



United Nations

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

**Financial report and audited
financial statements**

for the year ended 31 December 2022

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-eighth Session

Supplement No. 5D



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

**Financial report and audited
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for the year ended 31 December 2022

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Report of the Board of Auditors



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Note

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

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Letter of transmittal

**Letter dated 26 July 2023 from the Chair of the Board of Auditors
addressed to the President of the General Assembly**

I have the honour to transmit to you the report of the Board of Auditors, together with the financial report and the audited financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2022.

(Signed) **Hou Kai**
Auditor General of the People's Republic of China
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 2022 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 2022 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 and the International Standards of Supreme Audit Institutions. Our responsibilities under those standards are described in the section entitled “Auditor’s responsibilities for the audit of the financial statements”. We are independent of UNRWA, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Commissioner-General of UNRWA is responsible for the other information, which comprises the financial report for the year ended 31 December 2022 contained in chapter IV of the present report, but does not include the financial statements and our auditor’s report thereon.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

audit evidence obtained up to the date of our report. However, future events or conditions may cause UNRWA to cease to continue as a going concern;

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

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

Report on other legal and regulatory requirements

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

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

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

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

(Signed) **Pierre Moscovici**
First President of the Court of Accounts of France

26 July 2023

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to 5.89 million registered Palestinian refugees to help them to achieve their full potential in terms of human development. UNRWA employs 27,554 area staff and 214 international staff at its five fields of operation in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

The Board of Auditors has audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2022. Owing to changes related to the coronavirus disease (COVID-19) pandemic, the final audit was conducted on-site in Amman in 2023.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2022 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

The Board also issued a separate unqualified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2022, which were prepared in accordance with the International Financial Reporting Standards.

In addition, the Board performed an annual audit of the Microfinance Department of UNRWA and issued an unqualified opinion on its financial statements for the year ended 31 December 2022.

Overall conclusion

UNRWA reported a deficit of \$122.16 million for 2022, which represented a decrease of 258 per cent compared with the surplus of \$77.00 million reported for the previous year. The deficit is attributable mainly to a decrease in cash contributions from various donors.

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

Key findings

Inadequate performance of duties of the Advisory Committee on Resource Allocation

The Board noted that the Advisory Committee on Resource Allocation had not convened meetings in 2022 to discuss budget allocation and provide recommendations to the Commissioner-General, as mandated in UNRWA organizational directive No. 31. As a result, the annual budget for 2022 had been forwarded directly to the Executive Advisory Group without the Advisory Committee's recommendations. Furthermore, there had been a failure to develop an

annual workplan and calendar to schedule Advisory Committee meetings, as required in organizational directive No. 31. The underperformance of the Advisory Committee raised concerns regarding the potential risk of inefficient allocation of budget resources.

Delays in distributing selective cash assistance

The Board noted significant delays in the distribution of approved selective cash assistance payments, with 376 outstanding payments (48 per cent) not distributed at the end of 2022. The delays raised concerns about the potential undermining of the primary objective of the selective cash assistance programme, which was aimed at providing timely emergency support to families and individuals facing extreme hardship.

High ratio of daily paid workers

The Board noted that a notable percentage (41 per cent) of daily paid workers, including teachers and nurses, employed by UNRWA had exceeded the prescribed two-year limit, which disregarded the guidelines specifying their engagement for strictly temporary assignments. That indicated a potential replacement of permanent positions, was a hindrance to professional development and had possible implications for the quality of education and medical services provided to refugees.

Insufficiency of comprehensive and unified targeted interventions for dropout students

The Board noted a significant increase in cumulative dropout rates at UNRWA schools, reaching 0.86 per cent at the elementary level in 2021/22, the highest level since 2017/18, and rising to 2.83 per cent at the preparatory level in the same year, accompanied by a lack of comprehensive data and unified guidance, which hindered effective measures to address the issue and contradicted the UNRWA emphasis on providing targeted interventions to disadvantaged students, as outlined in the UNRWA medium-term strategy 2016–2021 (extended to 2022).

Main recommendations

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

Inadequate performance of duties of the Advisory Committee on Resource Allocation

(a) **Fully clarify the respective roles and interrelationship of the Advisory Committee on Resource Allocation and the Executive Advisory Group in order to further improve the procedures for reviewing budget allocation;**

Delays in distributing selective cash assistance

(b) **Set a reasonable time frame for the cash distribution process, streamlining administrative procedures and leveraging technology to facilitate payments and ensure that selective cash assistance is distributed in a timely manner;**

High ratio of daily paid workers

(c) **Take effective measures to gradually reduce reliance on daily paid workers, particularly in education and medical care, and to mitigate personnel instability and associated management risks that may arise from a high ratio of daily paid workers;**

Insufficiency of comprehensive and unified targeted interventions for dropout students

(d) **Continue to conduct periodic reviews of the pattern and causes of dropping out and make a concerted effort to promote the sharing of good practices and to strengthen the academic engagement of students from a more unified perspective to gradually reduce the dropout rate.**

Follow-up on previous recommendations

As at 31 December 2022, of the 49 outstanding recommendations up to the financial year ended 31 December 2021, 31 (63 per cent) had been implemented and 18 (37 per cent) remained under implementation. The Board acknowledged the efforts made by UNRWA in implementing previous recommendations and encourages UNRWA to continue to work on implementing the remaining recommendations.

Key facts	
5.89 million	Population of Palestinian refugees served by UNRWA in 2022
27,554	UNRWA area staff (local staff)
214	UNRWA international staff
\$888.86 million	Total assets
\$902.27 million	Total liabilities
\$1,190.23 million	Total revenue
\$1,312.39 million	Total expenses
\$1.05 billion	UNRWA final budget 2022
\$122.16 million	Deficit for the year 2022

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly in its 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 to 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 5.89 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 27,768 staff, most of whom are Palestinian refugees.

2. The Board of Auditors audited the financial statements of UNRWA and reviewed its operations for the year ended 31 December 2022, in accordance with General Assembly resolution [74 \(I\)](#) of 1946. The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA, as well as the International Standards on Auditing and the International Standards of Supreme Audit Institutions for the financial audit of public sector entities. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2022 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency.

4. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNRWA operations under 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 UNRWA operations.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with UNRWA management, whose views had been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up on previous recommendations

7. There were 49 outstanding recommendations up to the year ended 31 December 2021, of which 31 (63 per cent) had been implemented and 18 (37 per cent) were under implementation.

8. The Board carried out an analysis of the 18 recommendations that had been under implementation and noted that 1 (6 per cent) was related to asset management, 1 (6 per cent) was about human resources management, 1 (6 per cent) was about contributions receivable, 4 (22 per cent) fell under the category of information and communications technology, 5 (28 per cent) called for corrective action with respect to relief and social services, 2 (11 per cent) were related to programme and project management, 2 (11 per cent) were related to the Microfinance Department, 1 (6 per cent) was related to education management and 1 (6 per cent) was related to health programme management.

9. With regard to the ageing of the 18 pending recommendations, 3 (17 per cent) had remained open for five years, 3 (17 per cent) had been open for three years, 3 (17 per cent) were two years old and 9 (50 per cent) had been made one year ago.

10. The Board acknowledges the efforts made by UNRWA to increase the implementation status of previous recommendations and encourages the Agency to continue to work towards implementing the remaining recommendations, especially the long-outstanding ones. Details on the status of implementation of the previous years' recommendations are provided in annex I to the present report.

2. Financial overview

Financial performance

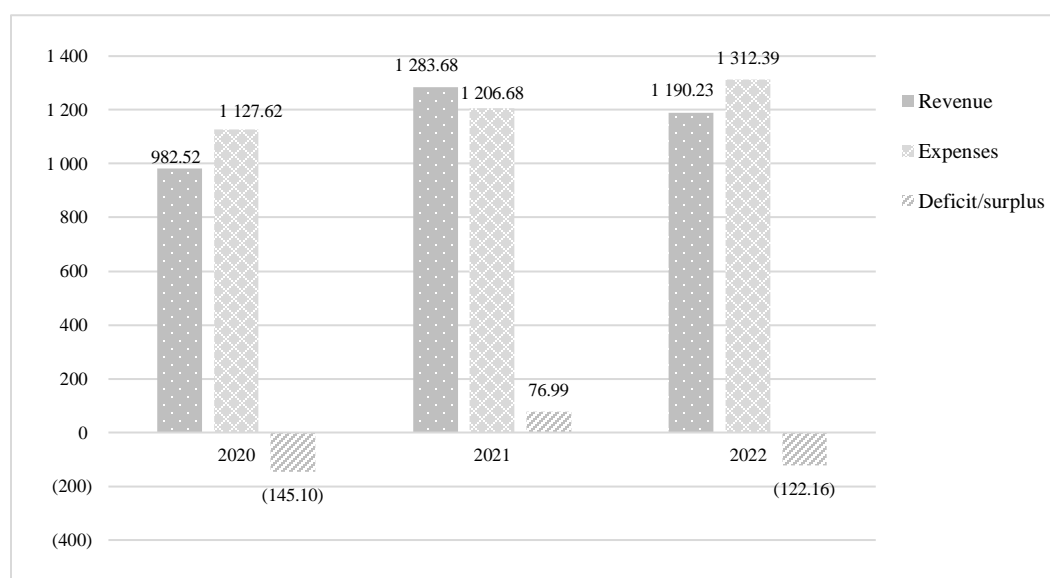
11. The revenue of UNRWA decreased by \$93.45 million, from \$1,283.68 million in 2021 to \$1,190.23 million in 2022. The decrease was attributable mainly to a decrease in cash contributions of \$86.43 million.

12. UNRWA reported a deficit of \$122.16 million for the year ended 31 December 2022 (2021: surplus of \$77.00 million). The deficit is attributable mainly to decreases in cash contributions from different donors.

13. Revenue and expenses for the past three years are shown in figure II.I.

Figure II.I
Revenue and expenses, 2020–2022

(Millions of United States dollars)



Source: Financial statements of UNRWA for 2022.

14. The programme budget, which finances the core activities of the Agency, reflected a decrease in the deficit of 25.67 per cent, from -\$91.3 million in 2021 to -\$67.86 million in 2022. This shortfall in the programme budget is attributable primarily to an increase in expenses resulting from an increase in the prices of commodities, logistics services and hospital services. The emergency appeals recorded a deficit of \$77.16 million owing to increased spending in certain emergency appeals interventions following the May 2021 hostilities in Gaza, for which funds were received in 2021 but expensed in 2022. The project funds recorded a surplus of \$23.74 million owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a surplus \$2.02 million owing to normal operations after the COVID-19 pandemic. The details are presented in table II.1.

Table II.1
Financial performance by fund group for the year ended 31 December 2022

(Millions of United States dollars)

Description	Unearmarked activities		Earmarked activities				Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Revenue	783.62	26.10	10.06	309.76	105.87	(45.18)	1 190.23
Expenses	851.48	27.60	8.04	386.92	82.13	(43.78)	1 312.39
Surplus/(deficit)	(67.86)	(1.50)	2.02	(77.16)	23.74	(1.40)	(122.16)

Source: Financial statements of UNRWA, segment reporting by fund: financial performance as at 31 December 2022.

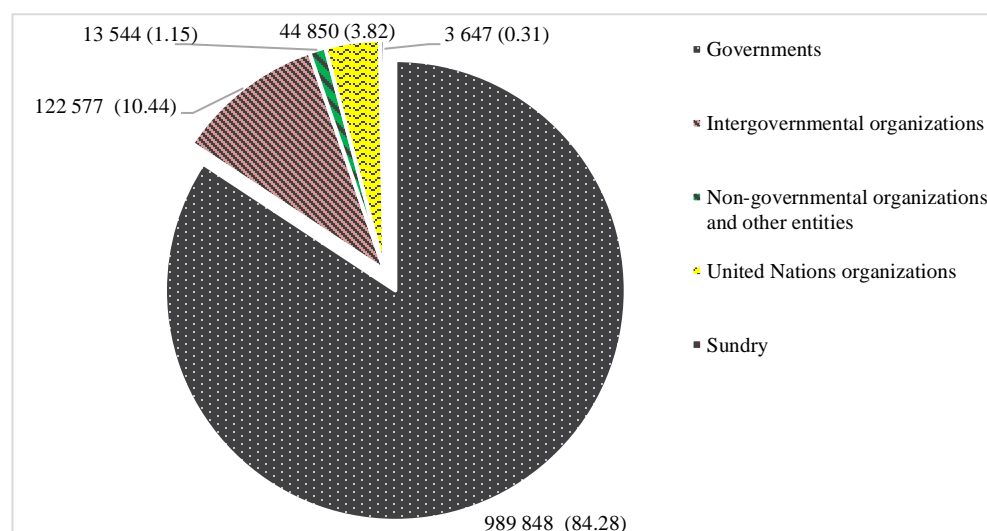
Composition of contributions revenue

15. Of the total contributions of \$1,174.47 million reported in 2022, \$1,129.62 million (96.18 per cent) represents voluntary contributions from Governments, intergovernmental organizations, non-governmental entities and sundry donors, while the remaining balance of \$44.85 million (3.82 per cent) was received from the United Nations regular budget and other United Nations agencies (see figure II.II).

Figure II.II

Contributions revenue by source

(Thousands of United States dollars)/(Percentage)



Source: Financial statements of UNRWA for 2022 (information presented in accordance with notes 20 and 21, including cash and in-kind contributions revenue).

Financial position

16. The Board analysed the financial statements for the year 2022 on the basis of the key financial indicators. Table II.2 contains key financial ratios computed from the statement of financial position. The ratio analysis indicates that liquidity has decreased slightly compared with 2021. In that sense, overall net assets increased from a deficit of \$101.49 million in 2021 to a deficit of \$13.41 million in 2022. The increase in net assets is attributable to a significant increase in revaluation and other reserves from a deficit of \$82.27 million in 2021 to a surplus of \$127.97 million in 2022.

17. That analysis is consistent with the decrease in working capital, from \$288.63 million in 2021 to \$211.64 million in 2022, and the decrease in the ratio of current assets to current liabilities, from 2.36 in 2021 to 2.00 in 2022. In addition, UNRWA had a quick ratio of 1.55 (2021: 1.95) to cover each dollar of immediate current liabilities when they fall due. Furthermore, the total assets could cover 99 per cent of the total liabilities at year end.

18. The programme budget, which finances the Agency's core activities, continues to experience a liquidity pressure, whereby its current liabilities continue to exceed current assets. At the end of 2022, the programme budget had a current ratio and a quick ratio of 0.33 and 0.19, respectively, to cover each dollar of current liabilities.

Table II.2
Ratios of key financial indicators

Ratio	31 December 2022 (all funds)	Programme budget 2022	31 December 2021 (all funds)	Programme budget 2021
Cash ratio^a				
(Cash + short-term investments): current liabilities	1.31	0.04	1.68	0.03
Quick ratio^b				
(Cash + short-term investments + accounts receivable): current liabilities	1.55	0.19	1.95	0.22
Current ratio^c				
Current assets: current liabilities	2.00	0.33	2.36	0.32
Solvency ratio^d				
Total assets: total liabilities	0.99	0.58	0.91	0.50

Source: Financial statements of UNRWA for 2022 and 2021.

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

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

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

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

19. The total liabilities of UNRWA stood at \$902.27 million as at 31 December 2022, with post-employment and other long-term employee benefits of \$779.84 million representing 86.43 per cent of the total liabilities. Long-term employee benefits liabilities were \$691.08 million, compared with \$860.86 million reported in the previous year, showing a significant decrease of \$169.78 million. This is attributable to the end-of-service liability for area staff that was recalculated in 2022.

20. The Board noted a decrease in cash balances maintained by UNRWA. As at 31 December 2022, UNRWA had cash balances amounting to \$276.35 million, compared with \$356.97 million reported as at 31 December 2021. Of the \$276.35 million, \$6.94 million (2.51 per cent) was available for programme budget (unearmarked) activities, while \$269.41 million (97.49 per cent) was available for earmarked activities.

21. Furthermore, the Board noted an increase in the accrued expenses of UNRWA. As at 31 December 2022, UNRWA had accrued expenses amounting to \$26.25 million, compared with \$20.68 million reported as at 31 December 2021. Of the \$26.25 million, \$14.21 million (54.12 per cent) was accrued expenses for services and utilities, compared with \$10.35 million as at 31 December 2021. The increase in accrued expenses is attributable to timing differences in the recording of subsidies and shelter reconstruction in Gaza and hospitalization services in the Syrian Arab Republic; the deferral of separation benefits and other salary-related benefits payable to staff towards the end of the year; and the deferral of payments to group medical insurance service providers.

Budget performance

22. The original 2022 programme budget (modified cash basis), as reflected in the Blue Book¹ for 2022–2023, was \$999.86 million. On a modified cash basis, the final 2022 budget was \$1,046.79 million, representing an increase of \$46.93 million (or 4.69 per cent). This is mainly a reflection of the increase in the final programme budget from \$825.06 million to \$834.56 million (including in-kind contributions) and an increase in the final projects budget from \$174.8 million to \$212.2 million, including restricted funds (earmarked projects).

3. Financial and budget management

Inadequate performance of duties of the Advisory Committee on Resource Allocation

23. It is stated in articles 5 and 6 of UNRWA organizational directive No. 31, effective 1 April 2012, that the Advisory Committee on Resource Allocation will: (a) provide an impartial review and advice on resource allocation to the Commissioner-General; (b) complement the work of the Management Committee by providing a focused forum for discussions on the allocation of financial resources; and (c) address and make recommendations to the Commissioner-General on draft biennial and annual budgets, revised draft budgets, and ad hoc financial and resource allocation matters exceeding a \$250,000 threshold, as well as matters affecting more than one field office and/or headquarters department. In addition, an annual workplan and calendar will be submitted by 15 January of the coming year.

24. The Board noted that a total of two submissions from the related department and field office requesting additional budget allocation had been addressed to the Advisory Committee on Resource Allocation for recommendation in 2022, while the Advisory Committee had not convened to discuss the issues and provide recommendations to the Commissioner-General. Moreover, the annual budget for 2022 had not been discussed and recommended by the Advisory Committee at a meeting but proceeded directly to the consideration of the Executive Advisory Group. In addition, there was no annual workplan or calendar for 2022 developed to schedule Advisory Committee meetings in accordance with organizational directive No. 31.

25. UNRWA explained that, during the course of the past year, discussions had been held within the Agency on the role of the Advisory Committee on Resource Allocation. The discussions would continue in 2023 as discussions on budget development and resource allocation were taken to the Executive Advisory Group. As a result of the aforementioned discussions, UNRWA had continued to review budgets through the Group to ensure enhanced consultation with a broader range of senior management than existed in the Advisory Committee and to ensure that final decisions on resource allocations by the Commissioner-General benefited from the same such consultation. That was done in line with organizational directive No. 34, in which it was noted that the Group convened to discuss “strategic or operational matters that have a likelihood of impacting the Agency’s Programme Budget”. In 2023, UNRWA would ensure that the role of the Advisory Committee and the Group were further and fully clarified.

26. The Board recommends that UNRWA fully clarify the respective roles and interrelationship of the Advisory Committee on Resource Allocation and the Executive Advisory Group in order to further improve the procedures for reviewing budget allocation.

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

27. UNRWA agreed with the recommendation.

Deficiency in reporting the number of individual service providers

28. It is stated in article 40 of the United Nations guide to the preparation of the proposed programme budget for 2022 that extrabudgetary estimates reflect the requirements that a department estimates will be consumed during the budget period that are financed from voluntary contributions. In accordance with the proposed programme budget for 2022 (A/76/6 (Sect. 26)), submitted by UNRWA in April 2021, approximately 29,000 local area staff and 222 individual service providers (including international and area staff) are funded from extrabudgetary contributions. The General Assembly approved the resources that the Secretary-General had proposed for UNRWA for 2022 in its resolution 76/245.

29. The Board reviewed the Agency-wide lists of individual service providers as at 31 December 2022 and noted that there were a total of 350 individual service providers funded from all funding sources. Of these, 287 individual service providers were funded under the emergency appeals and projects portals, while 63 individual service providers were charged to voluntary contributions under the programme budget. This indicated a variation in comparison with the 222 individual service providers funded from extrabudgetary contributions in the proposed programme budget for 2022. UNRWA had reported only the number of individual service providers funded from emergency appeals and projects in the budget document, which was not in line with the definition of extrabudgetary resources in the budget guide of the United Nations.

30. UNRWA explained that the Agency had three funding portals, namely programme budget, emergency appeals and projects. For internal processes at UNRWA, the term “extrabudgetary resources” referred to project funds and emergency appeals only. As at 31 December 2021, the number of individual service providers funded from extrabudgetary sources, such as projects and emergency appeals, was 222. An assumption was made that the Agency would maintain the same number of individual service providers charged to extrabudgetary funding sources.

31. UNRWA further explained that the budget projections had been based purely on factors that had existed at the time of the budget preparation and taking into consideration financial challenges, and that it was not anticipated that the number of individual service providers would increase. The nature of those contracts was short-term to meet the staffing needs of projects and to respond to emerging needs that had not been anticipated during the budget preparation process. In 2022, the reason for the increase in the number of individual service providers had been to address staffing needs related to unplanned new projects and an expansion of existing ones, which had caused the variance in figures related to active individual service providers.

32. Furthermore, UNRWA indicated that the Agency did not hire individual service providers against the United Nations regular budget and would be using the United Nations definition of extrabudgetary resources for reporting individual service providers in the future, as required, as the Agency was not in a position to predict the number of new projects or to plan for a surge in the number of individual service providers against projected figures during the budget preparation process.

33. The Board is of the view that, with the exception of funds from the United Nations regular budget, all other funds received by UNRWA through voluntary contributions are extrabudgetary resources based on the definition in the budget guide of the United Nations. Furthermore, UNRWA is reassessing its staffing needs and proposing additional regular budget resources in accordance with General Assembly resolution 75/252 dated 31 December 2020. In 2022, UNRWA approved 43 posts funded from the additional regular budget, including five international posts that had

previously been performed by individual service providers. In this context, it is necessary to provide the complete number of individual service providers in the proposed programme budget, which may help the Advisory Committee on Administrative and Budgetary Questions to better understand the overall situation of individual service providers.

34. The Board recommends that UNRWA report the number of individual service providers in the proposed programme budget in accordance with the definition in the United Nations budget guide.

35. UNRWA agreed with the recommendation.

4. Asset and inventory management

Discrepancies in inventories between REACH records and actual amounts

36. It is stated in article 7.3 of the Central Support Services Division standard operating procedures for physical inventory counts in UNRWA warehouses and storage locations that, after reconciliation and evaluation of the results, in cases of discrepancies, surpluses, damaged and expired stocks, poor storage conditions and so on, approval by the field office director/deputy field office director of corrective and remedial actions is recommended, according to the provisions of the property management and supply procedures manuals.

37. The Board conducted a physical inspection of the main warehouses in the Jordan field office on 27 October 2022 and noted the following discrepancies:

(a) In terms of the Hexaxim vaccine vial (material number 51201600.0002) with the batch number A21CD965A, its quantity in the system was 543 vials, with a total value of \$13,070, while the actual quantity in the central pharmacy was 1,740 vials, indicating a surplus of 1,197 vials. In addition, with regard to the hepatitis A 0.5-ml single-dose virus vaccine (material number 51201600.0001) with the batch number T043004, its quantity in the system was 1,261 vials, with a total value of \$10,693, while the actual quantity was 1,346 vials, indicating a surplus of 85 vials;

(b) A total of 185 vials of Eightcheck control samples (material number 41115808.0062), with a total value of \$8,821 were not found in the central pharmacy;

(c) About 96,000 face masks, which expired in April and June 2022, were not disposed of in accordance with the provisions of property management.

38. UNRWA explained that, in terms of the Hexaxim vaccine and the hepatitis A vaccine (material numbers 51201600.002 and 51201600.01, respectively), 5,760 and 3,240 vials had been received on 29 September 2022 as a monthly donation. The recording of this donation was in process and approved on 27 October 2022. To cover the monthly need of health centres for this vaccine and to avoid a stock-out, 4,563 vials were distributed in October 2022. After a complete recording of the pending receipt and issuances in the REACH system (the enterprise resource planning system of UNRWA), the final vials showed no differences between the physical and system counts. In terms of material number 41115808, three deliveries of 13 boxes of 12 vials each, equal to 468 vials, were sent to the central pharmacy in full during the period 2019–2020. However, 13 boxes of 12 vials each, equal to 156 vials, were still not delivered owing to multiple shipments and an oversight. They had been recorded as received by the central pharmacy store, and the Logistics Department would be informed to correct the wrong entry. After the correction of the record, the remaining stock amounted to 29 vials. After rechecking, it was found that 26 vials were available at various storage locations, resulting in a shortage of three vials owing to human errors attributable to multiple shipments and distributions. Regarding the face masks, their use by UNRWA staff decreased dramatically after the stabilization of the

COVID-19 epidemiologic situation in Jordan and the decision by the Government to ease restrictive measures, including by lifting the mandatory use of the masks.

39. The Board is of the view that the discrepancies between the REACH system and actual inventory do not reflect the actual quantities on hand. The delay in updating records in the REACH system may reduce the reliability of information on stock on hand for management decisions and may affect the accuracy of predictions of possible stock-outs and transfers.

40. The Board recommends that UNRWA record inventory transactions in the REACH system in a timely manner to ensure consistency between REACH records and actual amounts and take measures to identify and dispose of expired inventories.

41. UNRWA agreed with the recommendation.

5. Relief and social services management

Delays in distributing selective cash assistance

42. It is stated in the relief services instruction that selective cash assistance, such as protection from severe weather conditions, and provision of essential household items that are lacking or have been damaged/destroyed by fire, flood and so on, is provided to families facing extreme, acute hardship in the form of a one-time cash payment. In certain emergency cases, the field finance officer may be requested by the chief of the Field Relief and Social Services Programme to arrange payment within 24 hours from the time of approval.

43. The Board reviewed the lists of selective cash assistance for the Jordan, Lebanon and West Bank fields in 2022 and noted that approved selective cash assistance had not been distributed in a timely manner, indicating that it had not been processed within a reasonable time frame. In 2022, a total of 788 selective cash payments (amounting to \$355,725.30) were approved, with 376 outstanding payments (amounting to \$180,329.79) as at 31 December 2022, accounting for 48 per cent. The earliest approval date was 16 January 2022.

44. The Board conducted a further review of the selective cash distributions in 2022 and noted that, out of the 376 approved cash payments that had not yet been distributed, 55 had been approved in the first quarter, 109 in the second quarter, 123 in the third quarter and 89 in the fourth quarter.

45. The selective cash assistance programme is intended to provide emergency or essential support to families and individuals. The Board is concerned that delays in and/or ineffective distribution of selective cash assistance could have a significant impact on the well-being of refugees and their ability to meet their basic needs.

46. The Board recommends that UNRWA set a reasonable time frame for the cash distribution process, streamlining administrative procedures, and leverage technology to facilitate payments and ensure that selective cash assistance is distributed in a timely manner.

47. UNRWA agreed with the recommendation.

Potential risks in cash distribution in Gaza

48. It is stated in the relief services instruction that all transactions included in current social safety net programme instruction No. 1/2011, such as the family history file and approval of registration in the social safety net programme, will be executed electronically through the refugee registration information system/social safety net

module in accordance with the guidelines outlined in the user manual for the information system.

49. The Board reviewed the records of cash distribution for the social safety net programme and noted that, in the first quarter of 2022, there had been a change in the confirmation methodology for the programme in Gaza, from the proxy means testing formula method to the categorical method. However, the social safety net module in the refugee registration information system had not been updated to reflect the change, resulting in cash distribution from the programme in Gaza being executed outside the system. In 2022, the Gaza field office distributed cash assistance to 21,868 persons and 13,007 families, amounting to \$4.37 million.

50. The Board is concerned that, owing to the distribution of cash outside the refugee registration information system in Gaza, UNRWA may not always have the ability to monitor cash distribution in a timely manner, which could potentially increase the risk of incorrect, missed or multiple cash payments being distributed in Gaza.

51. The Board recommends that UNRWA take measures to update the refugee registration information system and monitor cash distribution in Gaza through the system to ensure the timely and accurate tracking of cash distributions.

52. UNRWA agreed with the recommendation.

Microcredit community support programme loans at risk of loss

53. It is stated in the microcredit community support programme guidelines (issued in 2019) that the period for the repayment of loans should not exceed 36 months. Furthermore, it is stated in the finance technical instructions that all outstanding loans that are more than 360 days overdue shall be considered for write-off.

54. The Board noted that 283 loans disbursed before 2019, amounting to at least \$1.08 million, had been more than 360 days overdue. However, the loans were not considered for write-off because, under the microcredit community support programme guidelines, the only reason for write-off is death. Details are provided in table II.3.

Table II.3

Microcredit community support programme final balances by year as at 31 December 2022

<i>Year</i>	<i>Number of loans</i>	<i>Outstanding (United States dollars)</i>	<i>Outstanding (Lebanese pound)</i>
2006	1	2 860.00	–
2007	–	–	–
2008	–	–	–
2009	–	–	–
2010	–	–	–
2011	1	100.00	–
2012	–	–	–
2013	5	25 967.00	–
2014	11	37 088.00	–
2015	19	64 259.00	–
2016	54	219 208.00	–
2017	102	357 003.00	–

<i>Year</i>	<i>Number of loans</i>	<i>Outstanding (United States dollars)</i>	<i>Outstanding (Lebanese pound)</i>
2018	90	374 256.00	–
Subtotal	283	1 080 741.00	–
2019	91	237 796.00	2 445 000.00
2020	1	–	1 425 000.00
2021	–	–	–
2022	–	–	–
Total	375	1 318 537.00	101.84

Source: Microcredit community support programme.

55. UNRWA explained that loans issued after 2016 should not be considered as overdue because they were affected by the financial and economic instability in the country.

56. The Board further noted that the microcredit community support programme lacked the authority to collect on defaulted on old loans that had been guaranteed by private companies or guarantors who had left the company. Some borrowers that had taken out loans disbursed in 2018 and 2019 had stopped paying owing to the financial and economic situation instability during that time.

57. The Board is of the view that, according to the finance technical instructions, the loans issued by the microcredit community support programme before 2019, which have been overdue for more than 360 days and amount to at least \$1.08 million, are at risk of loss and need to be reviewed and considered for write-off.

58. The Board recommends that UNRWA strengthen the loan risk management framework of the microcredit community support programme to minimize the risk of loan loss, review loan loss on the basis of collecting practice, write off loans in compliance with regulations and ensure accurate disclosure in financial statements.

59. UNRWA agreed with the recommendation.

6. Human resources management

High ratio of daily paid workers

60. It is stated in complementary personnel directive No. CPD/2 (issued on 30 March 2023) that daily paid workers may only be engaged when the assignment is of a strictly temporary and time-limited nature and that they should not be used for long-term staffing needs that exceed two years.

61. The Board reviewed the list of daily paid workers provided by UNRWA in the Gaza, Jordan, Lebanon and West Bank field offices and noted that there were a total of 3,910 daily paid workers, of which 1,586 (41 per cent) had worked for more than two years. Most of those workers were teachers and nurses who had been working for UNRWA on discontinuous daily paid contracts for a long time. That indicated that the positions had been filled with daily paid workers instead of with staff members on fixed-term contracts.

62. The Board also noted that, among the 1,586 daily paid workers who had worked for more than 2 years, 828 workers had served for 2 to 5 years, accounting for 52 per cent; 639 workers had served for 5 to 10 years, accounting for 40 per cent; and 119 workers had served for more than 10 years, accounting for 8 per cent.

63. The Board is concerned that the long-term employment of daily paid workers, including teachers and nurses, may lead to the replacement of permanent positions and potentially have an impact on the quality of education and medical services provided to refugees. Furthermore, such uncertainty regarding employment could also affect the stability and well-being of employees.

64. UNRWA explained that it hired daily paid workers to manage the budget owing to continuous financial constraints. As part of its efforts to reduce reliance on such workers, UNRWA has requested that all fields maintain the hiring of daily paid workers at 7.5 per cent below standard levels and proactively plan their reduction to achieve that target.

65. The Board recommends that UNRWA take effective measures to gradually reduce reliance on daily paid workers, particularly in education and medical care, and to mitigate personnel instability and associated management risks that may arise from a high ratio of daily paid workers.

66. UNRWA agreed with the recommendation.

7. Programme and project management

Deficiencies in creating project plans and workplans

67. It is stated in article 63, on planning and initiation, of the UNRWA project procedures manual that the project plan will be the key execution document for the project. A comprehensive plan will contain a list of all the activities needed to successfully complete the project, including required resources, a budget, a work breakdown structure, a procurement schedule and vendor requirements, a risk assessment matrix and log, a project milestone, stage boundaries, a communication plan, reporting lines and dates, and any other relevant information.

68. In addition, it is stated in article 66 of the project procedures manual that the project manager should create workplans based on the work breakdown structure. The workplans should be broken into work size deliverables and relate upward to the project output. Furthermore, it is stated in annex II to the workplan of the same manual that, for each output of the project, the activities, the inputs needed (human, material, technical and financial), the key deliverables, the persons who will undertake them and the time frame should be described.

69. The Board conducted a sample review of 14 projects implemented by UNRWA headquarters, the Jordan field office and the Lebanon field office and noted that, as at 9 November 2022, there were no project plans for all 14 projects. For 10 out of the 14 projects, including 6 projects using time schedules or project timelines instead of workplans, there were no formal workplans. In relation to time schedules and project timelines, it was noted that, for the 6 projects, effective relationships had not been established upward to project outputs. More specifically, the 6 projects involved only the elements of activity description and duration (time frame), but lacked the elements of the inputs needed, the key deliverables and the responsible persons.

70. UNRWA explained that it had received different responses from various offices regarding the need for a workplan for certain projects. The Department of Health stated that no workplan was necessary for this activity, as it was part of a project proposal and regarded as a payment for one activity. The Lebanon field office explained that the workplan for another project was not available owing to a lack of inclusion in the donor agreement. The Jordan field office stated that it was not aware of the need for a workplan for listed projects, but that project managers were updating project timelines for progress reports. The Department of Planning stated that more detailed project plan and workplan templates would be included in the project

procedures manual and distributed across all UNRWA field offices and departments/divisions to promote their use.

71. The Board is of the view that the creation of key documents, such as project plans and workplans, is a vital tool through which UNRWA can conduct the management of project planning and initiation and the effective monitoring of project activities.

72. The Board recommends that UNRWA prepare project plans and workplans in accordance with the requirements and templates set out in the project procedures manual.

73. UNRWA agreed with the recommendation.

Lack of financial data on projects in the project assessment system

74. In accordance with the user manual for the project assessment system provided by UNRWA, that system will be used as a tool to systematically provide project managers, project officers and the senior management team at the field office with information on the assessment of a project's status during implementation in three areas: programmatic, financial and the reporting of timelines. It is stated in the manual's "Roles and responsibilities" section that the project manager is responsible for keeping master data up to date (including the expenditure forecast and the documents library) and ensuring correct web entry.

75. The Board reviewed the monthly project assessment report generated by the project assessment system and noted the absence of key financial information on the projects, such as the amount of total contribution, actual expenditure, free balance, soft and hard commitment, and programme support cost. The only financial information displayed in the project assessment system was the allotment amount. Similarly, the Board noted that, when web entry was used to generate a report on project expenditure status, no financial data were displayed in the columns for total contribution, actual expenditure, free balance, soft and hard commitment, and programme support cost.

76. UNRWA explained that the project assessment system and the project assessment report template currently lacked financial information owing to the lack of availability of those data in the REACH system. The system and the report would undergo review and revision over the coming months, with significant updates incorporated into the project procedures manual, which was also being revised.

77. The Board is of the view that the project assessment system is crucial for UNRWA to manage and monitor project implementation and finances. Without financial information in that system and the project assessment report, project management stakeholders may not have a full-scale impression of the projects, which would hinder their ability to efficiently monitor progress.

78. The Board recommends that UNRWA conduct a review of the project assessment system, including the project assessment report template, and enhance the interaction between the project assessment system and REACH in relation to tracking project implementation and financial status.

79. UNRWA agreed with the recommendation.

Inconsistency of ratings for project financial status

80. In accordance with the guidance on ratings for project results assessment and project spending assessment in the user manual for the project assessment system, there are three categories of project financial status for project spending assessment:

“ahead of plan” (green colour), when the burn rate² is greater than 90 per cent; “on plan” (yellow colour), when the burn rate is greater than 70 per cent but less than 89 per cent; and “behind plan” (red colour), when the burn rate is less than 69 per cent.

81. The Board reviewed the quarterly project/grant tracker reports in 2022 and noted that, as at 30 September 2022, 24 ongoing projects were flagged by field offices as “behind plan” in analysis category No. 4. Of the 24 ongoing projects, 16 had a burn rate higher than 70 per cent. In addition, 50 projects (32 active grants) appeared in analysis category No. 3 of terminal obligation date expiry in the next three months, with a burn rate of less than 75 per cent. Of the 50 projects, 38 were marked as “on plan” or “ahead of plan” in the project financial status column, and all their burn rates were less than 70 per cent.

82. UNRWA explained that the establishment of the Strategic Project Management Office in the Department of Planning had been delayed until September 2022. Although the Department of Planning had been able to advance the work of the Office during the interim period through consultants, secondments and existing resources, some gaps had remained. Now operationalized, the Office would review project portfolio management through the project assessment system and REACH, revising as necessary to ensure alignment.

83. The Board is of the view that the inconsistency of ratings for project financial status between the project assessment system user manual and the REACH (grants tracker) could cause confusion among project managers and potentially lead to less effective monitoring.

84. The Board recommends that UNRWA review the guidance on ratings for project financial status in the user manual for the project assessment system and ensure alignment of practice.

85. UNRWA agreed with the recommendation.

Delay in closure of grants for completed projects

86. In article 31 of the UNRWA project procedures manual (updated on 17 March 2022), the process for phase 4 of closure is detailed. According to the article, this phase begins with the project manager taking the steps necessary to wind down the project, and it ends after the donor accepts the final report or reports, the project and related grants have been liquidated and closed in REACH, and lessons have been learned. Project closure should be carried out in two steps through REACH: technical closure by the project manager, followed by financial closure by the Department of Finance in consultation with the project manager and the External Relations Department.

87. The Board noted that, as at 30 September 2022, 291 unique grants with a total free balance of \$12.8 million had an expired terminal disbursement date, and a closing memo had yet to be issued for closure. Among the grants, 258 reached their terminal disbursement date between 2021 and 2022, with 63 grants reaching their terminal disbursement date in 2021, while 33 had reached their terminal disbursement date between 2016 and 2020.

88. The Board also noted that the issuance of a closing memo from the External Relations Department to the Department of Finance was a procedure necessary for grant closure in practice. However, it was observed that there were no specific clauses in the UNRWA project procedures manual relating to the issuance of a closing memo

² Burn rate refers to actual expenditure divided by the total fund allotment for the project.

for completed projects, including with regard to involved departments, responsibilities and time frame.

89. UNRWA explained that, under the new capacity of activation of the Strategic Project Management Office, UNRWA would focus further attention on the monitoring and follow-up of grants listed under the category in the project/grant tracker relating to completed projects with an expired terminal disbursement date when a closing memo had yet to be issued, and that the UNRWA project procedures manual would be updated accordingly, including in relation to project closure procedures.

90. The Board is of the view that the delayed closure of grants and the incomplete regulations for project closure procedures may pose a risk that the completed projects are not monitored effectively in terms of their entire life cycle.

91. The Board recommends that UNRWA update the project procedures manual to further improve project closure procedures, including for the issuance of closing memos, and strengthen the monitoring of progress in grant closure for completed projects.

92. UNRWA agreed with the recommendation.

8. Procurement and contract management

Overdue orders not closed in a timely manner

93. It is stated in section 13.1.1 of the UNRWA procurement manual that the primary objective of contract management is to ensure the delivery of high-quality goods and services in accordance with the agreed time and quantity specified in the contract.

94. The Board noted that 596 orders in the REACH system had not been closed for a considerable period, ranging from three months to over seven years, with a total value of \$9,857,815 for goods/services still pending delivery.

95. The Board further noted that there were 154 outstanding purchase orders with a delivery deadline of before 31 December 2021, amounting to a total value of \$2,251,409. These overdue orders had varying delivery dates, with the earliest one dated 29 March 2015. The highest value for overdue orders was \$914,270, with a delivery date of 27 June 2018.

96. The Board is of the view that the timely closure of purchase orders, upon completion of associated contract activities, is crucial. The significant number of outstanding orders and their long-overdue status highlights inefficiencies in the contract management process, which may result in low-quality goods and services, incorrect quantities or delayed delivery.

97. The Board recommends that UNRWA take steps to improve the efficiency of its contract management processes to ensure timely closure of purchase orders and minimize the risks associated with prolonged outstanding orders.

98. UNRWA agreed with the recommendation.

Vendor performance evaluation not fully and accurately documented

99. It is stated in section 13.2 of the UNRWA procurement manual that the performance evaluation must include the vendor's experience during the entire contract period. It is important to document contract performance carefully and be able to provide evidence in the event of disputes in order to form institutional memory and for audit purposes.

100. The Board reviewed 71 vendor evaluation forms completed between 1 January 2022 and 11 April 2023 and noted that 50 of the 71 forms, representing more than

70 per cent of the total forms reviewed, were incomplete or contained inaccuracies. Furthermore, the following deficiencies were identified:

(a) Absence of evaluator's signature: of the 71 forms reviewed, 19 did not have the evaluator's signature;

(b) Absence of endorser information: of the 71 forms reviewed, 28 did not contain any information on the endorsers, such as their name, title, department, date or signature;

(c) Issues with evaluation time: of the 71 forms reviewed, 18 had evaluation dates earlier than the end date of the period evaluated, with an average advance of one month. The longest advance was seven months. Moreover, two vendors had blank evaluation dates, making it impossible to determine when the evaluation had taken place;

(d) Inconsistent evaluation conclusions: during the same evaluation period for the same contract with one specific vendor, three evaluation forms had two evaluation conclusions, "good" and "moderate".

101. The Board is concerned that 70 per cent of the vendor performance evaluation forms were incomplete or inaccurate, which may hinder the verification of whether the evaluation results represent the official opinion of UNRWA. Moreover, the 28 evaluation forms without any endorser information may suggest that the critical control steps of vendor evaluation were not executed with due care, thereby creating a risk of incomplete and unfair evaluations.

102. The Board recommends that UNRWA strengthen the management of its vendor performance evaluation process and the review of its results to ensure the completeness and accuracy of relevant records, and that it execute key control steps with due care to reduce the risk of incomplete and unfair evaluations.

103. UNRWA agreed with the recommendation.

9. Education management

Insufficiency of comprehensive and unified targeted interventions for dropout students

104. The UNRWA medium-term strategy 2016–2021 (extended to 2022) emphasizes an increased focus on disadvantaged students, including those with disabilities, from poor backgrounds, who are underperforming on standardized tests and with psychosocial needs.

105. The Board noted that Agency-wide cumulative dropout rates at the elementary level increased to 0.86 per cent in the academic year 2021/22, from 0.22 per cent in 2020/21, rising to the highest level since 2017/18. In parallel with the trend of dropping out at the elementary level, Agency-wide cumulative dropout rates at the preparatory level also increased markedly, from 0.83 per cent in 2020/21 to 2.83 per cent in 2021/22.

106. The Board also noted that there had been no Agency-wide survey or report on UNRWA school dropouts conducted in the past 10 years. Field offices faced challenges in identifying reasons that students drop out, as the existing data in the Education Management Information System were insufficient. Consequently, field offices were unable to implement direct and targeted intervention measures to address the issue. The Board further noted that the measures implemented by field offices were inconsistent and lacked comprehensive and unified guidance in that regard from the Department of Education at the headquarters level.

107. The Board is concerned that the lack of unified and comprehensive guidance from the Department of Education contradicts the focus on providing targeted

interventions to disadvantaged students, as outlined in the UNRWA medium-term strategy 2016–2021 (extended to 2022).

108. The Board recommends that UNRWA continue to conduct periodic reviews of the pattern and causes of dropping out and make a concerted effort to promote the sharing of good practices and to strengthen the academic engagement of students from a more unified perspective to gradually reduce the dropout rate.

109. UNRWA agreed with the recommendation.

Inadequate facilitating for career progression of unqualified teachers

110. The UNRWA teacher policy (issued in November 2013), emphasizes the importance of career progression points and lifelong professional learning for teachers to meet the needs of the UNRWA education system. The policy also outlines the fact that teachers with a first university degree but without any pedagogic training are appointed at the grade 8 level and, upon completion of a one-year in-service training programme, can be promoted to grade 9. It is stated in the UNRWA 2023–2028 methodology handbook that a teacher without any teacher-qualifying course, including the education preparation course, the course for newly appointed teachers or any external course with a duration of at least one year, is considered unqualified.

111. The Board noted that, as at 31 December 2022, UNRWA had employed a total of 694 grade 8 teachers, with 435 of them (62.68 per cent) having been in their current positions for over three years and classified as unqualified owing to their not having completed the in-service qualification training required in the teacher policy. These teachers had not obtained the certificates necessary for them to be promoted to grade 9 as qualified teachers. The longest-serving unqualified teacher has had this status for 16 years. Furthermore, the Department of Education provided data indicating that 950 unqualified daily paid teachers had been working in UNRWA schools in 2022.

112. The Board further noted that the qualifying programme for newly appointed teachers had been implemented in UNRWA field offices at different times and that teachers were selected for participation by their principals. However, owing to budget constraints or other factors, fulfilment of the programme's requirement by all newly appointed unqualified teachers had not been achieved.

113. The Board is concerned that the high number of unqualified teachers who have not undergone qualifying training could negatively affect teaching and learning quality.

114. The Board recommends that UNRWA further facilitate the implementation of teacher qualifying training programmes, establish relevant reporting mechanisms and monitor the progress of such programmes to better support and encourage teachers' career development so as to enhance the quality of teaching and learning at UNRWA schools.

115. UNRWA agreed with the recommendation.

Inadequacy of monitoring and evaluation of human rights, conflict resolution and tolerance training

116. The UNRWA human rights, conflict resolution and tolerance programme, launched in 1999, is aimed at promoting non-violence, healthy communication skills, peaceful conflict resolution, human rights, tolerance and good citizenship. The UNRWA policy on education for human rights, conflict resolution and tolerance (issued in May 2012) mandates that all newly appointed teachers attend a mandatory basic human rights education training course and requires the establishment of a monitoring and evaluation system to ensure the effectiveness of the programme. Section 6 of the policy underscores the need for systematic monitoring and evaluation, with a focus on areas such as effectiveness of individual training

programmes and achievement of teacher outcomes related to implementing the human rights, conflict resolution and tolerance programme.

117. The Board noted that, in 2022, a total of 1,070 newly appointed teachers had assumed their teaching duties at UNRWA schools while the Department of Education at UNRWA headquarters in Amman and five field offices had been unable to provide records of individual teachers' completion of the human rights, conflict resolution and tolerance training course, which highlighted the insufficient monitoring and evaluation system for human rights, conflict resolution and tolerance training.

118. The Board is concerned that inadequate monitoring and evaluation of the human rights, conflict resolution and tolerance training course for newly appointed teachers could lead to ineffective teaching practices that do not reflect the characteristics of inclusivity, respect and empowerment, putting the expected positive and inclusive learning environment at risk.

119. The Board recommends that UNRWA enhance the monitoring and evaluation system of human rights, conflict resolution and tolerance training for newly appointed teachers to ensure the effective implementation of the human rights, conflict resolution and tolerance policy.

120. UNRWA agreed with the recommendation.

Non-compliant promotions of teacher salary group level in accordance with policy

121. The UNRWA teacher policy outlines clear career progression criteria for teachers. Grade 9 teachers can be promoted to grade 10 after 5 years if they meet minimum eligibility criteria. Grade 10 teachers can be promoted to grade 11 after 10 years at grade 10, completion of the school-based teacher development programme and satisfactory performance evaluation reviews. In addition, teachers who complete a one-year in-service training programme within 3 years of appointment can be promoted to grade 9 and can progress to grade 10 after 10 years of teaching experience.

122. The Board reviewed the teaching post statistics provided by the Department of Education and noted that there were 10 teachers at grade 10 with less than 5 years of teaching experience and 7 teachers at grade 11 with less than 10 years of teaching experience.

123. Furthermore, the Board reviewed the programme for newly appointed teachers, a one-year in-service qualifying training programme offered by UNRWA, and noted that 324 teachers who had completed the programme and had been issued a certificate by the Department of Education had not had their salary group level upgraded to grade 9 in accordance with the teacher policy in the human resources system.

124. The Board is concerned that the non-compliant promotions of teacher salary group level in accordance with policy may compromise the impartiality and transparency of the teacher performance evaluation system, reduce the motivation of some teachers and pose challenges to the allocation of teacher human resources and the quality of education.

125. The Board recommends that UNRWA strictly adhere to the provisions of the policy on promotions of teacher salary group level and ensure that the professional development of teachers is carried out in a fair and transparent environment.

126. UNRWA agreed with the recommendation.

C. Transmission of information by management

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

1. Write-off of cash, receivables and property

128. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs amounting to \$1.85 million had been recognized during the year: outstanding loans receivables of \$0.74 million; accounts receivable losses of \$698; inventory losses of \$0.82 million, identified through inventory valuation; property losses of \$0.29 million; and cash losses of \$2,911 (see annex II).

2. Ex gratia payments

129. As required in financial regulation 11.5, UNRWA reported ex gratia payments amounting to \$61,319.81 for 2022. The payments were mainly for beneficiaries related to temporary change of duty station, settlement payment and personal injury.

3. Cases of fraud and presumptive fraud

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

131. During the audit, the Board made enquiries of management regarding its responsibility for oversight in the assessment of risks of material fraud and the processes in place for identifying and responding to risks of fraud, including any specific risks that management has identified or that have been brought to its attention.

132. 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.

133. During the year under review, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by UNRWA and disclosed in the present report. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 34 cases of fraud and presumptive fraud in 2022 to the Board. Of those cases, investigations of 5 cases (15 per cent) were completed during the year, with quantified losses of \$1,845. The remaining 29 cases (85 per cent) were still under investigation. As at 31 December 2022, the cumulative number of cases under investigation were as follows: 2 relate to 2018, 3 relate to 2019, 5 relate to 2020 and 18 were reported in 2021. The Board encourages the Department of Internal Oversight Services to continue to increase the rate of investigation of the pending cases. A summary of the cases completed in 2022 is contained in annex III to the present report.

D. Acknowledgement

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

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

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

(Signed) Pierre **Moscovici**
First President of the Court of Accounts of France

26 July 2023

Annex I

Status of implementation of recommendations up to the financial year ended 31 December 2021

No.	Year	Audit report Report reference	Board's recommendation	Management response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1	2016	A/72/5/Add.4 , chap. II, para. 31	UNRWA agreed with the Board's recommendation to (a) expedite allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system for easy traceability and monitoring of the assets; (b) develop a unique physical identifier to link the REACH system with other systems used to record fixed assets; and (c) expedite reconciliation of the number of vehicles in the REACH system and the fleet management system records.	The West Bank field office has made progress in updating the asset register and is still working on it. The expected completion time frame is the third quarter of 2023. In parallel, UNRWA has undertaken a full review of the property and asset management manual.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
2	2017	A/73/5/Add.4 , chap. II, para. 138	UNRWA agreed with the Board's recommendations that it: (a) closely follow up with the guarantors of loan defaulters to recover the long-outstanding loan and liaise with the legal office for legal advice, including enforcement of legal action against the guarantors; (b) perform eligibility analysis prior to granting the loan and avoid granting loans to clients whose guarantors refuse to provide monthly income evidence, with a view to reducing the recoverability risks in case of default by clients; and (c) amend the microcredit community support programme guideline of 2012 to reflect the change in the late fee, from 5 per cent to 2 per cent.	The microcredit community support programme suspended the issuance of new loans in February 2020 owing to the worsening economic situation in Lebanon. Since the situation has not improved over time and may not soon improve, a decision has been taken by UNRWA. The Agency is in the process of closing the programme because it does not think that it is realistic or in line with the Agency's mandate for the Palestine refugee community in Lebanon to repay issued loans at the prevailing high exchange rates. Closure is expected to be completed in the fourth quarter of 2023.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		

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3	2017	A/73/5/Add.4 , chap. II, para. 142	UNRWA-Lebanon field office agreed with the Board's recommendation that it ensure that all important reports mentioned in the contract are configured in the loan management information system for better management of the microcredit community support programme loan portfolio.	The microcredit community support programme suspended the issuance of new loans in February 2020 owing to the worsening economic situation in Lebanon. Since the situation has not improved over time and may not soon improve, a decision has been taken by UNRWA. The Agency is in the process of closing the programme because it does not think that it is realistic or in line with the Agency's mandate for the Palestine refugee community in Lebanon to repay issued loans at the prevailing high exchange rates. Closure is expected to be completed in the fourth quarter of 2023.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
4	2018	A/74/5/Add.4 , chap. II, para. 84	The Board recommends that UNRWA take action to lower the percentage of annual and advance annual leaves starting prior to approval and to allow the situation to occur only in special cases, in order to comply with part I, article 1.1 of personnel directive No. 5/Rev.7, and to issue circulars and/or communications accordingly.	The Human Resources Department prepared communications in which staff and supervisors were reminded of the critical obligation to adhere to the requirement of submitting annual leave applications and obtaining approvals prior to the commencement of annual leave.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
5	2019	A/75/5/Add.4 , chap. II, para. 64	The Board recommends that UNRWA review the current roles in the refugee registration information system, and evaluate if the present roles are clear and necessary for the entity and if they create functional segregation problems among the roles assigned to users.	A new online registration platform with updated roles for registration staff has been developed and rolled out.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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6	2019	A/75/5/Add.4 , chap. II, para. 65	The Board recommends that UNRWA develop a matrix of roles for the refugee registration information system based on employee positions or tasks, thus allowing the Agency to have control over the roles.	A new online registration platform with updated roles for registration staff has been developed and rolled out.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
7	2019	A/75/5/Add.4 , chap. II, para. 186	The Board recommends that UNRWA evaluate all individual roles assigned to users in the REACH system and eliminate single roles from the users or document the cases in which single roles will be approved.	Roles in supply chain and finance have been updated so that single roles are no longer assigned to users. New/updated composite roles have been designed for human resources and are currently under implementation; the updated composite roles will then be assigned to relevant users. Some additional single roles that are not assigned to a specific functional area have been identified; they are currently under review.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
8	2019	A/75/5/Add.4 , chap. II, para. 201	The Board recommends that UNRWA update the policy on the filing method and the disposal of archives, establishing a method and schedule of disposal, in order to manage and protect information, especially confidential information, in accordance with current standards.	The cost of undertaking this is significant, as it requires setting up a project to undertake dissemination of the policy through Agency-wide training and supporting the implementation of the policy within each UNRWA department and programme. We are not able to provide an estimated cost at this time.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		

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9	2019	A/75/5/Add.4 , chap. II, para. 202	The Board recommends that UNRWA unify the regulations applicable to headquarters and the different field offices.	The cost of undertaking this is significant, as it requires setting up a project to undertake dissemination of the policy through Agency-wide training and supporting the implementation of the policy within each UNRWA department and programme. We are not able to provide an estimated cost at this time.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
10	2020	A/76/5/Add.4 , chap. II, para. 47	The Board recommends that UNRWA resume the drafting of the emergency response handbook and expedite its deployment.	The Department of Planning: (a) has reached out to the donor community; however, these efforts have yet to bear fruit; and (b) will seek coverage for this need under the 2023 departmental budget. Regardless of the current gap, the Department has continued to strengthen UNRWA emergency preparedness and response efforts. In this regard, an emergency simulation exercise involving Gaza and headquarters is currently scheduled to be held with the aims of reviewing the applicability and effectiveness of existing emergency response protocols, collecting lessons learned and improving the overall UNRWA emergency response.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		

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11	2020	A/76/5/Add.4, chap. II, para. 53	The Board recommends that UNRWA prepare a multi-year plan for the progressive deployment of the e-tendering platform in the field offices.	UNRWA has completed the deployment and implementation of In-tend software at all UNRWA procurement offices and conducted several training sessions for UNRWA procurement staff, as well as seminars for suppliers interested in doing business with UNRWA. UNRWA provided the statistics to the audit team from the In-tend system on 1 November 2022, which showed the number of tenders issued by the procurement offices Agency-wide since the go-live in each field.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
12	2020	A/76/5/Add.4, chap. II, para. 118	The Board recommends that UNRWA update organization directive No. 26 and its information security policy in a timely manner to accommodate its current information and communications technology environment.	A revised information security policy was issued in July 2022. In addition, organizational directive No. 26, which is under review by the Executive Office, was issued at the end of 2022.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
13	2020	A/76/5/Add.4, chap. II, para. 124	The Board recommends that UNRWA update the disaster recovery plans to comply with the latest organizational structure and service, and periodically review the disaster recovery plans in order to make them responsive to the continuously evolving information technology environment.	The documents have been updated, and the plan is under review.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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14	2020	A/76/5/Add.4 , chap. II, para. 163	The Board recommends that UNRWA take measures to integrate the hospitalization management function with REACH and e-Health.	While we are working on the procurement and introduction of the new electronic medical records, as it is an agenda item for the next two to three years, we decided to export the current hospitalization management system used in Lebanon to all other fields. We used the Lebanon hospitalization management system as a base and adapted it to the local context to make it more context-precise and user-friendly. The system has already been rolled out to all other fields (Gaza, Jordan, Syrian Arab Republic and West Bank). The system is integrated into REACH; each patient is recorded in the system using his or her refugee registration information system number (2-); and the system is thus able to retrieve all the data needed and that are already stored in REACH, such as name, sex, date of birth, address, field of registration, telephone number and local identification number. The integration into the new electronic medical records will be explored once those records are adopted by UNRWA. We have thus made good progress.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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15	2020	A/76/5/Add.4 , chap. II, para. 172	The Board recommends that the Jordan and Lebanon field offices assess the existing operational model for the hospitalization support programme and expedite the development of a field technical instruction in the current context.	The Lebanon field office hospitalization technical instructions have been approved and were effective on 1 April 2022. The Jordan office has a long-standing agreement with the Government of Jordan.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
16	2020	A/76/5/Add.4 , chap. II, para. 178	The Board recommends that the Jordan and Lebanon field offices conduct regular audits on medical referrals and process and analyse the audit result in a timely manner, to monitor the appropriateness of the referrals and the quality of medical care provided by the hospitals.	The Lebanon field office received the technical instructions in April 2022 and began the regular audit of medical referrals. The Jordan field office began the implementation of the new hospitalization management system in the third quarter of 2022.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
17	2020	A/76/5/Add.4 , chap. II, para. 186	The Board recommends that UNRWA take corrective action where appropriate to recover subsidies under the social safety net programme given to staff members, strengthen the verification of refugees' enrolment and exclude those who do not meet the required criteria to ensure that refugees in real need of assistance can be enrolled.	UNRWA continues to implement its policy that no UNRWA employee shall benefit from relief assistance. Social safety net programme transfers to UNRWA employees could not be recovered, given the significant hardship that it would cause for affected families that are already struggling with the deteriorating economic environment, increasing the dependency ratio associated with UNRWA salary receivers, and very high inflation rates, such as in Jordan, Lebanon and the Syrian Arab Republic.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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18	2020	A/76/5/Add.4, chap. II, para. 195	The Board recommends that UNRWA update the refugee registration information system to identify and delete the abnormal registration data and ensure the accuracy, integrity and completeness of data in the system.	A digital identity verification platform has been developed and was rolled out during the first quarter of 2023.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
19	2020	A/76/5/Add.4, chap. II, para. 200	The Board recommends that the Lebanon field office hold appeals committee meetings regularly in accordance with the relevant regulations and rules.	The Department of Relief and Social Services headquarters is currently reviewing and updating the relief services instruction and planning to revise the social safety net programme along with the targeting criteria based on the results of the socioeconomic survey that will be conducted at the Lebanon field office in the next two months. The new relief services instruction adopted will provide the input to this recommendation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
20	2020	A/76/5/Add.4, chap. II, para. 206	The Board recommends that UNRWA review the microcredit community support programme administrative fee on a regular basis to ensure full compliance with the programme guidelines.	The microcredit community support programme suspended the issuance of new loans in February 2020 owing to the worsening economic situation in Lebanon. Since the situation has not improved over time and may not soon improve, a decision has been taken by UNRWA. The Agency is in the process of closing the programme because it does not think that it is realistic or in line with the Agency's mandate for the Palestine	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		

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21	2020	A/76/5/Add.4 , chap. II, para. 227	The Board recommends that UNRWA review the interest rates of its three loan products on a regular basis and work on the reduction of the interest rates.	refugee community in Lebanon to repay issued loans at the prevailing high exchange rates. Closure is expected to be completed in the fourth quarter of 2023.	The review for 2021 has been completed, and the result was that the Microfinance Department cannot reduce its interest rate of these three products for the year.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X		
22	2021	A/77/5/Add.4 , chap. II, para. 32	The Board recommends that UNRWA further enhance internal control procedures, such as storage and transportation management, to improve the efficiency of food use.	Internal controls for UNRWA storage and transportation procedures are already in place in terms of physical inspection of food commodities and other supplies, as well as timely tracking of stock movements in the enterprise resource planning inventory management system, to manage the food commodities efficiently. Transit losses occurred mainly in the authorities' stores that are not under UNRWA control and cannot be enhanced by UNRWA. Therefore, UNRWA is not able to agree with the recommendation and cannot enhance the storage procedures of an external party. UNRWA has developed a new warehouse and inventory management manual that will be rolled	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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23	2021	A/77/5/Add.4, chap. II, para. 45	The Board recommends that UNRWA enhance batch management of canned sardines, sunflower oil and white crystal sugar by flagging them as batch managed items in the REACH system and recording the necessary information accurately, completely and on a timely basis, so to ensure the accuracy of the issuance time sequence of food in stock and make food procurement and distribution plans more reasonable.	out, and training will be delivered accordingly. Corrective action has been taken on the spot, and items without expiry dates have been blocked for use and had their codes replaced with new ones that are flagged as batch-managed items. A demonstration of the system has been conducted for the Board. A new warehouse and inventory management manual has been developed and will be rolled out before the end of this year, and training will be delivered.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
24	2021	A/77/5/Add.4, chap. II, para. 54	The Board recommends that UNRWA distribute food inventories on a first expiry-first out basis, with detailed documentation, to improve the management of inventories.	The first expiry-first out principle is applied and controlled through the current SAP system. Stock custodians are always reminded and sensitized to apply first-in, first-out, first-expiry-first out and last-in, first-out principles in daily inventory transactions.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
25	2021	A/77/5/Add.4, chap. II, para. 60	The Board recommends that UNRWA review the property management manual and update it according to the current situation.	UNRWA recruited an asset and property management consultant who reviewed and updated the property management manual at the finalized stage according to the current UNRWA situation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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26	2021	A/77/5/Add.4, chap. II, para. 73		The Board recommends that UNRWA take measures to strengthen the management of the whole supply chain system for medicines, especially for expired medicines, from the request to the distribution to the patient, to ensure that expired medicines are removed from available stock in a timely manner so as to absolutely avoid the issuance of expired medicines to refugees.	UNRWA improved West Bank field office capacity in relation to health supply chain management; appointed a head of the West Bank field office field pharmacy; developed strategic documents, such as standard operating procedures for health supply chain management; and took some strategic actions in relation to process improvement, structure improvement and monitoring.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
27	2021	A/77/5/Add.4, chap. II, para. 74		The Board also recommends that UNRWA integrate the inventory of vaccines and other medicines into the e-Health system for unified management and post hospital medicine use records in the REACH system in a timely and accurate manner in order to facilitate closer and more efficient tracking of actual medicine consumption.	We are constantly monitoring vaccination records, and there has been no expiry of vaccines or wastage of insulin since the previous report. Unlike the current system, the new electronic medical records, which are expected to be installed in two years' time, will have the capacity to integrate both vaccines and other medicines. The Health Department is currently working closely with the fields to ensure that the average monthly consumption of non-integrated medicines (Qalqilyah Hospital and vaccines) is posted in the REACH system in a timely and accurate manner. One new enhancement in relation to SAP has been made to avoid any inaccurate data	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		

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					entry: the expiry date is now showing against each batch.					
28	2021	A/77/5/Add.4,	chap. II, para. 81	The Board recommends that UNRWA ensure that its West Bank field office takes measures to strengthen the management of expired medicines, with complete survey reports prepared and accurate electronic records maintained, and that the values of medicines destroyed or donated to other institutions are promptly written off.	Action was taken to destroy these items once the UNRWA incinerator was operational at Qalqilyah Hospital, and the items were destroyed on 3 March 2022. Concurrently, the expired items were removed from the system, written off and cleared totally from the West Bank inventory list.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
29	2021	A/77/5/Add.4,	chap. II, para. 88	The Board recommends that UNRWA issue specific guidelines on conducting and reporting medical referral audits to ensure that biannual audits of hospitalization referrals are regularly performed, properly documented and well reported.	Formats for the monitoring of hospital invoices have been developed at the Lebanon and West Bank field offices and are being testing. Good progress has therefore been made.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
30	2021	A/77/5/Add.4,	chap. II, para. 94	The Board recommends that UNRWA make efforts to communicate with the relevant authority to obtain updated information on employment status and set up specific employment exclusion criteria in food assistance.	Communication with authorities on the matter is continuing.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
31	2021	A/77/5/Add.4,	chap. II, para. 101	The Board recommends that UNRWA exert more effort to expand communication and promote the knowledge of the hotline service among beneficiaries for better utilization of the hotline.	UNRWA has been expanding communication about the hotline service, including through banners at various UNRWA installations, on a food information website and on a community feedback system website.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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32	2021	A/77/5/Add.4, chap. II, para. 108	The Board recommends that UNRWA keep close contact with the United Nations agency on outstanding contribution receivables and settle the issue as soon as possible.	This recommendation is under implementation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
33	2021	A/77/5/Add.4, chap. II, para. 114	The Board recommends that UNRWA check the data in the information system and correct any inaccuracies in a timely manner to ensure an accurate data basis for management.	This recommendation is under implementation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
34	2021	A/77/5/Add.4, chap. II, para. 122	The Board recommends that UNRWA ensure that its West Bank field office and Gaza field office formulate feasible training plans and expedite their implementation, particularly of the mandatory training plans, so as to continuously improve the capacity of their staff.	The Human Resources Department at the Amman headquarters launched a 2022 training needs assessment exercise as part of the workforce planning exercise carried out in summer 2021. Field staff development officers use the training needs analysis and the Finance Department's budget instructions to develop their annual training plans for the coming year.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
35	2021	A/77/5/Add.4, chap. II, para. 129	The Board recommends that UNRWA have compact letters issued on a timely basis following a strict annual cycle in order to strengthen management and facilitate performance evaluation.	UNRWA has developed and signed new compact letter formats that are in place for 2023 compact letters.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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36	2021	A/77/5/Add.4 , chap. II, para. 130	The Board also recommends that UNRWA evaluate the annual operational planning cycle and update organizational directive No. 21 on the basis of the evaluation.	Throughout 2022, the Department of Planning was engaged in coordinating the development of the successor to the UNRWA medium-term strategy 2016–2021 (extended to 2022). In this regard, the strategic plan 2023–2028, currently under finalization, presents the Agency's statement of intent for the coming six years, reflecting the growing and evolving needs of Palestine refugees while outlining the UNRWA response to meeting those needs, focusing in particular on the most vulnerable. Organizational directive No. 21 will be updated following the finalization and launch of the next strategic plan, and will be aligned with new reporting and planning processes contained in the plan. The Department of Planning will complete the revision of organizational directive No. 21 during the second quarter of 2023.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
37	2021	A/77/5/Add.4 , chap. II, para. 138	The Board recommends that UNRWA conduct a feasibility study to introduce a clearly stated clause of liquidated damages in contracts for the procurement of goods and services to ensure that the liquidated damages clause is applied in accordance with the procurement manual.	A feasibility study on the inclusion of liquidated damages in UNRWA contracts was completed, and the related clause has been applied.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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38	2021	A/77/5/Add.4 , chap. II, para. 139	The Board further recommends that UNRWA strengthen the management of purchase orders and accelerate the progress of execution to reduce delays in delivery.	UNRWA has taken steps to strengthen the management of purchase orders by reducing their number – from 1,108 (\$18.9 million) in January 2023 to 533 (\$6.5 million) in May 2023 – ensuring their closure and accelerating the progress of their execution to reduce delays in delivery. UNRWA also extracts and circulates biweekly reports to all contract managers to follow up on open purchase orders to ensure timely delivery.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
39	2021	A/77/5/Add.4 , chap. II, para. 145	The Board recommends that UNRWA ensure that its Gaza field office conducts regular performance evaluations of existing vendors to facilitate the management of vendors.	The standard operating procedure for vendor performance evaluations has been completed and shared with all concerned offices and followed by proper training for implementation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
40	2021	A/77/5/Add.4 , chap. II, para. 153	The Board recommends that UNRWA revise and release the new terms of reference of the Governance Board within a time-bound framework and convene the Governance Board meetings as required for it to perform its responsibilities related to ICT governance.	New terms of reference for the Digital Transformation Strategy Steering Committee have been prepared. The Steering Committee has superseded/replaced the Information and Communications Technology Governance Board. The roles and responsibilities of the Governance Board are explained in the Steering Committee's terms of reference.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

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41	2021	A/77/5/Add.4 , chap. II, para. 159	The Board recommends that UNRWA further assess the existing systems and applications that could be migrated and integrated to the cloud and update the outputs of the cloud strategy with a road map of implementation to match its five-year period.	As part of the UNRWA Department of Information Management and Technology cloud strategy, eight systems were migrated to the cloud in 2022. Further UNRWA assessment was carried out for the existing systems and applications that could be migrated and integrated to the cloud with a clear strategy and a map of implementation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
42	2021	A/77/5/Add.4 , chap. II, para. 164	The Board recommends that UNRWA design and conduct business continuity awareness training for all staff members of the Department of Information Management and Technology.	This training, which depends on recommendation No. 124, was delivered after all the documents were revised.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
43	2021	A/77/5/Add.4 , chap. II, para. 171	The Board recommends that UNRWA ensure that its Gaza field office accelerate the progress of school construction, put the newly constructed schools into use as soon as possible and use flexible methods in setting class sizes to decrease the proportion of classes with more than 40 students.	As of October 2022, the construction of three schools had been progressing as planned. A delay in the implementation of the fourth school was attributable to the contractor's inability to progress beyond 23 per cent. Retendering was launched on 19 June 2022, and awarding is expected in November 2022 at the earliest, with completion of the work expected by the fourth quarter of 2023.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X		
44	2021	A/77/5/Add.4 , chap. II, para. 177	The Board recommends that UNRWA ensure that its Gaza field office examine the causes of delay, approve the extension to contractors in a timely manner	First, the Chief of the Field Infrastructure and Camp Improvement Programme, the Gaza field office issued instructions and guidance to all senior staff and	Based on the information provided by UNRWA and the review performed by the team, this	X			

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		and issue the extension of time approvals as early as possible during or after the unforeseen or emergency circumstances.	<p>supervising teams on-site to ensure that any justified extension of time would be submitted by contractors on time, in accordance with the conditions of the signed contract. Second, during the meetings of the Field Infrastructure and Camp Improvement Programme, this aspect was discussed on a regular basis with senior staff.</p> <p>Third, the contractors have been notified to adhere to the timeline for submitting the extensions of time, in accordance with the conditions of the contract. In addition, to further strengthen the issue of extension of time, the Department of Infrastructure and Camp Improvement at the Amman headquarters has taken actions and issued, on 26 May 2022, the extension of time procedure for construction/maintenance works, standard operating procedure, in discussion with all fields. Lastly, the fields, including the Gaza field office, share the copies of extensions of time with the Department of Infrastructure and Camp Improvement at the Amman headquarters as a part of a monthly report.</p>	recommendation is considered implemented.				

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						Implemented	Under implementation	Not implemented	Overtaken by events
45	2021	A/77/5/Add.4 , chap. II, para. 188	The Board reiterates its recommendation that UNRWA work on the reduction of the Microfinance Department's interest rates for the three basic loan products, incorporating considerations of cutting operating expenses and improving its loan productivity.	A review of the Microfinance Department's interest rates, which was undertaken in 2022, showed that it was not feasible for the Department to decrease the rates, given the current situation affecting all fields. The Department's Advisory Board agreed with the review recommendation of 23 February 2023 to not reduce the interest rates, taking into consideration the global increase in interest rates, in particular in the microfinance industry. UNRWA will consider a future review of the rates to determine the feasibility of decreasing them or otherwise.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			
46	2021	A/77/5/Add.4 , chap. II, para. 196	The Board recommends that UNRWA continue to expand its outreach to young refugees.	The participation of young people 18 to 30 years of age is 26 per cent of total disbursement, an increase of 13 per cent over 2021. With regard to the participation of young Palestine refugees, in the Microfinance Department, the portfolio increased by 28 per cent over 2021.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X			

No.	year	Audit report Report reference	Board's recommendation	Management response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	
47	2021	A/77/5/Add.4 , chap. II, para. 205	The Board recommends that UNRWA strengthen compliance with the operational manuals and enhance controls over mandatory guarantors to ensure that only eligible clients can apply for loans.	This is an ongoing process to be reviewed in the Microfinance Department portfolio reports by the end of the year.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X			
48	2021	A/77/5/Add.4 , chap. II, para. 212	The Board recommends that UNRWA establish a specific investment strategy for excessive cash of the Microfinance Department to enhance the efficiency of fund utilization.	The recommendation was implemented, and the investment strategy was concluded in the Department of Microfinance strategic plan 2023–2028.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered implemented.	X				
49	2021	A/77/5/Add.4 , chap. II, para. 218	The Board recommends that UNRWA automate and integrate the expected credit loss calculator in the loan management information system so as to avoid manual misstatement and improve efficiency.	This recommendation is under implementation.	Based on the information provided by UNRWA and the review performed by the team, this recommendation is considered under implementation.		X			
Total number of recommendations						49	31	18	0	0
Percentage of total number of recommendations						100	63	37	0	0

Annex II

Summary of assets written off

(United States dollars)

<i>Category</i>	<i>2022</i>	<i>2021</i>	<i>Increase/(decrease)</i>
Cash	2 911	1	2 910
Inventory	815 045	692 399	122 646
Property	293 830	146 636	147 194
Outstanding account receivables	698	164 313	(163 615)
Outstanding loans receivables	740 173	1 708 594	(968 421)
Total	1 852 657	2 711 943	(859 286)

Source: UNRWA information.

Annex III

**Cases of fraud and presumptive fraud reported to the Board for
the year 2022**

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
22/01	Field office	Fraud	445	It was alleged that the subject left his duty station on various occasions and travelled outside the country without having obtained prior clearance.	Investigated: substantiated
22/02	Field office	Theft	0	The subject allegedly exceeded the estimated amount of fuel consumption.	Investigated: unable to substantiate
22/03	Field office	Mismanagement/ negligence	0	The subject allegedly allowed the entry of a non-UNRWA staff member into an UNRWA school on multiple occasions, which exposed UNRWA students to incidents of assault.	Investigated: substantiated
22/04	Field office	Theft	0	A staff member allegedly stole the battery of an UNRWA vehicle. The battery was retrieved when this issue was noticed.	Investigated: substantiated
22/05	Field office	Theft	1 400	A few items, including one liquid crystal display projector, went missing from an UNRWA school.	Investigated: substantiated
Total			1 845		

Source: UNRWA Department of Internal Oversight Services.

Chapter III

Certification of the financial statements

Letter dated 31 March 2023 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 consolidated financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2022.

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 2022.

(Signed) Shadi **AlAbed**
Director of Finance

Chapter IV

Financial report for the year ended 31 December 2022

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2022, 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. Despite the continued financial challenges associated with the Agency's cash flow in 2022, the Agency has successfully delivered on its mandate by playing an essential role in providing vital services for the well-being, human development and protection of more than 5.9 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2022, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the challenges associated with its cash flow, political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic, political and socioeconomic instability in Lebanon and the security concerns with which the Agency is faced on a daily basis.

4. Donors continued to provide support, with \$1,174.5 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and address emergencies in the Gaza Strip and the Syrian Arab Republic. The Agency delivered on its mandate, which was renewed in December 2022 by the General Assembly with an overwhelming majority. However, for the third consecutive year, large liabilities, including debts, were carried over from one year to the next, further undermining the financial sustainability of the Agency.

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

6. The biennial budget for 2022–2023 was presented on a modified cash basis. As that basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS 24: Presentation of budget information in financial statements.

Financial performance for 2022

7. The Agency's total revenue for 2022 was \$1,190.2 million, compared with total expenses of \$1,312.4 million, resulting in a net deficit of \$122.2 million for the year.

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

Table IV.1
Summary financial performance by fund for the period ended 31 December 2022

(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	783.6	26.1	10.1	309.8	105.8	(45.2)	1,190.2
Total expenses	851.5	27.6	8.1	386.9	82.1	(43.8)	1,312.4
Surplus/(deficit) for the year	(67.9)	(1.5)	2.0	(77.2)	23.7	(1.4)	(122.2)

9. The programme budget recorded a deficit of \$67.9 million, and the emergency appeals recorded a deficit of \$77.2 million. The deficit in the programme budget is attributable primarily to an increase in expenses resulting from an increase in the prices of commodities, logistical services and hospital services, and an absence of a corresponding increase in revenue. The deficit in emergency appeals is attributable chiefly to increased spending in certain emergency appeal interventions following the 2021 Gaza hostilities, for which funds were received in 2021 but expensed in 2022.

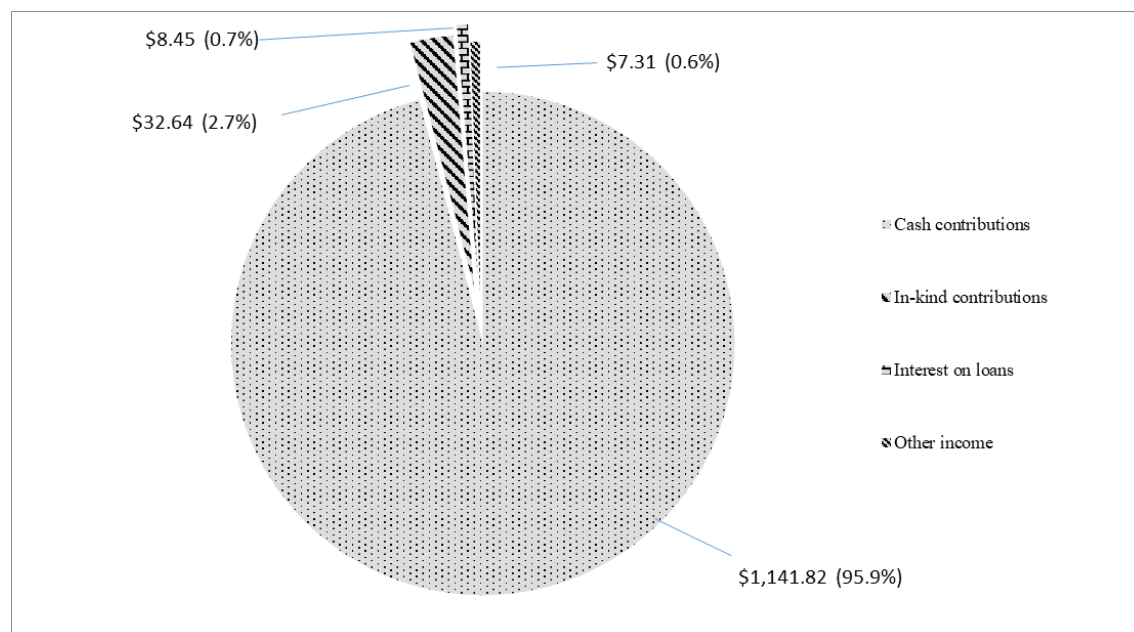
10. The project funds reflected a surplus of \$23.7 million owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a surplus of \$2.0 million attributable chiefly to a return of microfinance operations to normal following the coronavirus disease (COVID-19) pandemic.

Revenue analysis

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 96 per cent (\$1,141.8 million) of total revenue (see figure IV.I). In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at \$32.6 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

(Millions of United States dollars)



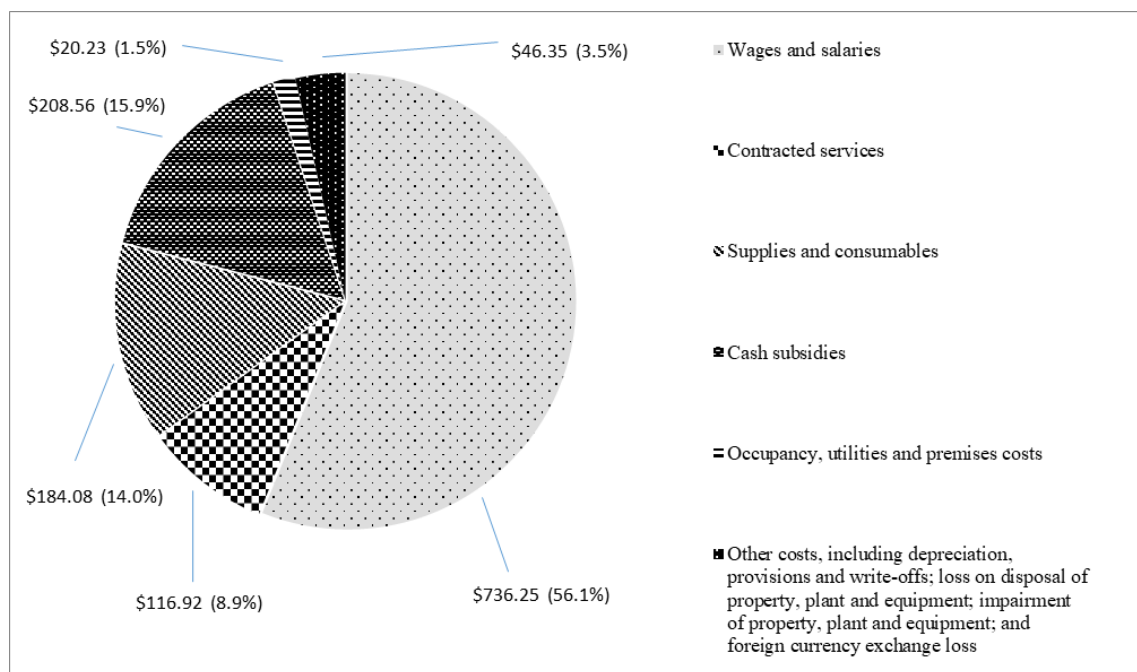
12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding assistance to Palestine refugees (most recently, resolution 77/123), persons displaced as a result of the June 1967 and subsequent hostilities (most recently, resolution 74/84) and operations of UNRWA (most recently, resolution 77/122). At its seventy-seventh session, the Assembly extended the Agency's mandate until 30 June 2026 (see resolution 77/123). The Advisory Commission of UNRWA is tasked with advising and assisting the Commissioner-General in carrying out the Agency's mandate and consists of 29 members and 4 observers. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is, at the same time, engaged in developing funding from the private sector.

Nature of expense analysis

13. The Agency spent a total of \$1,312.4 million in 2022. Staff costs of \$736.3 million represented 56 per cent of total expenses. As previously highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II
Expense analysis by nature of expense

(Millions of United States dollars)



14. As seen in figure IV.II, a total of \$116.9 million was spent on contracted services, representing expenses related to the Agency's engagement of third parties to perform work on its behalf. Of that amount, \$33.8 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency and which falls below the capitalization threshold. A total of \$33.6 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of \$184.1 million was spent on supplies and consumables, including \$116.1 million for basic commodities and \$1.1 million for fresh food. An amount of \$29.9 million was spent on medical supplies, and \$9.6 million was spent on textbooks and library books. The sum of \$11.4 million was spent on transportation supplies.

16. A total of \$208.6 million was spent on subsidies, including \$168.3 million distributed to beneficiaries to provide selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, for food security and for rent subsidies. The sum of \$32.1 million was provided as subsidies for the construction and repair of shelters, and \$5.5 million was provided for patient subsidies.

17. Occupancy and utility costs totalled \$20.2 million in 2022. Other expenses, amounting to \$46.4 million, included depreciation, provisions and write-offs, and loss on disposal.

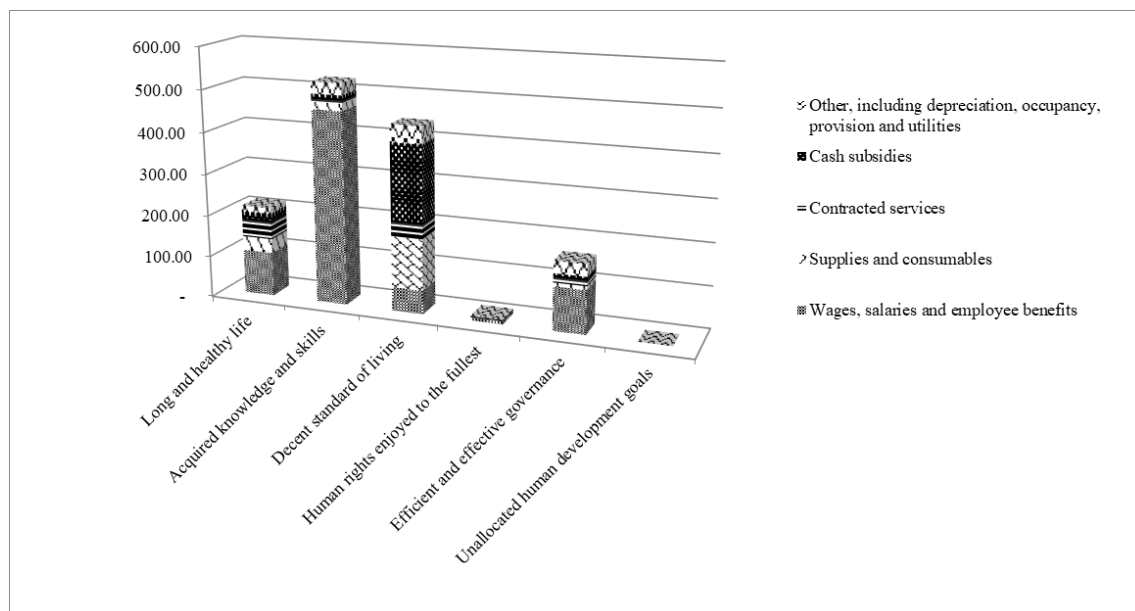
Human development goals and Agency programmes: expense analysis

18. As part of the implementation of its mandate, UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees and the aim of accomplishing the goals with efficient and effective governance. The goals are: (a) a long and healthy life; (b) acquired knowledge and

skills; (c) a decent standard of living; and (d) human rights enjoyed to the fullest. The amounts spent on each are shown in figure IV.III.

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

(Millions of United States dollars)



^a \$43.8 million in inter-segment eliminations are excluded from the analysis.

19. The Agency is functionally organized under five core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments. Figure IV.IV shows the 2022 expenses by programme and expenses for executive direction and support departments. The programmes follow a similar expense profile to those categorized by the human development goals.

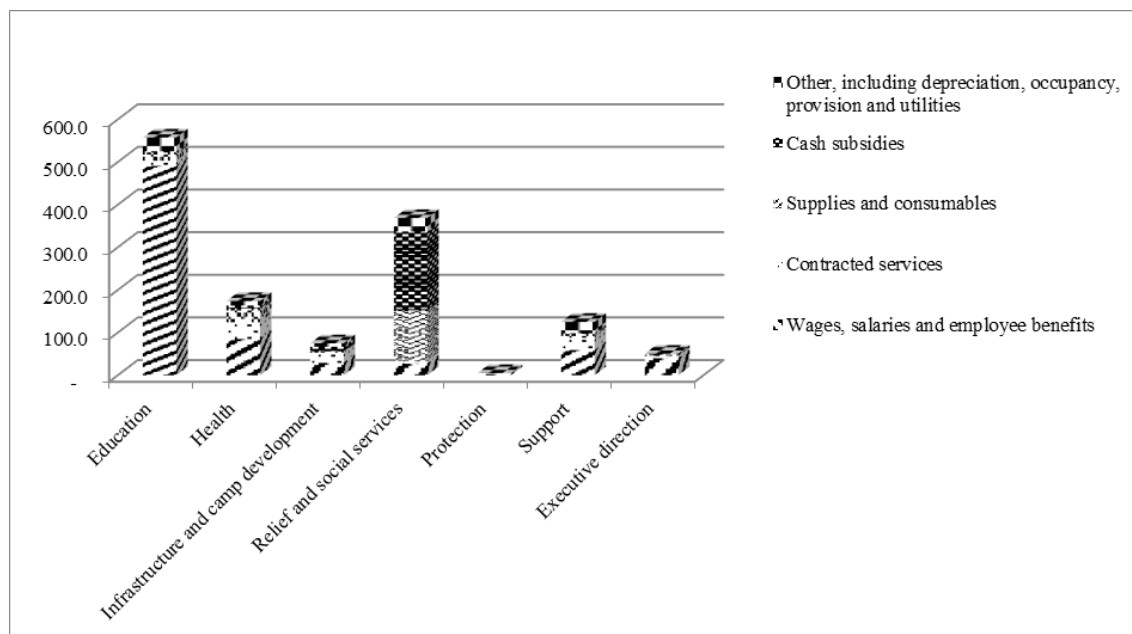
20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of \$216.2 million (16 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme (\$174.0 million). Approximately 49 per cent (\$85.0 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 19 per cent (\$32.4 million) spent on medical supplies and consumables and 23 per cent (\$39.3 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 (\$6.6 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 \$525.1 million, representing 41 per cent of the Agency's 2022 expenses, was spent on the major goal of acquired knowledge and skills and delivered within the education programme (\$557.5 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 \$43.8 million in inter-segment eliminations are excluded from the analysis.

22. An amount of \$440.3 million, or 32 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 (\$368.8 million and \$75.0 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. Of the total expenses (\$122.5 million) dedicated to the pursuit of a decent standard of living, 28 per cent was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional \$180.6 million was provided in the form of cash subsidies.

23. An amount of \$163.2 million, or 12 per cent, of the Agency's 2022 expenses enables effective and efficient governance, which supports the activities aimed at accomplishing the four human development goals. Executive direction manages all aspects of the Agency's work to ensure the efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to non-refugees on an exceptional basis, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors.

24. The support departments assist the Commissioner-General in the smooth running of the Agency and ensure the effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to \$50.6 million and \$125.2 million, respectively. Of the expenses for effective and efficient governance (\$104.1 million), 64 per cent was spent on wages and salaries.

25. An amount of \$11.4 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries; safeguarding and advancing the rights of Palestine refugees; strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme but also through education, health and camp infrastructure and improvement, together with the services provided to achieve the objectives of the human development goal of a decent standard of living. The Protection Division was established to provide strategic direction and coordination for the implementation of the diverse protection activities across the Agency. The Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection. The total expenses spent on the Division in pursuit of this goal were \$5.1 million.

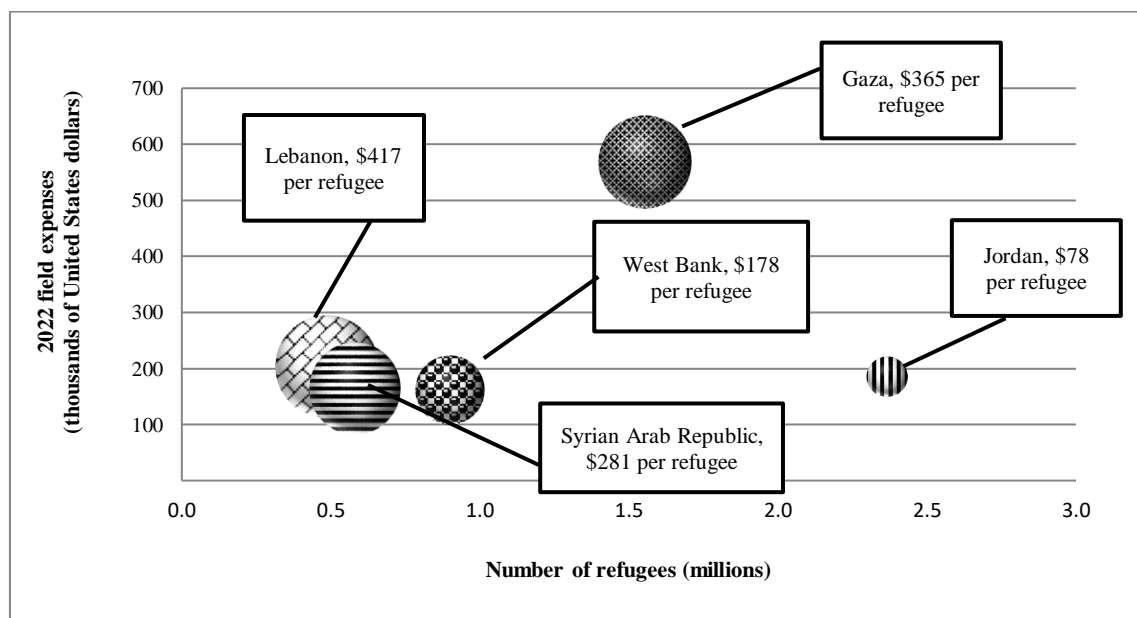
Geographical location: expense analysis

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 2022 expense per refugee in the Gaza field office was \$365. The Gaza Strip has 1,553,868 registered Palestine refugees. Reconstruction work from the periodic conflicts continues despite Israeli restrictions on cement imports, machinery, steel, water pumps and elevators, which slowed progress. In addition, operations continued to be burdened by the direct costs of the ongoing blockade, such as additional staffing, transit and logistical costs as a result of Israeli requirements regarding access and the monitoring of the materials the Agency imports into the Gaza Strip. Lack of funding also remains a cause of slow progress on various reconstruction projects. 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 16 years of blockade. The Gaza field office supports 8 camps, 284 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 487,662, and the average expense per refugee in 2022 was \$417. 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, 63 schools, 1 vocational and technical training centre, 27 primary health centres and 8 women's programme centres. Average expense is higher in Lebanon owing to higher hospitalization and schooling costs.

Figure IV.V
Average 2022 expenses per registered refugee, by field^a



^a \$76.3 million in headquarters expenses and \$43.8 million in inter-segment eliminations are excluded from the analysis.

29. There are more than 901,035 Palestine refugees registered with the West Bank field office, with one quarter of them living in 19 refugee camps. Palestine refugees in the West Bank continue to face several socioeconomic and other protection challenges and concerns arising from the ongoing Israeli occupation. The average 2022 expense per registered Palestine refugee in the West Bank was \$178. 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 581,018 registered Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The average 2022 expense per registered refugee was \$281. The ongoing armed conflict in the Syrian Arab Republic has, among other things, severely affected the economy, including the socioeconomic conditions of the Palestine refugee community. The field office supports 9 camps, 102 schools, the Damascus Training Centre, 23 primary health centres, 9 community rehabilitation centres and 12 women's programme centres.

31. More than 2,366,050 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan are understood to have citizenship rights, with the exception of some 181,807 Palestine refugees and their descendants displaced from Gaza as a result of the 1967 hostilities ("ex-Gazans"). Ex-Gazan Palestine refugees and their descendants do not hold Jordanian nationality and thus have difficulty accessing certain public services and face restrictions on property ownership and political participation. The expense per refugee, at \$78, representing the lowest average in 2022, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 161 schools, 2 vocational and technical training centres, 25 primary health centres, 10 community rehabilitation centres and 14 women's programme centres.

32. UNRWA headquarters comprises three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the Commissioner-General's Office, the Department of Finance, the Information Management and Technology Department, the External Relations Department and the Protection Division, as well as the Department of Education, the Department of Health, the Department of Relief and Social Services, the Department of Infrastructure and Camp Improvement, and the Microfinance Department. 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 (\$41.7 million), contracted services (\$14.2 million) and provisions and write-offs (\$0.42 million), as the value added tax (VAT) and contributions receivable are managed at headquarters in the Gaza Strip and Amman.

Financial position at the end of 2022

33. The Agency's net liability decreased from \$101.5 million as at 31 December 2021 to \$13.4 million as at 31 December 2022 owing mainly to the actuarial gain on end-of-service liabilities of \$210.2 million, even with the deficit recorded for the year of \$122.1 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 2022

(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	59.2	15.6	44.2	136.5	185.3	(18.1)	422.8
Non-current assets	446.0	0.6	2.4	0.6	16.4	–	466.0
Total assets	505.2	16.2	46.6	137.1	201.7	(18.1)	888.8
Current liabilities	185.5	1.7	1.7	15.0	25.3	(18.1)	211.0
Non-current liabilities	686.8	–	4.3	–	–	–	691.1
Total liabilities	872.3	1.7	6.0	15.0	25.3	(18.1)	902.2
Net assets/equity	(367.1)	14.5	40.6	122.1	176.4	–	(13.4)

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

36. The net assets/equity balance of the projects funds showed a balance of \$176.4 million owing primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into accumulated deficit of \$179.9 million and negative reserves of \$166.5 million.

38. The net current liabilities (current assets less current liabilities) balance for the programme budget is \$126.3 million, and the net current assets (current assets less current liabilities) of the Agency were \$211.6 million as at 31 December 2022 (compared with \$288.6 million as at 31 December 2021), indicating a decrease in short-term liquidity. The Agency's current assets amount to 47.6 per cent of its total assets, whereas current liabilities constitute 23.4 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to \$276.3 million as at 31 December 2022, a small portion of which was held by the programme budget (2.5 per cent), causing significant constraints in managing the cash flow of the portal, and in restricted funds (4.0 per cent), with the majority falling under emergency appeals and projects (32.7 per cent and 52.1 per cent, respectively). UNRWA holds the surplus cash in short-term investments of \$272.4 million (including bank deposits), which are classified as cash and cash equivalents.

Receivables

40. Contributions receivable represent confirmed agreements outstanding from donors that are due within 12 months and were valued, net of provision for estimated reductions in contribution revenue and doubtful accounts, at \$19.4 million as at 31 December 2022 owing to the programme budget (\$1.3 million), projects (\$15.1 million) and emergency appeals (\$2.9 million).

41. Accounts receivable, net of provision, were valued at \$11.7 million as at 31 December 2022. This amount relates primarily to significant value added tax refund claims of \$109.4 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 \$2.9 million related to the personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at \$23.2 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, \$20.4 million relates to short-term (current) loans receivable.

Inventories

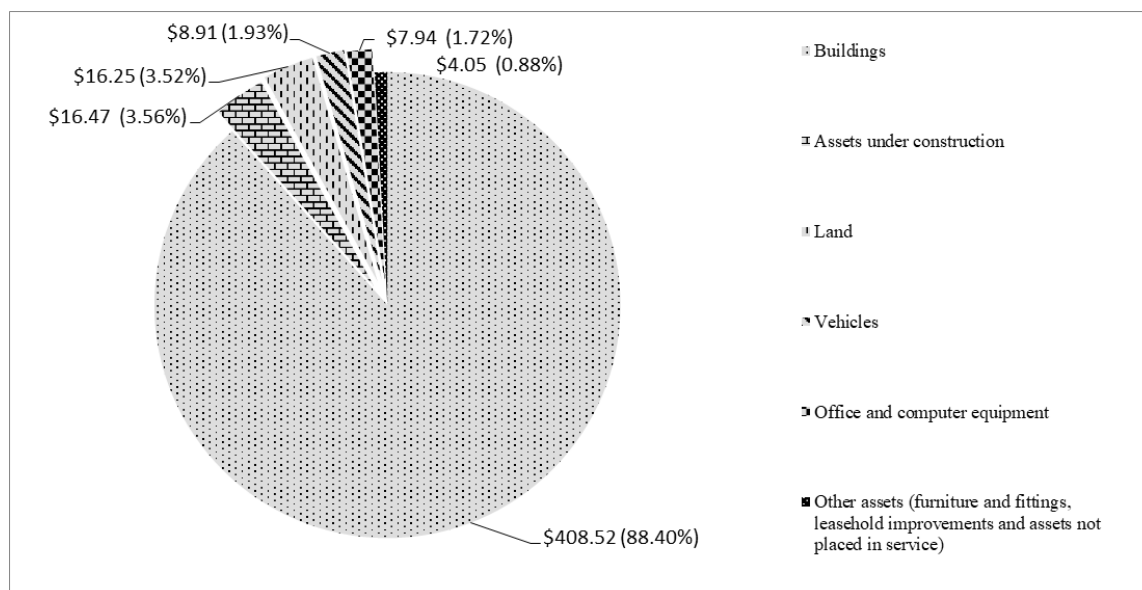
42. The value of the Agency's inventory at the end of 2022 was estimated at \$89.1 million, reflecting an increase of \$5.2 million compared with 31 December 2021, owing primarily to the increase in inventories held in the warehouses and in transit. Assets included shelters under construction (\$16.3 million), non-Agency installations (\$2.1 million) and warehouse inventory (\$46.7 million), as well as inventory in transit valued at \$4.8 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at \$19.1 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 2022 was \$462.3 million, representing 52.0 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries (see figure IV.VI).

Figure IV.VI
Property, plant and equipment

(Millions of United States dollars)



44. Assets under construction amounted to \$16.5 million as at 31 December 2022, related largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the programme budget for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at \$16.3 million as at 31 December 2022. This figure is relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

46. The Agency has significant liabilities related to post-employment and other long-term employee benefits. Those liabilities amounted to \$779.8 million as of the end of 2022, reflecting a decrease of \$172.7 million owing primarily to discount rate changes during the year. The employee benefits liabilities represent 86.4 per cent of the Agency's liabilities, with \$88.8 million categorized as current liabilities and \$691.1 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 decrease during the year is attributable to the change in the discount rate from 2.89 per cent to 5.12 per cent, netted to the rising interest rate gain of \$194.0 million, payments of \$44.9 million and actuarial gain of \$16.3 million, interest of \$26.5 million and service costs of \$56.8 million incurred during the year.

Budgetary analysis

Basis of the budget

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

as the original budget derived from the 2022–2023 programme budget (Blue Book). The budget for UNRWA includes the core requirements funded through the programme budget, which, if exceeded, requires submission to the General Assembly, and an in-kind donation budget and a projects budget, where allocation varies on the basis of donor response.

Explanation of material differences

48. The 2022 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2020–2022, amounted to \$999.9 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. The final 2022 programme budget was \$1,046.8 million and is disclosed in financial statement V as the “final” budget. The increase of \$46.9 million, or 4.7 per cent, is attributable primarily to the increase in the final operational budget.

C. Enhancing transparency and accountability

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

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

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

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

D. Enterprise and financial risk management

Enterprise risk management

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

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

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

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

Financial risk management

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

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

59. The Agency’s employee benefits liabilities totalled \$779.8 million as at 31 December 2022. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency. UNRWA adopts a pay-as-you-go method, and the cash to be paid for the coming year is planned and budgeted. For the long-term portion of the liabilities, the matter is inherently tied to the nature of UNRWA and its temporary mandate. It is fully expected that when there is a sustainable political solution resolving the displacement of Palestine refugees, this solution will address, among other matters, the future of UNRWA activities along with the dissolution of its assets and liabilities.

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

E. Responsibility

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

Chapter V

Financial statements for the year ended 31 December 2022

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

I. Statement of financial position as at 31 December 2022

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
Assets			
Current assets			
Cash and cash equivalents	Note 4	276 345	356 967
Short-term loans receivable	Note 5	20 449	16 931
Contributions receivable	Note 6	19 366	28 119
Accounts receivable	Note 7	11 662	11 397
Other current assets	Note 8	5 922	3 609
Inventories	Note 9	89 094	83 872
Non-current assets			
Long-term loans receivable	Note 5	2 765	2 166
Property, plant and equipment	Note 11	462 314	468 281
Intangible assets	Note 12	945	296
Total assets		888 862	971 638
Liabilities			
Current liabilities			
Payables and accruals	Note 13	113 629	108 999
Employee benefits	Notes 14 and 15	88 767	91 678
Other current liabilities	Note 16	5 531	838
Advance contributions	Note 17	3 269	10 747
Non-current liabilities			
Employee benefits	Notes 14 and 15	691 076	860 863
Other non-current liabilities	Note 16	–	–
Total liabilities		902 272	1 073 125
Net assets		(13 410)	(101 487)
Net assets/equity			
Revaluation and other reserves		127 968	(82 270)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	38 488	38 487
Accumulated surplus		(179 866)	(57 703)
Total net assets/equity		(13 410)	(101 487)

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

II. Statement of financial performance for the year ended 31 December 2022

(Thousands of United States dollars)

	<i>Reference</i>	<i>2022</i>	<i>2021</i>
Revenue			
Cash contributions	Note 20	1 141 822	1 228 256
In-kind contributions	Note 21	32 644	32 428
Interest on loans	Note 22	8 448	6 902
Interest on bank deposits	Note 23	1 896	1 691
Other revenue			
Foreign currency exchange gain	Note 24	–	5 510
Indirect support cost recovery	Note 25	123	134
Miscellaneous revenue	Note 26	5 294	8 755
Total revenue		1 190 227	1 283 676
Expenses			
Wages, salaries and employee benefits	Note 27	736 251	741 890
Supplies and consumables	Note 28	184 080	137 594
Occupancy, utilities and premises costs	Note 29	20 232	21 531
Contracted services	Note 30	116 917	92 508
Subsidies	Note 31	208 558	174 994
Depreciation and amortization	Notes 11 and 12	29 877	31 350
Provisions and write-offs	Note 32	1 422	6 663
Loss on disposal	Note 11.3	323	147
Foreign currency exchange loss	Note 24	14 730	–
Total expenses		1 312 390	1 206 677
Surplus/(deficit) for the year		(122 163)	76 999

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 2022

(Thousands of United States dollars)

	<i>Revaluation and other reserves^a</i>	<i>Reserves, microcredit community support programme and Microfinance Department^b</i>	<i>Accumulated surplus/deficit – unearmarked</i>	<i>Accumulated surplus/deficit – earmarked</i>	<i>Total</i>
Balance as at 1 January 2022	(82 270)	38 487	(445 082)	387 378	(101 487)
Reclassification of funds	–	–	20 404	(20 404)	–
Surplus/(deficit) for the period			(67 855)	(54 308)	(122 163)
Changes in revaluation reserve for derivative financial instruments	–	–	–	–	–
Reserves, microcredit community support programme and Microfinance Department, during 2022	–	1	–	–	1
Actuarial gains/(losses) on staff termination liabilities ^c	210 238	–	–	–	210 238
Total net assets/equity	127 968	38 488	(492 533)	312 667	(13 410)

^a See note 33.

^b See note 19.

^c See note 15.11.

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

IV. Statement of cash flow for the year ended 31 December 2022

(Thousands of United States dollars)

	2022	2021
Cash flows from operating activities	–	–
Surplus/(deficit) for the year	(122 163)	76 999
Adjustment for non-cash items	–	–
Add depreciation and amortization	29 877	31 350
Loss on disposal	294	106
Actuarial gains/(losses) on employee benefit liabilities	210 238	39 411
(Decrease)/increase in provision for doubtful debts	(92)	3 309
Decrease/(increase) in inventories	(5 223)	(5 956)
Decrease/(increase) in contributions receivable	8 758	(21 930)
Decrease/(increase) in accounts receivable	69	(953)
Decrease/(increase) in loans receivable	(4 363)	(537)
Decrease/(increase) in other assets	(2 312)	295
(Decrease)/increase in accounts payable and accruals	4 629	(17 184)
(Decrease)/increase in leave encashment and employee benefits	(172 697)	1 481
(Decrease)/increase in other liabilities	4 692	(906)
(Decrease)/increase in advance contributions	(7 478)	9 435
Net cash from operating activities	(55 771)	114 920
Cash flows from investing activities	–	–
Proceeds from sale of property, plant and equipment	33	41
Purchase of property, plant, equipment and adjustment	(24 121)	(18 506)
Purchase of intangible assets	(764)	(176)
Net cash from investing activities	(24 852)	(18 641)
Cash flows from financing activities	–	–
Increase/(decrease) in capital reserve for Microfinance Department and microcredit community support programme	1	2
Net cash from financing activities	1	2
Net increase/(decrease) in cash	(80 622)	96 281
Cash balance at the beginning of the year	356 967	260 686
Cash balance at the end of the year	276 345	356 967

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 2022**

(Thousands of United States dollars)

	Reference	Budget amounts		Actual on comparable basis	Variances: final budget and actual
		Original	Final		
International staff		–	–	–	–
Staff costs		42 251	56 168	44 232	11 936
Area staff					
Basic salary		465 200	410 163	409 638	525
Hazard pay and special elements		–	277	206	71
Provident Fund Agency contribution		65 165	65 346	62 008	3 338
Special professional occupational allowance, special occupational allowance and others		13 636	15 354	13 183	2 171
Overtime and excess hours supplement		500	1 096	838	258
Currency adjustment factor		8 500	8 935	8 944	(9)
Special allowance		26 872	27 362	27 279	83
Health-related expenses		12 264	11 394	11 492	(98)
Other miscellaneous staff costs		216	440	72	368
Severance cash payment out		41 725	50 713	47 635	3 078
Limited duration contract		781	5 516	1 909	3 607
Temporary staff		5 383	31 611	31 312	299
Total staff costs (A)	Note 34	682 493	684 375	658 748	25 627
Non-staff costs					
Supplies		60 402	52 802	49 990	2 812
Utilities		6 638	5 925	5 935	(10)
Maintenance of premises		5 342	15 067	12 421	2 646
Equipment and non-capital construction		101 154	75 868	41 313	34 555
Training		8 644	2 613	1 229	1 384
Travel		1 466	2 627	1 832	795
Administrative support services		4 765	5 024	4 018	1 006
Consultancy services		34 083	13 939	8 978	4 961
Hospital services		27 963	26 731	26 376	355
Miscellaneous services		14 465	17 564	13 145	4 419
Subsidies to hardship cases		50 110	55 969	42 346	13 623
Subsidies to patients		2 567	5 511	3 783	1 728
Third-party subsidies		1 879	2 581	2 538	43
Other subsidies		293	4 747	4 644	103
Cost recovery		(2 550)	(2 446)	6 972	(9 418)
Reserves		148	77 895	–	77 895
Prior-year adjustments					
Total non-staff costs (B)	Note 34	317 369	362 417	225 520	136 897
Total resources requirements (A+B)	Note 34	999 862	1 046 792	884 268	162 524

**United Nations Relief and Works Agency for Palestine Refugees in the Near East
Notes to the 2022 financial statements****Note 1****Mission statement**

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

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

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

2.2 The IPSAS Board has issued two new accounting standards, IPSAS 41: Financial instruments, which replaces IPSAS 29: Financial instruments: recognition and measurement, and IPSAS 42: Social benefits, both of which would have been effective 1 January 2022, with earlier application encouraged, but the effective date has been delayed to 1 January 2023 owing to COVID-19. The effective date has also been delayed owing to the amendments to IPSAS 36: Investments in associates and joint ventures, IPSAS 41: Prepayment features with negative compensation and IPSAS 19: Collective and individual services, as well as the improvements to IPSAS, 2019. The Agency is assessing the impact of these new standards.

(b) Accounting convention

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

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

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

Transactions and balances

2.5 Foreign currency transactions are translated into United States dollars using the United Nations operational rates of exchange, which approximate the exchange rates prevailing at the dates of the transactions. The United Nations operational rates of exchange are set twice a month for all currencies.

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

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

Management of currency risks

2.8 The primary principle of the currency risk management policy of UNRWA is the preservation of the value of its financial resources in United States dollar terms. The Agency's currency risk can be identified mainly as a potential loss in the value of unreceived non-United States dollar contributions and non-United States dollar cash assets as a result of a strengthening United States dollar. The risk arises from the date on which the contributions are pledged. To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach to minimize its exposure to exchange rate fluctuations.

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

(d) Materiality and use of judgment and estimates

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

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

(e) Significant accounting policies

Cash and cash equivalents

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

Revenue

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

Revenue from non-exchange transactions

2.14 Unconditional contributions are recognized when the contributions are confirmed in writing by donors. If conditions exist requiring specific performance and the return of unexpended balances, then revenue is recognized upon provision of the goods and services. At the end of projects and in accordance with the donor agreement, unexpended contributions will be included in the statement of financial position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities

(see note 17) in the statement of financial position, until the criteria for recording revenue are met (see notes 20 and 21).

Revenue from exchange transactions

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

Contributions receivable

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

2.17 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.

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

Accounts receivable

2.19 Receivables are recognized at their nominal value.

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

Loans receivable and provision for loan losses

Loans receivable

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

Provision for impairment of loans

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

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

Related-party (“insider”) loans

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

Accrued interest on loans

2.25 Interest income on loans is accounted for on an accrual basis.

Recoveries

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

Financial instruments

2.27 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.

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

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

Financial risk management

2.30 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

2.31 Advances and prepayments are recognized at their nominal value.

Inventories

2.32 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.

2.33 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.

2.34 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.

2.35 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

2.36 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.

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

2.38 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.

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

(Percentage)

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

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

Capital work in progress

2.40 All capital expenses incurred on construction are accumulated in a separate account within property, plant and equipment. Upon 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

2.41 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.

2.42 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

2.43 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

2.44 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

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

Finance leases

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

Operating leases

2.47 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

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

Employee benefits

2.49 The Agency recognizes the following categories of employee benefits:

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

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

2.51 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension

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

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

Provisions and contingent liabilities

2.53 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.

2.54 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

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

Indirect support cost recovery

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

Fund accounting and segment reporting

2.57 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.

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

- (a) Unearmarked activities, comprising activities under the programme budget;
- (b) Earmarked activities, which include:
 - (i) Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined

budget. This applies to activities related to both cash and in-kind contributions for the regular budget;

(ii) Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;

(ii) Projects: used to meet capital expenditure or development needs to improve or supplement existing programmes and systems;

(iv) Microfinance: used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help to 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 2022–2023 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

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

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

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

Note 4

Cash and cash equivalents

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

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Cash in hand	3 935	4 685
Cash at banks	272 410	352 282
Total	276 345	356 967

4.2 Compared with 2021, cash at banks decreased by \$80.622 million owing chiefly to a higher cash balance held under emergency appeals at the end of 2021, following the conflict in Gaza.

4.3 The Agency held funds for other United Nations entities in the amount of \$0.332 million as at 31 December 2022 (compared with \$0.154 million as at 31 December 2021).

4.4 The balances of cash and cash equivalents on hand as at 31 December 2022 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 2023.

Currency	Balance as at 31 December 2022			Balance as at 31 December 2021		
	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	17 939	1.480	12 121	1 432	1.380	1 038
Canadian dollar	4 101	1.356	3 024	869	1.281	678
Swiss franc	180	0.923	195	19 762	0.915	21 598
Danish krone	410	6.987	59	11 504	6.552	1 756
Egyptian pound	6 282	24.709	254	18 311	15.668	1 169
Euro	49 294	0.939	52 496	134 833	0.881	153 045
Pound sterling	4 547	0.831	5 472	14 897	0.742	20 076
Jordanian dinar	27 795	0.708	39 258	20 160	0.708	28 474
Japanese yen	1 405 442	133.050	10 563	1 405 233	114.810	12 239
Lebanese pound	2 466 724	38 000.000	65	11 506 761	1 507.500	7 633
New Israeli shekel	6 603	3.523	1 874	8 174	3.108	2 630
Norwegian krone	198 675	9.882	20 105	810	8.794	92
Swedish krona	804 246	10.462	76 873	345 847	9.035	38 279
Syrian pound	187 656	3 000.000	63	332 524	2 500.000	133
United States dollar	49 928	1.000	49 928	63 395	1.000	63 395
Emirati dirham	24	3.672	7	18	3.672	5
Malaysian ringgit	232	4.418	53	174	4.180	42
Total			272 410			352 282

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 the allowance for bad debts by maturity, is as follows:

(Thousands of United States dollars)

	31 December 2022			31 December 2021		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Current	19 837	612	20 449	16 104	827	16 931
Non-current	2 334	431	2 765	1 626	540	2 166
Total	22 171	1 043	23 214	17 730	1 367	19 097

5.3 The total increase in the loan portfolio of the microfinance scheme is attributable to the normalization of operations following the COVID-19 pandemic.

Provision for loans receivable

5.4 The change in the allowance for doubtful loans receivable is as follows:

(Thousands of United States dollars)

	2022			2021		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Beginning balance	(677)	(29)	(706)	(1 539)	(32)	(1 571)
Additions	(986)	–	(986)	(839)	(4)	(843)
Less: write-off/adjustment	739	1	740	1 701	7	1 708
Ending balance	(924)	(28)	(952)	(677)	(29)	(706)

5.5 The amount of loans written off decreased in 2022 compared with prior periods as a result of an improvement in the quality of the portfolio and repayment. The accumulated provision decreased owing to higher write-offs in prior periods.

Provision for loan losses

5.6 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.

5.7 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:

Loan status	Provision
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

<i>Loan status</i>	<i>Provision</i>
91–150 days overdue	50% general provision
151–180 days overdue	75% general provision
181–360 days overdue	100% general provision

5.8 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 following are the rates of reserve calculation for the special impairment at year end:

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

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

Note 6
Contributions receivable

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

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Due from Governments	18 663	25 665
Due from intergovernmental organizations	6 354	7 007
Due from non-governmental organizations	7 129	7 177
Due from United Nations organizations	154	1 209
Provision against contributions receivable	(12 934)	(12 939)
Total contributions receivable	19 366	28 119

6.2 Contributions receivable decreased by \$8.753 million owing to a higher balance in 2021 as a result of agreements signed towards the end of 2021 that were received in early 2022.

6.3 Contributions receivable are related 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 2022	31 December 2021
Beginning balance	(12 939)	(7 764)
Reduction in provision/adjustment	10	27
Addition during the period	(5)	(5 202)
Less: write-offs	–	–
Ending balance	(12 934)	(12 939)

6.6 The decrease in the provision for doubtful contributions receivable in 2022 is attributable to minor outstanding receivables that were due for provision in the current year in comparison with the previous period.

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

(Percentage)

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

6.8 After six years for Governments and after three years for other donors, and after all collection efforts have been exhausted, the doubtful debt and the write-off request,

together with the supporting documents, should be submitted to the Director of Finance for approval.

Note 7

Accounts receivable

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

(Thousands of United States dollars)

	<i>Relevant reference</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
Value added tax receivable	7.2	109 387	108 698
Other accounts receivable	7.4	7 158	7 914
Less: provisions	7.6	(104 883)	(105 215)
Accounts receivable net of provisions		11 662	11 397

Value added tax receivable

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

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Value added tax receivable from the Palestinian Authority	100 172	100 562
Value added tax receivable from the Government of Israel	6 712	6 607
Value added tax receivable from the Government of Lebanon	2 503	1 529
Total	109 387	108 698

7.3 The increase in value added tax receivable from the Government of Lebanon is attributable to a delay in the settlement of receivables following the volatile economic situation in Lebanon, while the decrease in the Palestinian Authority's value added tax receivable is attributable to the settlement of receivables against invoices for the purchase of school textbooks in the West Bank during the year.

Other accounts receivable

7.4 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Miscellaneous receivable	4 068	5 098
Personal accounts of staff members	2 896	2 629
Refundable utility deposits	194	187
Total	7 158	7 914

7.5 Miscellaneous receivable decreased at the end of the year owing to the settlement of prepaid payments to vendors.

Provisions and write-offs

7.6 Provisions and write-offs comprise the following:

(Thousands of United States dollars)

	31 December 2022				31 December 2021			
	Value added tax	Accounts receivable	Microfinance Department	Total	Value added tax	Accounts receivable	Microfinance Department	Total
Beginning balance	(104 401)	(678)	(136)	(105 215)	(105 317)	(770)	(129)	(106 216)
Additions	(356)	–	(20)	(376)	(516)	(1)	(7)	(524)
Reduction in provision/adjustment	681	27	–	708	1 432	5	–	1 437
Less: write-offs	–	–	–	–	–	88	–	88
Ending balance	(104 076)	(651)	(156)	(104 883)	(104 401)	(678)	(136)	(105 215)

7.7 The provisions for value added tax receivable and accounts receivable are estimated amounts based on the ageing 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 in the table 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

7.8 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.

7.9 The additions for accounts receivable provisions (see note 7.6) during the year reflect a provision of \$0.376 million (compared with \$0.524 million in 2021). The additions for value added tax provisions decreased owing to refunds from the Government of Israel.

Note 8

Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled \$5.922 million as at 31 December 2022 (compared with \$3.609 million in 2021). Included therein are prepayments to staff in the amount of \$0.082 million as at 31 December 2022 (compared with \$0.026 million in 2021).

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2022 is shown in the table below.

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Current		
Advances to suppliers	5 840	3 583
Prepayment to staff	82	26
Total	5 922	3 609

8.3 The increase in advances to suppliers in comparison with the previous year is attributable mainly to advances paid to group medical insurance suppliers at the end of the year.

Note 9 Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

Type	31 December 2022	31 December 2021
Warehouse	46 715	44 180
Pharmacy/clinic	19 095	20 162
In transit	4 770	607
Shelter under construction	16 307	15 011
Non-Agency installations	2 097	3 786
Production unit	110	126
Total	89 094	83 872

9.2 Warehouse inventories comprise 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. Warehouse inventories increased during the year owing mainly to increased purchases of basic commodities, and information technology hardware in Gaza and the Syrian Arab Republic.

9.3 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields. The reduction in pharmacy/clinic inventory is attributable primarily to the decrease in the procurement of medicines and pharmaceutical supplies compared with the previous year.

9.4 Inventory in transit for 2022 increased by \$4.163 million owing to the timing of deliveries.

9.5 The inventory of shelter under construction increased by \$1.296 million owing to the ongoing construction of shelters in Gaza and Lebanon, which is still not completed.

9.6 The inventory of non-Agency installations decreased by \$1.689 million owing to the handover of facilities to the local communities during the year.

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

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Raw materials inventory – embroidery	49	51
Work in progress – embroidery	7	4
Finished goods – embroidery	54	71
Total	110	126

9.8 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.

Note 10

Derivative financial instruments

Nature of financial instruments

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

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

Financial derivatives

10.3 Financial derivative forward contracts, if present in a particular year, are revalued during that year; there was no impact on financial position and on financial performance in 2022.

10.4 UNRWA did not enter into any hedging contracts during 2022 owing to uncertainty in the timing of the receipt of contributions against the budgeted schedule, high volatility in currency movements and unfavourable exchange rates in the market.

10.5 As at 31 December 2022 there were no outstanding forward contracts.

Credit risk

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

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

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

(b) Providing a range of products to different sectors and segments to spread credit and reduce concentration;

(c) Formulating credit policies by product covering collateral requirements and credit compliance with regulatory requirements in each jurisdiction;

(d) Establishing the authorization structure for the approval and renewal of credit facilities;

(e) Reviewing and assessing credit risk in excess of designated limits prior to facilities being committed to customers. Renewals of facilities are subject to the same process;

(f) Developing and maintaining a risk-grading system to categorize exposure according to when impairment provisions are required against specific credit exposures;

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

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

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

Interest rate risk

10.10 The Agency deposits its funds in short-term fixed interest accounts and therefore has no significant interest rate risk exposure. For certain non-United States dollar currencies, banks set their own specific ceilings beyond which they apply interest rates. Interest is calculated on the basis of average balances held with the banks and charged monthly.

Foreign currency risk

10.11 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2022, 43 per cent of contributions to the programme budget were denominated in the United States dollar base currency, and 57 per cent were denominated in other currencies. The Microfinance Department lends in different currencies, according to the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank, and the Syrian pound used in the Syrian Arab Republic.

10.12 Furthermore, some field office expenditures are incurred in non-United States dollar currencies. The Agency is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates.

10.13 To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach.

10.14 As at 31 December 2022, 18 per cent of cash held in banks was denominated in the United States dollar base currency and the remainder in other currencies. An amount comprising 9 per cent of UNRWA balances were denominated in local currencies to support operating activities in field offices, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11
Property, plant and equipment

11.1 The table below presents a summary of property, plant and equipment as at 31 December 2022.

(Thousands of United States dollars)

Description	2022								2021	
	Land	Buildings	Leasehold improvements	Furniture and fittings	Equipment	Motor vehicles	Construction in progress	Assets not placed in service	Total	Total
Cost										
As at 1 January	16 250	651 564	675	6 172	57 594	38 546	7 717	94	778 612	763 567
+ Additions in year	–	10 341	–	2 476	1 925	545	8 755	79	24 121	18 506
(-) Disposals/adjustment in year ^a	–	101	–	–	2 107	1 415	–	–	3 623	3 461
(A) Balance as at 31 December	16 250	661 804	675	8 648	57 412	37 676	16 472	173	799 110	778 612
Depreciation										
Balance as at 1 January	–	223 163	675	3 566	48 432	28 230	–	–	304 066	277 957
+ Depreciation in year	–	23 933	–	1 029	2 867	1 932	–	–	29 761	29 423
(-) Depreciation on disposals/adjustments in year ^a	–	65	–	–	1 827	1 404	–	–	3 296	3 314
(B) Balance as at 31 December	–	247 031	675	4 595	49 472	28 758	–	–	330 531	304 066
Impairment										
Balance as at 1 January	–	6 257	–	–	1	7	–	–	6 265	6 265
+ Impairment in year	–	–	–	–	–	–	–	–	–	–
(-) Impairment reversed and on disposal in year	–	–	–	–	–	–	–	–	–	–
(C) Balance as at 31 December	–	6 257	–	–	1	7	–	–	6 265	6 265
Net book value as at 31 December (A)-(B)-(C)	16 250	408 516	–	4 053	7 939	8 911	16 472	173	462 314	468 281

^a See note 11.2.

11.2 Net cost of assets disposed is \$0.327 million, which comprises the following:

(Thousands of United States dollars)

	2022	2021
Original cost of disposal	3 623	3 461
Accumulated depreciation	(3 296)	(3 314)
Accumulated impairment	–	–
Net cost of assets disposed in accordance with note 11.1	327	147

11.3 The proceeds from the sale of assets and from gain and loss on disposal is shown in the table below.

(Thousands of United States dollars)

	2022	2021
Loss on disposal	323	147
Gain on disposal	(29)	(41)
Proceeds from sale of assets	33	41
Net disposed/adjustments in accordance with note 11.1	327	147

11.4 The following presentation of the proceeds from the sale of assets and the net cost of assets disposed has been amended from the prior year to better reflect the impact of the disposal:

(Thousands of United States dollars)

	2022	2021
Net cost of assets disposed	327	147
Proceeds from sale of assets	(33)	(41)
Net disposals/adjustments	294	106

11.5 In addition to the active assets valued at \$462.314 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of \$82.134 million. The proceeds from the sale of assets are reported under miscellaneous revenue in the statement of financial performance, while the net result of assets disposed is reported in the cash flow statement.

11.6 The net book value of assets as at year end decreased by \$5.967 million owing to decreased additions compared with the deprecation charges during the year.

Note 12

Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

Description	2022			2021	
	Software acquired separately	Software developed internally	Licences and rights	Total	Total
Cost					
As at 1 January	3 484	38 396	628	42 508	42 332
+ Additions in year	85	679	–	764	176
(-)/+ Disposals and adjustments in year	–	–	–	–	–
(A) Balance as at 31 December	3 569	39 075	628	43 272	42 508
Amortization and impairment					
Balance as at 1 January	3 390	38 294	528	42 212	40 285
Amortization in year	10	105	–	115	1 927
(-)/+ Amortization on disposals and adjustments in year	–	–	–	–	–
(B) Balance as at 31 December	3 400	38 399	528	42 327	42 212
Net book value as at 31 December (A)-(B)	169	676	100	945	296

12.2 The increase in the net book value is attributable to additions in intangible assets for the internally developed eUNRWA software application, a digital identity platform developed for refugees.

Note 13

Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	Reference	31 December 2022	31 December 2021
Supplier accounts payable	Note 13.3	27 870	30 062
Miscellaneous provision	Note 13.4	848	3 423
Accrued expenses	Note 13.5	26 251	20 681
Other accounts payable	Note 13.7	48 206	44 216
Due to Area Staff Provident Fund	Note 14.2	10 454	10 617
Total		113 629	108 999

13.2 Subnotes have been regrouped and expanded to reflect more meaningful and detailed analysis of the accounts payable and accruals. In addition, the corresponding figures from the previous year have been adjusted accordingly without changes to the total.

13.3 Supplier accounts payable represent balances owed to vendors for goods and services received.

13.4 Miscellaneous provision includes provision for the Agency to meet various contingent liabilities that are likely to materialize, including in relation to pending arbitral proceedings. The decrease in the provision was attributable to the Agency's re-evaluation of prior years' legal claims.

Accrued expenses

13.5 Accrued expenses include the following:

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Accrued expenses for services and utilities	14 208	10 347
Area staff group medical insurance	1 678	669
Accrued salaries, wages and other expenses	139	113
Other salary-related payable	9 800	9 118
Payable – reclassifications of accounts receivable balance staff	426	434
Total	26 251	20 681

13.6 The increase in accrued expenses is attributable to the following: (a) timing differences in the recording of subsidies and shelter reconstruction in Gaza and hospitalization services in the Syrian Arab Republic; (b) deferral of separation benefits and other salary-related payable to staff to the end of the year; and (c) deferral of payments to group medical insurance service providers.

Other accounts payable

13.7 Other accounts payable consist of the following:

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Deposits received	258	121
West Bank water supply, Palestinian Authority	656	587
Funds held for other entities, including United Nations entities	1 530	1 395
Interest payable for projects	240	1 140
Miscellaneous accounts payable	1 547	1 345
Central Emergency Response Fund	30 000	28 000
Staff liabilities payable	12 758	11 225
Unearned income canteen rent	1 217	403
Total	48 206	44 216

13.8 Interest payable for projects decreased in the year owing mainly to the refunding of outstanding interest and interest reprogramming approved by donors during the year.

13.9 Unearned income canteen rent was relatively higher in 2022, by \$0.814 million, owing to the return of school canteens to normal operations after the lifting of COVID-19 restrictions.

Note 14

Employee pension fund

Area Staff Provident Fund of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

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

14.2 Contributions from the Agency and employees to the Area Staff Provident Fund in 2022 amounted to \$96.292 million (compared with \$96.219 million in 2021) and are expected to amount to \$100.144 million in 2023 on the basis of expected increases in staff and Agency contributions. The balances outstanding with the Provident Fund as at 31 December 2022 and 2021 are shown in the table below.

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Opening balance	10 617	(124)
Employee contributions and repayments of withdrawals	68 417	70 408
Agency contributions	63 936	63 841
Withdrawals	(94 777)	(110 672)
Area Staff Provident Fund employee loans	(44 998)	(37 665)
Area Staff Provident Fund loan commission	170	148
Current account with Provident Fund	7 089	24 681
Total	10 454	10 617

14.3 Provident Fund liabilities of \$10.454 million in 2022 (compared with \$10.617 million in 2021) represent amounts payable to the Area Staff Provident Fund as at December 2022.

United Nations Joint Staff Pension Fund: international staff

14.4 UNRWA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The 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 that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

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

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

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

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

14.8 The most recent actuarial valuation for the Fund was completed as at 31 December 2021, and a roll forward of the participation data as at 31 December 2021 to 31 December 2022 will be used by the Fund for its 2022 financial statements.

14.9 The actuarial valuation as at 31 December 2021 resulted in a funded ratio of actuarial assets to actuarial liabilities of 117.0 per cent (107.1 per cent in the 2019 valuation). The funded ratio was 158.2 per cent (144.4 per cent in the 2019 valuation) when the current system of pension adjustments was not taken into account.

14.10 After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2021, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of the present report, the General Assembly had not invoked the provision of article 26.

14.11 Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or because of the termination of the Fund, deficiency payments required from each member organization would be based on the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2019, 2020 and 2021) amounted to \$8,505.27 million, of which 0.27 per cent was contributed by UNRWA.

14.12 During 2022, contributions paid to the Fund by UNRWA amounted to \$8.674 million (2021: \$7.816 million). Expected contributions due in 2023 are approximately \$9.865 million.

14.13 Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the United Nations Joint Staff Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit

of those members of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets that are in excess of the liabilities are included in the amount.

14.14 The Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board and to the General Assembly on the audit every year. The Fund publishes quarterly reports on its investments, which are available at www.unjospf.org.

Note 15

Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

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

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Current	88 767	91 678
Non-current	691 076	860 863
Total	779 843	952 541

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Annual leave encashment for area staff	41 037	41 733
End-of-service liability for area staff	737 110	908 875
Short-term employee benefits for international staff not funded through the United Nations regular budget	1 072	1 162
Long-term employee benefits for international staff not funded through the United Nations regular budget	624	771
Total	779 843	952 541

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 2022. The total employee annual leave liability as at 31 December 2022 amounted to \$41.037 million (compared with \$41.733 million as at 31 December 2021).

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 2022, total employee benefits liabilities amounted to \$737.110 million (compared with \$908.875 million as at 31 December 2021). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

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

Normal and early retirement benefit

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

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

(b) The option of the extension of retirement age from 60 years to 62 years, which was withdrawn for 2018, was reinstated in 2020; the retirement age was returned to 60 in 2021 with exceptional approval to extend; and the current assumption for the purpose of valuation is 92 per cent at age 60, 50 per cent at age 61 and 100 per cent at age 62;

(c) The amount payable is calculated on the basis of the formula of base salary times 11 per cent times the number of completed years of service before 1 January 2015 plus base salary times 12 per cent times the number of completed years of service after 1 January 2015. With effect from 2020, the end-of-service percentages will gradually increase to 12.5 per cent by 2024 (i.e. 12.1 per cent for 2020, 12.2 per cent for 2021, 12.3 per cent for 2022, 12.4 per cent for 2023 and 12.5 per cent for 2024). For calculation purposes, it is assumed that funding is available at the beginning of the year;

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

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

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

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

years of service. The aforementioned eligibility criteria for early retirement are listed in descending order and are subject to an annual budget set by the Agency.

Termination in the interests of the Agency

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

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

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

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

Death benefits

15.8 Death benefits for area staff are paid in accordance with rule 109.8 of the UNRWA Area Staff Rules. In the event of separation as a result of the death of an area staff member, the Agency shall pay a death benefit to the staff member's nominated beneficiary or beneficiaries. The death benefit shall be computed either: (a) as 11 per cent of the deceased staff member's ending annual salary for each year of qualifying

service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015, plus a supplemental benefit representing 50 per cent of the ending annual salary. With effect from 2020, the end-of-service percentages will gradually increase to 12.5 per cent by 2024 (i.e. 12.1 per cent for 2020, 12.2 per cent for 2021, 12.3 per cent for 2022, 12.4 per cent for 2023 and 12.5 per cent for 2024); or (b) as 200 per cent of the ending annual salary, whichever is greater.

Disability benefits

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

Reconciliation of end-of-service benefits

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

15.11 The amount of actuarial gains presented in the statement of changes in net assets/equity is \$210.238 million, which includes the impact of change in the discount rate and experience gains.

15.12 Interest costs and service costs amounted to \$83.335 million as at 31 December 2022 (compared with \$82.695 million for 2021). The actuarial (gains)/losses are directly accounted for in the statement of changes in net assets/equity. In the 2022 valuation of end-of-service liabilities, actuarial gains were determined to be \$16.282 million owing to experience, and actuarial gains from remeasurements to be \$193.956 million owing to discount rate changes during the year.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2022 was conducted using the same demographic assumptions as the valuation for 2021. The discount rate increased to 5.12 per cent from 2.89 per cent, and other financial assumptions remained the same compared with 2021. The total actuarial gains due to experience and the change in the discount rate amounts to \$210.238 million.

15.14 The reconciliation of the opening and closing balance of the area staff end-of-service benefits is provided in the table below.

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Opening balance as at 1 January	908 875	910 615
Interest costs for the year	26 514	23 574
Service costs for the year	56 821	59 121
Past service costs	–	–
Financial remeasurements ^d	(193 956)	(34 853)

	31 December 2022	31 December 2021
Payments in the year	(44 862)	(45 025)
Actuarial (gains)/losses	(16 282)	(4 557)
Total	737 110	908 875

^a For 2022, the discount rate (financial remeasurements) changed from 2.89 to 5.12 per cent and is included in the actuarial gains/(losses) in the statement of changes in net assets/equity.

Area staff assumptions

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

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

(Percentage)

<i>Field</i>	<i>Currency</i>	<i>Currency protection</i>	<i>Discount rate</i>	<i>Future escalation (2023 onward)</i>
Gaza	United States dollar	No	5.12	2.50
Gaza headquarters	United States dollar	No	5.12	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/ United States dollar)	5.12	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/ United States dollar)	5.12	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/ United States dollar)	5.12	2.50
Lebanon	United States dollar	No	5.12	2.50
Syrian Arab Republic	United States dollar	No	5.12	2.50

15.17 The discount rate is based on the United Nations AA Corporate Bonds Yield Curves for United States, developed by Aon, which has a duration of 13 years, consistent with the duration of the end-of-service liability of the Agency (13 years). The same benchmark was used in the previous year's valuation to set discount rates. Discount rates increased in 2022 to 5.12 per cent from 2.89 per cent in 2021.

15.18 This increase in the discount rate and gains due to experience has resulted in an actuarial gain of \$210.238 million for 2022 (compared with losses of \$39.411 million in 2021), which represents 23 per cent of the opening balance of the provision.

Step increments

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

two steps of increments, applied once every two years, until they reach the maximum step level of 26.

Exchange rates as at 31 December 2022

15.20 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 38,000; and Syrian pound, 3,000.

Resignation rates

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

Early retirement rates

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

(Percentage)

Attained age	Number of years since early retirement conditions have been satisfied			
	0	1	2	3+
Less than 45	2.0	1.25	0.8	0.25
45–49	2.0	1.25	0.8	0.25
50–54	2.0	1.25	0.8	0.25
55–59	2.0	1.25	0.8	0.25

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

Mortality

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

Disability

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

Disability rate

(Per thousand)

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

Sensitivity analysis

15.26 The table below illustrates the sensitivity of the results to the base assumptions of a discount rate of 5.12 per cent, a salary escalation of 2.50 per cent and a provision of \$737.110 million.

(Thousands of United States dollars)

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total variance</i>
Discount rate	+1%	-9.12%	669 983
	-1%	+10.65%	815 770
Salary escalation	+1%	+11.19%	819 737
	-1%	-09.70%	665 705
Early voluntary retirement	+1%	+0.82%	743 300
	-1%	-0.37%	734 507
Resignation rates	+1%	-0.45%	733 908
	-1%	+0.47%	740 689
Mortality	120%	+0.19%	738 643
	80%	-0.19%	735 798
Disability	120%	+0.05%	737 629
	80%	-0.05%	736 819

Maturity profile of the defined-benefit obligation

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

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Year 1	45 505	43 824
Year 2	53 770	46 892
Year 3	56 153	55 039
Year 4	61 205	57 937
Year 5	65 133	62 455
Years 6 to 10	333 628	331 853
More than 10 years	2 132 608	2 154 829
Duration	13 years	15 years

International staff end-of-service liability

15.28 The separation costs of international staff funded from the regular budget of the United Nations (201 posts as at 31 December 2022 and 158 posts as at 31 December 2021) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements.

These liabilities related to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

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

(Thousands of United States dollars)

<i>Benefit</i>	<i>31 December 2022</i>	<i>31 December 2021</i>
Repatriation grant	61	289
Shipment	451	398
Travel	71	87
After-service health insurance	624	771
Outstanding annual leave	489	388
Total	1 696	1 933

International staff assumptions

15.30 The discount rate is assumed to be 5.12 per cent, and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of after service-health insurance mortality of members of the plan will reflect those in the 2017 United Nations after-service health insurance rates of mortality for males and females.

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

Sensitivity analysis

15.32 The table below illustrates the sensitivity of the results to the base provision of \$1.696 million.

(Thousands of United States dollars)

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total</i>
Discount rate	+1%	-4.60%	1 618
	-1%	+5.65%	1 792
Salary escalation	+1%	+0.03%	1 696
	-1%	-0.03%	1 695
All inflation rates	+1%	+6.03%	1 798
	-1%	-5.03%	1 611
Resignation rates	+1%	–	1 696
	-1%	–	1 696
Mortality	120%	-2.14%	1 660
	80%	+2.71%	1 742

Note 16**Other current liabilities**

16.1 Other current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Goods in transit payable	4 770	765
Donor refund payable	761	4
Finance lease liability	–	69
Total	5 531	838

16.2 Goods in transit payable increased owing to basic commodities pending under the customs clearance process at year end.

16.3 Donor refund payable increased owing to unsettled refunds at the end of the year.

16.4 The composition of other liabilities is as follows:

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Current	5 531	838
Non-current	–	–
Total	5 531	838

Other non-current liabilities

16.5 Other non-current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Finance lease liability ^a	–	69
Total	–	69

^a See note 18.12.

Note 17

Advance contribution

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

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Received from Governments	2 991	616
Received from intergovernmental organizations	–	10 000
Received from United Nations organizations	278	131
Total	3 269	10 747

17.2 Governmental advances increased, while intergovernmental organizations showed no advances during the year.

Note 18

Contingent liabilities, contingent assets and lease commitments

Contingent liabilities

18.1 The Agency's contingent liabilities as at 31 December 2022 arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement (goods, services and construction contracts) and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals that could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities related to these appeals amounted to approximately \$1.140 million as at 31 December 2022 (compared with \$0.527 million as at 31 December 2021).

18.3 The contingent liabilities for commercial contracts amounted to approximately \$18.028 million as at 31 December 2022 (compared with \$13.670 million as at 31 December 2021).

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 2022 was \$714.497 million (compared with \$410.303 million as at 31 December 2021) owing to the new multi-year agreements signed at the end of 2022 with two major donors.

Operating lease commitments

18.5 Operating lease payments amounting to \$3.227 million were recognized as operating lease expenses for 2022 (compared with \$3.135 million in 2021). The amount includes minimum lease payments. No contingent rent payments were made.

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

(Thousands of United States dollars)

	<i>31 December 2022</i>	<i>31 December 2021</i>
Not later than one year	26	58
Later than one year and not later than five years	286	216
Total	312	274

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

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

18.9 The fair value for the in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land and buildings. The average rental return for the commercial leases was applied to the capital value, as assessed by external surveyors, provided to UNRWA at no or nominal value. These in-kind donations were valued at a fair value of \$5.205 million in 2022 (compared with \$4.086 million in 2021). The significant increase is attributable to the high inflation rate in the Lebanon field, which affected the rental calculation by \$0.924 million. These in-kind donations are included in non-exchange revenue and costs.

18.10 The Agency received revenue of \$2.089 million from sublease payments in 2022 (compared with \$1.174 million in 2021). The increase in 2022 is attributable chiefly to increases in sublease payments received from contractors of school canteens in all fields. All subleases may be cancelled and contain no contingent lease payments.

Finance lease commitments

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

18.12 The finance lease contract for medical equipment acquired in 2017 ended in 2022 and has become a property of the Agency:

(Thousands of United States dollars)

	2022		2021	
	Present value	Future value	Present value	Future value
Not later than one year	–	–	69	70
Later than one year and not later than five years	–	–	–	–
Ending balance	–	–	69	70

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

Note 19 Revolving loan fund

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

19.2 The composition of the revolving loan fund as at 31 December 2022 and 2021 was as follows:

(Thousands of United States dollars)

	31 December 2022	31 December 2021
Microfinance Department	35 147	35 146
Microcredit community support programme	3 341	3 341
Total	38 488	38 487

Note 20 Cash contributions revenue

20.1 Total cash contributions revenue by source received in 2022 and 2021 was as follows:

(Thousands of United States dollars)

	2022	2021
Governments	962 085	1 007 152
Intergovernmental organizations	122 577	151 370
Non-governmental organizations and other entities	10 377	18 245
United Nations organizations	43 136	45 202
Sundry	3 647	6 287
Total	1 141 822	1 228 256

20.2 Cash contributions revenue was \$86.434 million lower in 2022 in comparison with the previous period owing chiefly to additional contributions received from donors in 2021 towards the emergency appeal following the conflict in Gaza. In addition, contributions to projects in 2022 decreased significantly in comparison with the previous period.

Note 21

In-kind contributions revenue

21.1 Total in-kind contributions revenue by source received in 2022 and 2021 was as follows:

(Thousands of United States dollars)

	2022	2021
Governments	27 763	27 437
Non-governmental organizations and other entities	3 167	3 636
United Nations organizations	1 714	1 355
Total	32 644	32 428

Note 22

Interest on loans

22.1 Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2022 and 2021 was as follows:

(Thousands of United States dollars)

	2022	2021
Microfinance Department	8 382	6 795
Microcredit community support programme	66	107
Total	8 448	6 902

22.2 The interest generated from loans increased during the year owing mainly to the increase in loans disbursed in 2022.

Note 23

Interest revenue

23.1 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits was \$1.896 million in 2022 (compared with \$1.691 million in 2021).

Note 24

Currency exchange (loss)/gain

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

(Thousands of United States dollars)

	2022	2021
Realized currency exchange rate gain	13 065	20 447
Unrealized currency exchange rate (loss)	(29 078)	(12 341)
Accounts receivable income realized exchange rate gain/(loss)	1 283	(2 596)
Total	(14 730)	5 510

24.2 The realized currency exchange rate gain has decreased as non-United States dollar currencies have seen a decline in the exchange rate for the year. Field currencies contributed to decreased gains during the year. The United States dollar remained strong during all of 2022.

24.3 The unrealized currency exchange rate loss was high in 2022 owing mainly to the strengthening of the United States dollar against other currencies during the year. The currencies are expected to recover during 2023 and hence remained unsold in 2022.

24.4 The accounts receivable income realized exchange rate gain or loss represents the gain or loss owing to changes in exchange rates between the dates of invoices and actual receipt during the year. The exchange rate gains of \$1.283 million in 2022 were primarily from two currencies owing to the favourable timing of contribution receipts when compared with the date of pledges.

Note 25

Indirect support cost recovery

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

25.2 The total indirect support cost recovery from projects and emergency appeals for 2022 was \$45.210 million (compared with \$37.869 million in 2021). The increase in indirect support cost recoveries is attributable to increased emergency appeals expenditures, specifically from the Gaza flash appeal. In addition to the recovery from projects and emergency appeals, there was an indirect support cost recovery of \$0.123 million in 2022 (compared with \$0.134 million in 2021) from the Junior Professional Officers programme.

Note 26

Miscellaneous revenue

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2022	2021
Canteen lease revenue	2 090	1 174
Sundries	7 938	6 577
Profit on income-producing activities	83	24
Reimbursed provision revenue	65	1 487
Income received from United Nations agencies	101	77
Refunds to donors	(4 983)	(584)
Total	5 294	8 755

26.2 Canteen lease revenue increased in 2022 owing mainly to the increase in sublease payments received from contractors of school canteens in all fields.

26.3 Sundries revenue increased in 2022 owing mainly to additional revenue received from services provided to other agencies and revenue from marine insurance claims.

26.4 Reimbursed provision revenue decreased in 2022 owing to the decrease in receipts of value added tax from Palestine and Israel authorities that were provided in previous periods.

26.5 Refunds to donors represent amounts that have been recorded as revenue in previous periods, but are refunded to donors in accordance with the terms of donor agreements. Refunds to donors increased in 2022 owing mainly to the increase in the refund of unspent balances on completed projects in accordance with donor agreements.

Note 27**Wages, salaries and employee benefits**

27.1 Wages, salaries and employee benefits in 2022 and 2021 consisted of the following:

(Thousands of United States dollars)

	2022	2021
International staff	46 438	42 058
Area staff		
Basic salaries, allowances and benefits	614 347	624 693
Area Staff Provident Fund contributions	63 839	63 760
Health-related expenses	11 627	11 379
Total	736 251	741 890

27.2 Basic salaries and allowances for area staff decreased during the year owing chiefly to a reduction in the amounts paid on account of the currency adjustment factor, hazard and special pay granted following the Gaza conflict in 2021, as well as hazard pay provided to the educational staff in Jordan in lieu of the catch-up sessions given to the students in 2021 owing to COVID-19, and to a decrease in accrued annual leave encashment. International staff costs increased during the year owing to an increase in the number of international staff posts filled against additional posts

granted to UNRWA against assessed contributions, and the application of a new salary scale and a new pensionable remuneration scale effective February 2022.

Note 28
Supplies and consumables

28.1 The composition of supplies and consumables in 2022 and 2021 was as follows:

(Thousands of United States dollars)

	2022	2021
Basic commodities	116 094	83 461
Clothing supplies	1 327	800
Fresh food	1 139	944
Medical supplies	29 882	27 050
Miscellaneous supplies	14 228	12 049
Sport supplies	408	187
Textbooks and library books	9 554	7 598
Transportation supplies	11 448	5 505
Total	184 080	137 594

28.2 The increase in the consumption of basic commodities in 2022 was attributable chiefly to rising commodity prices and shipping costs as a result of the conflict in Ukraine, as well as to the additional commodities added to the food basket in the Syrian Arab Republic.

28.3 The increase in medical supplies in 2022 is attributable to the increased procurement of medical and laboratory supplies, which resulted in the increase in the procurement of some high-value laboratory items. The increase in price also resulted in the increase in the value of medical supplies owing especially to higher inflation and the dire economic situation in Lebanon.

28.4 The increase in the cost of miscellaneous supplies during the year was attributable mainly to the increase in the quantities purchased and in values following the increased price of materials and of the international transportation of fuel and other materials in the Syrian Arab Republic.

28.5 The increase in the consumption of textbooks and library books in 2022 was attributable to the distribution of additional textbooks in schools after the full resumption of in-person attendance.

28.6 The increase in the consumption of transportation supplies in 2022 was attributable to the increase in fuel prices caused by the crisis in Ukraine and higher inflation mainly in the Lebanon field office.

Note 29
Occupancy, utilities and premises costs

29.1 Occupancy, utilities and premises costs in 2022 and 2021 included the following:

(Thousands of United States dollars)

	2022	2021
Rental of premises	8 730	7 504
Maintenance of premises	5 855	8 980
Utilities	5 647	5 047
Total	20 232	21 531

29.2 The increase in rental of premises costs in 2022 was attributable chiefly to the increase in the value of in-kind leases in 2022 as a result of the high inflation rate in Lebanon.

29.3 The decrease in maintenance of premises costs in 2022 was attributable mainly to higher maintenance costs in 2021 following the conflict in Gaza.

Note 30
Contracted services

30.1 The composition of services expenses in 2022 and 2021 was as follows:

(Thousands of United States dollars)

	2022	2021
Construction and equipment	33 784	18 869
Contractual costs	10 377	12 189
Hospital costs	33 614	28 987
Miscellaneous services	2 043	2 322
Consultancy costs	16 103	14 099
Demurrage and port charges	16 645	13 022
Training costs	2 075	1 669
Travel	2 276	1 351
Total	116 917	92 508

30.2 The increase in construction and equipment costs during the year was attributable mainly to the increased number of construction activities following the lifting of all restrictions imposed during the COVID-19 pandemic in the region. The construction works returned to normal operations in 2022.

30.3 The decrease in the contractual costs is attributable chiefly to the reduction in the provision for contingent liabilities related to prior years' legal claims.

30.4 The increase in hospitalization costs during the year was attributable mainly to the increase in hospitalization prices as a result of the economic situation, especially in the Lebanon field.

30.5 The increase in demurrage and port charges during the year was attributable chiefly to higher costs and increased time taken in clearing shipments from port operation services, mainly for the Gaza field.

Note 31
Subsidies

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

(Thousands of United States dollars)

	2022	2021
Cash subsidies to beneficiaries	168 282	149 499
Patient subsidies	5 515	5 817
Subsidies for the construction and repair of shelters	32 142	14 570
Subsidies to third parties	2 619	5 108
Total	208 558	174 994

31.2 Cash subsidies to beneficiaries are paid in order to provide selective cash assistance to conflict-affected Palestine refugees in all fields for food security and rental subsidies. In 2022, the increase was attributable mainly to increased amounts paid to beneficiaries following high inflation and the dire economic situations in Lebanon and the Syrian Arab Republic, in addition to the cash subsidies paid to students for transportation costs.

31.3 Subsidies for the construction and repair of shelters increased in 2022 owing mainly to the provision of a significant amount of cash support to families displaced in 2021 following the Gaza conflict.

31.4 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. Subsidies to third parties decreased in 2022 in comparison with 2021 owing to lower donations received during the year related to the Gaza conflict.

Note 32
Provisions and write-offs

32.1 The composition of provisions and write-off expenses in 2022 and 2021 was as follows:

(Thousands of United States dollars)

	2022	2021
Provisions and write-off expenses on accounts receivable	376	523
Provisions and write-off expenses on contributions receivable	5	5 202
Provisions and write-off expenses on loans receivable	986	843
Write-off of overstated receivables and others	55	95
Total	1 422	6 663

32.2 The decrease in provision contribution in 2022 was attributable to lower outstanding contributions receivable due for provision in the current year.

Note 33

Segment reporting

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

(a) Sources of funds

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

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

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

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

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

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

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

(b) Strategic outcomes

33.9 The mission of UNRWA is to help Palestine refugees to achieve their full potential in human development under the difficult circumstances in which they live. UNRWA has six strategic outcomes to provide it with direction in fulfilling its mission

of helping Palestine refugees, with the aim of accomplishing the outcomes with efficient and effective governance. Fourteen strategic objectives that guide UNRWA core activities are grouped into the following six strategic outcomes:

(a) Palestine refugee rights under international law are protected and promoted: (i) duty bearers are held accountable for violations of international law through monitoring, reporting and advocacy; and (ii) vulnerable and at-risk individuals and communities benefit from protection responses;

(b) Palestine refugee health is protected, and the disease burden is reduced: (i) people-centred primary health-care system using the family health team model; and (ii) efficient hospital support services are provided;

(c) School-age children complete quality, equitable and inclusive basic education: (i) quality learning in conducive learning environments for all students; (ii) inclusive access to basic education is ensured; and (iii) equitable basic education is ensured;

(d) Palestine refugee capabilities are strengthened for increased livelihood opportunities: (i) Palestine refugee capabilities are strengthened; and (ii) refugees have improved access to livelihood opportunities;

(e) Palestine refugees are able to meet their basic human needs of food, shelter and environmental health: (i) abjectly poor Palestine refugees are better able to meet their food needs; (ii) improved living conditions for poor Palestine refugees; and (iii) environmental health standards are met;

(f) Management and operational effectiveness: (i) provision of effective leadership and direction for achieving strategic objectives; and (ii) development and sustainment of UNRWA.

(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 the following support departments:

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

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

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

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

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

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

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

(d) Geographical locations

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

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

33.12 Indirect support costs are incurred by UNRWA in support of the implementation of its non-regular budget activities that cannot be directly attributed to specific activities, projects or programmes. Indirect support costs represent

administrative, managerial, logistical and other support costs, including costs related to staff recruitment, budgetary and financial control, information and communications technology support, and actions in respect of procurement transport and warehousing.

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

33.14 Indirect support costs at a uniform standard rate of 11 per cent are usually charged against all contributions for non-regular budget activities.

Segment reporting by fund: financial position as at 31 December 2022

(Thousands of United States dollars)

	Unearmarked activities		Earmarked activities				Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Assets							
Current assets							
Cash and cash equivalents	6 943	10 957	23 982	90 422	144 013	28	276 345
Short-term loans receivable	–	612	19 837	–	–	–	20 449
Contributions receivable	1 343	–	–	2 891	15 132	–	19 366
Accounts receivable	27 625	1 331	47	30	232	(17 603)	11 662
Other current assets	5 101	–	414	141	266	–	5 922
Operational Microfinance Department account with UNRWA	–	553	–	–	–	(553)	–
Inventories	18 217	2 175	–	43 056	25 646	–	89 094
Non-current assets							
Other non-current assets							
Long-term loans receivable	–	431	2 334	–	–	–	2 765
Property, plant and equipment	445 082	190	13	599	16 430	–	462 314
Intangible assets	936	–	9	–	–	–	945
Total assets	505 247	16 249	46 636	137 139	201 719	(18 128)	888 862
Liabilities							
Current liabilities							
Payables and accruals	93 388	1 721	771	10 767	24 565	(17 583)	113 629
Employee benefits	88 341	–	426	–	–	–	88 767
Operational Microfinance Department account with UNRWA	–	–	553	–	–	(553)	–
Other current liabilities	582	–	–	4 179	770	–	5 531
Advance contributions	3 195	–	–	95	–	(21)	3 269
Non-current liabilities							
Employee benefits	686 810	–	4 266	–	–	–	691 076
Other non-current liabilities	–	–	–	–	–	–	–
Total liabilities	872 316	1 721	6 016	15 041	25 335	(18 157)	902 272
Net assets/equity	(367 069)	14 528	40 620	122 098	176 384	29	(13 410)

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	<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>	
Revaluation and other reserves	125 464	–	–	–	–	2 504	127 968
Capital reserve: microcredit community support programme and Microfinance Department	–	3 342	35 146	–	–	–	38 488
Accumulated surplus/(deficit)	(492 533)	11 186	5 474	122 098	176 384	(2 475)	(179 866)
Total net assets/equity	(367 069)	14 528	40 620	122 098	176 384	29	(13 410)

Segment reporting by fund: financial performance as at 31 December 2022

(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	734 147	–	–	301 278	106 397	–	1 141 822
In-kind contributions	–	19 966	–	10 223	2 455	–	32 644
Interest on loans	–	66	8 382	–	–	–	8 448
Interest on bank deposits	761	201	685	42	207	–	1 896
Other revenue							
Indirect support cost recovery	45 240	93	–	–	–	(45 210)	123
Miscellaneous revenue	3 473	5 776	993	(1 787)	(3 194)	33	5 294
Total revenue	783 621	26 102	10 060	309 756	105 865	(45 177)	1 190 227
Expenses							
Wages, salaries and employee benefits	676 649	3 399	4 817	34 710	15 274	1 402	736 251
Supplies and consumables	35 061	16 685	208	128 669	3 457	–	184 080
Occupancy, utilities and premises costs	9 983	5 367	421	1 363	3 098	–	20 232
Contracted services	45 062	4 374	1 375	31 680	34 401	25	116 917
Indirect support costs	–	154	31	35 886	9 139	(45 210)	–
Subsidies	36 128	506	–	154 556	17 368	–	208 558
Depreciation and amortization	29 864	–	13	–	–	–	29 877
Provisions and write-offs	416	–	1 006	–	–	–	1 422
Loss on disposal	323	–	–	–	–	–	323
Foreign currency exchange loss	17 990	(2 883)	172	55	(604)	–	14 730
Total expenses	851 476	27 602	8 043	386 919	82 133	(43 783)	1 312 390
Surplus/(deficit) for the year	(67 855)	(1 500)	2 017	(77 164)	23 733	(1 394)	(122 163)

Segment reporting by human development goal: expenses as at 31 December 2022

(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	105 974	461 348	56 857	6 577	104 093	–	1 402	736 251
Supplies and consumables	34 343	17 423	122 539	822	8 953	–	–	184 080
Occupancy, utilities and premises costs	2 160	6 453	4 251	267	7 101	–	–	20 232
Contracted services	46 249	11 607	39 237	2 415	17 384	–	25	116 917
Indirect support costs	4 202	4 277	33 742	413	2 576	–	(45 210)	–
Subsidies	16 041	7 215	180 555	560	4 187	–	–	208 558
Depreciation and amortization	6 950	16 777	2 065	316	3 749	20	–	29 877
Provisions and write-offs	–	–	1 006	–	416	–	–	1 422
Loss on disposal	277	35	–	–	11	–	–	323
Foreign currency exchange loss	–	–	–	–	14 730	–	–	14 730
Total	216 196	525 135	440 252	11 370	163 200	20	(43 783)	1 312 390

Segment reporting by programme: expenses as at 31 December 2022

(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	491 153	85 184	29 234	27 172	3 119	59 100	39 887	1 402	736 251
Supplies and consumables	19 357	32 409	2 804	119 823	78	9 046	563	–	184 080
Occupancy, utilities and premises costs	9 153	1 992	1 864	753	–	5 823	647	–	20 232
Contracted services	12 129	39 265	24 186	5 423	1 660	28 876	5 353	25	116 917
Indirect support costs	4 705	2 822	4 125	29 055	180	2 846	1 477	(45 210)	–
Subsidies	2 781	6 637	10 650	184 760	67	1 380	2 283	–	208 558
Depreciation and amortization	18 181	5 420	2 108	779	44	2 984	361	–	29 877
Provisions and write-offs	–	–	–	1 006	–	416	–	–	1 422
Loss on disposal	35	275	8	–	–	5	–	–	323
Exchange rate losses	–	–	–	–	–	14 730	–	–	14 730
Total	557 494	174 004	74 979	368 771	5 148	125 206	50 571	(43 783)	1 312 390

Segment reporting by geographical location: expenses as at 31 December 2022

(Thousands of United States dollars)

	<i>Gaza field</i>	<i>Lebanon field</i>	<i>Syrian Arab Republic field</i>	<i>Jordan field</i>	<i>West Bank field</i>	<i>Headquarters</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	307 691	86 746	50 993	135 565	112 175	41 679	1 402	736 251
Supplies and consumables	128 140	11 177	23 241	12 610	8 492	420	–	184 080
Occupancy, utilities and premises costs	5 595	4 471	780	4 482	3 941	963	–	20 232
Contracted services	30 908	35 813	8 598	10 024	17 350	14 199	25	116 917
Indirect support costs	22 382	7 078	10 516	1 927	2 127	1 180	(45 210)	–
Subsidies	56 043	54 923	67 738	17 502	10 105	2 247	–	208 558
Depreciation	16 237	2 910	1 478	2 693	6 103	456	–	29 877
Provisions and write-offs	127	–	2	651	226	416	–	1 422
Loss on disposal	304	8	–	–	11	–	–	323
Exchange rate loss	–	–	–	–	–	14 730	–	14 730
Total	567 427	203 126	163 346	185 454	160 530	76 290	(43 783)	1 312 390

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 2022 –2023 programme budget (Blue Book).

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

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

34.4 The UNRWA budget encompasses three main entities (funding portal types): the programme budget, funded mainly by voluntary contributions, along with 201 international staff members funded through the United Nations regular budget from assessed contributions; the in-kind donations budget; and the projects budget.

34.5 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.

34.6 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.

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

34.8 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.

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

34.10 Presentation differences are attributable 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.

34.11 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 2022 is presented in the table 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)	842 957	41 313	–	884 270
Basis differences	85 694	(66 617)	1	19 078
Timing differences	–	–	–	–
Entity differences	(83 335)	452	–	(82 883)
Presentation differences	(901 087)	–	–	(901 087)
Actual amounts in the statement of cash flow (statement IV)	(55 771)	(24 852)	1	(80 622)

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

34.13 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2022–2023 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)	884 270
Basis differences	77 168
Timing differences	–
Entity differences	350 952
Actual amounts in the statement of financial performance (statement II)	1 312 390

Explanations of material differences

34.14 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)

34.15 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2022 budget allocation at year end.

34.16 The 2022 programme budget, as reflected in the Blue Book for 2022–2023, amounted to \$999.863 million (on a modified cash basis). This is disclosed in financial statement V as the “original” budget. On a modified cash basis, the final 2022 budget was \$1,046.790 million, representing an increase of \$46.927 million, or 4.69 per cent. This is disclosed in financial statement V as the “final” budget. The \$46.927 million is a reflection of the increase in the final budget owing mainly to an increase in the final programme budget from \$825.06 million to \$834.56 million (including in-kind) and an increase in the final projects budget from \$174.8 million to \$212.2 million, including restricted funds (earmarked projects).

Utilization of the budget

34.17 The variation in the budgetary utilization of the different budget cost components is the result of various factors, such as management actions to reduce the cash shortfall, cash and food distribution from the social safety net programme, and other budget reserves. The utilization rates against the various key cost components rates are as follows:

(a) *Staff costs.* The implementation rate is 96 per cent. The underutilization of \$25.63 million is attributable to: (i) the requirement to maintain the international vacancy rate (funded by assessed contributions), the delay in recruitment, as well as the vacancy rate applied on area staff, and the utilization of the daily paid modality in lieu of the fixed-term modality; and (ii) underspending under extrabudgetary funds for international staff, fixed-term area staff and daily paid and limited duration contracts of \$15.6 million, all of which are attributable to timing variances;

(b) *Supplies.* The implementation rate is 95 per cent. The underutilization of \$2.8 million is attributable to the late receipt of project funds and the commitment of funds at year end that were carried forward to 2023, and to additional austerity measures regarding supplies;

(c) *Maintenance of premises and equipment.* The implementation rate is 55 per cent. The underspending of \$36.95 million is attributable to timing differences in project lifespans, and late receipt of project contribution;

(d) *Training, travel, administrative services, and consultancy.* The implementation rate is 66 per cent. The underutilization is attributable to internal control measures adopted to manage the cash deficit during the last quarter of the year under the programme budget, and timing variances for project contribution versus project implementation;

(e) *Hospital and miscellaneous services.* The implementation rate is 89 per cent. The underspending is attributable to projects related to service purchase orders yet to be implemented in the next financial period, in line with the lifespan of the projects; the delay in receipt of hospital invoices; and the internal control measures adopted to manage the cash deficit during the last quarter of the year under the programme budget;

(f) *Subsidies to hardship cases, subsidies to patients, third-party subsidies and other subsidies.* The implementation rate is 77 per cent. The underspending of cash subsidies is attributable mainly to utilization of emergency appeal funds in lieu of the programme budget, the late receipt of project funds and the timing variances in the distribution of cash;

(g) *Reserves.* Reserves represent the unfunded unallocated portion of the programme budget. This amount is redeployed to other budget line items in accordance with the approval of the Executive Office through the decision notes as endorsed by Executive Advisory Group. For projects, the respective reserve is funded and is a temporary budget allocation until a detailed budget breakdown is received from the relevant fields/headquarters departments.

Note 35

Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern. The General Assembly votes in favour of key resolutions supporting UNRWA operations every year and for the renewal of the Agency's mandate every three years. In addition, the Advisory Commission of UNRWA, which brings together the main donors as well as hosts of UNRWA operations, reaffirms its support for the Agency at a semi-annual meeting. On 12 December 2022, by its resolution [77/123](#), the Assembly renewed the mandate of UNRWA operations until 30 June 2026.

Note 36

Related parties

36.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2022 was as follows:

(Thousands of United States dollars)

Description	Total remuneration	Outstanding advances and loans	Number of individuals
Key management personnel	6 409	397	27
Total	6 409	397	27

36.2 Key management personnel, who include the members of the Management Committee, have authority with respect to planning, directing, and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. Related parties for UNRWA include key

management personnel of the Agency, the United Nations Secretariat and the Area Staff Provident Fund.

36.3 The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances.

36.4 A company partially owned by one family member of a member of key management personnel had transactions with the Agency under a long-term agreement signed in 2016 and again in 2020. The staff member in question became part of the Management Committee in April 2019. The total value of the Agency's transactions with this company for 2022 was \$0.228 million. The company has been a supplier to the Agency since 1995, and its revenues from UNRWA account for less than 10 per cent of its operations.

36.5 Advances are those made against entitlements in accordance with UNRWA area and international staff rules and regulations. These are widely available to all UNRWA staff.

Note 37

Subsequent events

37.1 The Agency's reporting date is 31 December 2022 for the 2022 IPSAS financial statements. As at the date of approval and signing of these accounts, no material events, whether favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have had an impact on these statements.

Note 38

Date and approval

38.1 The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2023.

