and communications technology disaster recovery plans is the responsibility of the Information Management Department, which is the technical owner of information and communications technology services at each headquarters/field office location and shall consider all such services and related technical infrastructure that will be needed for information and communications technology service and recovery in case of a disaster.

179. The Board found that the Information Systems Office at the Lebanon field office offers local information and communications technology services such as email, Voice over Internet Protocol-call manager, domain controller and file server and operates 10 information technology business applications, which are localized at the field office to support business operations.

180. The recovery strategy in use involves establishing a primary data centre in the Lebanon field office main office building and a disaster recovery site away from that building but within Beirut. While the Lebanon field office has implemented a hot-site backup approach where key local information and communications technology services and business applications are duplicated with near-complete backups of user data, the Lebanon field office Information Systems Office does not have a documented disaster recovery plan. The disaster recovery plan is crucial in identifying roles and associated responsibilities during a disaster situation such as disaster declaration and communication, technical tasks and recovery processes. The deficiency noted is mainly attributed to the lack of adequate enforcement to ensure compliance with the information security policy and technical instruction No. 7.

181. UNRWA commented that it was planning to prepare full draft documentation for a disaster recovery plan, disaster recovery test plan involving all departments and offices and maintenance for the disaster recovery strategy by identifying the role of each staff member concerned, with complete documentation. The Board considers that, without a documented disaster recovery plan, information and communications technology services recovery efforts will be disorganized in the event of disaster, and thus put at risk the entity's information resources.

182. UNRWA agreed with the Board's recommendation that it develop a disaster recovery plan for the Lebanon field office that clearly identifies roles and associated responsibilities in case a disaster occurs.

Inadequate information security policy awareness training

183. The Information Security Policy (rev1.1) states that the Information Owner shall have the primary responsibility for classification of the owned information system data sensitivity and criticality and that it shall establish in coordination with the Technology Services Division the requirements for the security, availability, recovery and disposal or destruction of such electronic information assets. The policy requires sensitive information to be classified as either confidential or strictly confidential. The policy also requires all staff to be provided with regular awareness training and education in order for them to understand their responsibilities and accountabilities.

184. The Board found that the Security and Safety Section was responsible for assessing the risk profiles of various facilities, including refugee camps, and carrying out security briefings when needed by relevant stakeholders. However, the Security and Safety Section, as the owner of security-related information, does not classify information that it receives, such as information on the level of security at camps at a particular time or expected civil unrest incidents around the Agency's facility. Additionally, the Security and Safety Section could not demonstrate that it was aware of the information security policy requirement to classify information in order to apply appropriate security control for the proper and efficient sharing of information among relevant stakeholders. UNRWA commented that it will present the matter to the information and communications technology governance board for management decision and action as deemed necessary.

185. The Board notes management explanations, but considers that this deficiency is caused by the lack of adequate information security policy training for the Agency's staff, which would be useful to make personnel of various sections and departments within the Agency aware of the requirements of information security policy. The Board is of the view that regular information security policy awareness training will improve the security of information assets within the Agency.

186. UNRWA agreed with the Board's recommendation that it (a) regularly conduct information security policy awareness training for its staff in order to improve information security practice at the Agency; and (b) ensure that the Security and Safety Section classifies security information on the basis of its criticality and sensitivity in accordance with the information security policy.

Non-compliance with the change management procedure by field offices

187. UNRWA technical instruction No. 11 requires a change advisory board to be established in each field office to support the authorization of changes and assist the change manager in the assessment and prioritization of service change. A service change in this context is an addition, modification or removal of an authorized, planned or supported service or service component and its associated documentation. The procedure is aimed at reducing disruption to operational services, minimizing risks to these services and ensuring that an auditable, traceable record exists for such changes.

188. The Board identified a number of changes made in the infrastructure services in the field offices in Jordan, Lebanon, the Syrian Arab Republic and the West Bank. The changes included installation of local area networks, virtual local area networks, upgrade of the exchange server and installation of an internet gateway. However, not all the field offices had an active change advisory board to approve changes made in the infrastructure services as required under technical instruction No. 11.

189. UNRWA explained that it would establish a change advisory board at all the field offices in 2017. The Board is of the view that implementing service change without following approved procedure may disrupt the Agency's operational services and its businesses.

190. UNRWA agreed with the Board's recommendation that it establish a change advisory board at all field offices and ensure compliance with the change management procedure established in technical instruction No. 11.

16. Department of Internal Oversight Services

Review of operations of the Department of Internal Oversight Services for the year 2016

191. The Department of Internal Oversight Services fulfils its oversight roles through its four divisions, namely, assurance and advisory services; evaluation; ethics; and investigation. The Board reviewed the performance of the Department and noted areas for improvement in the divisions as detailed below.

Lack of internal audit manual

192. The Assurance and Advisory Services Division has not developed an internal audit manual in accordance with the requirement of the International Professional Practices Framework of the Institute of Internal Auditors. The manual is crucial in providing staff with practical guidance on planning, executing and reporting on audit assignments. The internal audit manual is an essential document that highlights vital information on internal audit techniques, standardized templates, checklists and guidance on steps of the audit process, such as standards and procedures to be followed by audit staff and the level of reviews at each stage of the audit process.

193. The Department of Internal Oversight Services stated that it had started the process for developing an internal audit manual in 2016 but eventually stopped when a senior auditor who was a key player in the activity separated from UNRWA. Meanwhile, a process is under way to engage a consultant to develop an internal audit manual. As a temporary measure, the division is considering the development of interim guidance notes to guide the audit processes.

High staff turnover (international staff)

194. The Board noted high staff turnover in the Department, in particular for international staff, whereby, out of three staff (P-4 and P-5) who were available at the beginning of the year, two (67 per cent), including the chief of the division, had left the Agency. High staff turnover affects the smooth operation of the Department and implementation of the annual workplan. In 2016, the division had planned to execute eight assignments but, as at December 2016, only three assignments had been completed and reports issued; three were completed but reports were at the draft stage, one had been cancelled and one was still in progress. Meanwhile, the division has six auditors and one acting audit assistant, five area staff and one international staff member (senior auditor) who acts as the chief of division. The Board was informed that the vacancies had been advertised and that the recruitment process was in progress. The Board was concerned that delay in filling the vacant posts in the division; in particular the post of Chief, Assurance and Advisory Services, might negatively impact the implementation of the 2017 audit plan.

195. UNRWA agreed with the Board's recommendation that it (a) develop an internal audit manual that will guide the audit process and provide the Department with practical guidance and information for managing the internal audit activity, planning, execution and reporting of engagements; and (b) expedite the recruitment process for the vacant posts to allow smooth implementation of the 2017 audit plan.

Decentralization and centralization of evaluation functions not properly streamlined

196. The UNRWA evaluation function is mandated by organizational directive No. 14 and the UNRWA evaluation policy, which was approved in May 2016. According to the policy, the evaluation function of UNRWA includes centralized evaluation functions under the Department of Internal Oversight Services and

decentralized evaluation functions under headquarters departments and field offices. The Evaluation Division within the Department assumes functional leadership and oversight over the Agency's evaluation system and is responsible for conducting centralized evaluation and providing quality assurance for decentralized evaluation.

197. The Department of Internal Oversight Services Evaluation Division uses focal persons in the field offices and headquarters departments to get updates with regard to evaluations performed at the field offices and at the headquarters departments but the focal persons are not obliged to report to the Evaluation Division, mainly because there is no formal reporting structure on the decentralized evaluation function. As a result, evaluation activities from the planning stage, the development of terms of reference, the appointment of consultants or the forming of evaluation teams and quality review of evaluation reports are carried out by the field offices or headquarters departments, mostly without the systematic involvement of the Evaluation Division in the Department. The deficiency increases the likelihood that the quality of evaluation reports might be compromised.

198. Paragraph 9 of the UNRWA evaluation policy requires an annual evaluation plan to include decentralized evaluations that will be conducted in field and headquarters departments as well as the evaluations conducted by the Evaluation Division of the Department of Internal Oversight Services. However, every field office has its own plan and these plans were not systematically communicated to the Chief of the Evaluation Division.

199. Further, the Evaluation Division does not follow up or track the implementation of prior years' recommendations in the decentralized evaluations as required under paragraph 4 (f) of the UNRWA evaluation policy. In addition, the evaluation recommendations are not tracked in the results-based monitoring system, contrary to paragraph 14 of the UNRWA evaluation policy. Furthermore, evaluations and their recommendations are not publicly available, as required by the United Nations Evaluation Group norms and standards, and as suggested in the peer review of the UNRWA evaluation function. This is also not in line with paragraph 14 (g) of UNRWA organizational directive No. 14, which requires internal and external stakeholders to have access to the evaluation findings and recommendations.

200. The Board is of the view that, since the Evaluation Division assumes functional leadership and oversight over the Agency's evaluation system, for accountability and quality assurance purposes, it is vital for it to properly streamline the decentralized evaluation functions and formalize the reporting structure.

201. The Board recommends that UNRWA (a) systematically implement the quality assurance processes of evaluation function to improve the quality of evaluation reports; (b) streamline the decentralized evaluation functions and formalize the reporting structure to include evaluation roles in job descriptions of the focal persons in field and headquarters departments and report to the Department of Internal Oversight Services on evaluation; and (c) ensure that all evaluation recommendations including decentralized recommendations are followed up and tracked centrally for effective management of recommendations.

202. The Board also recommends that UNRWA ensure (a) that evaluation reports are publicly accessible as required by organizational directive No. 14 and United Nations Evaluation Group Norms and Standards; and (b) that evaluation plans of fields and headquarters departments are systematically communicated to the Chief of the Evaluation Division for consolidation in the Department of Internal Oversight Services annual evaluation plan.

17. Microfinance Department

203. The Microfinance Department is a small programme within UNRWA that provides credit facilities to micro-entrepreneurs. The activities and balances of the Department for 2016 have been included in the Agency's financial statements for 2016. The Department prepares its own set of financial statements under the International Financial Reporting Standards, which are audited separately by the Board.

Financial performance

204. During the year under review, the Department reported a net income of \$1.82 million, which marks a significant increase (443 per cent) as compared with the net income of \$407,873 recorded in 2015. The increase in net income was mainly attributed to the increase in interest on loans by \$878,719 (10 per cent); a decrease in devaluation of currency from \$554,414 in 2015 to \$369,159 in 2016; and a decrease in operating expenses by \$766,067 (9 per cent) from \$8.55 million in 2015 to \$7.79 million in 2016. The Board has audited the Department's financial statements for 2016 and issued an unqualified opinion.

Management of loans receivable

205. In 2016, the Department issued loans amounting to \$39.78 million (2015: \$37.89 million) and received repayment on outstanding loans of \$36.08 million (2015: \$34.74 million). Provisions on outstanding loans as at 31 December 2016 was \$945,982 (2015: \$701,603) while the amount of loans written off was \$907,811 (2015: \$800,386). The closing loan balance as at 31 December 2016 stood at \$26.59 million (2015: \$23.83 million).

206. In its previous audit report (A/71/5/Add.4, chap. II, para. 125), the Board identified various deficiencies including non-compliance with loan operating manuals, non-adherence to procedures related to cashier functions and inadequate follow-up on outstanding loans. In 2016, the Board continues to note similar deficiencies in the areas of loan application process, cashier functions and project follow-up and weaknesses in credit decisions as summarized below:

(a) At five branches, the Board noted six cases reflecting weaknesses in oversight and credit decisions. For example, a loan of \$1,836 (JD1300) was granted at the Jenin branch without guarantor proof of income in the client file or recommendation of the loan officer. At the Bethlehem and Irbid branches, the income of two clients were calculated on the basis of gross salary instead of net salary, resulting in inaccurate computation of the monthly repayment amount. The Bethlehem branch also granted a loan without information on the guarantor income in the client file. The Board considers that weak credit decision or missing supporting information in the client file increases the likelihood of granting loans to risky clients who are likely to default and cause losses to the Department.

(b) The project follow-up at two branches (Nablus and Irbid) was not conducted on a regular basis by the LO and Area Loan Supervisor (ALS). For example, one client file with a loan amount of \$5,650 contained no follow-up report or updates on the progress of the project. During its field visit, the Board also found that the client had changed the project from home maintenance to a mobile project, but that those changes were not reflected in the client file. Lack of regular project follow-up limits the Department from accessing the client's project status and eventually increases the risk of defaulting in loan repayments.

(c) From the review of cashier functions in Jericho, Bethlehem, Hebron and Irbid branches, the Board found a number of deficiencies, including cheque registers

not properly updated, whereby some of the loans were closed but appeared in the register as active loans, inaccuracy in entering the guarantee cheque numbers and references, inaccuracy in entering the loan amount and the failure to perform surprise checks by cashiers to loan officers, as required under the loan operating manual. The Board considers that the failure to comply with procedures related to cashier functions and granting cashiers the role of creating and cancelling the cash receipt vouchers without proper justifications and documentation may increase the risk of misappropriation of payments received from the client and loan officers.

207. The Board recommends that the Microfinance Department (a) ensure that regular project follow-up is carried out by loan officers and Area loan supervisors to obtain updated status on the progress of the client's projects in order to minimize the risks of incorrect acceptance of credit decision in the subsequent loan and decrease the risk of client default; (b) improve the loan approval processes to ensure that all supporting information is obtained and considered in the credit decision, to minimize risk of default; and (c) establish a loan compliance checklist with all relevant procedures for granting loans and require the loan officers to complete it before granting a loan.

208. The Board reiterates its previous recommendation that the Microfinance Department (a) monitor the controls related to cashier functions and address non-compliance issues on a regular basis; (b) ensure that verification officers monitor the application controls related to cashier functions and address issues of non-compliance to Department management on a regular basis; (c) re-assign the function of cancelling cash-received vouchers to a person other than the cashier, so as to ensure proper segregation of duties; (d) make sure that full justification for the cancellation reasons is preapproved by the branch manager and documented for future reference; and (e) ensure that full and detailed information and analysis are obtained and carried out for both client and guarantor.

Information system

209. The Board reviewed the loan management information system (Omni application) and REACH system, which support the Microfinance Department operations and noted the following areas with scope for improvement.

User access management

210. Five user accounts previously used by separated employees were still active on the domain; three of them were accessed by the users after the separation date with no proper documented justification and approval. According to management, the process of deleting accounts is triggered by action from the Human Resources Department, and thus management will ensure that deleting accounts is part of the clearance process. The Board considers that, if separated employees' accounts are not disabled or locked from the application and domain in a timely manner, there is a risk that the accounts may be misused by other employees or the separated employee may be able to gain unauthorized access.

211. The Board recommends that the Microfinance Department (a) improve coordination between information technology and human resources departments such that access for every separating employee is revoked on the last day of employee service; (b) the use of accounts of separated employees is accompanied by formal documented exemption and approval by management to justify such access; and (c) ensure that separating employees accounts are deleted as part of the clearance procedures.

Password settings

212. The password settings in several environments were not in compliance with Information Service Division technical instruction No. 5 on access control policy. On the domain Active Directory, an account lockout threshold is six invalid login attempts, as opposed to five invalid login attempts as required by the policy and an account lockout duration is 10 minutes until the administrator re-enables it on authorized request, in accordance with the policy requirement. According to the Microsoft Baseline Security Analyzer report provided to the Board during the audit in April 2017, 3,237 (18 per cent) of 18,177 user accounts in the domain with non-expiring passwords were identified. In addition, normal and administrator accounts with non-expiring passwords with clear justification, such as service accounts, were not identified formally as an exception to the Agency's access control policy. Further, on the Omni enterprise system, the password parameters were not set in line with Information Service Division technical instruction No. 5 on access control. This has the implication that users of information and communications technology services may not operate in accordance with rules governing such services and may consequently compromise the information security.

213. The Board was informed that password length setting is built in the Omni system and cannot be changed, while the other parameter values will be adjusted in line with Information Service Division technical instruction No. 5. The Board is of the view that weak password standards together with weak logical security features expose systems to the risk of intruders accessing the system and unauthorized access by internal users that can compromise the security of sensitive data and impact the integrity of transactions processed.

214. The Board recommends that the Microfinance Department (a) ensure that password standards and other security features are strengthened to comply with best practices; and (b) review the list of accounts with non-expiring passwords and ensure that all enabled and non-service accounts are forced to change their passwords on a periodic basis, for instance every 30-45 days. Exceptions to this rule should be justified according to business and availability need and approved by management.

Interest income calculation formulas in Omni system

215. The Microfinance Department does not have documented interest calculation formulas or logic formally approved by the Agency's senior management. The Board is of the view that lack of proper and official documentation of the formulas or logic programmed into the core loan application (Omni system) increases the risk of calculations not being in line with business logic and objectives. This can lead to incorrect calculations performed by application and increases the risk of management misstatement of financial information and prevent senior management from having a true and fair assessment of the Agency's financial position. In addition, in the event of a decision by the Microfinance Department to migrate to a new application, the Agency might face the risk of not aligning its business rules with the newly developed system. The Board was informed that the Agency will coordinate with the vendor to prepare a manual to address the shortcomings noted.

216. The Board recommends that the Microfinance Department liaise with the vendor supporting the Omni application to obtain and document the details of the interest income calculation formulas or logic into formal technical and operational manuals for the Agency and submit these to the top management for approval.

Governance of the Microfinance Department

217. Organizational directive No. 25 established the terms of reference for the Microfinance Department Advisory Board, which provides both the Commissioner General and the Microfinance Department management staff with technical and policy counsel as well as oversight of the status of the financial and operational management of the Microfinance Department. Paragraph 6 of organizational directive No. 25 of 2003 provides for the members of the Advisory Board to include the Deputy Commissioner General, who is a full member and the Chairperson of the Board, and local bankers/economists and international microfinance experts, who are full members.

218. The Board reviewed the effectiveness of the Advisory Board in discharging its functions and the composition of the Advisory Board and found that three members were attending the meetings as full members and five as associate members, although they are not mentioned in paragraph 6 of organizational directive No. 25 of 2003. Those members include the Director of Human Resources, the Director of the Finance Department and the Legal Officer, who are considered to be full members, and five Microfinance Department chiefs of field microfinance programme as associate members. The Board also noted the absence of external members on the Microfinance Department Advisory Board, contrary to organizational directive No. 25, which requires local bankers/economists and international microfinance experts to be on the Advisory Board.

219. The Microfinance Department informed the Board that, as part of departmental reform, organizational directive No. 25 had been amended, in consultation with the Department of Legal Affairs and UNRWA management. The modified document is in the draft stage and members who are disqualified under organizational directive No. 25 of 2003 have now been included in the draft for organizational directive No. 25. The inclusion of external members on the Advisory Board is under way. However, the Board is of the view that the Agency is required to comply with the existing organizational directive No. 25 as the guiding tool until the revised organizational directive No. 25 is approved by the Commissioner General. Exclusion of external members on the Advisory Board as required under organizational directive No. 25 means that the Microfinance Department is not benefiting from independent technical expertise, innovation, updates on microfinance industry and policy advice on the financial and operational management of the Microfinance Department.

220. The Board recommends that the Microfinance Department (a) include external members on the Advisory Board as required by organizational directive No. 25 in order to benefit from their independent technical experience and expertise on microfinance operations within and outside the region; and (b) ensure that the Advisory Board includes members as specified in organizational directive No. 25 of 2003.

C. Disclosures by management

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

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

222. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs had been recognized: cash losses of \$554;

inventory losses of \$99,936, identified through inventory valuation; outstanding loans receivables of \$926,426; property losses of \$2.18 million (see annex II).

2. Ex gratia payments

223. As required by financial regulation 11.5, UNRWA reported ex gratia payments for 2016 of \$85,462. The payment was compensation to a relative of a staff member who was killed while walking to work on 26 August 2013.

3. Cases of fraud and presumptive fraud

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

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

226. In 2016 the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by UNRWA and disclosed in the present report. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 44 cases of fraud and presumptive fraud to the Board during the period under review. Of the 44 cases, 23 investigations had been completed and finalized during the year with quantified losses of \$3,000. The remaining 21 cases are still under investigation. A summary of the cases is contained in annex III to the present report.

D. Acknowledgement

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

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(Signed) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
(Lead Auditor)

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

Annex I

Follow-up of the implementation of previous years' Board's recommendations up to 31 December 2015

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
1	2012 (A/68/5/Add.3, chap. II)	62	The Board recommended that UNRWA develop a clear mechanism for monitoring supplier performance during the contract period. This would ensure compliance with regulations and would give management assurance that poor supplier performance was being addressed.	The technical instructions for the Agency's Contract Management Unit have been finalized, and In-tend has been bought and is in use (starting 2016 at headquarters) and headquarters Procurement and Logistics Division staff have been trained on the use of In-tend. Service contracts have been uploaded on In-tend to enable systematic tracking of suppliers' performance against set key performance indicators.	The Agency is tracking the service suppliers in the In-tend system and has developed key performance indicators for service contracts. The In-tend system enables systematic tracking of suppliers' performance against set predefined key performance indicators. In addition, the technical instruction for the Contract Management Unit has been approved by the Human Resources Department. The recommendation is therefore considered implemented.	X			
2	2012	82	The Board recommended that UNRWA endeavour to the best of its ability to obtain relevant documents to substantiate the right to use buildings and plots of land.	UNRWA is still liaising with host Governments to obtain the relevant documentation.	The conversations between UNRWA and host Governments are still under way.		X		
3	2012	96	The Board recommended that UNRWA: (a) formalize its results-based management results review processes in a policy or organizational directive; (b) ensure that the results review process takes place as envisaged, at midyear and on an annual basis; and (c) ensure that measures are implemented to support alternative means of collecting performance data from the	(a) Organizational directive No. 21 has been issued and shared with the Board. Parts (b) and (c) have been implemented, with a report from the Syrian Arab Republic field office submitted to the Board of Auditors.	The Board has reviewed the implementation and considered the recommendation implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
4	2013	40	Syrian Arab Republic field office, for example, through the Internet. The Board recommended that UNRWA undertake a mapping exercise to identify and document in a single document key internal controls for its critical business processes with reference to other documents providing detailed procedures.	UNRWA accepts the recommendation and will develop a document explaining roles and responsibilities for internal control relating to critical business processes.	Development of the document is still in progress.		X		
5	2013	43	The Board recommended that UNRWA: (a) develop and distribute to employees a risk management policy outlining the underlying approach to risk management and mitigating procedures; and (b) ensure that all high risks that are common to UNRWA are assessed and captured in the risk registers at the field offices, thus enabling the development of common procedures for responding to those risks.	UNRWA has established best practices for risk management and has considerable evidence in this regard, with the inclusion of risk registers in the implementation plans for headquarters and the field for 2014-2015; risk registers and risk elements in the medium-term strategic plan for 2016-2021; risk elements in the document on priorities for 2015; risk assessments in quarterly reports to the Management Committee; and risk analysis of projects in monthly assessments; in addition, the Department of Internal Oversight Services has developed its workplan on risk considerations. The Agency has also developed an organizational directive (No. 21) outlining the requirement for such practices.	The Board has reviewed the implementation and considered the recommendation implemented.	X			
6	2013	48	The Board recommended that UNRWA conduct a thorough review of the consultant's report and apply the proposed recommendations to improve the operations of the microcredit	Based on consultations with relief and support services at the field level (Jordan, Lebanon and the West Bank), field-specific recommendations were taken on board, including the	The Agency has implemented the recommendation for the Lebanon field office, where the microcredit community support programme	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
			community support programme without compromising its basic mandate of helping Palestine refugees to achieve their full potential in human development.	freezing of the current lending mechanism in the Jordan field office and the development of different lending tools, together with the establishment of a loan tracking system and management information system at the Lebanon field office. The microcredit community support programme has been suspended in the Jordan field office and therefore the recommendation of developing the system is overtaken by event.	information management system has been developed; for the Jordan field office the microcredit community support programme has been stopped, and therefore this recommendation is closed.				
7	2013	53	The Board recommended that UNRWA: (a) expedite the implementation of a new software system for management of vehicles' workshop operations and record-keeping; and (b) enforce the available operational controls of the vehicles' workshop, including proper record-keeping and the completion of job card forms.	Fleetlog and Fleetwave are now in full use at the Jordan, West Bank and Gaza field offices. 200 Fleetlog equipment was bought for the Lebanon field office and will come into operation by the end of the second quarter of 2017. Owing to the conflict in Syria, there is a delay in the implementation of the system, but it will be live in the third quarter of 2017 as the process of hiring the vendor is at the final stage.	The Board has reviewed the progress of implementation and considered it to be satisfactory.	X			
8	2013	63	The Board recommended that UNRWA include items procured under project funds during the preparation of procurement plans to benefit from economies of scale; and involve the Chief of the Procurement and Logistics Division and Field Procurement and Logistic Officers in the project-level procurement planning at headquarters and field levels to obtain input for the preparation of each procurement plan.	With the formal launch of the new procurement plans, all project procurement requirements are now fully included in the procurement plans. The procurement plans cover both the programme budget and project procurement planning, which allows the Procurement and Logistics Division to aggregate requirements for bulk-buying and attain economies of scale across the board. This also	The master procurement plan developed covers programme budget and project fund procurements. This recommendation is considered implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
9	2013	75	The Board recommended that UNRWA: (a) improve coordination between the Procurement and Logistics Division and users at the field offices to ensure that all procurement requirements are identified and communicated to the Procurement and Logistics Division at headquarters on a timely basis, to avoid the unnecessary shortening of the tender periods; (b) perform regular reviews of lead time and inventory balances to avoid emergency orders; and (c) review the grounds for waivers to ensure they are consistent with current good practice.	enables the strategic development of long-term agreements and collaboration within UNRWA and with other United Nations entities. The Chief of Procurement and Logistics and field heads of procurement and logistics are all closely involved in the procurement planning process, which also involves user departments and management. The increased functionality provided by the procurement and supply management module of the newly implemented enterprise resource planning system demands that all projects are presented in a detailed way inside the system using the work breakdown structure. The structure will allow detailed identification of current and future procurement requirements and hence support planning efforts between headquarters and the field offices. The reporting functionality in SAP now includes enhanced inventory management and reporting tools that will also support demand planning. Given that the system has been introduced it is requested that parts (a) and (b) of the recommendation be closed. The third version of the procurement manual addresses the concerns mentioned in part (c), relating to waivers. The enterprise resource planning system has now been	The Board has noted management initiatives; however, it continues to note emergency procurement due to inadequate planning and improper coordination among field offices, the Procurement and Logistics Division at headquarters in Amman and the Health Department at headquarters in Amman which results in a shortening of the tender period and purchasing at a high price. Therefore, the recommendation is still considered under implementation.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
				implemented and systemic improvements should be monitored over time in relation to this observation. Section 6.8.1 of the new procurement manual discusses waivers and other matters.					
10	2013	81	The Board recommended that UNRWA: (a) establish a formal evaluation committee to enhance transparency, objectivity and equity in the bid evaluation process; (b) develop a standardized template for declarations of interest by evaluation committee members; and (c) design and document formal appointment letters for evaluation committee members.	(a) A standard operating procedure for the appointment of an independent formal bid evaluation committee is now in place, with bid evaluation committee members appointed through the formal process; (b) a standard template has also been established, with a standard operating procedure for the declaration of conflicts of interest and assurance of confidentiality by all appointed bid evaluation committee members; (c) a corporate memorandum has been designed for the appointment of bid evaluation committee members.	Formal evaluation committees are being established and a declaration of interest is being signed by the evaluation committee members.	X			
11	2013	85	The Board recommended that UNRWA indicate the required financial resources for each strategic objective in the headquarters and field implementation plans for effective results evaluation.	The medium-term strategy for 2016-2021 has been operationalized through the development of strategic plans for each field of UNRWA operations, which cover the same strategic period of 2016-2021 and respond to the direction set in the medium-term strategy, detailing how the strategy will be tailored and implemented in each field. In addition to strategic plans, each of the five fields of UNRWA operations has developed an annual operational plan for 2016, designed to ensure	The Board reviewed the annual operational plan and noted that the financial resources in the new plan are allocated in the strategic outcome, instead of the strategic objective, as was the case under the field implementation plan. Therefore the Board considers the recommendation implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
				alignment between the Agency's day-to-day work with the strategic priorities in the medium-term strategy. Together, strategic plans and annual operational plans replace biennial field implementation plans and the headquarters implementation plans used under the medium-term strategy for 2010-2015.					
12	2013	93	The Board recommended that UNRWA: (a) establish a mechanism for mobilizing and uploading all vital project documents in the intranet on a regular basis; and (b) review the project process manual and specifically define the project officer responsible for maintaining and archiving all project documents in one location.	(a) Implemented: documents that relate to project management are uploaded on the intranet (Department of Planning page). Documents that are specific to grant agreements are uploaded to an External Relations and Communications Department database accessible to staff concerned; and (b) the project procedures manual has been updated to reflect, among other things, the environment subsequent to the introduction of the enterprise resource planning system. The finalization of the project procedures manual has been delayed owing to priorities relating to the launch of the system.	The Board's assessment is that part (a) has been implemented while part (b) is subject to review of the project procedures manual.		X		
13	2013	108	The Board recommended that UNRWA: (a) establish steering committees for construction projects as currently required in the project process manual, while waiting for the revised manual; and (b) review the project process manual and provide clear guidance on the establishment of project steering committees, including with regard to the composition of the	The update to the project procedures manual is linked to the implementation of the new enterprise resource planning system, which was introduced in April 2015. The project procedures manual is already being updated but will not be completed before the implementation of the enterprise resource planning system (so as to ensure that the manual	The Board assessed that finalization of the implementation of the recommendation is subject to updating of the project procedures manual.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
			committees and on the roles and responsibilities of their members, and guidance on the kinds of projects that require a steering committee.	provides clear and correct guidance). The processes and tools for the manual, such as a steering committee, are included in the update to the manual. The finalization of the manual has been delayed owing to priorities relating to the launch of the system.					
14	2013	121	The Board recommended that UNRWA review the staff table by performing detailed assessments so as to eliminate redundant posts and identify key posts that need to be filled in a timely manner in order to enhance the delivery of services to refugees.	The staffing resources are regularly reviewed. An international staffing review was conducted in November 2012 to ensure that the Agency's scarce international staffing resources were allocated in an optimal way. The review recommended that three posts be considered for redeployment. This was not confirmed and therefore the posts remain allocated as they were. The annual class formation exercise regularly reviews the allocation of education staff (two thirds of the Agency's staff members fall under this category) and is one of the main workforce planning exercises, as it concerns the majority of staff members. It is a continuous process and the final report is not yet available.	The manning table has been reviewed and the critical posts to be filled identified, and therefore the recommendation is considered implemented.	X			
15	2013	130	The Board recommended that UNRWA actively follow up with the Executive Office of the Secretary-General and the power service provider, to find a lasting solution on the settlement of the electricity bills, to avoid the risk of power disconnection in refugee camps.	UNRWA explained the position and the practical difficulties in addressing the recommendation in full. UNRWA does not consider this as a liability and hence it is not recorded as a liability in the books. Since there was a claim, in accordance with the IPSAS standards these were classified	The Board acknowledge management initiatives and follow-up with regard to the issue. Given the nature of the issue and the conversation with the Legal Department it was noted that there are neither legal nor constrictive obligations and therefore does not warrant	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
				as contingent liabilities and reported. UNRWA is not mandated to resolve issues between the host Government and the refugees. Any message or over-interference in the matter will give a different message, which UNRWA does not intend. This matter will not be of any specific interest to, or for the attention of the Secretary General. UNRWA does not see any practical way of addressing the recommendation. UNRWA has explored the option of regular communication with the authorities on this matter.	being classified as a contingent liability as the likelihood of its occurrence is remote.				
16	2013	164	The Board recommended that UNRWA: (a) develop appropriate procedures for erasing information contained in information and communications technology, taking into consideration the sensitivity of the information being handed over to the disposal authorities; and (b) develop security guidelines based on good practices for protecting critical information on mobile devices.	The recruitment process is ongoing for an information and security officer to handle all security matters. Upon onboarding, the recommendation will be included in the incumbent's workplan for completion by the end of 2016. In the meantime, the Information Management Department has started a campaign, with guidelines rolled out Agency-wide to raise awareness of data integrity, confidentiality and availability, containing practical good practice tips that users can easily follow. The Agency has also updated technical instruction No. 3 and technical instruction No. 14 to include procedures for erasing information contained in information and communications technology equipment.	The Board reviewed the updated technical instruction No. 3 and technical instruction No. 14 and is satisfied with the procedures included.	X			

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17	2013	170	The Board recommended that UNRWA: (a) through its field and department directors, ensure that investigation cases are recorded in the case management system accurately and on a timely basis; and (b) recruit additional professional investigators who would report directly to the Investigations Division of the Department of Internal Oversight Services and supervise staff involved in investigations at the field offices.	We have put in place a mechanism to ensure that the case management system is completed on a timely basis and that the data are complete and accurate. Regarding the recruitment of professional investigators, this year we have recruited one professional investigator to expand the divisions' capacity to support needs in the fields. In addition, the Department of Internal Oversight Services has allocated all available investigators on-site to oversee each of the Agency's fields of operations. Specifically, one is based in Jerusalem covering the West Bank and Gaza, one in Amman covering Jordan, and one should be in Damascus covering Syria/Lebanon, but is now in Amman. In any event, they travel regularly to provide support if/when the need arises.	The Board reviewed the system and is satisfied with the process of recording cases and the timely updates on cases from the field. The Board also reviewed the allocation of available professional investigators, whereby one is based in Jerusalem covering the West Bank and Gaza field offices, one in Amman covering Jordan, and one should be in Damascus covering Syria/Lebanon, but is now in Amman. The Agency has also recruited a P-4 professional investigator to expand the divisions' capacity to support needs in the fields. In view of this arrangement, the Board considers the recommendation implemented.	X			
18	2013	174	The Board recommended that UNRWA (a) expedite the finalization of the evaluation framework to guide and support the evaluation functions within the Agency; and (b) review the current practice of handling evaluation activities at headquarters departments and field offices on an ad hoc basis, with a view to improving the evaluation function.	(a) The framework guiding and supporting the centralized and decentralized evaluation function has been drafted, including a quality assurance framework and an evaluation policy. The quality assurance framework was discussed with technical staff engaged in evaluation in UNRWA, with senior management and with the Advisory Committee on Internal Oversight, and presented to the peer review of the evaluation function. The evaluation policy was discussed with senior management, the	The Department of Internal Oversight Services evaluation has developed the evaluation policy which was approved in May 2016 and the annual evaluation plan which was approved in January 2016.	X			

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19	2014 (A/70/5/Add.4, chap. II)	23	The Board recommended that UNRWA: (a) liaise with United Nations Headquarters to obtain confirmation on the approach to be followed to settle its end-of-service liabilities; and (b) avoid decisions that increase these liabilities while its funding is still uncertain.	Advisory Committee and the peer review panel. Comments will be integrated and the policy tabled at a management committee meeting for final endorsement; (b) the quality assurance framework and the policy include elements to ensure more systematic planning for evaluations. This is the only recommendation with which UNRWA disagrees, since it is considered to be impractical given its mandated responsibilities. The matter of the unfunded severance liability (amounting to \$525 million as at 31 December 2014) is inherently tied to the nature of the Agency and its temporary mandate. It is fully expected that, when there is a sustainable political solution resolving the displacement of Palestine refugees, that solution will address, among other matters, the future of UNRWA activities, together with the dissolution of its assets and liabilities. In addition, the Agency has already initiated a series of austerity measures, including voluntary early retirement schemes and reductions in class size as part of the effort to reduce staff costs, all of which contribute to not increasing the end-of-service liabilities while funding is still uncertain.	The recommendation is not implemented.			X	
20	2014	31	The Board recommended that UNRWA: (a) review its follow-up strategy to improve and strengthen its efforts to collect	The matter is being spearheaded by the Department of Legal Affairs and UNRWA entered into arrangements in	The Board reviewed the progress of the recovery of VAT receivables and noted that discussion is ongoing		X		

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			the long outstanding VAT arrears; and (b) review the collectability of the receivables and impair the value for amounts considered as uncollectable.	2013 with regard to exemption from VAT for purchases in the West Bank and Gaza. In August 2015, the advance VAT exemption arrangement for Gaza was fully implemented. The Agency continues to raise the issue, notably through the annual report submitted to the General Assembly by the Commissioner-General, which is considered by the Special Political and Decolonization Committee. The matter is also under the active consideration of the Working Group on the Financing of UNRWA.	with the Palestinian Authority on the payment of VAT receivables. The plan to offset arrears of VAT receivables against services bills such as electricity bills is still under way.				
21	2014	35	The Board recommended that UNRWA develop a mechanism for tracking and quantifying the net savings from austerity measures at all levels of operation and evaluate their effectiveness.	Savings from austerity measures are tracked by UNRWA centrally under the specific guidance of the Deputy Commissioner-General with assistance from all departments, including Finance, Human Resources and the Executive Office.	The Board reviewed the instruction on austerity measures from the Deputy Commissioner General; however, there is no evidence as to how the tracking of cost across all departments is done.		X		
22	2014	39	The Board recommended that UNRWA: (a) develop an Agency-wide management information system to harmonize information on the microcredit community support programme for the purpose of decision-making and to enable impact assessment, as well as the aggregation of data in the general financial statements; and (b) expedite finalization of the memorandum of understanding to make it legally binding.	At the Lebanon field office, the Loan Management Information system is in place, while in the Jordan field office the system will not be implemented as the microcredit community support programme has been suspended until it can be aligned with the relief and support services reform criteria for addressing poverty to refugees. Further, a budget decision for 2016 was taken in support of a freeze on direct grants for such organizations and only activity-based support for programmes relating to persons with	The Lebanon field office has developed the microcredit community support programme loan management information system while for the Jordan field office the microcredit community support programme has been suspended. The Government of Jordan has rejected the issue of having a binding memorandum of understanding with community-based organizations as they are not registered and therefore this recommendation is closed.	X			

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23	2014	42	The Board recommended that UNRWA formally define and document the criteria for issuing additional loans.	disabilities and women will be granted. Given the departmental reform, we are requesting the Board to close this recommendation. A decision was made for 2016 to suspend funding for the microcredit community support programme until it can be aligned with the relief and support services reform criteria for addressing poverty. The recommendation can be considered to have been overtaken by events.	The Jordan field office has suspended the microcredit community support programme pending the departmental reform. In this regard the Board considered the recommendation to have been overtaken by events.				X
24	2014	55	The Board recommended that UNRWA: (a) establish mechanisms to allow regular review of engineers' estimates prior to tendering, which will help the Agency to arrive at cost estimates based on the prevailing market price; (b) review the retendering trend and establish ways of minimizing it; and (c) facilitate site visits by interested bidders to enable proper evaluation of the scope of work and cost estimates.	Part (a) is in progress. The Procurement and Logistics Division, the Engineering and Construction Services Department and the Infrastructure and Camp Improvement Programme will review standard operating procedures for contracts by the end of September 2017, including the following considerations: (i) an increase in the frequency of updating the Agency estimates, possibly on a quarterly basis so as to be more consistent with the market prices; and (ii) considering establishing a review committee to validate the field estimates prior to each tender. While waiting for the update of the standard operating procedures, the Board has begun performing quarterly review of Agency estimates to ensure that each tender reflects the most accurate price. Part (b): as for negotiations with the lowest	The Board has reviewed the measures instituted and considers the recommendation implemented.	X			

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25	2014	56	The Board recommended that UNRWA: (a) ensure that all service contracts are signed before service delivery to make them legally binding; and (b) conduct performance evaluations of previous services rendered before extending service contracts.	<p>bidder, in principle, negotiations are usually not undertaken subsequent to a competitive selection process. However, negotiations may still be necessary after a competitive tender in order to ensure best value for money for UNRWA. Negotiation conditions are covered in the procurement manual (version 3). Part (c): as detailed above in part (a), the quarterly review of the Agency estimates will guarantee up-to-date pricing in order for each tender to reflect most accurately the market prices for construction materials.</p> <p>During the visit of the Board, as reported, no hospital performance evaluation was performed for the previous two years. The most recent evaluation was performed in 2011/2012, samples of which were submitted to the Board of Auditors. Such a task is mandatory as a supplementary prerequisite for the validation of any hospital contract completion or further extension. Accordingly, hospital performance evaluation shall be performed on a yearly basis in line with contract issuance. In coordination with the Procurement and Logistics Division, UNRWA will ensure that service contracts are issued before services delivery in 2017.</p>	The Board noted management initiatives, but determining that UNRWA has not fully addressed the underlying issues to curb the deficiencies noted, as similar cases persisted in 2016.		X		

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26	2014	60	The Board recommended that UNRWA: (a) expedite the review of its standard operating procedures to facilitate the generation of the consolidated procurement plan and ensure that plans are approved by existing procurement committees before implementation; and (b) improve the preparation of procurement plans at the field offices to include key elements for evaluation and accountability.	Part (a) the third version of the procurement plan, which also contains guidelines and standard operating procedures for procurement planning and a framework for the generation of a consolidated procurement plan, was launched in October 2015. The creation and submission of procurement plans for headquarters and the field offices is now a mandatory requirement in the new procurement manual; part (b) the approval of procurement plans is also a requirement as stipulated in the procurement plan and the ensuing corporate inter-office memorandum issued by the Chief of the Procurement and Logistics Division to all directors and heads of procurement and logistics at headquarters and field offices; and part (c) the new procurement manual's mandatory requirement for procurement plans, the provision of a corporate procurement plan template and the support provided by the Procurement and Logistics Division to field offices through videoconferences, teleconferences and e-mails have improved the preparation of procurement plans at headquarters and field offices, with the framework for ongoing evaluation and accountability having been established.	The Agency prepares consolidated procurement plans on the basis of individual procurement plans from field offices. Therefore, the Board consider the recommendation implemented.	X			
27	2014	63	The Board recommended that UNRWA: (a) establish a	Part (a) a dedicated contracts management unit has now been	The recommendation is implemented as the Contract	X			

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			dedicated contracts management desk office within UNRWA that will act as coordinator for the Agency's contractual relationships; (b) create an effective relationship between the management and suppliers and maintain regular communication with suppliers; and (c) consider the inclusion of a liquidated damages clause in the contracts relating to medicines and medical supplies to enforce the compliance of suppliers.	established in the Procurement and Logistics Division, with the Head of the Unit serving as the main focal point for all contract management issues. The Unit is up and running with dedicated staff. The Unit still needs formal recognition from Human Resources and the formal adoption of the new terms of reference and grades of staff therein, also by Human Resources; part (b) an effective supplier relationship management platform has been established with the Contracts Management Unit as the lead focal point for UNRWA. The Unit is involved in all stages of the process for awarding contracts and the issuance of purchase orders. The suppliers are also informed by the Unit when buyers dispatch purchase orders; part (c) the liquidated damages clause is now included for the procurement of all goods, services and works, including medicines and medical supplies, and compliance is monitored by the Contract Management Unit. In addition, a corporate memo was sent to staff of the Procurement and Logistics Division to ensure that the procedures are maintained in practice across the board. A sample purchase order with the instruction to suppliers to sign a copy and return to UNRWA as an acknowledgement and acceptance, together with	Management Unit has been developed and is operational, monitoring all contracts through communication with suppliers and users. Liquidated damages are also included in medicine and medical suppliers purchase orders.				

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				UNRWA general and special conditions are attached to all purchase orders dispatched to suppliers, including the liquidated damages clause. Performance bonds are also taken.					
28	2014	67	The Board recommended that UNRWA: (a) expedite the construction of one school, namely the fully green school, for the consolidation of three schools presently being operated in rented buildings; (b) consider developing long-term plans for the replacement of schools operated in rented buildings and short-term solutions for equipping the rented schools; and (c) given the limited resources of the Agency, continue efforts to mobilize funds to meet the costs of land and construction.	As the Board has already noted, the Agency is currently experiencing financial difficulties, with limited resources. It was unlikely that UNRWA would be able to address the recommendation in 2016 and the Agency will continue to mobilize its limited funds, focusing on core activities and priorities.	The Board reviewed the final engineer's completion certificate for the fully green school and long-term plan for replacement of schools operated in rented buildings and was satisfied with the implementation.	X			
29	2014	68	The Board recommended that UNRWA: (a) allocate learning resource rooms in existing schools to enhance implementation of special educational needs programmes; and (b) mobilize sufficient resources to renovate existing school buildings to allow easy access for students with mobility problems.	UNRWA explained the position in conjunction with the response to recommendation 55. In addition to the earlier management response, construction of classrooms for special educational needs programmes is not practical with the current financial situation; additional resources are required as several additional facilities need to be provided. Reorganization of the existing classroom will create a shortfall for regular students and will lead to a demand for more facilities and classrooms, which in turn cannot be accommodated. All new designs are considering special	The Board agreed with the option undertaken by the Agency whereby it has developed a design in which students with special educational needs are taken into consideration; therefore going forward the needs of such students will be taken into consideration in all construction. In this regard the Board considers the recommendation implemented.	X			

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30	2014	70	The Board recommended that UNRWA: (a) ensure that field offices expedite the recruitment process for the vacant posts within the new structure and coordinate with the Department of Education at UNRWA headquarters on matters requiring headquarters decisions; and (b) expedite the finalization of the draft governance framework to support the implementation of the education reform strategy.	educational needs programmes. The Board comprehends the practical challenges of UNRWA and shares the concern. The field offices have moved forward on the recruitment of the staff for the new strategic support units as detailed in the Teacher Policy. The class formation instructions for 2016/2017 reflected the full structure for each Field. The recruitment for the strategic support units is complete in four of the five fields, the West Bank field office having allocated resources and being in the process of finalizing the selection process. The Lebanon field office established the strategic support unit posts several years ago but has not been able to recruit education specialists to replace those who became strategic support unit coordinators owing to financial challenges. In the conceptualization of the education reform, it was anticipated that an education-specific governance framework would be a key element of the reform. Two significant Agency-wide developments have taken place over the last two years and these mean that a stand-alone education governance framework is no longer appropriate: (1) The revised organizational directive No. 21, launched in 2017, "Programme and Project Cycle Management" which reflects	The Board reviewed the status and considered the recommendation to be under implementation.		X		

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				the level of authority and the key policies and standards for the implementation of all programmes (see section 3 on policies and standards); (2) The development of specific department, or field, management compacts signed annually by Directors. These two actions mean that an education framework is no longer required.					
31	2014	71	The Board recommended that UNRWA: establish acceptable strategies to avoid Agency-wide effects resulting from the actions of the area staff union on the implementation of the teacher coordinators pilot project at other field offices.	Following field difficulties for the pilot project in the West Bank, it was transferred to Lebanon in 2014. Owing to the financial difficulties of the organization, the pilot project has also been held up in Lebanon, but the Agency is pursuing its continuation.	The Board reviewed the status and consider the recommendation to be under implementation.		X		
32	2014	76	The Board recommended that UNRWA: (a) explore the possibility of entering into long-term agreements with local suppliers that offer competitive prices and meet the required specifications; (b) expedite the installation of new cold rooms to provide enough space for drugs that need to be stored at temperatures below 8°C; and (c) dispose of the expired drugs to create additional storage space and, in the intervening period, allocate temporary storage space to provide adequate drug storage facilities.	A quantification exercise was finalized under the supervision of the Director of the Health Department at headquarters in Amman and the Chief, Procurement and Logistics Division. Pursuant to this assessment, 19 new suppliers (locally and internationally) were awarded through the Procurement and Logistics Division with long-term agreements offering competitive prices and new shipments of medicines (under the new contract) are under way. Cold rooms have been installed and are working and we have identified other areas within the Procurement and	The Board visited the cold rooms and conducted interviews with responsible staff. The cold rooms are working and it identified other areas within the building allocated for the Procurement and Logistics Division. They have already entered into long-term agreements with local suppliers and the expired drugs have been disposed of.	X			

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33	2014	80	The Board recommended that UNRWA develop and implement procedures to facilitate quality control tests of essential medicines and medical supplies at the Lebanon field office.	Logistics Division building for disposal of expired drugs. The pharmaceutical testing of medical supplies is not performed upon receipt of such goods; rather it is done by the manufacturer in the country of origin. The only requirement of the Ministry of Public Health is to ensure the medicines are registered in Lebanon and cleared by the Ministry. In other words, all medical supplies entering Lebanon shall require approvals to enter the country according to Ministry of Public Health regulations. Pharmaceutical inspection is performed prior to the release of shipments of medical supplies at the port of discharge. However, to date we have developed a quality assurance policy for all pharmaceutical products.	The Agency has developed quality assurance policy for pharmaceutical products.	X			
34	2014	81	The Board recommended that UNRWA identify appropriate means and areas for waste disposal and consider the inclusion of waste management in the annual budget as a priority in order to facilitate the establishment of disposal facilities at the health centres.	A waste management plan has been developed and approved by the front office. The Department of Health will coordinate internally to secure the required funds in order to implement the approved waste management plan.	The Board reviewed the status and considered the recommendation to be under implementation.		X		
35	2014	87	The Board reiterated its previous audit recommendation that UNRWA expedite the planned initiatives to reduce the length of the recruitment process by improving coordination within the hiring departments.	The post referred to is the practical nurse post. During the recruitment process, there was a shift in the priorities as some posts are given a higher priority compared with other posts. The screening reviewed by the Board took longer than	The Board noted similar cases in the Gaza and West Bank field offices, highlighting that the issue has not been fully addressed.		X		

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36	2014	90	The Board recommended that UNRWA comply with staff selection policies and, that, where there is an exceptional case beyond the Agency's control, it documents the reasons for extension to support its decision.	<p>anticipated owing to the shift in priorities within the recruitment unit, where Human Resources would have to balance available resources and the more urgent recruitment needs with a higher priority. Human Resources has exerted and will continue to exert and expedite its efforts to decrease the duration of recruitment with weekly recruitment status updates on ongoing recruitments and follow-ups with the departments concerned. International vacancies are normally advertised for a period of one month. In rare instances, Human Resources may be requested to shorten the advertising period to three weeks, owing to urgency in filling a post given the unforeseen imminent departure of a staff member or other resource gap arising. Human Resources consider the request and, where appropriate, shorten the advertising period to three weeks.</p> <p>The special approvals to extend the rosters are an internal arrangement to respond to an immediate need to fill posts, and were obtained in a few cases where rosters were frozen for most of the actual roster period. UNRWA will minimize the use of such special approvals. Also in line with personnel directive No. 4 for Area staff regarding roster management: "the roster for</p>	The recommendation is considered closed as UNRWA has included a provision in the policy for exceptional cases and the procedures to be followed.	X			

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37	2014	93	The Board recommended that UNRWA: (a) review the backup policy and procedures for user access to reflect the new requirements of the enterprise resource planning system; (b) expedite the customization of the service desk express application to accommodate the handling of incidents arising from the implementation of the new system and train service desk staff accordingly, before the system becomes fully operational; and (c) develop project closure plans for the system to ensure its smooth transition from the project to the operational stage.	<p>candidates who were approved to be suitable to filling vacancies but not selected shall be placed on the roster of pre-approved candidates for up to one year". However, given the difficult circumstances that UNRWA faces, such as regarding the continuity of funding for core programmes, one-time exceptional approvals to extend the rosters were granted for two categories of post: (1) sanitation labourers/ school attendants (owing to the recruitment freeze); and (2) teachers (owing to the late receipt of government clearance). The field office considers the audit recommendation to be closed.</p> <p>The capabilities of the outsourced data centre, in the case of UNRWA, the Global Service Centre, are evolving. Historically the United Nations Logistics Base at Brindisi, Italy, was the only outsourced data centre. Subsequently, requirements to expand the data centres emerged. The capacity of the Global Service Centre has recently been expanded, with the establishment of a secondary active telecommunications facility in Valencia, Spain. The enterprise resource planning system is hosted in Valencia with backup capability provided in Brindisi. UNRWA intends to restructure its older systems currently hosted only in Brindisi so as to allow redundant backup</p>	The Board reviewed technical instruction No. 6 — Backup policy and found it to be satisfactory.	X			

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				from either Valencia or Brindisi. New systems in development (for example, the Education Management Information System) will have a backup data centre in place from their inception. The disaster recovery plan will be updated accordingly. The Agency has updated technical instruction No. 6 — Backup policy to reflect the new requirements of the enterprise resource planning system.					
38	2014	96	The Board recommended that UNRWA: (a) review the information security policy to cover the security issues posed by mobile devices; and (b) develop mobile device security guidelines and create awareness among users.	UNRWA has reviewed technical instruction No. 6 which covers the security issues posed by mobile devices.	The Board reviewed technical instruction No. 6 and found to be satisfactory.	X			
39	2015	23	The Board recommends to review the policy on the creation of provisions of doubtful debt for long outstanding VAT receivables based on the past experience and the likelihood of collection to reach the best estimate and fair presentation.	UNRWA explained the developments and provided a memo explaining the review process done in this regard and also reasons why UNRWA believes that there is no need to revisit the policy. The accumulation of VAT has been considerably reduced in recent past years. Following the existing policy will ensure that almost all VAT will be provided for by the end of 2016. Offsetting mechanism is also being worked out in this matter. UNBOA agreed with the argument and considered recommendation overtaken by event.	The Board agreed with the management response and closed the recommendation on the basis of the measures taken to reduce the VAT receivables from the Palestinian Authority.	X			

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40	2015	27	The Board recommends UNRWA to design an action plan which will enable the midyear results review report to be issued on the due date and discussed in the results review participants meeting to support management decision making.	A series of midyear results review meetings were convened between individual field offices and headquarters in September 2016. Chaired by the Deputy Commissioner-General, the purpose of each meeting was present participants with an opportunity to discuss: (i) progress towards the achievement of planned programme budget, emergency appeal and project results in 2016 (as at the end of June); (ii) proposed adjustments to indicators/indicator targets listed within the 2016-21 common monitoring matrix; (iii) 2017 planning; and (iv) risk management.	The midyear review report has been developed and was discussed by field offices. Therefore, the Board considers the recommendation implemented	X			
41	2015	32	The Board recommends that UNRWA (a) align fuel station pumping systems with the CarLog system at the Gaza field office to realize the expected benefits from the system including online capturing of vehicles' daily fuel transactions; and (b) establish a service level agreement between the Information Management Services Division and the Procurement and Logistics Division to ensure proper support of the CarLog system in all field offices.	Installation of pumping system with the CarLog system at the Gaza field office has been done and the system is supported by the Information Management Department.	The Board is satisfied with the implementation and therefore considers the recommendation to have been implemented.	X			
42	2015	36	UNRWA agreed with the Board's recommendation that it (a) expedite the roll-out process for the travel management system in field offices, to strengthen efficient recording and monitoring of air travel	We have developed a travel management policy which has streamlined all travel arrangements and the system has been installed in all field offices.	The Board reviewed the submitted policy, clearance procedures before travelling as well as the roll-out documents and training minutes, and found them to be acceptable. It therefore	X			

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			costs and enhance consistency in recording air ticket information; (b) develop a travel management policy which will define the air ticket booking arrangement; and (c) streamline the approval processes with regard to the travel management system so that they are completed within a reasonable time.		considers the recommendation to have been implemented.				
43	2015	40	UNRWA agreed with the Board's recommendation that it ensure: (a) the timely signing of the insurance contract before its expiration; (b) that all future insurance contract extensions are preceded by an evaluation of the supplier as required under chapter 12.4 of the UNRWA procurement manual (2012); and (c) the conduct of competitive tendering in 2016 so as to obtain competitive terms and price for the insurance of motor vehicles.	A new tender for Vehicle Insurance was done in June 2016 and Letter of Award was made to the Vendor on 24 August 2016 for a contract of 1 year with a possibility of further two extensions awarded for 12 months at a time, subject to the mandate and funding of UNRWA, and the satisfactory performance of the Contractor.	The Board is satisfied with the action taken by management and therefore considers the recommendation to have been implemented.	X			
44	2015	44	The Board recommends that UNRWA expedite the implementation of the electronic tendering software in all field offices and headquarters to ensure feedback is issued and communicated to unsuccessful suppliers, in order to enhance transparency in the procurement process.	UNRWA has recently implemented electronic tendering software (In-tend). Part of the process flow includes automated feedback to both successful and unsuccessful bidders. Headquarters in Amman will be using In-tend for all new major contracts during 2016.	The process of issuing feedback to unsuccessful suppliers is still not effective and has not been rolled out to all field offices.		X		
45	2015	50	(a) strengthen coordination between procurement and user departments to ensure that all procurement requirements are identified in a timely manner and communicated to Procurement and Logistics Division to avoid unnecessary	a. On coordination, headquarters in Amman Health Dept. had taken the lead for 2017 health commodities supply process as follows: i. Conducted Annual Quantification for Part A for 18	The Board acknowledge the management initiative; however, similar cases were noted this year and therefore the underlying causes have not been fully addressed.		X		

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			shortening of the tender period; and (b) ensure that the Gaza field office performs an evaluation of suppliers' performance prior to the extension of long-term agreements and use the evaluation report as criteria for such extensions.	<p>months' supply</p> <p>ii. Coordinated release of Purchase Request</p> <p>iii. The Procurement and Logistics Division conducted Industry Consultation and placement of purchase order</p> <p>iv. Part B drugs and supplies (minor drugs/hospital sundries) have their supply pipeline to cover 18 months</p> <p>v. Laboratory and Dental Supplies have their supply pipeline to cover until October 2017 with a new process starting in the second quarter of 2017</p> <p>b. While it is good practice to do Vendor Performance evaluation to support extension/renewal of contracts, unfortunately owing to inadequate current IT system (REACH cannot support qualitative Vendor performance management) and the fact that the Procurement and Logistics Division is heavily under-resourced to meet such expectation, this recommendation will be implemented when resources are available.</p>					
46	2015	53	UNRWA agreed with the Board's recommendation that it (a) strengthen the Contract Management Unit to improve the level of follow-up with the vendors to minimize delays in the delivery of goods and services; (b) ensure specific	The GFO-Procurement and Logistic Division has stated the need for an optimal staffing level to cater for contract management. This is reflected in the corporate Procurement and Logistics Division restructuring organization	Still under implementation		X		

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			liquidated damages clauses are included in the contract and/or purchase orders; and (c) consider establishing a new coordination mechanism for UNRWA goods with the Israeli side through the Coordination of Government Activities in the Territories department.	charts now with headquarters in Amman for consideration, seeking the Executive Office approval. Furthermore, the Division will also continue to engage the Gaza field office front office to enhance the capacity of the Division to cater for all functions in ensuring value for money procurement. The Gaza field office will also ensure that appropriate liquidated damages clauses are stated in contracts to enforce performance of the contracts.					
47	2015	57	UNRWA agreed with the Board's recommendation that it (a) establish the sanctions and complaints committee to handle the sanctioning of vendors in a transparent and fair manner; and (b) ensure suspension procedures, such as coordination with the Legal Adviser and General Counsel and the Director of Administrative Support, are adhered to.	We have established a sanctions and complaints committee to handle the sanctioning of vendors in a transparent and fair manner. In case of sanction the Legal Adviser is consulted.	The Agency has established a sanctions and complaints committee to handle the sanctioning of vendors in a transparent and fair manner. In addition, the Legal Adviser and General Counsel and the Director of Administrative Support are consulted before sanctioning the vendor.	X			
48	2015	63	UNRWA agreed with the Board's recommendation that it (a) conduct performance evaluation and keep records for the engaged consultants and contractors; (b) expedite the process of policy review to formalize the performance evaluation of individual consultants and contractors; and (c) ensure all hiring departments include measurable outputs and performance indicators in their terms of reference for the monitoring and evaluation of results.	On 13 December 2016, the Director of Human Resources issued the attached Complementary Personnel Directive (CPD/1) on the Contracting of Individual Service Providers. The new Directive entered into force on 1 January 2017 and applies to all new contracts or extensions of contracts with a start date on or after 1 January 2017. The Directive addresses on (a) Performance evaluation of Individual Service Providers is mandatory, using a standard	The Board has noted the management initiative which closes part (b) of the recommendation. Compliance with the newly introduced personnel directive will be evaluated in its next audit. In 2016, the Board noted similar cases at the Lebanon field office and therefore the recommendation has not been fully addressed.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
				form provided in annex to the Directive. Contracting Managers/Departments must also maintain centrally within a Field or Department copies of all executed contracts and essential information related to the engagement of Individual Service Providers (b) the Directive includes provisions on pre-contracting requirements, including development of Terms of Reference, specifying inter alia objectives of the contract, tangible and measurable outputs of the work and realistic deadlines.					
49	2015	65	The Board recommends UNRWA review the policy to ensure that procedures for releasing staff for special leave without pay take into account clearance of the outstanding salary advances.	Circular No. 1-2017 has been issued; this circular provides clearance procedures to be followed by the staff before starting the special leave without pay.	The Board has reviewed the circular and considers it satisfactory.	X			
50	2015	68	UNRWA agreed with the Board's recommendation that it (a) establish a separate store for medical supplies in the new building, to avoid mixing them with general supplies; and (b) install temperature regulators in the general store to facilitate proper drugs storage management.	UNRWA accepts this recommendation and will assess establishment of a separate medical store with the Procurement and Logistics Division and consider installation of temperature regulators in the general store to facilitate adequate drugs storage management subject to availability of funds. Currently we have hired a supplier for keeping medicals which requires minimum temperature of 8 and maximum of 25°C. We have also started constructing our own warehouse which solves that problem.	Under implementation; however, currently they have temporary hired the supplier for keeping the medicine at a minimum temperature of 8°C and maximum of 25°C. The construction of a warehouse is still in progress.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
51	2015	71	UNRWA agreed with the Board's recommendation that it establish buffer stock to ensure efficient operations and to meet the minimum operational requirements for unexpected emergencies in field offices.	UNRWA accepts this recommendation. The Health Department has already catered for this with quantification and forecast system put in place. The HQ-Procurement and Logistics Division and Health Department recently established a strategic approach to procurement of medicines and the creation of a buffer stock to avoid such stock-outs. The orders placed with the long-term agreement holders include buffer stock for the Gaza field office and other field offices. The use of REACH system in managing stock will also now make it a normal routine system for determining stock levels and reorder points.	Implemented.	X			
52	2015	76	UNRWA agreed with the Board's recommendation that it (a) expedite the process of finalizing the master plan by incorporating all risks and concerns of the beneficiaries to allow smooth project implementation; (b) conduct sensitization of the affected households as part of an awareness-raising exercise regarding the benefits of the project; (c) expedite the vertical densification study and incorporate the results into the project master plan; and (d) finalize the transfer budget estimates for the temporary renting of accommodation for the families whose shelter will be demolished prior to their transfer to new residences.	The Islamic Development Bank (IDB) in its capacity as Coordinator for the Programme of the Gulf Cooperation Council for the Reconstruction of Gaza, has re-programmed and signed a \$40 million agreement with the UNRWA, the revised agreement will now include the shelter repair and reconstruction of at least 1,000 housing units across the Gaza Strip for families whose houses were damaged or destroyed during the 2014 hostilities. As a reprogramming of funds from a previous agreement signed in 2015 and with a Master Plan for camp improvement in place, UNRWA will prioritize Deir El-Balah residents, especially displaced refugee families that	The Board concurs with the Management response and considers the recommendation as over taken by events.				X

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
				are being hosted by others in Deir El-Balah as a result of destroyed homes. Due to reprogramming of the fund, UNRWA considers the recommendation as over taken by event.					
53	2015	80	UNRWA agreed with the Board's recommendation to develop an information and communications technology strategy together with an enterprise architecture and road map to support the Agency's business objectives.	Final information and communications technology strategy aligned with the medium-term strategy will be ready by May 2017.	The Board received and reviewed the draft of the strategic framework document that will provide the context for information and communications technology strategy; and it will close the recommendation once it is formalized by the information and communications technology governance board.		X		
54	2015	85	The Board recommends that UNRWA expedite the process of developing and implementing an information technology applications portfolio management framework for the proper management of the Agency's software applications.	UNRWA accepts the recommendation and has already advised the Board that the implementation plan is connected to the creation of an updated overall IT governance model and application portfolio management framework is expected to be implemented by the end of May 2017.	Still under implementation		X		
55	2015	89	The Board reiterates its previous recommendation that UNRWA expedite the development of a benefits realization plan for the enterprise resource planning project to ensure effective monitoring and the realization of the intended benefits.	UNRWA has developed the benefits realization plan for the enterprise resource planning project and submitted to UNBoA.	The Board received the "REACH Benefits Achievements" document that outlines the benefits realized by implementing REACH system and consider the recommendation to be implemented.	X			
56	2015	93	The Board recommends that UNRWA conduct a post-implementation review of the enterprise resource planning	In 2017 a review will be made, by the Information Management Department, collecting input from users and	Still under implementation.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
			project to identify key lessons learned for improvement in future projects.	stakeholders group to identify the major items and sentiment related to the usage of REACH. The outcome of this exercise will be discussed during the first quarter of 2018 and will prepare a more formal review in agreement with the Department of Internal Oversight Services.					
57	2015	96	The Board recommends that UNRWA prepare a transition plan to develop the internal capacity needed to manage key technical and application activities.	We have awarded a three-year contract for service support for the SAP enterprise resource planning system and issued enterprise resource planning project operation procedures.	Since the Agency has decided to outsource the maintenance of SAP, then the submitted SAP Technical and Application Management, together with the UNRWA enterprise resource planning project operation procedures are sufficient to close the recommendation.	X			
58	2015	102	The Board recommends that UNRWA (a) expedite the implementation of the e-Health application to all health centres to enable real-time recording of stock consumptions at the level of health centres; and (b) implement the interface between the e-Health application and the enterprise resource planning system to improve the quality of the financial reporting process for inventory.	The roll-out plan for e-Health as prepared by the Health Department has been submitted to the Board as evidence to indicate plans to expedite roll-out of e-Health to all health centres. 60 of 137 health centres are already implementing the new e-health version and the plan is to implement more than 90 per cent of the health centres agency wide (excluding Syria) by end of 2017. This may be optimistic as the health centres (30) running the old classic e-health version need data migration from the old classic e-health version to the new e-health version which can be time and resource consuming; therefore the timeline may shift to beginning of 2018.	Under implementation		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
				Consumption of the stock is already embedded within the system and the HC can currently generate an online stock balance sheet for all medicines. In addition, once the mapping from old to new codes is completed, the HC will be able to utilize the 'store demand note (SDN)' in order to forecast the future medicines order according to the last two-three months consumption. For part (b), the implementation is currently delayed owing to other priorities.					
59	2015	105	UNRWA agreed with the Board's recommendation that procedures to define and document the provision and suspension of user access for the enterprise resource planning system be developed, as well as for the creation, change and deletion of roles in the system.	UNRWA Information System Department accepts this recommendation and advises the Board that technical instruction No 5 for "Access Control Policy" have been updated to incorporate REACH requirements.	The Board reviewed the submitted REACH Operational Governance Manual and updated technical instruction No. 5 and found the document to be satisfactory, and therefore the recommendation is closed.	X			
60	2015	108	UNRWA agreed with the Board's recommendation that it (a) acquire information technology tools for monitoring the quality of network service in accordance with technical instruction No. 10; and (b) perform regular monitoring of the quality of service metrics to ensure stable network connectivity.	UNRWA has amended technical instruction No. 10 to specifically remove the monitoring requirement which requires additional information technology tools and aligned the tools for monitoring the quality of service.	Based on the technical constraints regarding measuring quality of service that management is experiencing, the updated technical instruction No. 10 warrants the closure of recommendation. The Board received and reviewed the TI information and communications technology infrastructure guidelines and Standards for remote sites, which it considered to be satisfactory.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
61	2015	114	UNRWA agreed with the Board's recommendation that it (a) develop a comprehensive information security programme; (b) update its information security policy; and (c) develop an information security steering committee and assign accountability to ensure information security strategies are aligned with and support business objectives.	The implementation of Board's recommendation is still in progress.	Under implementation.		X		
62	2015	119	The Board recommends that UNRWA continue to improve the internal control deficiencies noted by expediting the implementation of Department of Internal Oversight Services recommendations, especially the high-risk recommendations.	Comprehensive review of the status of implementation have been done by the Department of Internal Oversight Services of which a number of recommendations are implemented and some cleared by merging together.	The Board reviewed the status of implementation for high-risk recommendations and noted that 16 recommendations had been cleared while 23 are still pending.		X		
63	2015	125	The Board recommends that the Microfinance Department (a) ensure verification officers monitor the application controls related to cashier functions and address issues of non-compliance to Department management on a regular basis; (b) reallocate the function of cancelling cash-received vouchers to a person other than the cashier, so as to ensure proper segregation of duties; (c) make sure that full justification for the cancellation reasons are preapproved by the branch manager and documented for future reference; and (d) ensure that full and detailed information and analysis are obtained and made for both client and guarantor.	Microfinance Department management issued instructions to cashiers to strictly adhere to cashing functions and procedures. All required forms were adjusted, check registers were updated, required cancelled stamps were done, finance department increased supervisory levels on cashiers and verification missions increase focus and cashier functions. Microfinance Department management conducted training sessions to cashiers at all Microfinance Department fields to improve skills and increase competence.	The Board still found cases similar to those reported earlier; therefore the recommendation has not been fully addressed.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
64	2015	126	The Board reiterates its previous recommendation that the Microfinance Department: (a) review and strengthen the loan granting process to ensure that operating manuals and established policies and procedures are followed in filling the loan applications, in order to improve accuracy and consistency; (b) monitor the controls related to cashier functions and address noncompliance issues on a regular basis; (c) ensure proper maintenance of customers' files where all customers' guarantees and related documents are kept and updated; (d) improve project follow-up procedures (supervision and monitoring) to reduce risks of incorrect acceptance of credit decisions and decrease the risk of client default; and (e) ensure adherence to credit terms and conditions before the disbursement of loans.	Microfinance Department branches completed the related corrective actions as given below: (1) Instructions and notifications issued to concerned staff members to avoid such mistakes (2) Obtained the required and proper supporting documents from clients (3) Required corrective actions taken at loan applications (4) Complete required level of approvals with the required amendments (5) Development at Microfinance Department operational manuals completed by all Microfinance Department fields (6) Conduct training sessions to loan officers and Area loan supervisors on filling loan applications.	The Board acknowledge the Microfinance Department initiatives to improve the efficiency in operations, however, this year the Board noted similar cases and therefore the deficiencies have not been fully addressed.		X		
65	2015	128	The Microfinance Department agreed with the Board's recommendation that the existing UNRWA user access forms be used to capture access requests in order to facilitate a clear understanding of user access requirements and document formal supervisor/ manager approvals of requests for the audit trail and future reference.	Will be addressed when security officer role is filled.	This recommendation is still outstanding.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by event
66	2015	129	The Microfinance Department agreed with the Board's recommendation that it (a) maintain an audit trail (logs) and monitor the actions of such sensitive user accounts and sign off on a periodic basis by an information security officer or a person with similar responsibilities who is independent from the information technology team; and (b) define and formally document administrator accounts on all levels and the passwords for the administrator accounts must be properly secured and kept with the Agency's management, with access to be granted through a formal process.	The access rights is managed based on strict change control procedures with supported forms and maker/checker concepts, however periodic checking with HR will be scheduled.	The recommendation is still outstanding — formal and periodic reviews of access rights on Omni application were not conducted.	X			
67	2015	130	The Microfinance Department agreed with the Board's recommendation that password standards be strengthened on the SQL database for the Omni application so as to conform with best practices by enforcing password complexity, lockout and expiration requirements.	The Microfinance Department has strengthened the SQL database for the Omni application to conform with the industry best practices.	The recommendation has been addressed.	X			
Total					67	38	26	1	2
Percentage						57	39	1	3

Annex II

Summary of assets written off

(United States dollars)

<i>Category</i>	<i>2016</i>	<i>2015</i>	<i>Increase/(decrease)</i>
Cash	554	2 165	(1 611)
Inventory	99 936	25 513	74 423
Property	2 181 532	3 261 424	(1 079 892)
Outstanding contribution receivables	0	170 000	(170 000)
Outstanding loans receivables	924 426	809 527	(114 899)
Total	3 206 448	4 268 629	1 062 181

Source: UNRWA information.

Annex III

Cases of fraud and presumptive fraud reported to the Board for the year 2016

<i>Case number</i>	<i>Office</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
INV-15-0038	Lebanon Field office	General fraud	The amount was not determined.	Linked to Investigation 15-0049 and Department of Internal Oversight Services case 15-0002 reported on in 2015 report.	Closed.
INV-15-0056	Gaza field office	General fraud		– Some employees alleged to have colluded with beneficiaries to manipulate information regarding shelter repair needs in order to obtain a higher payment.	Unable to substantiate.
INV-15-0086	Gaza field office	General fraud		– An employee is alleged to have managed a website that issues fraudulent certificates of completion of UNRWA ethics training.	Substantiated. Staff member fined and censure letter issued.
INV-15-0116	HQ Jerusalem	General fraud		– An employee is alleged to have charged the budget for driving courses that did not take place.	Unable to substantiate.
INV-15-0143	Gaza field office	General fraud	3 000	Two employees are alleged to have forged signatures on the stubs related to beneficiary assistance coupons in order to use/sell the coupons.	Substantiated. One staff member fined, the other lost 3 grade steps as sanction.
INV-15-0173	Jordan field office	Theft and general fraud		– Several allegations against an employee for procurement, financial and recruitment irregularities, misuse of vehicles and theft of UNRWA property.	Unable to substantiate.
INV-15-0197	Jordan field office	Theft		– Theft of food packages from an Agency storage facility. An internal employee is suspected.	Unable to substantiate.
INV-15-0268	Jordan field office	Procurement irregularities	None as the result of fraud	An employee is alleged to have pressured members of an evaluation committee to influence the scoring of bidders and direct the award of contract to a specific company.	Substantiated. Process was manipulated but no fraud found. Disciplinary process pending.
INV-16-0046	Gaza field office	Corruption	Undetermined	Staff members assisted beneficiaries in submitting false details in order to obtain unwarranted benefits.	Closed: staff member retired.
INV-16-0047	Gaza field office	Corruption	Undetermined	Linked to 16-0046.	Management intervention — no investigation.
INV-16-0071	Syrian Arab Republic field office	Procurement irregularities		– Artificial sales raised to cover losses of stock in warehouse, improper stock controls and procurement.	Unable to substantiate. Referred to Audit Division for possible follow-up.
INV-16-0081	Syria Arab Republic field office	General fraud		– Allegations made that food intended for beneficiary distribution was being sold to third parties instead.	Unable to substantiate.

<i>Case number</i>	<i>Office</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
INV-16-0104	Jordan field office	Entitlement fraud	Undetermined	– Staff member submitted a medical insurance claim for treatment under another name.	Substantiated. Disciplinary process pending.
INV-16-0123	Jordan field office	General fraud		– Potential false invoicing fraud in connection with medicinal drug purchases.	Unable to substantiate.
INV-16-0125	Lebanon field office	General fraud		Accusations from several parties that a scoring system for entitlement to beneficiary payments had been manipulated by a staff member.	Closed: staff member's contract terminated in connection with other matters.
INV-16-0126	Jordan field office	Entitlement fraud		– Staff member took invalid sick leave after a refusal to grant sick leave without pay. While on leave, he performed unauthorized work.	Unable to substantiate.
INV-16-0141	West Bank field office	Procurement irregularities		– Allegation of contract manipulation for political reasons.	Management intervention.
INV-16-0142	Gaza field office	General fraud		– Allegation that entitlement coupons were being sold.	Recorded for information: insufficient evidence for investigation.
INV-16-0180	Gaza field office	Theft		– Three empty cartons of milk were discovered that appeared to be missing stock.	Recorded for information: insufficient evidence for investigation.
INV-16-0216	Jordan field office	Entitlement fraud		– Staff member accused of submitted a fake marriage certificate in order to obtain a dependant's salary.	Unable to substantiate.
INV-16-0239	Jordan field office	Procurement irregularities		– Potential collusion with local vendors with regard to laboratory equipment.	Unable to substantiate.
INV-16-0246	HQ	General fraud		– An UNRWA education programme IT system was alleged to have been supplied to a private company.	Unable to substantiate.
INV-16-0273	Jordan field office	General fraud		– Use of an agency vehicle without permission.	Unable to substantiate.
Total			3 000		

Chapter III

Certification of the financial statements

Letter dated 31 March 2017 from the Director of Finance of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Chair of the Board of Auditors

Pursuant to financial regulations 11.4 and 12.1, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2016.

I certify that all transactions have been properly recorded in the accounting records and properly reflected in the Agency's financial accounts and appended statements, which I hereby certify as accurate and representative of the Agency's operating activities and the financial state of affairs as at 31 December 2016.

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

Chapter IV

Financial report for the year ended 31 December 2016

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2016, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

B. Financial and budget analysis

Summary

2. The year 2016 has been another challenging one for UNRWA, its donors and its beneficiaries. The Agency continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2016, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the challenges associated with the dramatic deterioration of the political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic and the security concerns with which the Agency is faced on a daily basis.

4. Notwithstanding the difficult financial climate, donors continued to provide strong support, with \$1,242.0 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and to address emergencies in the Gaza Strip and the Syrian Arab Republic.

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

6. The previous biennial budget (for 2016-2017) was presented on a modified cash basis. As that basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS 24.

Financial performance for 2016

7. The Agency's total revenue and income for 2016 was \$1,274.7 million, compared with total expenses of \$1,316.8 million, resulting in a net shortfall of \$42.1 million for 2016.

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

Table IV.1

Summary financial performance by fund for the period ended 31 December 2016

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Total revenues	676.3	22.3	11.1	372.9	245.3	(53.2)	1 274.7
Total expenses	724.7	20.7	8.9	383.6	231.9	(53.0)	1 316.8
Surplus/(deficit) for the year	(48.4)	1.6	2.2	(10.7)	13.4	(0.2)	(42.1)

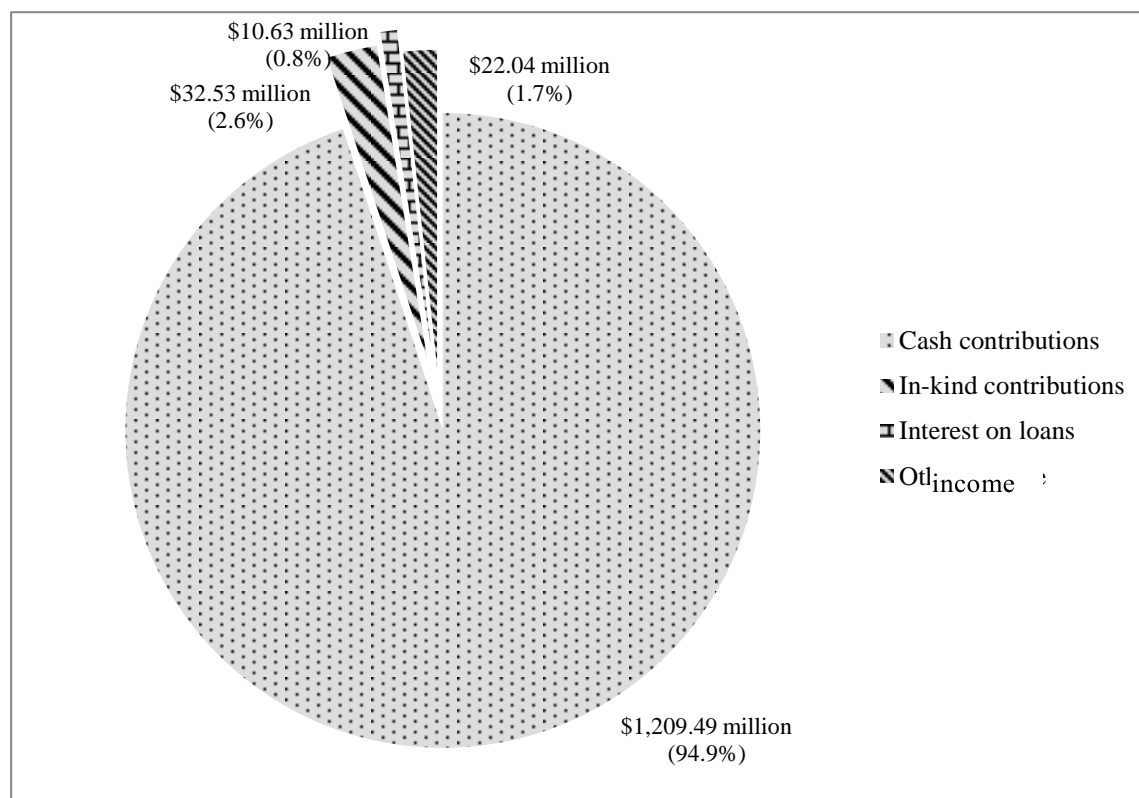
9. The programme budget and the emergency appeal recorded deficits of \$48.4 million and \$10.7 million, respectively. The deficit in the programme budget is primarily due to the unfunded end-of-service liabilities. The deficit in emergency appeals is due to accrued expenses and committed payables at year end due to timing difference in the receipt of income. Emergency appeal funding from major donors was received in January 2017.

10. The restricted funds and the Microfinance Department reflected a surplus of \$1.6 million and \$2.2 million, respectively. The projects funds recorded a surplus of \$13.4 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods.

Revenue analysis

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 95 per cent (\$1,209.5 million) of total revenue. In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at \$32.5 million. This is an important element, allowing the Agency to carry out its activities, and includes food and medical supplies, school textbooks, in-kind services for consultancy and project staff and the use of land for UNRWA facilities, such as schools and health clinics.

Figure IV.I
Revenue and income sources

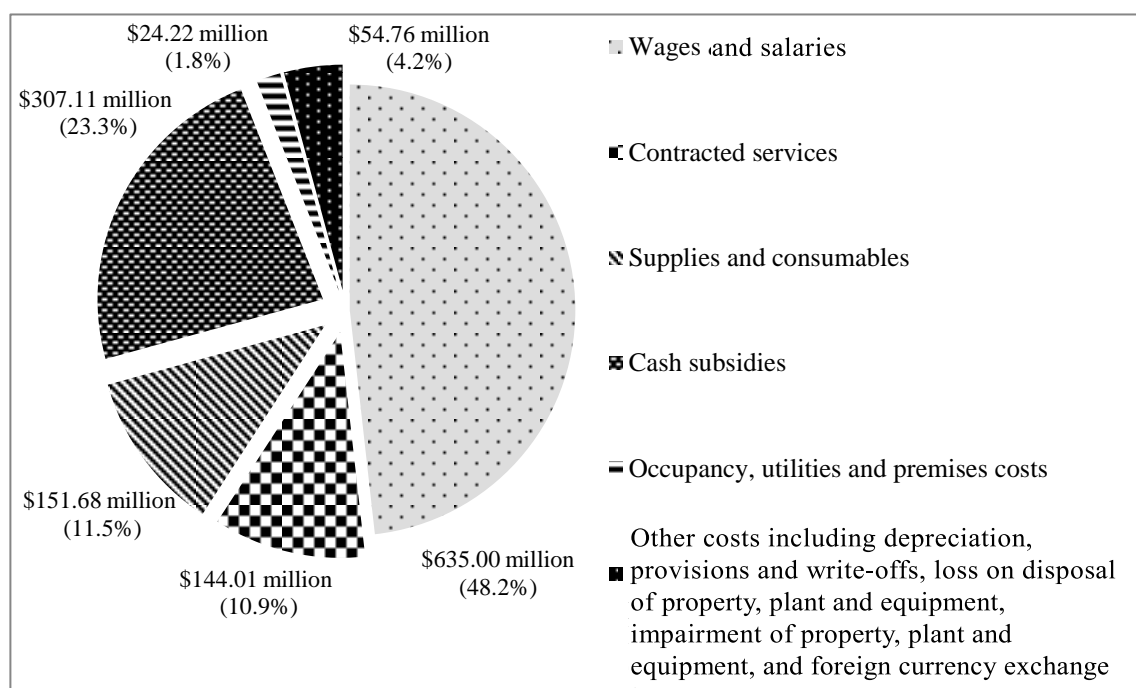


12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding "Assistance to Palestine Refugees" (most recently, resolution 71/91), "Persons displaced as a result of the June 1967 and subsequent hostilities" (most recently, resolution 71/92), and "Operations of UNRWA" (most recently, resolution 71/93). At its seventy-first session, the United Nations General Assembly extended the Agency's mandate until 30 June 2020 (see resolution 71/91). The Advisory Commission of UNRWA is tasked with advising and assisting the Commissioner-General in carrying out the Agency's mandate and consists of 27 members and 3 observers. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector.

Nature of expense analysis

13. The Agency spent a total of \$1,316.8 million in 2016. Staff costs of \$635.0 million represented 48 per cent of total expenses. As previously highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II
Expense analysis by nature of expense



14. A total of \$144.0 million was spent on contracted services, representing expenses relating to the Agency's engagement of third parties to perform work on its behalf. Of that amount, \$63.1 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency which falls below the capitalization threshold. A total of \$21.6 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of \$151.7 million was spent on supplies and consumables, including \$79.1 million for basic commodities and \$5.0 million for fresh food. An amount of \$25.2 million was spent on medical supplies, and \$6.8 million was spent on text and library books. The sum of \$8.3 million was spent on transportation supplies.

16. A total of \$307.1 million was spent on subsidies, including \$192.3 million distributed to beneficiaries providing selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, for food security and for rent subsidies. The sum of \$73.8 million was provided as subsidies for the construction and repair of shelters, and \$6.0 million was provided for patient subsidies.

17. Occupancy and utility costs totalled \$24.2 million in 2016. Other expenses, amounting to \$54.8 million, included depreciation, provisions and write-offs, loss on disposal, impairment of fixed assets and foreign currency exchange loss.

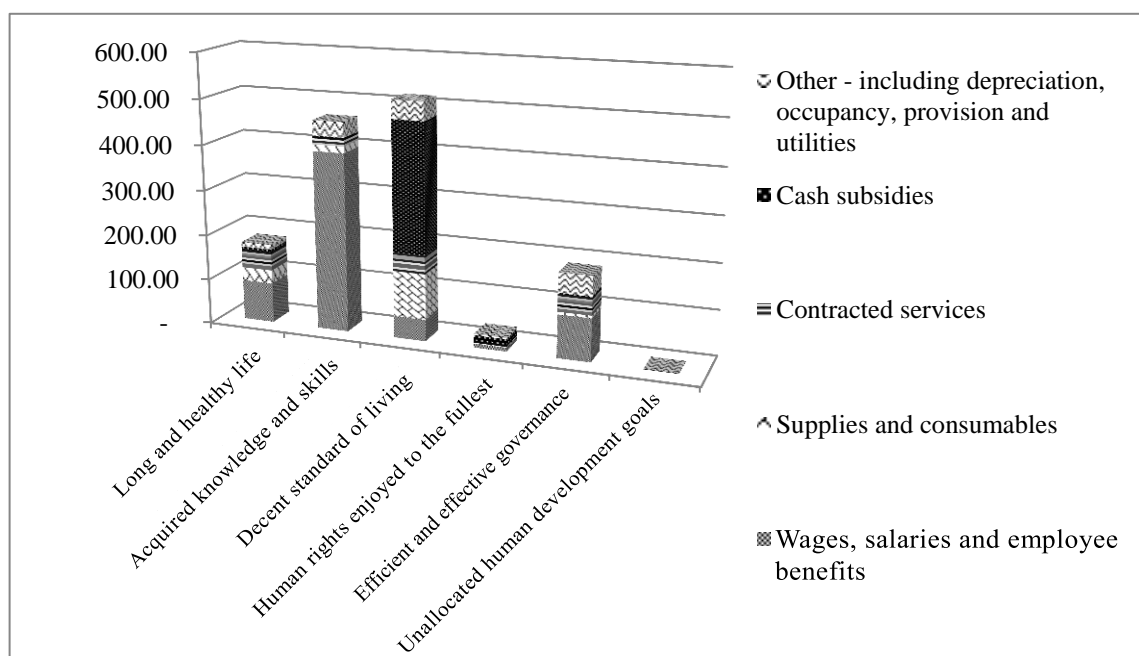
Human development goals and Agency programmes: expense analysis

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

Figure IV.III

Expense analysis by human development goal^a

(Millions of United States dollars)



^a \$79.9 million in headquarters expenses and \$53.0 million in inter-segment eliminations are excluded from the analysis.

19. The Agency is functionally organized under five core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments. Figure IV.IV below shows the 2016 expenses by programme and expenses for executive direction and support departments. The programmes follow a similar expense profile to those categorized by human development goal.

20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of \$176.1 million (13 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme (\$145.6 million). Approximately 50 per cent (\$88.9 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 16 per cent (\$28.8 million) spent on medical supplies and consumables and 23 per cent (\$41.1 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 4 per cent (\$6.5 million) was

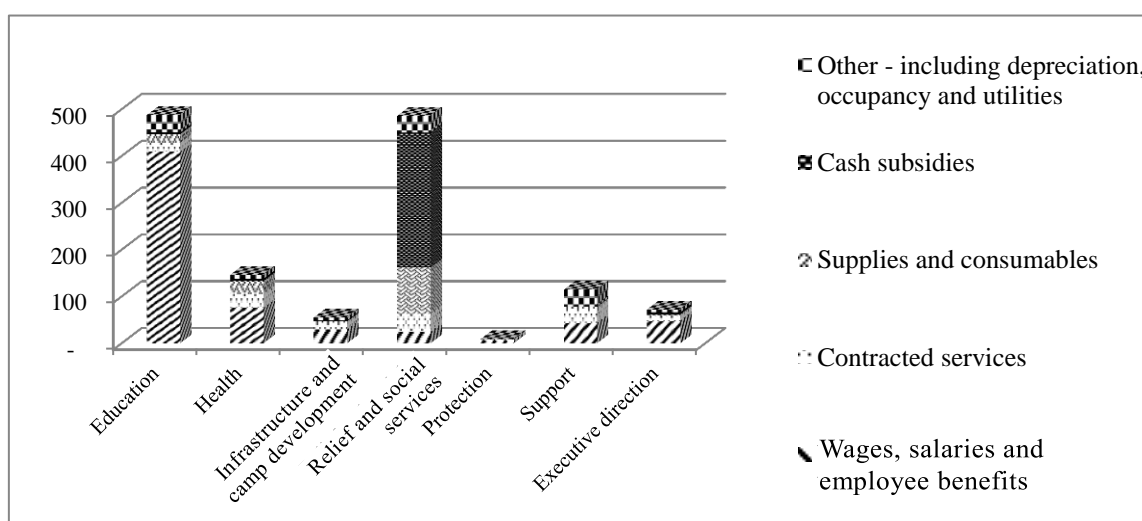
spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

21. An amount of \$461.2 million, representing 34 per cent of the Agency's 2016 expenses, was spent on the goal of acquired knowledge and skills and delivered through the education programme (\$487.5 million). The objectives are to ensure universal access to and coverage of basic education, enhance education quality and outcomes against set standards, and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenses in this area is spent on educational staff wages and salaries.

Figure IV.IV

Expense analysis by programme^a

(Millions of United States dollars)



^a \$53.0 million in inter-segment eliminations are excluded from the analysis.

22. An amount of \$516.2 million, or 38 per cent of UNRWA expenses, supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp improvement programmes (\$485.8 million and \$56.0 million, respectively). The objectives are to reduce abject poverty, mitigate the effects of emergencies on individuals, offer inclusive financial services and increased access to credit and savings facilities, improve employability and improve the urban environment. Nineteen per cent of the expenses (\$100.5 million) dedicated to the pursuit of this goal was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional \$285.4 million was provided in the form of cash subsidies.

23. An amount of \$185.5 million, or 14 per cent of the Agency's 2016 expenses, enables effective and efficient governance, which supports the activities to accomplish the four human development goals. Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to non-refugees on an exceptional basis, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors.

24. The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to \$72.2 million and \$113.8 million, respectively. Fifty-one per cent of the expenses for effective and efficient governance (\$94.9 million) was spent on wages and salaries.

25. An amount of \$29.9 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries, safeguarding and advancing the rights of Palestine refugees, strengthening the capacity of refugees to formulate and implement sustainable social services in their communities, and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme but also through education, health and camp infrastructure and improvement, along with the services provided to achieve the objectives of the human development goal of a decent standard of living. In addition, the Protection Division was established at UNRWA headquarters in Amman in January 2016 to provide strategic direction and coordination for the implementation of the diverse protection activities across the Agency. The Protection Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection. The total expenses spent on the Division in pursuit of this goal were \$8.8 million.

Geographical location: expense analysis

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

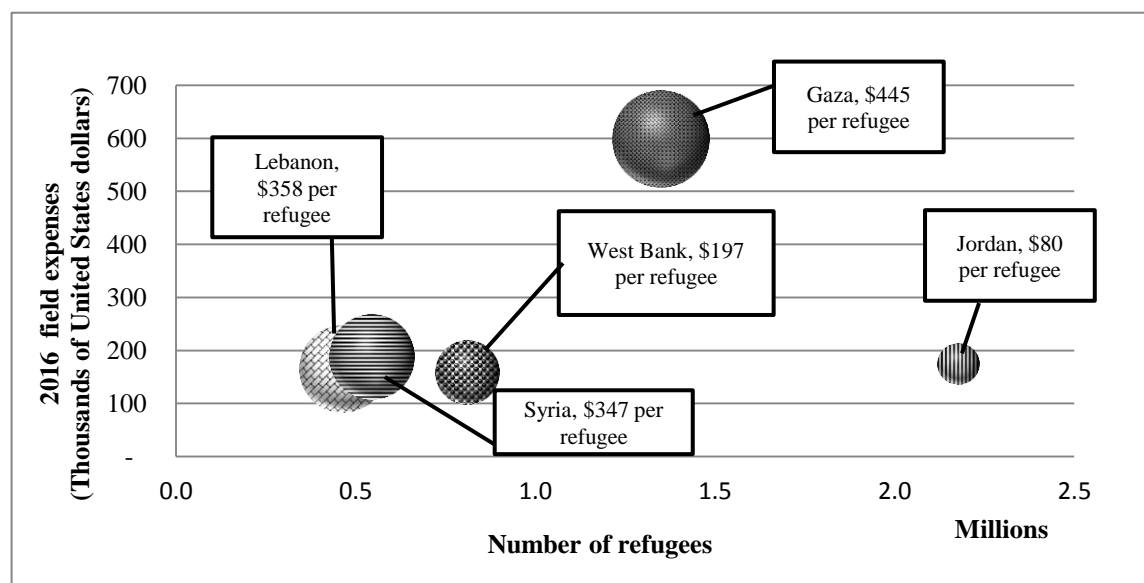
27. The average 2016 expense per refugee in the Gaza field office is \$445. The Gaza Strip has 1,348,536 registered Palestine refugees. Reconstruction of the extensive physical damage and destruction of the 50-day conflict in 2014 advanced despite a temporary blockade on cement imports, which slowed progress. Additionally, operations continued to be burdened by the direct costs of the ongoing blockade, such as additional staffing, transit and logistical costs as a result of Israeli requirements regarding access and monitoring of the materials the Agency imports into the Gaza Strip, resulting in the highest average expense for the Agency per refugee in the field, which reflects the prevailing conditions. UNRWA continues its efforts to provide relief, education, health and other human development services in the aftermath of the hostilities and deteriorating socioeconomic conditions after almost 10 years of blockade. The Gaza field office supports 8 camps, 267 schools, 2 vocational and technical training centres, 22 primary health centres, 7 community rehabilitation centres and 7 women's programme centres.

28. The Lebanon field office has the lowest number of registered refugees, at just over 463,664 and the average expense per refugee is \$358. Palestine refugees face challenges in relation to access to services and limitations on the right to practise certain professions and many live in UNRWA refugee camps. The field office

supports 12 camps, 67 schools, 2 vocational and technical training centres, 27 primary health centres, and 8 women's programme centres.

Figure IV.V

Average 2016 expenses per registered refugee, by field^a



^a \$79.9 million in headquarters expenses and \$53.0 million in inter-segment eliminations are excluded from the analysis.

29. The West Bank field office serves more than 809,738 registered Palestine refugees, with one quarter of them living in 19 refugee camps. West Bank Palestine refugees have been hard hit by closures imposed on the West Bank by the Israeli authorities, as historically they have been largely dependent on income from work inside Israel. The average 2016 expense per registered Palestine refugee in the West Bank is \$197. In addition to the 19 camps, the field office supports 96 schools, 2 vocational and technical training centres, 43 primary health centres, 15 community rehabilitation centres and 19 women's programme centres.

30. The Syrian Arab Republic field office is mandated to provide services to nearly 543,014 Palestine refugees living in the official camps and the 3 unofficial camps in the Syrian Arab Republic. The average 2016 expense per registered refugee is \$347. The incessant armed conflict in the Syrian Arab Republic has affected the economy, thus impacting the Palestine refugee community. The field office supports 9 camps, 101 schools, the Damascus Training Centre, 26 primary health centres, 5 community rehabilitation centres and 11 women's programme centres.

31. Over 2,175,491 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan have full citizenship, with the exception of some 158,000 Palestine refugees displaced from Gaza as a result of the 1967 hostilities and their descendants ("ex-Gazans"). Ex-Gazan Palestine refugees and their descendants do not hold Jordanian nationality and thus have difficulty accessing certain public services and face restrictions on property ownership and political participation. Expense per refugee, at \$80, representing the lowest average in 2016, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 171 schools, 2 vocational and technical training centres, 25 primary health centres, 10 community rehabilitation centres and 14 women's programme centres.

32. UNRWA headquarters comprises three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the Executive Office, the Finance Department, the Information Management Department and the External Relations and Communications Department, as well as the departments of education, health, relief and social services, infrastructure and camp improvement, microfinance and the newly established Protection Division. The headquarters function is also carried out at representative offices in New York, Washington, D.C., and Brussels and at a liaison office in Cairo. Headquarters expenses comprise primarily wages and salaries (\$33.6 million), contracted services (\$17.6 million) and provisions and write-offs (\$15.9 million) as the value added tax (VAT) and contribution receivables are managed at headquarters in the Gaza Strip and Amman.

Financial position at the end of 2016

33. The Agency's net assets/equity decreased from \$196.1 million at 31 December 2015 to \$142.6 million as at 31 December 2016 owing to the deficit recorded for the year 2016 (\$42.1 million), changes in revaluation reserve for derivative financial instruments (of \$6.5 million) and actuarial losses on staff termination liabilities (of \$5.0 million).

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

Table IV.2

Summary financial position by fund as at 31 December 2016

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Current assets	53.7	36.1	33.0	202.1	124.7	(2.7)	446.9
Non-current assets	481.6	1.5	3.4	6.2	33.3	–	526.0
Total assets	535.3	37.6	36.4	208.3	158.0	(2.7)	972.9
Current liabilities	126.0	0.2	1.5	15.8	11.1	(2.7)	151.9
Non-current liabilities	664.7	–	13.7	–	–	–	678.4
Total liabilities	790.7	0.2	15.2	15.8	11.1	(2.7)	830.3
Net assets/equity	(255.4)	37.4	21.2	192.5	146.9	–	142.6

35. The negative net assets/equity position of the programme budget is due primarily to the significant post-employment benefits liabilities, which was recognized in the financial statements upon adoption of IPSAS in 2012.

36. The net assets/equity balance of the projects fund showed a balance of \$146.9 million, due primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into accumulated surplus of \$149.3 million and reserves of negative \$6.7 million.

38. Although there is a negative net current asset balance for the programme budget of \$72.3 million, the net current assets (current assets less current liabilities) of the Agency were \$295.0 million as at 31 December 2016 (compared with \$321.2 million as at 31 December 2015), indicating a slight decline but positive short-term liquidity. The Agency's current assets amount to 46 per cent of its total assets, whereas current liabilities constitute 18 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to \$267.2 million as at 31 December 2016, a small portion of which is held by the programme budget (2.9 per cent) and restricted funds (10.5 per cent), with the majority falling under emergency appeals and projects (59.8 per cent and 23.6 per cent, respectively). UNRWA holds short-term investments (bank deposits) which are classified as cash and cash equivalents.

Receivables

40. Contributions receivable represent confirmed pledges outstanding from donors that are due within 12 months and were valued, net of provision for estimated reductions in contribution revenue and doubtful accounts, at \$51.3 million as at 31 December 2016, owing primarily to projects (\$32.7 million) and emergency appeals (\$11.8 million).

41. Accounts receivable, net of provision, were valued at \$23.6 million as at 31 December 2016. This amount relates primarily to significant value added tax refund claims of \$108.4 million before provision, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, as well as \$5.8 million related to personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at \$29.1 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, \$25.1 million relates to short-term (current) loans receivable.

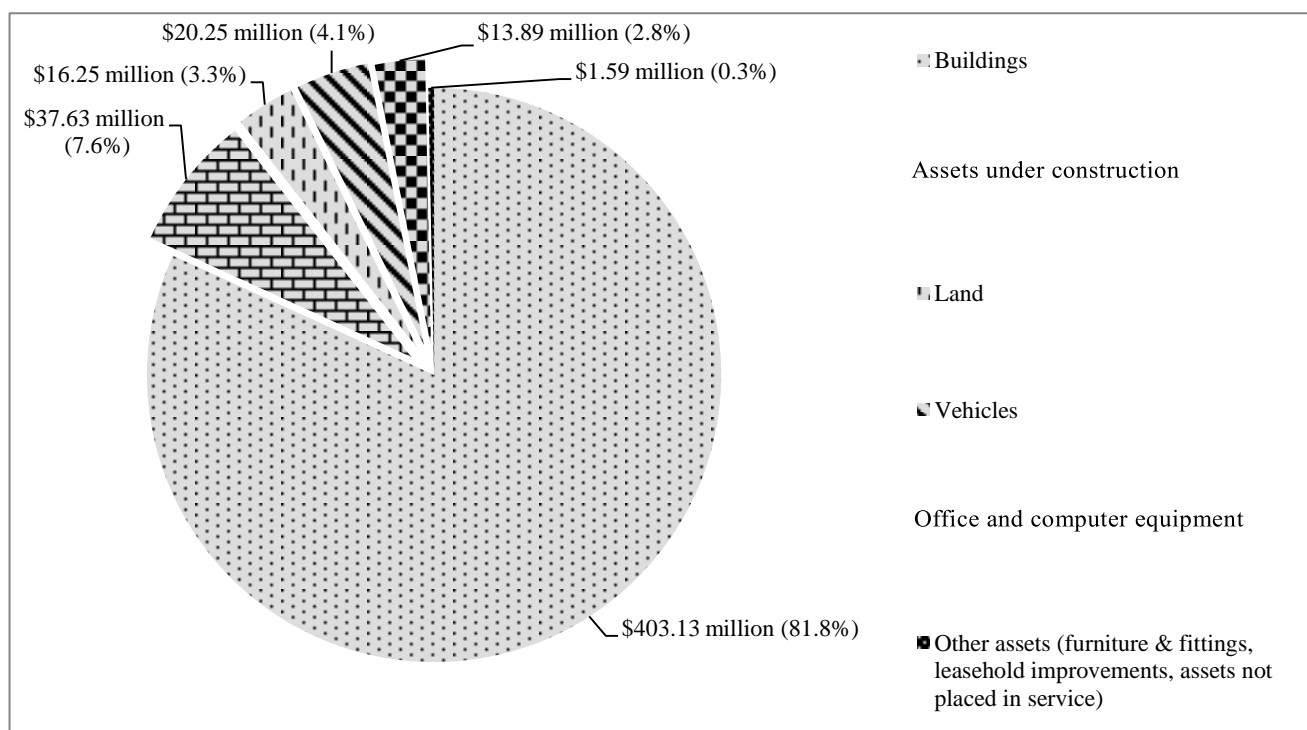
Inventories

42. The value of the Agency's inventory at the end of 2016 was estimated at \$76.8 million, reflecting a decrease of \$25.1 million as compared with 31 December 2015 due to the transition of in-kind food assistance to a cash-based transfer approach in Jordan, Lebanon and the West Bank. Assets included shelters under construction (\$10.7 million), non-Agency installations (\$11.0 million) and warehouse inventory (\$37.3 million), as well as inventory in transit valued at \$0.4 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at \$16.6 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at \$0.1 million.

Property, plant and equipment

43. The total net carrying amount of property, plant and equipment as at 31 December 2016 was \$492.7 million, representing 51 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries.

Figure IV.VI
Property, plant and equipment



44. Assets under construction amounted to \$37.6 million as at 31 December 2016, relating largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the programme budget for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at \$16.3 million as at 31 December 2016. This figure appears relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

46. The Agency has significant liabilities relating to post-employment and other long-term employee benefits. Those liabilities amounted to \$745.9 million as at the end of 2016, reflecting an increase of \$48.4 million during the year. The employee benefits liabilities represent 89.8 per cent of the Agency's liabilities, with \$77.3 million categorized as current liabilities and \$668.5 million as non-current liabilities. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The increase during the year is due primarily to the change in the discount rate from 4.32 per cent to 4.00 per cent on account of the continuing low interest rate environment (\$23.5 million) and the interest and service costs incurred during the year (\$28.4 million and \$43.7 million, respectively), partially offset by an actuarial gain of \$18.5 million.

Budgetary analysis*Basis of the budget*

47. The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2016-2017 programme budget (Blue Book). The budget for UNRWA includes the core requirements funded through the programme budget, which, if exceeded requires submission to the General Assembly; and an in-kind donation budget and a projects budget, where allocation varies based on donor response.

Explanation of material differences

48. The 2016 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2016-2017, amounted to \$1,453.0 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. The final 2016 programme budget was \$1,134.4 million and is disclosed in financial statement V as “final” budget accordingly. The decrease of \$318.6 million, or 21.9 per cent, is primarily due to a decrease in the final projects budget.

C. Enhancing transparency and accountability

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

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

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

52. Furthermore, since 2010, monthly financial reports have been issued to the members of the Management Committee of UNRWA and to major donors. This has increased transparency both internally and externally. The reports to senior management have served to strengthen its focus on identified financial risks.

D. Enterprise and financial risk management

Enterprise risk management

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

54. "Operational risk" refers mainly to the risk of failing to deliver the services for which, according to its mandate, the Agency exists. Such risk is managed through proper planning, control and performance reviews and evaluations in the Agency's main areas of operation (education, health, relief and social services, and infrastructure and camp improvement).

55. Operational risk is also managed at the field level because, although the five fields in which UNRWA operates share similarities, they are also distinctive. In recognition of this, in 2009, responsibility for the delivery of services to UNRWA beneficiaries was devolved to the fields. While guided by the Agency's goals and programmes of priority services, this devolution to operational fields has provided greater discretion to field offices in the provision of services geared towards local needs, taking into account the realities in the field and the field's available resources. Such devolution, along with centralized policymaking and the regular monitoring of results, provides for enhanced management of the Agency's operational risk.

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

Financial risk management

57. The Agency is prone to exposure to various forms of financial risk, the greatest of which is the risk of failure to have sufficient financial resources to achieve the planned objectives and activities. The source of funding for operations aimed at meeting the objectives of the Agency and the needs of the refugees is predominantly the donor community. The uncertainty surrounding the timing and the actual amounts of voluntary contributions also poses some financial risk when it comes to planning. Such risk is managed in the best way possible by considering the available information and providing for inflows in the most prudent manner.

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

59. The Agency's employee benefits liabilities totalled \$745.9 million as at 31 December 2016. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency. UNRWA adopts a pay-as-you-go method and the cash to be paid for the coming year is planned and budgeted. For the long-term portion of the liabilities, the matter is inherently tied to the nature of UNRWA and its temporary mandate. It is fully expected that when there is a sustainable political solution resolving the displacement of Palestine refugees, this solution will address, among other matters, the future of UNRWA activities along with the dissolution of its assets and liabilities.

E. Responsibility

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

Chapter V

Financial statements for the year ended 31 December 2016

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

I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Reference	31 December 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	Note 4	267 225	308 784
Short-term loans receivable	Note 5	25 073	22 685
Contributions receivable	Note 6	51 262	39 639
Accounts receivable	Note 7	23 562	33 769
Other current assets	Note 8	2 950	4 058
Inventories	Note 9	76 760	101 908
Derivative financial assets	Note 10	56	7 658
Non-current assets			
Other non-current assets	Note 8	142	188
Long-term loans receivable	Note 5	3 988	3 408
Property, plant and equipment	Note 11	492 732	464 778
Intangible assets	Note 12	29 139	36 526
Total assets		972 889	1 023 401
Liabilities			
Current liabilities			
Payables and accruals	Note 13	70 238	67 293
Employee benefits	Note 14 and 15	77 324	77 350
Derivative financial liabilities	Note 10	7	1 085
Other current liabilities	Note 16	679	5 438
Advance contributions	Note 17	3 603	46 170
Non-current liabilities			
Employee benefits	Note 14 and 15	668 536	620 087
Other non-current liabilities	Note 13	9 875	9 875
Total liabilities		830 262	827 298
Net assets		142 627	196 103
Net assets/equity			
Revaluation and other reserves		(34 588)	(23 022)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	27 919	27 753
Accumulated surplus		149 296	191 372
Total net assets/equity		142 627	196 103

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

II. Statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	<i>Reference</i>	<i>2016</i>	<i>2015</i>
Revenue			
Cash contributions	Note 20	1 209 487	1 162 308
In-kind contributions	Note 21	32 529	16 421
Interest on loans	Note 22	10 632	9 701
Interest on bank deposits	Note 23	631	344
Other revenue			
Foreign currency exchange gain	Note 24	—	4 713
Programme support cost recovery	Note 25	180	161
Financial derivative gain	Note 10	8 834	11 404
Miscellaneous revenue	Note 26	12 392	7 678
Total revenue		1 274 685	1 212 730
Expenses			
Wages, salaries and employee benefits	Note 27	634 996	709 941
Supplies and consumables	Note 28	151 677	142 593
Occupancy, utilities and premises costs	Note 29	24 217	22 841
Contracted services	Note 30	144 008	140 203
Subsidies	Note 31	307 108	261 164
Depreciation and amortization	Note 11 and 12	33 093	30 324
Provision and write-offs	Note 32	16 859	23 343
Loss on disposal	Note 11	2 181	3 261
Impairment of property, plant and equipment	Note 11	651	104
Foreign currency exchange loss	Note 24	1 971	—
Total expenses		1 316 761	1 333 775
Surplus/(deficit) for the year		(42 076)	(121 045)

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

III. Statement of changes in net assets/equity for the year ended 31 December 2016

(Thousands of United States dollars)

	<i>Revaluation and other reserve^a</i>	<i>Reserves, microcredit community support programme and Microfinance Department</i>	<i>Accumulated surplus/deficit — unearmarked</i>	<i>Accumulated surplus/deficit — earmarked</i>	<i>Total</i>
Balance at 1 January 2016	(23 022)	27 753	(190 153)	381 525	196 103
Changes in net assets/equity for 2016					
Reclassification of funds	—	—	29 128	(29 128)	—
Surplus/(deficit) for the period	—	—	(48 342)	6 266	(42 076)
Changes in revaluation reserve for derivative financial instruments	(6 524)	—	—	—	(6 524)
Reserves, microcredit community support programme and Microfinance Department, during 2016	—	166	—	—	166
Actuarial (loss) on staff termination liabilities ^b	(5 042)	—	—	—	(5 042)
Total net assets/equity	(34 588)	27 919	(209 367)	358 663	142 627

^a See note 33.

^b See note 15.12.

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

IV. Statement of cash flow for the year ended 31 December 2016

(Thousands of United States dollars)

	2016	2015
Cash flows from operating activities		
(Deficit) for the year	(42 076)	(121 045)
Adjustment for non-cash items		
Add depreciation and amortization	33 093	30 324
Loss on disposal	2 144	3 261
Impairment of property, plant and equipment	651	104
Impairment reversal adjustment	(152)	—
Actuarial (loss) on employee benefit liabilities	(5 042)	(20 170)
Increase in provision for doubtful debts	12 117	22 283
Decrease/(increase) in inventories	25 148	(5 548)
(Increase) in contributions receivable	(9 726)	(5 554)
(Increase) in accounts receivable	(3 763)	(9 525)
(Increase) in loans receivable	(3 012)	(2 138)
Decrease in other assets	1 154	3 230
Increase/(decrease) in accounts payable and accruals	2 945	(19 259)
Increase in leave encashment and employee benefits	48 424	137 169
(Decrease)/increase in other liabilities	(4 759)	294
(Decrease)/increase in advance contributions	(42 567)	43 562
Net cash from operating activities	14 579	56 988
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	43	8
Purchase of property, plant, equipment and adjustment	(56 323)	(43 330)
Purchase of intangible assets	(24)	(10 527)
Net cash from investing activities	(56 304)	(53 849)
Cash flows from financing activities		
Increase in capital reserve for Microfinance Department and microcredit community support programme	166	191
Net cash from financing activities	166	191
Net (decrease)/increase in cash	(41 559)	3 330
Cash balance at the beginning of the year	308 784	305 454
Cash balance at the end of the year	267 225	308 784

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

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2016

(Thousands of United States dollars)

	Reference	Budget amounts		Actual on comparable basis	Variances: final budget and actual
		Original	Final		
Staff costs					
International staff		33 802	41 637	35 835	5 802
Area staff					
Basic salary		397 609	358 327	349 602	8 725
Hazard pay and special elements		–	35	6	29
Provident Fund Agency contribution		58 858	56 000	55 313	687
Special professional occupational allowance, special occupational allowance and others		12 476	13 190	12 501	689
Overtime and excess hours supplement		998	1 439	1 264	175
Currency adjustment factor		–	2 266	3 062	(796)
Special allowance		18 294	18 062	18 367	(305)
Health-related expenses		8 672	9 882	8 396	1 486
Other miscellaneous staff costs		176	262	102	160
Severance cash payment out		1 104	29 157	23 791	5 366
Limited duration contract		2 393	8 099	4 600	3 499
Temporary staff		10 189	17 693	16 928	765
Total staff costs (A)	Note 34	544 571	556 050	529 768	26 282
Non-staff costs					
Supplies		57 860	82 889	65 810	17 079
Utilities		6 457	6 718	6 488	230
Maintenance of premises		10 015	19 874	17 254	2 620
Equipment and non-capital construction		643 493	189 291	146 232	43 059
Training		1 511	3 593	1 951	1 642
Travel		2 305	3 235	2 384	851
Administrative support services		6 391	8 827	6 750	2 077
Consultancy services		6 731	12 434	10 006	2 428
Hospital services		19 857	28 683	27 016	1 667
Miscellaneous services		15 160	24 021	18 183	5 838
Subsidies to hardship cases		9 327	50 692	46 861	3 831
Subsidies to patients		9 434	5 268	4 724	544
Third-party subsidies		71	27 968	27 653	315
Other subsidies		362	83 876	70 714	13 162
Cost recovery		(2 418)	(4 078)	(4 028)	(50)
Reserves		121 918	35 063	–	35 063
Total non-staff costs (B)	Note 34	908 476	578 355	447 998	130 356
Total resources requirements (A+B)	Note 34	1 453 047	1 134 404	977 766	156 638

United Nations Relief and Works Agency for Palestine Refugees in the Near East**Notes to the 2016 financial statements****Note 1****Mission statement**

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA or the Agency) is a United Nations agency established by the General Assembly in 1949 and is mandated to provide assistance and protection to a population of some 5 million registered Palestine refugees. Its mission is to help Palestine refugees in Jordan, Lebanon, the Syrian Arab Republic, the West Bank and the Gaza Strip to achieve their full potential in human development, pending a just solution to their plight. UNRWA services encompass education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance. UNRWA is funded almost entirely by voluntary contributions.

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

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

2.2 There are currently no standards issued by the IPSAS Board awaiting implementation that would be likely to affect the financial statements of UNRWA.

(b) Accounting convention

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

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

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

Transactions and balances

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

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

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

Management of currency risks

2.8 The primary principle of the currency risk management policy of UNRWA is the preservation of the value of its financial resources in United States dollar terms. The Agency's currency risk can be identified mainly as a potential loss in the value of non-received non-United States dollar contributions and non-United States dollar cash assets as a result of a strengthening United States dollar. The risk arises from the date on which the contributions are pledged. To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach (e.g. hedging) to minimize its exposure to exchange rate fluctuations. To hedge the currency risk, UNRWA entered into several forward contracts in 2016 for expected non-United States dollar programme budget contributions in 2017 (see note 10). In 2015, the Agency expanded the Investment Review Committee by including three external advisers to provide more professional expertise in cash and risk management.

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

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

(d) Materiality and use of judgment and estimates

2.11 Materiality is central to the Agency's financial statements. The Agency's accounting materiality framework provides a systematic method for identifying, analysing, evaluating, endorsing and periodically reviewing materiality decisions that affect a number of accounting areas.

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

(e) Significant accounting policies

Cash and cash equivalents

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

Revenue

2.14 Revenue is recognized in the statement of financial performance when an increase in future economic benefits relating to an increase in an asset or a decrease

in a liability has arisen from a mutually agreed interaction between two parties and can be measured reliably.

(i) Revenue from non-exchange transactions

Contributions are recognized in accordance with IPSAS 23, Income from non-exchange transactions. For unconditional contributions, revenue recognition occurs when the contributions are confirmed in writing by donors. However, if conditions requiring specific performance and the return of unexpended balances exist, then revenue is recognized upon provision of the goods and services. When projects come to an end, and in the event that some contributions are not fully expended on the project for which they were given, then at that point in time, and in accordance with the donor agreement, the amounts that will not be expended will be recognized as amounts to be refunded to donors and included in the statement of financial position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities in the statement of financial position until the criteria for recording revenue are met. Notes 20 and 21 provide further details of cash contributions revenue and in-kind contributions revenue, which are recognized in accordance with this policy.

(ii) Revenue from exchange transactions

Revenue from exchange transactions is recognized in accordance with IPSAS 9. When the amount of revenue can be measured reliably, it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, the stage of completion of the transaction at the reporting date can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Notes 22 to 26 give further details of revenue earned from exchange transactions, which is brought to account in accordance with this policy. This includes revenue from interest on loans and interest on bank deposits, gains and recoveries, as well as revenue from miscellaneous sources.

Contributions receivable

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

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

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

Accounts receivable

2.18 Receivables are recognized at their nominal value.

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

Loans receivable and provision for loan losses

2.20.1 *Loans receivable*

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

2.20.2 *Provision for impairment of loans*

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

If, during the subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account.

2.20.3 *Related-party ("insider") loans*

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

2.20.4 *Accrued interest on loans*

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

2.20.5 *Recoveries*

Any recoveries of previously written-off loans are reflected in the statement of financial performance for the period during which they are received.

Financial instruments

2.21 The Agency has applied the following IPSAS, which have been issued and are effective from 1 January 2013: IPSAS 28, Financial instruments: presentation; IPSAS 29, Financial instruments: recognition and measurement; and IPSAS 30, Financial instruments: disclosures. They establish the principles for recognizing and measuring financial assets and financial liabilities, for presenting financial instruments as liabilities or net assets/equity, for offsetting financial assets and financial liabilities, and requirements for disclosure.

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

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

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

Financial risk management

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

Advances and prepayments

2.26 Advances and prepayments are recognized at their nominal value.

Inventories

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

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

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

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

Property, plant and equipment

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

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

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

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

(Percentage)

<i>Asset type</i>	<i>Depreciation rate</i>
Buildings and land improvements	
Buildings and land improvements	4
Prefabricated buildings	10
Short-life land improvements	14
Leasehold improvement	20
Vehicles	
Heavy trucks	5
Sedans, light buses and light trucks/or buses	10
Other vehicles	14
Equipment	
Long-life information and communications technology (ICT) equipment, medical equipment and technical vocational training equipment	14
General machinery and equipment, office equipment, medium-life ICT equipment and teaching and school equipment	20
Short-life ICT equipment, computers and printers	33
Microfinance Department office equipment	10
Furniture and fixtures	
Fixtures	14
Furniture	10-20

Capital work in progress

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

Intangible assets

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

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

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

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

Software acquisition and development

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

Impairment

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

Operating leases

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

Payables and accruals

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

Employee benefits

2.43 The Agency recognizes the following categories of employee benefits:

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

2.44 The Agency is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the United Nations Joint Staff Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNRWA and the United Nations Joint Staff Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Agency's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements set out in IPSAS 25: Employee benefits. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

2.45 All area staff members participate in the Area Staff Provident Fund, which is accounted for as a defined contribution retirement plan in accordance with IPSAS 25.

2.46 In July 2016, the International Public Sector Accounting Standards Board issued IPSAS 39: Employee Benefits, which is applicable to annual financial statements covering periods beginning on or after 1 January 2018 and, upon adoption, will supersede IPSAS 25. UNRWA applies IPSAS 25 as per notes 14 and 15 to the financial statements. UNRWA is currently assessing the impact, if any, upon adoption.

Provisions and contingent liabilities

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

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

Interest revenue

2.49 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is \$0.631 million.

Programme support cost recovery

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

Fund accounting and segment reporting

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

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

- Unearmarked activities — comprising activities under the programme budget;
- Earmarked activities, which include:
 - Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined budget. This applies to activities related to both cash and in-kind contributions for the regular budget;
 - Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;
 - Projects: used to meet capital expenditure or development needs to improve or supplement existing programmes and systems;
 - Microfinance: used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

Note 3**Budget comparison**

3.1 The budget for the biennium 2016-2017 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

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

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

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

Note 4

Cash and cash equivalents

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

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Cash in hand	7 435	7 370
Cash at banks	259 790	301 414
Total	267 225	308 784

4.2 The Agency did not hold funds for other United Nations entities as at 31 December 2016 (\$0.102 million as at 31 December 2015).

4.3 The balances of cash and cash equivalents at banks as at 31 December 2016 were held in the currencies shown in the table below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2017.

Currency	Balance as at 31 December 2016			Balance as at 31 December 2015		
	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)
Australian dollar	20	1.389	14	0.61	1.37	0.445
Canadian dollar	153	1.354	113	150	1.385	108
Swiss franc	4 169	1.025	4 067	4 473	0.991	4 514
Danish krone	25 456	7.103	3 584	320	6.82	47
Egyptian pound	89	18.068	5	194	7.83	25
Euro	55 287	0.956	57 832	26 556	0.914	29 055
Pound sterling	222	0.817	272	10 480	0.675	15 526
Jordanian dinar	21 509	0.708	30 380	19 712	0.708	27 842
Yen	362	116.68	3	1 104	120.45	9
Lebanese pound	6 600 962	1 513.5	4 361	4 863 805	1 513.5	3 214
New Israeli sheqel	4 514	3.846	1 174	12 299	3.883	3 167
Norwegian krone	10 217	8.672	1 178	389	8.688	45
Swedish krona	220	9.124	24	320 657	8.369	38 315
Syrian pound	85 587	514.85	166	15 897	338	47
United States dollar	156 617	1	156 617	179 501	1	179 501
Total			259 790			301 414

Note 5
Loans receivable

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

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

(Thousands of United States dollars)

	31 December 2016			31 December 2015		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Current	23 707	1 366	25 073	21 352	1 333	22 685
Non-current	2 886	1 102	3 988	2 471	937	3 408
Total	26 593	2 468	29 061	23 823	2 270	26 093

Provision for loans receivable

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

(Thousands of United States dollars)

	2016			2015		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Beginning balance as at	(1 419)	2	(1 417)	(1 527)	(73)	(1 600)
Additions	(946)	(24)	(970)	(702)	(2)	(704)
Less: write-off	913	13	926	810	77	887
Ending balance	(1 452)	(9)	(1 461)	(1 419)	2	(1 417)

Provision for loan losses

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

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

<i>Loan status</i>	<i>Provision</i>
Current	1% general provision
1-30 days overdue	5% general provision
31-60 days overdue	10% general provision
61-90 days overdue	25% general provision
91-120 days overdue	50% general provision
121-180 days overdue	75% general provision
181-360 days overdue	100% general provision

5.6 Effective September 2012, a special impairment on outstanding Microfinance Department loans was adopted in the Syrian Arab Republic to mitigate the risk posed by the situation of armed conflict. The rates of reserve calculation are set out below for the special impairment at year-end 2015 and 2016:

<i>Loan status</i>	<i>Provision</i>
1-30 days overdue	95% special impairment
31-60 days overdue	90% special impairment
61-90 days overdue	75% special impairment
91-120 days overdue	50% special impairment
121-180 days overdue	25% special impairment
181-360 days overdue	0% special impairment

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

Note 6

Contributions receivable

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

(Thousands of United States dollars)

	<i>31 December 2016</i>	<i>31 December 2015</i>
Due from Governments	26 685	27 866
Due from intergovernmental organizations	9 035	10 308

	31 December 2016	31 December 2015
Due from non-governmental organizations	12 988	4 552
Due from United Nations organizations	5 654	2 046
Due from private individual donors	136	—
Provision against contributions receivable	(3 236)	(5 133)
Total contributions receivable	51 262	39 639

6.2 There are no non-current receivables due after 12 months from 31 December 2016.

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

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

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

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Beginning balance	(5 133)	(1 031)
Reduction in provision/adjustment	3 816	3
Addition during the period	(1 920)	(4 275)
Less: write-offs	—	170
Ending balance	(3 236)	(5 133)

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

(Percentage)

Governments	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100

6.7 After six years, the doubtful debt and the write-off request, together with the supporting documents, should be submitted to the Director of Finance for approval after all collection efforts have been exhausted. The Commissioner-General has delegated his authority to write off amounts less than \$1 million to the Director of Finance. Uncollectable amounts of \$1 million or greater must be approved by the Commissioner-General in order to be written off.

Note 7

Accounts receivable

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

(Thousands of United States dollars)

	Relevant note	31 December 2016	31 December 2015
Value added tax receivable	7.1.1	108 441	104 607
Other accounts receivable	7.1.2	12 476	12 548
Less provisions	7.1.3	(97 355)	(83 386)
Accounts receivable net of provisions		23 562	33 769

Value added tax receivable

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

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Value added tax receivable from the Palestinian Authority	100 628	100 594
Value added tax receivable from the Government of Israel	6 962	3 467
Value added tax receivable from the Government of Lebanon	851	546
Total	108 441	104 607

Other accounts receivable

7.1.2 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Miscellaneous receivable	6 527	6 909
Personal accounts of staff members	5 828	3 166
Refundable utility deposits	121	125
Due from Area Staff Provident Fund ^a	—	2 348
Total	12 476	12 548

^a See note 14A.1.

7.1.3 Provisions and write-offs

(Thousands of United States dollars)

	31 December 2016				Value added tax	31 December 2015		
	Value added tax	Accounts receivable	Microfinance Department	Total		Accounts receivable	Microfinance Department	Total
Beginning balance	(82 490)	(839)	(57)	(83 386)	(64 163)	(803)	(57)	(65 023)
Additions	(13 945)	(15)	(9)	(13 969)	(18 327)	(37)	—	(18 364)
Less: write-offs	—	—	—	—	—	1	—	1
Ending balance	(96 436)	(854)	(66)	(97 355)	(82 490)	(839)	(57)	(83 386)

7.2 The provisions for value added tax receivable and accounts receivable are estimated amounts based on the aged analysis of the outstanding amounts as at the reporting date. These provisions have been calculated on the basis of past experience and the likelihood of collecting the outstanding amounts over the specific periods, as shown below.

(Percentage)

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

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

7.4 The 2016 additions for accounts receivable provisions (see note 7.1.3) reflect a net increase of \$13.970 million.

Note 8

Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled \$3.092 million as at 31 December 2016 and \$4.246 million as at 31 December 2015. Included therein are prepayments to staff in the amount of \$0.142 million as at 31 December 2016 and \$0.269 million as at 31 December 2015.

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2016 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Current		
Advances to supplier	2 808	3 789
Prepayment to staff	142	269
Total current	2 950	4 058
Non-current		
Advances to supplier	142	188
Total	3 092	4 246

Note 9

Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

<i>Type</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Warehouse	33 276	45 015
Pharmacy/clinic	17 375	17 565
In transit	370	4 410
Production unit	113	162
Shelter under construction	10 653	23 293
Non-Agency installations	10 973	11 463
Total	76 760	101 908

9.2 Warehouse inventory comprises four main categories of items that are distributed to refugees or used to provide services to refugees: medical supplies, general supplies, food and motor transport.

9.3 Inventory in transit are materials for which significant risks and rewards are transferred to UNRWA and are yet to be received at the warehouse. With the introduction of the new enterprise resource planning system, such goods are tracked and recorded in the virtual warehouses. The goods which are received and recorded in the virtual warehouses are recorded as inventories. Materials for which goods receipt notes were not recorded are shown as inventory in transit.

9.4 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields.

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

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

(Thousands of United States dollars)

	<i>31 December 2016</i>	<i>31 December 2015</i>
Raw materials inventory — embroidery	49	67
Work in progress — embroidery	3	2
Finished goods — embroidery	61	93
Total	113	162

9.7 Inventory adjustment in the amount of \$0.100 million was recorded in 2016 (impairment expense of \$0.025 million in 2015).

9.8 In accordance with IPSAS 12, inventory has been adjusted to reflect the net realizable value based on current replacement cost. An amount of \$1.983 million has been included in the cost of supplies and consumables (compared with an amount of \$2.639 million in 2015) and disclosed in note 28 accordingly.

Note 10**Derivative financial instruments****Nature of financial instruments**

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

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

Financial derivatives

10.3.1 All the outstanding financial derivative forward contracts were revalued as at 31 December 2016; the impact on financial position and on financial performance is summarized below.

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Realized gain	10 747	17 925
Realized (loss)	(1 913)	(6 521)
Total realized gain	8 834	11 404
Unrealized gain/asset	56	7 658
Unrealized loss/(liability)	(7)	(1 085)

10.3.2 All outstanding contracts as at 31 December 2015 were matured during financial year 2016. UNRWA entered into several forward contracts during 2016, some of which matured in the same year, resulting in a net realized gain of \$8.83 million, classified as financial derivatives gain under other revenues in the statement of financial performance.

10.3.3 The Agency entered into various forward contracts in 2016. The outstanding contracts as at 31 December 2016 are revalued using the market rate. Contracts which resulted in a revaluation loss of \$0.007 million are disclosed as derivative financial liabilities in the statement of financial position.

10.3.4 Revaluation of outstanding contracts resulted in a revaluation gain of \$0.0056 million. The result is disclosed as derivative financial assets under current assets in the statement of financial position.

Credit risk

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

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

- Establishing ceilings on amounts of direct credit for each product linked to the cash flow of each client;

- Providing a range of products to different sectors and segments to spread credit and reduce concentration;
- Formulating credit policies by product covering collateral requirements and credit compliance with regulatory requirements in each jurisdiction;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk in excess of designated limits prior to facilities being committed to customers. Renewals of facilities are subject to the same process;
- Developing and maintaining a risk-grading system in order to categorize exposure according to when impairment provisions are required against specific credit exposures;
- Providing guidance and training to improve skills of staff in order to promote best practice in the management of credit risk.

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

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

Interest rate risk

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

Foreign currency risk

10.9 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2016, 38 per cent of contributions to the programme budget were denominated in the United States dollar base currency and 62 per cent were denominated in other currencies. The Microfinance Department lends in different currencies, according to the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank, and the Syrian pound used in the Syrian Arab Republic.

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

10.11 To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach, hedging to minimize its exposure to exchange rate fluctuations. In order to hedge the currency risk, UNRWA enters into forward contracts to remove the risk of an appreciation of the United States dollar and to provide a known, fixed income amount. UNRWA also enters into forward contracts to hedge the risk of fluctuation in currency adjustment factor expense for area staff in the West Bank and the Gaza Strip.

10.12 As at 31 December 2016, 60 per cent of cash held in banks was denominated in the United States dollar base currency, 14 per cent was denominated in local currencies used by UNRWA field offices to support operating activities, and the

remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11**Property, plant and equipment**

11.1.1 The table below presents a summary of property, plant and equipment as at 31 December 2016.

(Thousands of United States dollars)

Description	2016								2015	
	Land	Buildings	Leasehold improvements	Furniture and fittings	Office and computer equipment	Motor vehicles	Construction in progress	Assets not placed in service	Total	Total
Cost										
As at 1 January	16 250	477 699	583	490	39 927	41 793	41 311	455	618 508	581 451
+ Additions in year	–	45 629	28	1 433	7 809	5 399	(3 686)	(290)	56 323	43 343
(-) Disposals/adjustment in year ^a	–	2 211	–	1	1 974	2 821	–	144	7 151	6 287
Balance as at 31 December (A)	16 250	521 117	611	1 922	45 762	44 371	37 626	21	667 678	618 508
Depreciation										
Balance as at 1 January	–	96 744	524	324	29 501	23 472	–	–	150 565	128 128
+ Depreciation in year	–	18 583	32	83	4 141	2 843	–	–	25 682	25 164
(-) Depreciation on disposals/adjustments in year ^a	–	899	–	1	1 768	2 280	–	–	4 948	2 728
Balance as at 31 December (B)		114 428	556	406	31 874	24 035	–	–	171 299	150 565
Impairment										
Balance as at 1 January	–	3 079	–	–	1	85	–	–	3 165	3 338
+ Impairment in year	–	641	–	–	–	10	–	–	651	104
(-) Impairment reversed and on disposal in year	–	158	–	–	–	10	–	–	168	277
Balance as at 31 December (C)	–	3 562	–	–	1	85	–	–	3 648	3 165
Net book value as at 31 December (A)-(B)-(C)	16 250	403 127	55	1 516	13 888	20 250	37 626	21	492 732	464 778

^a See note 11.1.2.

11.1.2 Net cost of disposal is \$2.187 million, which comprises the following:

(Thousands of United States dollars)

	2016	2015
Original cost of disposal	7 151	6 287
Accumulated depreciation	(4 948)	(2 728)
Accumulated impairment	(16)	(295)
Cost of disposal as per note 11.1.1	2 187	3 264

The proceeds from the sale of assets and the gain and loss on the class of assets is as below:

(Thousands of United States dollars)

	2016	2015
Loss on disposal	2 181	3 261
Gain on disposal	(37)	(5)
Proceeds from sale of assets	43	8
Net disposal/adjustments as per note 11.1.1	2 187	3 264

11.2 In addition to the active assets valued at \$492.713 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of \$40.424 million.

Note 12

Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

Description	2016					2015	
	Software acquired separately	Software developed internally	Licences and rights	Copyrights	Work in progress	Total	Total
Cost							
As at 1 January	3 085	38 185	—	—	502	41 772	31 236
+ Additions in 2016	286	58	—	—	(320)	24	10 527
(-)/+ Disposals and adjustments in year	(9)	—	—	—	—	(9)	9
Revaluation in year	—	—	—	—	—	—	—
Balance as at 31 December (A)	3 362	38 243	—	—	182	41 786	41 772
Amortization and impairment							
Balance as at 1 January	764	4 481	—	—	—	5 245	76
Amortization in year	1 047	6 364	—	—	—	7 411	5 160
(-)/+ Amortization on disposals and adjustments in year	(9)	—	—	—	—	(9)	9
Impairment in year	—	—	—	—	—	—	—
(-) Impairment reversed in year	—	—	—	—	—	—	—
Balance as at 31 December (B)	1 802	10 845	—	—	—	12 647	5 245
Net book value as at 31 December (A)-(B)	1 559	27 398	—	—	182	29 139	36 526

Note 13

Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Supplier accounts payable	Note 13.1.1	33 226	26 480
Accrued expenses	Note 13.1.2	29 407	33 514
Other accounts payable	Note 13.1.3	5 919	7 299
Miscellaneous provision	Note 13.1.4	1 419	–
Accounts payable, non-current	Note 13.1.5	9 875	9 875
Due to Area Staff Provident Fund	Note 14A.1	267	–
Total		80 113	77 168

The composition of accounts payable is as follows:

(Thousands of United States dollars)

	<i>31 December 2016</i>	<i>31 December 2015</i>
Current	70 238	67 293
Non-current	9 875	9 875
Total	80 113	77 168

Supplier accounts payable

13.1.1 Supplier accounts payable represent outstanding amounts payable to vendors for goods and services received.

Accrued expenses

13.1.2 Accrued expenses include the following:

(Thousands of United States dollars)

	<i>31 December 2016</i>	<i>31 December 2015</i>
Accrued expenses for services and utilities	25 397	26 587
Area staff group medical insurance	1 702	1 007
Accrued salaries, wages and other expenses	152	121
Other salary-related payable	1 510	3 665
Payable — reclassifications of accounts receivable balance staff	646	2 134
Total	29 407	33 514

Other accounts payable

13.1.3 Other accounts payable consist of the following:

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Deposits received	109	172
West Bank water supply, Palestinian Authority	242	173
Funds held for other United Nations entities	—	101
Interest payable for projects	1 309	1 212
Miscellaneous accounts payable	1 738	1 032
Staff liabilities payable	2 490	2 466
Unearned income canteen rent	31	2 143
Total	5 919	7 299

Miscellaneous provision

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

Accounts payable, non-current

13.1.5 Accounts payable, non-current, consist of the following:

(Thousands of United States dollars)

	31 December 2016	31 December 2015
OPEC Fund for International Development PalFund Trust		
Fund — Microfinance Department	9 875	9 875
Total	9 875	9 875

Note 14**Employee pension fund****14A****UNRWA Area Staff Provident Fund**

14A.1 The UNRWA Area Staff Provident Fund established under article XIII of the Agency's Financial Regulations, is a retirement benefit plan that applies to all area staff members and vests after six months of service. UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements of IPSAS 25. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. The balances outstanding with the Provident Fund as at 31 December 2016 and as at 31 December 2015 are shown below.

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Opening balance	(2 348)	3 995
Employee contributions and repayments of withdrawals	52 672	48 487
Agency contributions	57 449	55 611
Withdrawals	(66 905)	(44 808)

	31 December 2016	31 December 2015
Area Staff Provident Fund employee loans	(39 072)	(31 833)
Area Staff Provident Fund loan commission	156	129
Current account with Provident Fund	(1 685)	(33 929)
Total	267	(2 348)

14B

United Nations Joint Staff Pension Fund: international staff

14B.1 The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

14B.2 The Agency's financial obligation to the Pension Fund consists of its mandated contribution at the rate established by the United Nations General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the United Nations General Assembly has invoked the provisions of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute towards this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

14B.3 The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as at 31 December 2017. The results of the valuation are expected later in the year.

14B.4 As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

14B.5 After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that, as at 31 December 2015, there was no requirement for deficiency payments under article 26 of the Regulations of the Fund given that the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provisions of article 26.

14B.6 During 2016, the Agency's paid contributions to the Pension Fund amounted to \$8.00 million (compared with \$8.160 million in 2015). Expected contributions due in 2017 are \$8.13 million.

14B.7 The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The United Nations Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund's website (www.unjspf.org).

Note 15

Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

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

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Current	77 324	77 350
Non-current	668 536	620 087
Total	745 860	697 436

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Annual leave encashment for area staff	39 191	43 617
End-of-service liability for area staff	703 259	650 035
Short-term employee benefits for international staff not funded through the United Nations regular budget	2 243	2 649
Long-term employee benefits for international staff not funded through the United Nations regular budget	1 167	1 135
Total	745 860	697 436

Short-term employee benefits for area staff

15.2 Short-term employee benefits consist of the annual leave of area staff. The amount of liability is calculated on the basis of the accumulated leave balances in the human resources module as at 31 December 2016. The total employee annual leave liability as at 31 December 2016 amounted to \$39.191 million (compared with \$43.617 million at 31 December 2015).

End-of-service liabilities for area staff

15.3 Area staff end-of-service and termination benefit liabilities are determined by professional actuaries or calculated by UNRWA on the basis of personnel data and past payment experience. As at 31 December 2016, total employee benefits liabilities amounted to \$703.259 million (compared with \$650.035 million as at 31 December 2015). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

15.4 In accordance with the requirements set out in IPSAS 25, the actuary has used the projected unit credit actuarial method to assess the plan's liabilities. Under

this method a “projected accrued benefit” is calculated for each benefit that will accrue for all active members of the plan. The projected accrued benefit is based on the plan’s accrual formula and on the service period as at the valuation date but using a member’s final compensation projected to the age at which it is assumed that the employee will leave active service. The plan liability is the actuarial present value of the projected accrued benefits as at the valuation date for all active employees.

Normal and early retirement benefit

15.5 In the case of normal and early retirement, area staff are paid end-of-service benefits in accordance with rule 109.2 of the UNRWA Area Staff Rules. The criteria and assumptions used in calculating normal and early retirement benefits according to the actuarial method under IPSAS include the following: (a) all area staff employees, including part-time staff but excluding employees on limited duration contracts, are eligible, and the normal retirement age is considered to be from 60 to 62 years, plus a minimum service period of 10 years; (b) the normal retirement age is 60 if the date of hire is prior to 1 January 2014 and 62 if the date of hire was on or after 1 January 2014; the terms of the benefit are attainment of retirement age plus a minimum service period of 10 years (c) at the age of 60, the staff member has the option to extend his or her retirement age to 62; in this context, it is assumed that 25 per cent of the staff opt for immediate retirement upon attaining the age of 60; (d) the amount payable is calculated on the basis of the formula of base salary times 11 per cent times number of completed years of service before 1 January 2015 plus base salary times 12 per cent times number of completed years of service after 1 January 2015; (e) the service period is prorated until the last completed month of service; and (f) the base salary is the basic matrix salary without allowances. However, in Jordan, Lebanon and the Syrian Arab Republic, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar. In the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar.

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

Termination in the interests of the Agency

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

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

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

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

Death benefits

15.8 Death benefits for area staff are paid in accordance with rule 109.8 of the UNRWA Area Staff Rules. In the event of separation as a result of the death of an area staff member, the Agency shall pay a death benefit to the staff member's nominated beneficiary or beneficiaries. The death benefit shall be computed either: (a) as 11 per cent of the deceased staff member's ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015, plus a supplemental benefit representing 50 per cent of ending annual salary and cost-of-living allowance (positive or negative); or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Disability benefits

15.9 Area staff are paid in accordance with UNRWA Area Staff Rule 109.7 if terminated on the stated ground that they are, for reasons of health, incapacitated insofar as further service with the Agency. In the event of the disability of a staff member on or after 1 September 1987 and subject to paragraphs 3 to 6 of the above-mentioned rule, a disability benefit is computed either: (a) as 11 per cent of ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015; or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Reconciliation of end-of-service benefits

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

15.11 IPSAS 25 allows the actuarial gains and losses that are within the corridor to be recognized outside the statement of financial performance and requires the presentation of the actuarial gains and losses in the statement of changes in net assets/equity. The amount of actuarial (losses) presented in the statement of changes in net assets/equity is (\$5.042) million (which includes the discount rate change during the year).

15.12 Interest costs and service costs amounted to \$72.067 million as at 31 December 2016 (compared with \$68.944 million for 2015). The actuarial (gains) losses are directly accounted for in the statement of changes in net assets/equity in accordance with IPSAS 25. In the 2016 valuation of end-of-service liabilities, the actuaries determined actuarial gains to be \$18.458 million and actuarial losses of \$23.500 million due to discount rate change during the year. Accordingly, in the cash flow statement the net actuarial loss of \$5.042 million was deducted rather than being added because it was directly accounted for in the statement of changes in net assets/equity.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2016 on the same assumptions (demographic and financial) used in last year's valuation, as at 31 December 2015, resulted in an actuarial gain of \$18,458. This gain is largely driven by the fact that there has been no change to salary matrices in 2016; hence, salary escalation in 2016 was lower than expected. The reconciliation of the opening and closing balance of the area staff end-of-service benefits is given below:

(Thousands of United States dollars)

	<i>31 December 2016</i>	<i>31 December 2015</i>
Opening balance as at 1 January	650 035	524 540
Interest costs for the year	28 389	28 233
Service costs for the year	43 678	40 711
Past service costs ^a	—	58 287
Discount rate change for the year ^b	23 500	29 011
Payments in the year	(23 885)	(21 906)
Actuarial (gains)	(18 458)	(8 841)
Total	703 259	650 035

^a For 2015 benefit enhancement due to the extension of age of retirement for area staff on an optional basis from 60 to 62 years, effective 1 January 2014. Past service costs for the year 2015 include the impact of the change in currency adjustment factor in the basic salary for staff in Gaza and the West Bank and the change in end-of-service payment percentage from 11 per cent to 12 per cent. No such change (in currency adjustment factor, not in end-of-service payment percentage) occurred in 2016.

^b Discount rate change from 4.32 per cent to 4.00 per cent is included in the actuarial gains (loss) in the statement of changes in net assets/equity. For 2015 the discount rate changed from 4.75 per cent to 4.32 per cent.

Key assumptions

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

15.15 The discount rates and future escalation used, by field and currency, are as follows:

(Percentage)

<i>Field</i>	<i>Currency</i>	<i>Currency protection</i>	<i>Discount rate</i>	<i>Future escalation</i>
Gaza	United States dollar	No	4.00	2.50
Gaza headquarters	United States dollar	No	4.00	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.00	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.00	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.00	2.50
Lebanon	Lebanese pound	Yes (Lebanese pound/United States dollar)	4.00	2.50
Syrian Arab Republic	United States dollar	No	4.00	2.50

15.16 The discount rates were set with reference to government bonds, high-quality corporate bonds and other instruments, depending on the currency, term and availability of such instruments for the currency under consideration. However, owing to the continuous low interest rate environment, the discount rate has been revised by management from 4.32 per cent to 4.00 per cent, which is consistent with the yields on investment grade corporate United States bonds with term to maturity, consistent with the duration of the end-of-service liability. The discount rate is set

with reference to the yield as at 31 December 2016 on the Citi Pension Liability Index — Intermediate which has a duration of 15 years, similar to the duration of the end-of-service liability of the Agency. The return on the index is derived to mimic the return on AA spot United States corporate yield curve. Furthermore, the index is derived in a way that removes the distortion of having certain options associated with some corporate bonds (callable, puttable, etc.). This reduction in the discount rate has resulted in an actuarial loss of \$23,500. Hence, the net actuarial loss for the year 2016 is \$5,042, which represents 0.8 per cent of the opening balance of the provision.

Step increments

15.17 According to the current salary matrices of the Agency, step increments can be either an amount or a percentage. Subject to satisfactory performance, step increments are applied once a year for each employee until the employee reaches the maximum step level, which currently stands at 24.

Exchange rates as at 31 December 2016

15.18 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1,513.500; Syrian pound, 514.850.

Resignation rates

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

Early retirement rates

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

(Percentage)

Attained age	Number of years since early retirement conditions have been satisfied			
	0	1	2	3 +
Less than 45	8.0	5.0	3.0	1.0
45-49	8.0	5.0	3.0	1.0
50-54	8.0	5.0	3.0	1.0
55-59	8.0	5.0	3.0	1.0

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

Mortality

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

Disability

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

Disability rate

(Per thousand)

<i>Age</i>	<i>Male</i>	<i>Female</i>
Less than 45	0.50	0.75
45-54	1.00	1.50
55-62	1.50	2.25

International staff end-of-service liability

15.24 The separation costs of international staff funded from the regular budget of the United Nations (155 posts as at 31 December 2016 and 150 posts as at 31 December 2015) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements. These liabilities relating to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

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

(Thousands of United States dollars)

<i>Benefit</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Repatriation grant	666	827
Shipment	753	766
Travel	272	249
After-service health insurance	1 167	1 135
Outstanding annual leave	552	807
Total	3 410	3 784

Assumptions

15.26 The discount rate is assumed to be 4.00 per cent and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of in-service mortality of active members of the plan will reflect those in the 1996 United States Annuity 2000 mortality table for males and females.

15.27 After-service health insurance coverage is optional for eligible former international project staff members and their dependants. The Agency's contribution

to the after-service health insurance premium is set at 50 per cent with the rest paid by the former staff member. Aetna rates were used for international staff members not funded from the United Nations regular budget and holding United States citizenship, while CIGNA Dental Preferred Provider Organization rates were used for other nationalities. It is of note that only three employees are expected to qualify for this benefit on the assumption of no contract extension.

Note 16

Other current liabilities

Other current liabilities comprise the following:

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Goods in transit payable	537	5 438
Donor refund payable	142	—
Total	679	5 438

Note 17

Advance contribution

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

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Received from Governments	3 603	45 957
Received from United Nations organizations	—	213
Total	3 603	46 170

Note 18

Contingent liabilities, contingent assets and operating lease commitments

Contingent liabilities

18.1 The Agency's contingent liabilities as at 31 December 2016, compiled by the Legal Department, arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration, and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement or purchase orders and construction, and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals which could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities relating to these appeals amounted to approximately \$1.263 million as at 31 December 2016 (compared with \$1.048 million as at 31 December 2015).

18.3 The contingent liabilities for commercial contracts amounted to approximately \$13.188 million as at 31 December 2016 (compared with \$179.428 million as at 31 December 2015).

Contingent assets

18.4 The Agency's contingent assets represent pledges for which donor agreements have been signed but with respect to which the criteria for revenue recognition have not been met. The total amount of contingent assets outstanding as at 31 December 2016 was \$598.834 million (compared with \$287.159 million as at 31 December 2015).

Operating lease commitments

18.5 Operating costs include lease payments in the amount of \$3.910 million recognized as operating lease expenses during 2016 (compared with \$3.779 million in 2015). The amount includes minimum lease payments. No contingent rent payments were made.

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

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Not later than one year	134	140
Later than one year and not later than five years	–	–
Later than five years	–	–
Total	134	140

18.7 Most of the operating lease agreements contain renewal clauses that enable the Agency to extend the terms of the leases at the end of the original terms. Some of the agreements have escalation clauses based on a fixed percentage increase or a fixed amount increase applied at prespecified intervals or dates in the future. No lease agreements contain purchase options.

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

18.9 These in-kind donations for the use of land have been valued at a fair value of \$3.888 million in 2016 (compared with \$4.013 million in 2015) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors, provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of \$4.744 million from sublease payments in 2016 (compared with \$3.031 million in 2015). All subleases are cancellable and contain no contingent lease payments.

Note 19

Revolving loan fund

19.1 Restricted contributions received for on-lending purposes are transferred to the revolving loan fund for both the Microfinance Department and the microcredit

community support programme. The revolving loan fund is included as a component of the Microfinance Department and microcredit community support programme reserve in the statement of changes in net assets/equity.

19.2 The composition of the revolving loan fund as at 31 December 2016 and 31 December 2015 was as follows:

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Microfinance Department	24 324	24 325
Microcredit community support programme	3 595	3 428
Total	27 919	27 753

Note 20

Cash contributions revenue

Total cash contributions revenue by source received in 2016 and 2015 was as follows:

(Thousands of United States dollars)

	2016	2015
Governments	965 960	913 682
Intergovernmental organizations	159 286	181 848
Non-governmental organizations and other entities	36 284	19 562
United Nations organizations	46 327	44 531
Sundry	1 630	2 685
Total	1 209 487	1 162 308

Note 21

In-kind contributions revenue

Total in-kind contributions revenue by source received in 2016 and 2015 was as follows:

(Thousands of United States dollars)

	2016	2015
Governments	27 451	11 010
Non-governmental organizations and other entities	3 565	3 992
United Nations organizations	1 513	1 419
Total	32 529	16 421

Note 22

Interest on loans

Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2016 and 2015 was as follows:

(Thousands of United States dollars)

	2016	2015
Microfinance Department	10 333	9 421
Microcredit community support programme	299	280
Total	10 632	9 701

Note 23**Interest revenue**

Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is \$0.631 million in 2016 (compared with \$0.344 million in 2015).

Note 24**Currency exchange (loss)/gain**

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

(Thousands of United States dollars)

	2016	2015
Realized currency exchange rate gain	1 824	9 725
Unrealized currency exchange rate (loss)	(3 328)	(4 094)
Accounts receivable income realized exchange rate (loss)	(467)	(918)
Total	(1 971)	4 713

Note 25**Programme support cost recovery**

The Agency is entitled to a specific percentage of the expenditure incurred on certain projects in accordance with donor agreements. Programme support cost recoveries are recognized as income and represent the recovery of indirect costs incurred by the Agency in implementing the related projects. The total programme support cost recovery from projects revenue for 2016 is \$53.522 million (compared with \$50.867 million in 2015). The total revenue is offset by the cost of projects in 2016 by \$53.342 million (compared with \$50.706 million in 2015) and the remaining amount of programme support cost recovery is \$0.180 million in 2016 (compared with \$0.161 million in 2015) from Junior Professional Officer programmes.

Note 26**Miscellaneous revenue**

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2016	2015
Canteen lease revenue	4 744	3 031
Sundries	5 287	4 657
Reimbursed Provision Revenue	3 686	170

	2016	2015
Income received from United Nations agencies	11	98
Refunds to donors	(1 336)	(278)
Total	12 392	7 678

26.2 Refunds to donors represent amounts that have been recorded as revenue but are required to be refunded to donors in accordance with the terms of donor agreements.

Note 27

Wages, salaries and employee benefits

Wages, salaries and employee benefits consisted of the following:

(Thousands of United States dollars)

	2016	2015
International staff	43 996	45 145
Area staff		
Basic salaries, allowances and benefits	525 073	599 680
Area Staff Provident Fund contributions	57 339	55 533
Health-related expenses	8 588	9 583
Total	634 996	709 941

Note 28

Supplies and consumables

The composition of supplies and consumables in 2016 and 2015 was as follows:

(Thousands of United States dollars)

	2016	2015
Basic commodities	79 142	71 825
Clothing supplies	6 454	3 233
Fresh food	5 040	13 625
Medical supplies	24 449	23 551
Miscellaneous supplies	21 114	19 728
Sport supplies	377	180
Textbooks and library books	6 760	1 435
Transportation supplies	8 341	9 016
Total	151 677	142 593

Note 29

Occupancy, utilities and premises costs

Occupancy, utilities and premises costs in 2016 and 2015 included the following:

(Thousands of United States dollars)

	2016	2015
Rental of premises	8 178	7 791
Maintenance of premises	9 684	9 464
Utilities	6 355	5 586
Total	24 217	22 841

Note 30**Contracted services**

The composition of services expenses in 2016 and 2015 was as follows:

(Thousands of United States dollars)

	2016	2015
Construction and equipment	63 067	49 353
Contractual costs	16 191	17 090
Hospital costs	21 625	28 399
Miscellaneous, including accruals	6 485	6 836
Consultancy costs	15 099	18 989
Demurrage and port charges	13 339	12 772
Training costs	5 041	5 269
Travel	3 161	1 495
Total	144 008	140 203

Note 31**Subsidies**

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

(Thousands of United States dollars)

	2016	2015
Cash subsidies to beneficiaries	192 270	187 877
Patient subsidies	5 975	5 793
Subsidies for the construction and repair of shelters	73 778	61 385
Subsidies to third party	35 085	6 109
Total	307 108	261 164

31.2 Cash subsidies paid to beneficiaries provide selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, food security and rent subsidies, whereas subsidies paid to third parties consist of cash disbursed by UNRWA to the community and other parties for activities that will improve the lives of the refugees.

Note 32
Provisions and write-offs

The composition of provisions and write-off expenses in 2016 and 2015 was as follows:

(Thousands of United States dollars)

	2016	2015
Provisions and write-off expenses on accounts receivable	13 969	18 364
Provision and write-off expenses on contributions receivable	1 920	4 275
Provisions and write-off expenses on loans receivable	970	704
Total	16 859	23 343

Note 33
Segment reporting

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

(a) Sources of funds

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

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

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

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

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

33.7 Emergency appeal funds are used to address emergency needs through the delivery of emergency relief, for example, food aid, shelter and medical supplies. Funds are raised mainly through the consolidated appeals process and are to be utilized during specified time periods. Pursuant to implementation of the new

enterprise resource planning system, emergency appeals funds for the Syrian Arab Republic were internally reclassified from the earmarked projects segment to the earmarked emergency appeals segment. This is also in line with donor reporting effective 2016.

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

(b) Human development goals

33.9 As part of its planning approach, UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees, with the aim of accomplishing the goals with efficient and effective governance. Fifteen strategic objectives that guide UNRWA core activities are grouped into the four human development goals, as follows:

- A long and healthy life, including the objectives of: (a) ensuring universal access to quality, comprehensive primary health care; (b) protecting and promoting family health; and (c) preventing and controlling diseases;
- Acquired knowledge and skills, including the objectives of: (a) ensuring universal access to and coverage of basic education; (b) enhancing education quality and outcomes against set standards; and (c) improving access to education opportunities for learners with special education needs;
- A decent standard of living, including the objectives of: (a) reducing abject poverty; (b) mitigating the effects of emergencies (both small-scale family and national crises) on individuals; (c) offering inclusive financial services and increased access to credit and savings facilities, especially for vulnerable groups such as women, youth and the poor; (d) improving employability; and (e) improving the urban environment through sustainable camp improvement and the upgrading of substandard infrastructure and accommodation;
- Human rights enjoyed to the fullest possible extent, including the objectives of: (a) ensuring that service delivery meets the protection needs of beneficiaries, including vulnerable groups; (b) safeguarding and advancing the rights of Palestine refugees by promoting respect for human rights, international humanitarian law and international refugee law; (c) strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and (d) ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards;
- In addition to the above-mentioned goals, UNRWA aims for effective and efficient governance through providing overall direction and control and ensuring both efficient operations and effective financial and risk management.

(c) Programme

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

- The education programme provides basic and secondary education for learners with special education needs, and vocational and technical training. The programme has 10 vocational training centres, which provide skills

training in such fields as pharmacy, plumbing, carpentry, business and computing. The programme offers in-service training and development for teachers to develop their professional qualifications and pre-service training for new teachers. The programme also encourages the progression of students to higher education by means of scholarships;

- The health programme provides a network of primary health-care facilities and mobile clinics that provide the foundation of its health services, offering preventive general medicine and specialist care services tailored for each stage of life. Although the programme is focused mainly on primary health care, it also helps Palestine refugees to gain access to secondary and tertiary health-care services. The environmental health subprogramme controls the quality of drinking water, provides sanitation and carries out vector and rodent control in refugee camps;
- The infrastructure and camp improvement programme addresses the deteriorating living conditions of Palestine refugees in camps. The programme promotes environmentally and socially sustainable neighbourhoods. UNRWA repairs shelters and, in coordination with the host Governments, plans for rehousing and reconstruction projects after demolitions caused by armed conflict or other emergencies. The programme manages the construction and maintenance of all UNRWA facilities and installations.
- The relief and social services programme provides a range of direct and indirect social protection services for Palestine refugees. The relief services subprogramme provides social safety-net assistance that includes basic food support, cash subsidies and additional family income supplements for the most vulnerable Palestine refugees caught in the cycle of abject poverty. It also provides selective cash assistance, such as one-off cash grants for basic household needs in family emergencies. In addition, the subprogramme provides direct aid during emergencies caused by violence and political unrest, along with shelter rehabilitation in coordination with other programmes. The social services subprogramme promotes community-based action that enables particularly vulnerable refugees to become more self-reliant. The programme particularly addresses the needs of women, refugees with disabilities, young people and the elderly. It also helps vulnerable refugees through its microcredit programme, which is managed by community-based organizations;
- Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to other persons that it is mandated to serve in accordance with relevant United Nations General Assembly resolutions, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors;
- The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication.
- The Protection Division was established at UNRWA headquarters in Amman in January 2016 to provide strategic direction of, and coordination to, the implementation of the diverse protection activities across the Agency. In accordance with the Agency's mandate, the aim of UNRWA protection activities is to respond to the protection needs of Palestine refugees amid

increasing conflict and displacement in the region. UNRWA applies a holistic approach to protection. This includes an “internal” dimension, focusing on realizing the rights of Palestine refugees in and through the Agency’s service delivery programmes, and an “external” dimension involving engagement with relevant duty bearers to ensure respect for Palestine refugee rights. The Protection Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection.

(d) Geographical locations

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

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

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

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

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

Segment reporting by fund: financial position as at 31 December 2016

(Thousands of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
Assets							
Current assets							
Cash and cash equivalents	7 762	28 020	8 675	159 682	63 086	–	267 225
Short-term loans receivable	–	1 366	23 707	–	–	–	25 073
Contributions receivable	6 767	–	–	11 757	32 738	–	51 262
Accounts receivable	22 066	572	183	550	2 387	(2 196)	23 562
Other current assets	2 367	18	399	63	103	–	2 950
Operational Microfinance Department account with UNRWA	–	525	–	–	–	(525)	–

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
Inventories	14 710	5 595	—	30 030	26 425	—	76 760
Derivative financial instruments	56	—	—	—	—	—	56
Non-current assets							
Other non-current assets	142	—	—	—	—	—	142
Long-term loans receivable	—	1 101	2 887	—	—	—	3 988
Property, plant and equipment	452 687	367	167	6 231	33 280	—	492 732
Intangible assets	28 798	35	306	—	—	—	29 139
Total assets	535 355	37 599	36 324	208 313	158 019	(2 721)	972 889
Liabilities							
Current liabilities							
Payables and accruals	42 800	225	513	15 748	10 979	(27)	70 238
Employee benefits	76 914	—	410	—	—	—	77 324
Derivative financial liability	7	—	—	—	—	—	7
Operational Microfinance Department account with UNRWA	—	—	525	—	—	(525)	—
Other current liabilities	487	1	—	78	113	—	679
Advance contributions	5 800	—	—	—	—	(2 197)	3 603
Non-current liabilities							
Employee benefits	664 680	—	3 856	—	—	—	668 536
Other non-current liabilities	—	—	9 875	—	—	—	9 875
Total liabilities	790 688	226	15 179	15 826	11 092	(2 749)	830 262
Net assets/equity	(255 333)	37 373	21 145	192 487	146 927	28	142 627
Revaluation and other reserves	(35 218)	—	—	—	—	630	(34 588)
Capital reserve: microcredit community support programme and Microfinance Department	—	3 596	24 323	—	—	—	27 919
Accumulated surplus/(deficit)	(220 115)	33 777	(3 178)	192 487	146 927	(602)	149 296
Total net assets/equity	(255 333)	37 373	21 145	192 487	146 927	28	142 627

Segment reporting by fund: financial performance as at 31 December 2016

(Thousands of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
Revenue							
Cash contributions	608 674	—	—	358 610	242 203	—	1 209 487
In-kind contributions	—	13 996	—	15 176	3 357	—	32 529
Interest on loans	—	299	10 333	—	—	—	10 632
Interest on bank deposits	541	—	90	—	—	—	631
Other revenue							

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
Foreign currency exchange gain	—	—	—	—	—	—	—
Programme support cost recovery	51 886	1 420	—	—	196	(53 322)	180
Financial derivative gain	8 834	—	—	—	—	—	8 834
Miscellaneous revenue	6 410	6 552	717	(920)	(450)	83	12 392
Total revenue	676 345	22 267	11 140	372 866	245 306	(53 239)	1 274 685
Expenses							
Wages, salaries and employee benefits	552 180	1 656	5 095	56 571	19 276	218	634 996
Supplies and consumables	39 248	10 877	132	93 841	7 579	—	151 677
Occupancy, utilities and premises costs	12 300	4 314	396	1 497	5 710	—	24 217
Contracted services	43 980	2 988	1 821	41 358	53 803	58	144 008
Programme support costs	1 846	—	—	33 532	17 944	(53 322)	—
Subsidies	22 408	855	—	156 825	127 020	—	307 108
Depreciation	32 908	—	185	—	—	—	33 093
Provisions and write-offs	15 880	24	955	—	—	—	16 859
Loss on disposal	2 161	—	—	12	8	—	2 181
Impairment of property, plant and equipment	651	—	—	—	—	—	651
Foreign currency exchange gain	1 125	—	266	3	577	—	1 971
Total expenses	724 687	20 714	8 850	383 639	231 917	(53 046)	1 316 761
Surplus/(deficit) for the year	(48 342)	1 553	2 290	(10 773)	13 389	(193)	(42 076)

Segment reporting by human development goal: expenses as at 31 December 2016

(Thousands of United States dollars)

	<i>Long and healthy life</i>	<i>Acquired knowledge and skills</i>	<i>Decent standard of living</i>	<i>Human rights enjoyed to the fullest</i>	<i>Effective and efficient governance and support in the Agency</i>	<i>Unallocated human development goal</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	88 892	394 460	47 911	8 660	94 855	—	218	634 996
Supplies and consumables	28 805	14 700	100 453	2 007	5 712	—	—	151 677
Occupancy, utilities and premises costs	1 869	9 137	3 624	297	9 290	—	—	24 217
Contracted services	41 102	17 510	41 394	4 520	38 542	882	58	144 008
Programme support costs	3 871	8 521	33 643	1787	5 500	—	(53 322)	—
Subsidies	6 510	1 191	285 404	12 157	1 846	—	—	307 108
Depreciation	3 778	14 430	2 701	460	11 723	1	—	33 093
Provisions and write-offs	—	—	979	—	15 880	—	—	16 859
Loss on disposal	1 307	642	23	14	195	—	—	2 181
Impairment of property, plant and equipment	14	586	51	—	—	—	—	651
Foreign currency exchange loss	—	—	—	—	1 971	—	—	1 971
Total	176 148	461 177	516 183	29 902	185 514	883	(53 046)	1 316 761

Segment reporting by programme: expenses as at 31 December 2016

(Thousands of United States dollars)

	<i>Education</i>	<i>Health</i>	<i>Infrastructure and camp improvement</i>	<i>Relief and social services</i>	<i>Protection Division</i>	<i>Support department</i>	<i>Executive direction</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	408 979	75 057	29 448	24 753	5 246	43 576	47 719	218	634 996
Supplies and consumables	17 715	25 927	2 564	99 456	120	4 101	1 794	–	151 677
Occupancy, utilities and premises costs	11 577	1 710	2 701	1 861	12	4 878	1 478	–	24 217
Contracted services	19 474	29 644	14 480	37 852	2 326	29 448	10 726	58	144 008
Programme support costs	8 503	3 066	2 791	32 231	481	2 753	3 497	(53 322)	–
Subsidies	3 702	6 714	1 977	287 513	549	494	6 159	–	307 108
Depreciation	16 350	2 819	1 422	1 117	39	10 548	798	–	33 093
Provisions and write-offs	–	–	–	979	–	15 880	–	–	16 859
Loss on disposal	648	711	596	–	15	194	17	–	2 181
Impairment of property, plant and equipment	586	–	14	51	–	–	–	–	651
Foreign currency exchange loss	–	–	–	–	–	1 971	–	–	1 971
Total	487 534	145 648	55 993	485 813	8 788	113 843	72 188	(53 046)	1 316 761

Segment reporting by geographical location: expenses as at 31 December 2016

(Thousands of United States dollars)

	<i>Gaza field</i>	<i>Lebanon field</i>	<i>Syrian Arab Republic field</i>	<i>Jordan field</i>	<i>West Bank field</i>	<i>Headquarters</i>	<i>Inter-fund balances</i>	<i>Total</i>
Expenses								
Wages, salaries and employee benefits	250 885	74 658	51 600	120 908	103 115	33 612	218	634 996
Supplies and consumables	93 417	7 042	30 372	12 223	8 142	481	–	151 677
Occupancy, utilities and premises costs	5 385	4 028	2 483	6 706	4 684	931	–	24 217
Contracted services	61 931	30 845	7 705	12 933	12 958	17 578	58	144 008
Programme support costs	28 481	5 634	13 141	2 129	3 514	423	(53 322)	–
Subsidies	144 929	40 699	80 982	17 013	22 126	1 359	–	307 108
Depreciation	13 329	2 930	1 722	2 644	4 802	7 666	–	33 093
Provisions and write-offs	65	23	5	481	405	15 880	–	16 859
Loss on disposal	1 988	33	1	–	158	1	–	2 181
Impairment of property, plant and equipment	–	–	641	10	–	–	–	651
Foreign currency exchange loss	–	–	–	–	–	1 971	–	1 971
Total	600 410	165 892	188 652	175 047	159 904	79 902	(53 046)	1 316 761

Note 34

Presentation of budget information

34.1 The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V)

as the original budget derived from the 2016-2017 programme budget (Blue Book). The UNRWA budget includes the core requirements funded through the programme budget, as endorsed by the General Assembly, which, if exceeded, requires submission to the General Assembly; in-kind donations; and the project's budget, where allocation varies based on donor response.

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

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

34.4 The UNRWA budget encompasses three main entities (funding portal types): the programme budget, funded mainly by voluntary contributions, along with 155 international staff funded through the United Nations regular budget from assessed contributions; an in-kind donations budget; and the project's budget.

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

34.6 The budgets and accounts of UNRWA are arranged on different accounting bases. The statement of financial position, the statement of financial performance, the statement of changes in net assets and the statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement V) is prepared on a modified cash basis of accounting.

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

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

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

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

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

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual

amounts in the statement of cash flow (statement IV) for the period ended 31 December 2016 is presented below.

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
Actual amounts on a comparable basis (statement V)	831 534	146 232	–	977 766
Basis differences	100 337	(199 189)	(154)	(99 006)
Timing differences	–	–	–	–
Entity differences	17 978	(3 347)	320	14 951
Presentation differences	(935 270)	–	–	(935 270)
Actual amounts in the statement of cash flow (statement IV)	14 579	(56 304)	166	(41 559)

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

34.14 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2016-2017 programme budget, as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	<i>Total expenses</i>
Actual amounts on a comparable basis (statement V)	977 766
Basis differences	(8 759)
Timing differences	–
Entity differences	347 754
Actual amounts in the statement of financial performance (statement II)	1 316 761

Explanations of material differences

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

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

34.16 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2016 budget allocation at year-end.

34.17 The 2016 programme budget, as reflected in the Blue Book for 2016-2017, amounted to \$1,453.0 million (modified cash basis). This is disclosed in financial statement V as "original" budget. On a modified cash basis, the final 2016

programme budget was \$1,134.4 million, representing a decrease of \$318.6 million, or 21.9 per cent. This is disclosed in financial statement V as “final” budget. The \$318.6 million is a reflection of the decrease in the final budget owing mainly to a decrease in the final projects budget from \$695.3 million to \$409.9 million, including restricted funds (earmarked projects) and to a lesser extent to a decrease in the final programme budget from 757.7 million to 724.5 million (including in-kind).

Utilization of the budget

34.18 The variation in the budgetary utilization of the different budget cost components is due to various factors, such as management actions to reduce the cash shortfall, the depreciation of the Israeli sheqel, compared with the budgeted exchange rate, improved alignment of cost recovery, cash distribution from the social safety net programme and other budget reserves. The utilization rate against the key various cost components rates is as follows:

- *Staff costs.* Implementation rate is 95.3 per cent. The underutilization of \$26.3 million is due to: (a) lower vacancy rate for international staff (funded by assessed contributions) and no commitment of staff costs in the new enterprise resource planning system; (b) underspending under fixed-term area staff, daily paid and limited duration contracts by \$20.5 million, owing to management actions adopted to bridge the cash shortfall; and (c) the severance cash pay-out was underspent by \$5.4 million, owing to retirements that are yet to be paid in 2017 on account of a difference in timing and a difference in the number of staff forecast to retire at the age of 60;
- *Supplies.* Implementation rate is 79.6 per cent. The underutilization of \$17.0 million is due to timing variance and the late receipt of related project funds at the year-end, resulting in the phasing over of the project’s budget to 2017;
- *Maintenance of premises and equipment.* Implementation rate is 78.2 per cent. The underspending of \$45.6 million is due to the late receipt of several donor project pledges and other donor project pledges towards Gaza reconstruction, in addition to the time lag in access of goods and services to the Occupied Palestinian Territory in Gaza. The outstanding available budget at 2016 year-end was carried forward to 2017;
- *Training, travel, administrative services and consultancy.* Implementation rate is 75.1 per cent. The underutilization is due to continuous management actions adopted to meet the cash shortfall;
- *Hospital and miscellaneous services.* Implementation rate is 85.5 per cent. The underspending is due to projects related to service purchase orders yet to be implemented in the next financial period, in line with the projects’ lifespan, and extended hospital contracts, in particular in Lebanon field office;
- *Subsidies to hardship cases, subsidies to patients and third parties.* The implementation rate is 94.4 per cent. The underspending of cash subsidies is due to timing variance dependent on the actual cash receipt of funds from donor-funded projects;
- *Reserves.* The reserves reflect the impact of management actions and improved alignment of cost recovery with emergency appeal projects, chiefly under the emergency appeal for the Syrian Arab Republic.

Note 35
Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern. As shown in the financial statements, however, the Agency experienced a net deficit of \$42.076 million in 2016 compared with a net deficit of \$121.045 million in 2015. The factors set out below provide evidence as to the continuing nature of the Agency as a going concern.

35.2 The Agency has total net assets of \$142.627 million in 2016 (compared with \$196.103 million in 2015) and total current assets exceed total current liabilities by \$294.821 million in 2016 (compared with \$321.165 million in 2015). The balance of cash and cash equivalents held by the Agency as at 31 December 2016 was \$267.225 million (compared with \$308.784 million in 2015). In addition, as described in note 18, the Agency, as at 31 December 2016, had contingent assets in the amount of \$598.834 million (compared with \$287.159 million as at 31 December 2015), relating to contributions from donors for which the agreements had been signed but the criteria for revenue recognition had not yet been met.

35.3 With the exception of 155 international staff posts funded by the General Assembly through the regular budget of the United Nations, the Agency's operations are funded by voluntary contributions from Member States and other donors. The General Assembly votes in favour of key resolutions supporting UNRWA operations every year and for the renewal of the Agency's mandate every three years. Additionally, the Advisory Commission of UNRWA, which brings together the main donors as well as hosts of UNRWA operations, reaffirms its support for the Agency at a semi-annual meeting. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector.

35.4 Given the history of the Agency and the continuous efforts of all, including senior management, to mobilize resources for its operations as well as the support received from Member States for the Agency's operations, the Agency considers that there is no substantial threat to its overall ability to continue operating for the foreseeable future.

35.5 Funding the operations of the unearmarked activities of the programme budget continues to present the greatest challenge to the Agency in recent years. As reflected in the segment reporting by fund, unearmarked activities incurred a deficit of \$48.342 million as at 31 December 2016 (compared with a deficit of \$127.631 million as at 31 December 2015). The net assets of the programme budget reflected a net deficit of \$255.333 million as at 31 December 2016 (compared with a net deficit of \$213.653 million as at 31 December 2015). The Agency is actively seeking contributions to support its unearmarked activities in order to sustain core operations.

Note 36
Related parties

36. Related parties for UNRWA include:

- (a) The Area Staff Provident Fund, as it is controlled by the Agency;
- (b) The United Nations Secretariat, given that it exercises significant influence over UNRWA because, inter alia, the salaries, related expenditures and

liabilities of the majority of the Agency's international staff, including its key management personnel, are paid from the regular budget of the United Nations;

(c) Key management personnel, who include the members of the Management Committee, have authority with respect to planning, directing and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances. Transactions conducted with key management personnel in 2016 are summarized as follows:

(Thousands of United States dollars)

<i>Number of individuals</i>	<i>Total remuneration</i>	<i>Outstanding advances against entitlements</i>	<i>Outstanding loans</i>	<i>Number of individuals</i>
Key management personnel	5 706	464	17	25

(d) No close family members of key management personnel were employed by the Agency during the year;

(e) Advances are those made against entitlements in accordance with UNRWA area and international staff rules and regulations. Advances against entitlements are widely available to all UNRWA staff.

Note 37

Subsequent events

37.1 The incessant conflict in the Syrian Arab Republic which began in 2011 has continued into 2016, affecting the economy and the stability of the region. The decrease in the value of the Syrian pound and the increase in the costs of basic commodities, along with ongoing conflict and physical damage to Agency assets, continue to affect UNRWA operations in the region. It is difficult to assess the future development of the value of the Syrian pound.

Changes to end-of-service benefits

37.2 There has been no change to the terms of the end-of-service benefit in 2016. Effective 1 January 2017, a change to health staff pay scale is approved. The health staff will have a new salary matrix with different grade and step structure. In addition, some pay elements which were not part of the base salary and therefore not part of the salary qualifying for end-of-service benefit became part of the base salary and subject to end-of-service benefits under the new pay scale. In 2017, this change is expected, to have an impact of approximately \$18.565 million on expenses in the statement of financial performance and on liability in the statement of financial position. The Agency is currently finalizing its assessment.

Note 38

Date and approval

The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2017.

