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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 2013

and

Report of the Board of Auditors

United Nations • New York, 2014

Note

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

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Contents

Letter of transmittal

Letter dated 30 June 2014 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2013.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) for the year ended 31 December 2013, which comprise the statement of financial position (statement I), the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV), the statement of comparison of budget and actual amounts (statement V) and the explanatory notes.

Responsibility of management for the financial statements

The Commissioner-General of UNRWA is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal controls as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on these financial statements on the basis of our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers such internal control as is relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2013 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

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 regulation 12.2 of those Financial Regulations and the related annex, we have also issued a long-form report on our audit of UNRWA.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor General of China

30 June 2014

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 some 5 million registered Palestine refugees. It aims to help them achieve their full potential in human development. UNRWA employs about 31,000 area staff at its Amman and Gaza headquarters and its five fields of operation (Gaza, the West Bank, Lebanon, Jordan and the Syrian Arab Republic).

The Board of Auditors has audited the financial statements and reviewed the operations involving the use of funds controlled by UNRWA for the year ended 31 December 2013. The audit was carried out through visits to the UNRWA field offices in Lebanon, Jordan and Gaza. The Board also reviewed financial transactions and operations at the Amman headquarters.

Audit opinion

The Board issued an unqualified audit opinion on the financial statements of UNRWA for the year ended 31 December 2013. The Board's opinion is set out in chapter I of the present report.

Overall conclusion

The Board identified improvements in the overall process used by UNRWA for preparing financial statements, supported by the upgrade of its RAMCO system to facilitate the automatic generation of financial statements. Nonetheless, there remains a need for UNRWA to increase understanding of the requirements for preparing financial statements that are compliant with the International Public Sector Accounting Standards (IPSAS) among its staff by, for example, providing them with further training.

With only $2.17 million in cash available in its regular budget at year end, UNRWA faced challenges in financing its regular activities. Some payments to creditors due in December 2013 were deferred to allow UNRWA to meet its staff salary obligations. Our analysis of the financial statements showed that, had there been a delay in receiving funds from donors or had there been a sudden decline in contributions, the current assets of $84.49 million available in the General Fund could have covered the cost of UNRWA regular activities for about 35 days.

We note that cash subsidies paid to Palestine refugees increased by 90 per cent between 2012 and 2013, from $82.41 million to $156.75 million. UNRWA attributed this increase to a rise in the number of Palestine refugees.

Key findings

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

Financial overview

Financial performance

For the period under review, total revenue was $1,141.92 million and total expenses amounted to $1,118.46 million, representing a surplus of $23.46 million. General Fund revenue for meeting the core activities of UNRWA, which does not include funds earmarked for projects, was $618.29 million and expenses were $678.86 million, representing a deficit of $60.57 million. The deficit was attributable mainly to non-cash expenses of $42.91 million, comprising depreciation ($23.81 million), loss on disposal ($2.35 million), provision of doubtful debts ($12 million) and impairment loss ($4.75 million).

Accounts payables and accruals

During 2013, UNRWA payables and accruals increased by 68 per cent, from $62.02 million in 2012 to $104.05 million in 2013 (see note 13, chap. V). This significant increase indicates that UNRWA had insufficient cash flows to finance its core activities during the year. For example, the Board found that UNRWA had to defer payments amounting to $5.26 million to suppliers in order to help it meet salary obligations of $52.34 million in December 2013.

Cash subsidies

Cash subsidies paid to Palestine refugees increased by 90 per cent, from $82.41 million in 2012 to $156.75 million in 2013. UNRWA attributed this significant increase to a rise in the number of Palestine refugees, which resulted in increased demands for cash assistance, food security and rental subsidies.

Review of financial statements

Inadequate understanding of IPSAS requirements

The Board found that operational-level staff within the Finance Department, which is where transactions and balances in the financial statement are derived, have limited understanding of IPSAS requirements. Additionally, there is inadequate coordination between the Finance Department and other departments during the consolidation of the financial statements, particularly the Procurement and Logistics Division, which is responsible for assessing and classifying inventory and non-inventory items to determine the correct inventory balance at year end.

Internal control system

Lack of an anti-fraud policy document

UNRWA does not have an anti-fraud policy document that guides management in addressing risks of fraud at all levels of UNRWA operations. An organization-wide anti-fraud policy is vital if UNRWA staff are to understand the actions to be followed when investigating fraud and other corrupt practices. An anti-fraud policy should clearly outline the principles and procedures that employees should follow in reporting suspected fraud or corruption, and set out the channels employees should use to report any concerns.

Procurement and contracts management

Waivers

The Board sampled 18 tenders worth $59.6 million for basic commodities at the Amman headquarters and 14 service contracts worth $0.59 million at the Jordan field office. All 18 of the tenders reviewed involved a waiver, 16 of which were issued without justifiable reasons for the waiver. The most common reason given for the waivers was to shorten the duration of the tender in order to meet deadlines set by users who were under pressure as a result of the late submission of the list of requirements by the field offices.

At the Jordan field office, 7 of the 14 sampled contracts waived the competitive process for the renewal of the contracts on the grounds of good performance by the suppliers, despite the fact that there were no supplier evaluation reports to substantiate the decisions. In most cases, waivers were sought to shorten the tender period to 3-14 days from the normal 21 days. Shortened tender submission time frames can lead to low vendor response rates, as the vendors may have insufficient time to prepare the tender documents. This can also limit the scope of competition among vendors, which might negatively impact on the prices obtained and expose UNRWA to increased risk of fraud.

Programme and project management

Delays in the implementation of Nahr el-Bared Refugee Camp projects

The Board reviewed eight reconstruction projects at Nahr el-Bared Refugee Camp, in Lebanon. All of the projects were behind schedule by between two and eight months. Management attributed the delays to: the discovery of extensive archaeological sites that needed to be excavated and documented; delays by UNRWA headquarters in submitting detailed designs to the Directorate-General for Urban Planning; and delays in obtaining planning permission from the Government. The delays in implementing these projects may lead to increased costs and undermine the confidence of donors to UNRWA. In addition, these projects did not have a specific project manager to supervise them. As a temporary measure, engineers are supervising the projects until the required project managers can be recruited.

Lack of clear guidelines for the establishment of project steering committees

The UNRWA project process manual requires that a steering committee be established to oversee the implementation of all projects valued at over $1 million. The manual does not, however, contain information clearly defining any other factors that should be considered in determining whether to establish a steering committee. In addition, it does not include information on the expected composition of such committees, or on the roles and responsibilities of its members. In any event, no steering committee has been established despite the fact that all eight construction projects at Nahr el-Bared Refugee Camp, which are being implemented by the Lebanon field office, and the 25 construction projects that are being implemented by the Gaza field office are valued at over $1 million.

Information and communications technology

Lack of a contingency plan to support the existing enterprise resource planning system

There was a six-month delay in the completion of phase I of the project for the implementation of the new enterprise resource planning system, which was then further deferred from June 2014 to January 2015 so as to coincide with phase II. The contract with the supplier of the existing enterprise resource planning system (RAMCO) ends in December 2014 but UNRWA has not developed a contingency plan for supporting it in the event of further delays to the new system. Should there be further delays to the new system and no plan in place to secure prolonged support from the supplier of the existing RAMCO system, there would be an increased risk of UNRWA having to operate its existing system without support.

Lack of a benefits realization plan for the enterprise resource planning project

UNRWA management has not developed a benefits realization plan. Without such a plan, there is a risk that the expected benefits of the enterprise resource planning project will not be clearly understood or documented in a way that will enable them to be measured once the system has been implemented. The new project master plan focuses on building and operating the enterprise resource planning system in UNRWA but is not integrated with a benefits realization plan to ensure optimal utilization of the opportunities expected from the project.

The Board has made several recommendations on the basis of its audit. The main recommendations are that UNRWA:

Inadequate understanding of IPSAS requirements

(a) **Identify specific IPSAS requirements that are more applicable in the preparation of financial statements and conduct training for staff in the Finance Department and other departments to enhance compliance with IPSAS requirements;**

(b) **Improve coordination between the Finance Department and other departments during the preparation of financial statements to ensure reliability and completeness of reported balances;**

Lack of an anti-fraud policy document

(c) **Develop a policy for addressing fraud and other corrupt practices to guide management and other staff members in identifying and reporting fraudulent matters;**

Waivers

(d) **Improve coordination between the procurement department and users at the field offices to ensure that all procurement requirements are identified and communicated to the Procurement and Logistics Division at headquarters in a timely manner in order to avoid the unnecessary shortening of the tender period;**

(e) **Perform regular reviews of inventory balances, average consumption and lead time to avoid emergency orders;**

(f) **Retender all expired service contracts to allow for competitive bid pricing;**

(g) **Where the renewal of existing contracts is triggered by vendors' good performance, the waiver should be supported by an evaluation report on the respective vendor's performance;**

Delayed implementation of Nahr el-Bared Refugee Camp projects

(h) **Expedite recruitment of a specific project manager for Nahr el-Bared Refugee Camp who should be responsible for monitoring and supervising projects;**

(i) **Ensure the timely submission of project designs and requirements to the Directorate-General for Urban Planning in Lebanon for clearance to avoid delays in project implementation, which might result in cost overruns;**

Lack of clear guidelines for the establishment of project steering committees

(j) **Establish steering committees for construction projects as required by the current project process manual while waiting for the revised manual;**

(k) **Review the project process manual and provide clear guidance on the establishment of project steering committees, including committee composition and the roles and responsibilities of the committee members, and on the kinds of projects that require a steering committee;**

Lack of a contingency plan to support the existing RAMCO system

(l) **Develop a contingency plan to support the existing enterprise resource planning system, RAMCO, in case of further delays to the implementation date for the new system;**

Lack of a benefits realization plan for the enterprise resource planning project

(m) **Develop a benefits realization plan for the enterprise resource planning project and integrate it into the project master plan.**

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 by 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 Palestine refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving 4.8 million Palestine refugees in the Gaza Strip, the West Bank, Jordan, Lebanon and the Syrian Arab Republic. UNRWA is also one of the largest employers in the Middle East, with approximately 30,225 staff, most of whom are Palestine refugees. UNRWA has schools accommodating approximately 480,000 children and 22,000 education staff, as well as 137 health centres across the region serving 10 million patients annually. UNRWA also assists some 280,000 of the poorest and most vulnerable refugees with special needs, such as people with disabilities.

2. The Board of Auditors has audited the financial statements of UNRWA and has reviewed its operations for the year ended 31 December 2013 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA and the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2013 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 UNRWA. 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.

4. The Board also issued a separate unmodified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2013, prepared in accordance with the International Financial Reporting Standards.

5. Furthermore, the Board performed an annual audit of the Microfinance Department and issued an unmodified opinion on its financial statements for the year ended 31 December 2013.

6. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations in accordance with regulation 7.5 of the Financial Regulations of the United Nations covering: treasury and cash management, procurement and contract management, human resources management, asset management, project management, results-based management, and information and communications technology.

B. Findings and recommendations

1. Follow-up to previous recommendations of the Board

7. The Board noted that, of the 25 recommendations made for the year 2012, 12 (48 per cent) had been fully implemented, 12 (48 per cent) were under implementation and 1 (4 per cent) had not been implemented. The recommendation that had not been implemented related to the development of a funding strategy for after-service health insurance, which UNRWA maintains will be one of the matters that will be considered when the UNRWA mandate ends. Of the 12 recommendations that were under implementation, three were still under implementation owing to a shortfall in the current enterprise resource planning system (RAMCO). Their full implementation depends on the launch of the new enterprise resource planning system. Details regarding actions taken in relation to the 2012 recommendations are included in the present report and summarized in annex I.

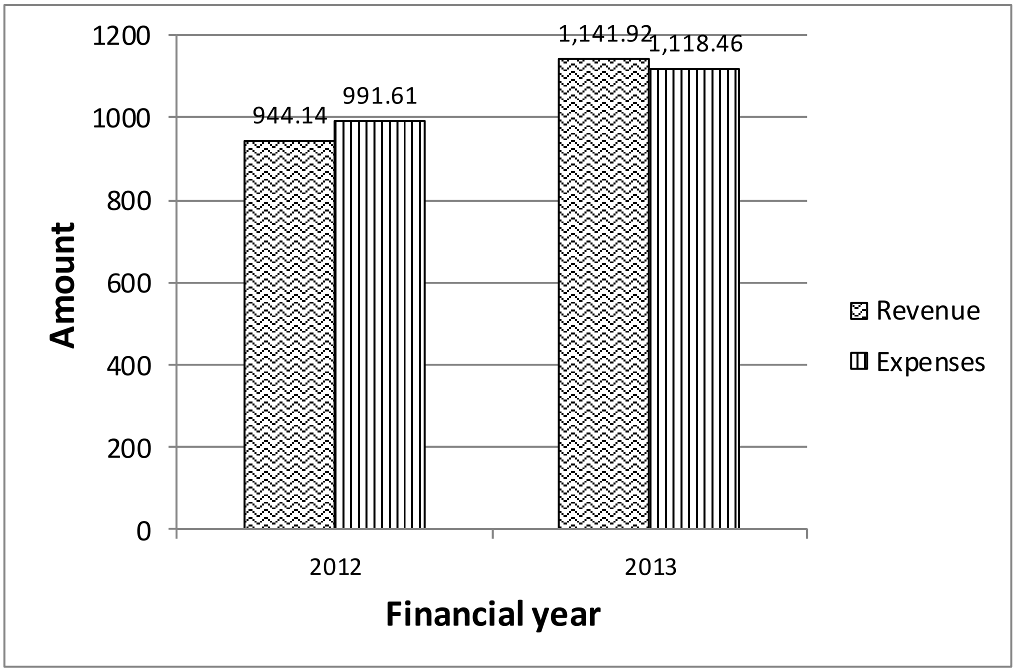
8. UNRWA rejects the recommendation that has not yet been implemented, however, stating that the settlement of end-of-service liabilities is linked to the solution of the Palestine refugee issue and not to the UNRWA mandate. Therefore, the recommendation should be made to the General Assembly, from which UNRWA receives its mandate. Nonetheless, the Board considers this liability to be part of the UNRWA financial statements and, therefore, that it was right to direct it to UNRWA. Moreover, it considers that the responsibility of agreeing and obtaining from Headquarters a formal commitment of funding and settlement of the end-of-service liability rests with UNRWA.

2. Financial overview

Financial performance

9. During 2013, the total revenue of UNRWA was $1,141.92 million (compared with $944.14 million in 2012) and its total expenses were $1,118.46 million (compared with $991.61 million in 2012), resulting in a surplus of $23.46 million (see figure I).

Figure I
Revenue and expenses for the financial years 2012 and 2013
(Millions of United States dollars)



10. On the other hand, the General Fund, which finances core activities, generated $618.29 million in revenue (compared with $587.00 million in 2012) and spent $678.86 million (compared with $664.04 million in 2012), resulting in a deficit of $60.57 million (compared with $77.06 million in 2012). The reported deficit in the General Fund was mainly attributed to non-cash expenses of $42.91 million, comprising depreciation ($23.81 million), loss on disposal ($2.35 million), provision of doubtful debts ($12 million) and impairment loss ($4.75 million). Details about financial performance, by fund, are summarized in table 1.

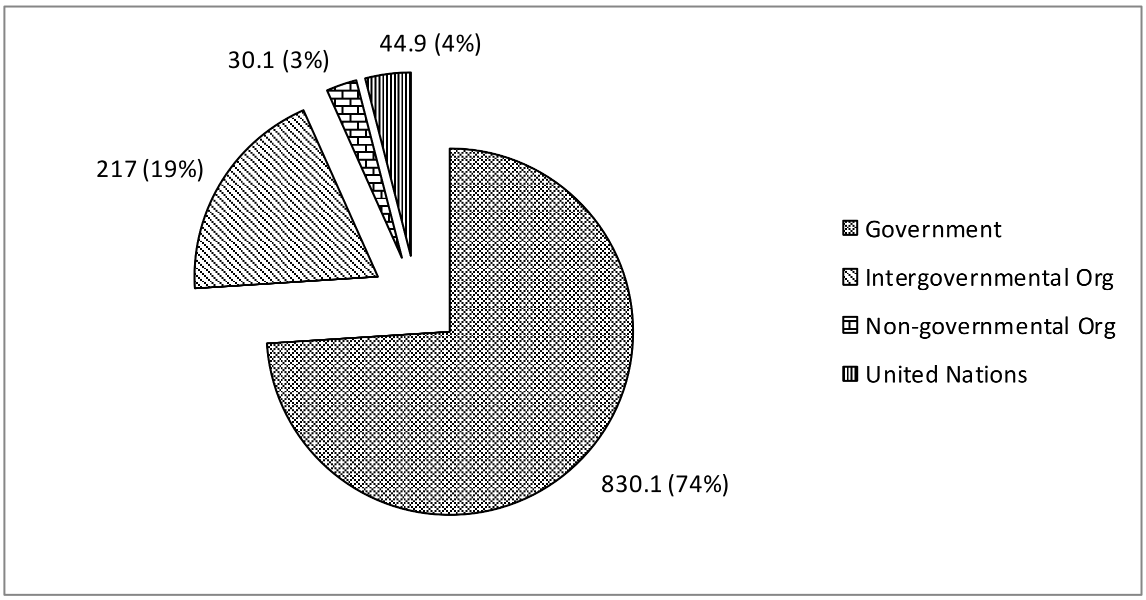
Table 1
Financial performance, by fund
(Millions of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Total revenue	618.29	40.47	9.80	153.20	356.74	(36.58)	1 141.92
Total expenses	678.86	44.27	9.33	145.80	276.96	(36.75)	1 118.47
Surplus/(deficit)	**(60.57)**	**(3.80)**	**0.47**	**7.40**	**79.78**	**0.17**	**23.45**

Source: UNRWA financial statements for 2013.

11. Voluntary contributions form a major part of UNRWA revenues. During the year under review, UNRWA received contributions amounting to $1,124.09 million (in 2012, the amount was $919.6 million), of which $1,079.20 million (96 per cent) represented voluntary contributions from various donors (see figure II). The remaining $44.89 million ($36.81 million in 2012), equivalent to 4 per cent, was received from the regular budget of the United Nations for international staff (see notes 20 and 21 of the financial statements). Voluntary contributions increased by $202.9 million (22.6 per cent) over 2012, when such contributions amounted to $897.9 million. The increase in voluntary contributions was a result of the resource mobilization strategy established in 2012 and positive donor support to UNRWA.

Figure II
Voluntary contributions, by source of revenue
(Millions of United States dollars)



Source: The Board’s analysis of UNRWA financial statements for the period ended 31 December 2013.

Expense analysis

12. Wages, salaries and employee benefits, which increased by 6.2 per cent to $628.04 million in 2013 (compared with $591.39 million in 2012), represented 56.2 per cent of UNRWA total expenses of $1,118.46 million (in 2012, expenses totalled $991.59 million). Of the reported staff costs, $522.70 million ($497.56 million in 2012) or 83.2 per cent related to local staff basic salaries and allowances, and $44.74 million ($38.24 million in 2012) or 7.1 per cent related to international staff. While $51.92 million ($49.69 million in 2012) or 8.3 per cent represented UNRWA contributions to the Area Staff Provident Fund, $8.68 million ($5.90 million in 2012) or 1.4 per cent were health-related expenses (see note 27).

Financial position

13. In its statement of financial position for the year ended 31 December 2013, UNRWA reported a cash balance of $278.40 million compared with a cash balance of $232.43 million in 2012, representing an increase of $45.97 million (19.78 per cent). Of the $278.40 million, however, only $2.17 million (0.8 per cent) was available for the General Fund, representing a decrease of $5.46 million (71.6 per cent) over 2012, when that amount was $7.63 million (3.3 per cent). The larger portion of cash balance, equal to $213.78 million (76.8 per cent), was available for project funds. A total of $34.01 million (12.2 per cent) was the result of an emergency appeal, while the cash balance for restricted funds and the Microfinance Department were $16.84 million (6.1 per cent) and $11.59 million (4.2 per cent), respectively.

Account payables and accruals

14. Payables and accruals increased by 67.8 per cent, from $62.02 million in 2012 to $104.05 million in 2013. Payables and accruals included: supplier account payables in the amount of $28.99 million (compared with $15.34 million in 2012), representing an increase of 89 per cent; accrued salaries and wages in the amount of $3.59 million (compared with $2.24 million in 2012); accrued expenses in the amount of $36.14 million (compared with $32.46 million in 2012); an amount of $10.58 million due to area staff; and other account payables in the amount of $24.75 million (compared with $11.96 million in 2012).

15. The significant increase in account payables and accruals is an indication of inadequate cash flows to finance the core activities of UNRWA. For example, the Board noted that, owing to financial constraints, UNRWA deferred payments valued at $5.26 million to suppliers in order to meet salary obligations in the amount of $52.34 million in December 2013.

Ratio analysis

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

Table 2
Ratios of key financial indicators
(Millions of United States dollars)

	General Fund[a]		
Ratio	*2012*	*2013*	*2013*[b]
Cash/total assets[c]	0.29	0.004	0.31
Current assets/current liabilities (liquidity ratio)[d]	2.31	0.65	2.41
Cash/liabilities[e]	0.39	0.004	0.42
Assets/liabilities[f]	1.34	0.86	1.35

[a] Ratios calculated on the basis of unearmarked activities under the General Fund.
[b] Ratios calculated on the basis of the agency as a whole (earmarked and unearmarked activities).
[c] A high indicator depicts a healthy financial position.
[d] An indicator above 1 is favourable.
[e] If an indicator is low, insufficient cash is available to settle debt.
[f] If an indicator is high, sufficient assets are available to cover liabilities.

17. The cash-to-liability ratio increased slightly over 2012, indicating that for every dollar of debt UNRWA had $0.42 ($0.39 in 2012) in liquid assets to settle such debts as they fell due. Furthermore, the cash-to-total-assets ratio also increased slightly in 2013: 31 per cent (29 per cent in 2012) of total assets were readily available to meet the immediate needs of UNRWA. The solvency ratio (assets/liabilities) improved slightly: in 2013, UNRWA had $1.35 ($1.34 in 2012) of assets to settle each dollar of liability due. The liquidity ratio shows that UNRWA had $2.41 ($2.31 in 2012) of short-term resources to service each dollar of current debt. That is a good ratio given that an indicator is considered to be favourable if it is above 1. However, the General Fund, which finances the core activities of UNRWA, had only $0.65 to finance each dollar of outstanding debt.

18. The defensive interval ratio measures the number of days UNRWA is able to operate without receiving funds from donors. In 2013, UNRWA was able to finance its day-to-day operations for an average of 129 days (in 2012, the average was 125 days) without requiring funds from donors. However, the average of 129 days might be unrealistic since most of the funds used to calculate the ratio are earmarked funds, which are intended for specific activities.

19. Current assets from the regular budget in the amount of $84.49 million could meet about 35 days of regular expenditure, excluding non-cash expenditure (depreciation, provisions, loss on disposal and impairment loss). Based on the ratios calculated in table 2, UNRWA was exposed to the risk of not being able to meet its daily operating costs in the event of a short delay in receiving remittances from donors or a sudden decline in contributions.

3. End-of-service liabilities, including after-service health insurance

20. In its previous report, the Board expressed its concern at the magnitude of the reported unfunded obligation of area staff end-of-service benefits, which amounted to $463.02 million for 2012 (A/68/5/Add.3, chap. II, para. 40). At the end of 2013, UNRWA reported an unfunded obligation of area staff end-of-service benefits in the amount of $491.72 million, an increase of $28.71 million or 6.2 per cent compared

with the previous year. The increase was largely due to the current period's service costs of $33.69 million, interest costs of $21.98 million and actuarial losses of $0.14 million.

21. UNRWA also disclosed an amount of $2.73 million (compared with $2.23 million in 2012) for after-service health insurance, leave liability, repatriation grant, shipment and travel for international staff, which are not funded by the United Nations regular budget.

22. Meeting these long-term contractual obligations with employees, both current and past, remains a challenge for UNRWA. While the end-of-service benefits are unfunded, each year UNRWA allocates funds equivalent to the cash payout for that particular year. The benefits paid during the year amounted to $27.1 million.

23. The Board remains concerned that, where end-of-service and post-retirement liabilities are not supported by an approved funding plan, there is a risk that UNRWA might not be in a position to fully meet its financial obligations for those benefits as and when they fall due.

24. **The Board reiterates its previous recommendation that UNRWA set up specific funding arrangements to fund its end-of-service liabilities, for consideration and approval by the appropriate authorities, including the General Assembly.**

25. UNRWA has said that it continues to diversify its donor base by focusing on emerging markets, Arab donors, non-traditional donors and private partners, in an effort to increase funding. Additionally, UNRWA has commented that, as the settlement of liabilities is linked to the solution of the Palestine refugee issue and to the UNRWA mandate, recommendations related to end-of-service liabilities should be made by the General Assembly, from which UNRWA receives its mandate.

4. Review of financial statements

Inadequate understanding of IPSAS requirements

26. In its 2012 report, the Board noted areas of improvement in the process of preparing the UNRWA financial statement and recommended that UNRWA strengthen its controls to ensure that the system of processing, reviewing and summarizing financial information was more reliable and adequate for the preparation of financial statements.

27. The Board noted some improvements in 2013. The financial statements are system-generated with few manual interventions (such as recording of inventory balances from clinics and pharmacies, as well as provision and the write-off of receivables). Manual intervention for inventory balances from clinics and pharmacies was inevitable owing to the lack of a procurement inventory management system in those areas; provisions and the write-off of receivables need manual approval outside the system.

28. Despite those improvements, a review of the first approved financial statements submitted for audit purposes showed improper presentation and disclosure of some line items, leading to the following deficiencies:

(a) Use of an inappropriate approach for calculating impairment loss, which resulted in the overstatement of impairment loss by $2.97 million;

(b) Netting off additions and recovering provisions with respect to contributions receivable amounting to $0.120 million and $1.403 million, respectively;

(c) Inventory items amounting to $0.438 million were treated as non-inventory and expensed on the date of purchase, thus understating inventory balance by the same amount;

(d) Non-disclosure of proceeds from disposal in the cash flow statement of $0.14 million;

(e) Existence of debit balances amounting to $0.073 million in accounts payable owing to a lack of regular reviews of subsidiary ledgers.

29. All deficiencies were rectified by UNRWA, except for the expensed inventory amounting to $0.438 million, which did not materially affect the fair presentation of the financial statements. The Board considered that the deficiencies in the presentations of the financial statements were a result of inadequate understanding of IPSAS requirements.

30. The Board also noted inadequate understanding of IPSAS requirements at the operational level within the Finance Department, which is where transactions and balances in the financial statements are initiated. Additionally, the Board noted inadequate coordination between the Finance Department and other departments during the consolidation of the financial statements, particularly between the staff of the Procurement and Logistics Division, who are responsible for assessing and classifying inventory and non-inventory items in order to determine the correct balance at year end.

31. **UNRWA agreed with the Board's recommendation that it: (a) identify specific IPSAS requirements that are more important for the preparation of financial statements and conduct training for staff of the Finance Department and other departments in order to enhance compliance; and (b) improve coordination between the Finance Department and other departments during the preparation of financial statements to ensure reliability and completeness of reported balances.**

5. Internal control system

32. UNRWA has a system of internal controls that is meant to safeguard assets, ensure adherence to management policies and procedures, and prevent fraud. Internal controls form an integral part of UNRWA procedures, providing reasonable assurance concerning the achievement of the objectives. UNRWA has established a number of technical instructions, organizational directives, manuals, policies and staff rules to ensure effective and efficient financial administration and operation of UNRWA.

33. The Board reviewed the organization's directives, technical instructions, manuals, policies and staff rules, as well as the actual practices of various functions within UNRWA. The Board identified areas that need to be improved in order to enhance the internal control system, in particular processes for fraud management, risk assessment and the mapping of key internal controls.

Lack of an anti-fraud policy document

34. UNRWA records cases of fraud or abuse that have been voluntarily reported by staff for investigation and resolution. Additionally, the Department of Internal Oversight Services was a focal point for receiving all allegations and complaints in relation to misconduct as mandated under UNRWA organizational directive No. 14.

35. UNRWA lacks an anti-fraud policy document that guides management in addressing risks of fraud at all levels of the organization's operations. The Board believes that an anti-fraud policy is a vital document for UNRWA to provide specific guidelines and responsibilities regarding appropriate actions to be followed in the investigation of fraud and other corrupt practices. The policy should clearly outline principles and procedures for employees to report suspected fraud or corruption, and set out the channels by which employees can report their concerns.

36. **The Board recommends that UNRWA develop a policy on fraud and other corrupt practices, to guide management and other staff members in identifying and reporting fraud-related matters.**

37. UNRWA agreed with the Board's recommendation and said that it was in the process of developing an anti-corruption strategy by carrying out a comprehensive risk assessment of fraud and corruption to address the recommendation. The Board noted that there was a mandatory ethics e-learning course that included components to raise awareness of fraud, corruption and related reporting mechanisms.

Mapping of key internal controls

38. UNRWA had a number of rules and regulations, manuals, organizational directives, policies and guidelines governing its day-to-day operations but it did not have a document summarizing and communicating minimum standards and guidance with respect to internal controls. This omission makes it difficult to track the roles and responsibilities embedded in specific controls activities.

39. The Board considers that there is a need for UNRWA to map key internal controls in a central document. This would facilitate a clear understanding of control activities within UNRWA and outline how exceptions should be reported to higher levels of management, particularly during the upcoming transition to a new enterprise resource planning system. Such a document would also assist in establishing an acceptable segregation of duties and provide authorities, responsibilities and accountabilities in each role, for clarity. Effective documentation of the UNRWA system of internal control was deemed necessary to provide proper monitoring and give assurance to stakeholders on the existence and effectiveness of internal controls.

40. **UNRWA agreed with the Board's recommendation that it undertake a mapping exercise to identify and compile in a single document key internal controls for its business processes with reference to other documents providing detailed procedures.**

Lack of a risk management policy

41. UNRWA conducted risk assessments during the preparation of field implementation plans, which are the operational plans of the field offices, and the headquarters implementation plan, which is the operational plan for headquarters, to

identify risks that might affect the implementation of UNRWA plans. The identified risks were recorded in risk registers that were annexed to individual implementation plans at the respective field offices and headquarters. The Board noted, however, that UNRWA lacks a formal and documented risk management policy to guide and facilitate the standardization of the risk assessment process.

42. The Board reviewed field and headquarters implementation plans and noted that the prioritization of risk across field offices is inconsistent. For example, at the Jordan field office "strong negative reaction from refugees" was identified as an important risk the consequences of which included unrest, protest and poor cooperation. That risk was not, however, identified and recorded in the risk registers for the West Bank and Gaza field offices, where that kind of risk would appear to be even greater than in Jordan given the frequent staff strikes at the two field offices. The Board is of the view that a consistent and standardized approach is necessary to identify and address risks that affect all field offices owing to the similarity of services rendered.

43. **UNRWA agreed with the Board's recommendation that it: (a) develop and distribute to employees a risk management policy outlining the underlying approach to risk management and mitigating procedures; and (b) ensure that all important risks that are common to UNRWA are assessed and captured in the risk registers at the field offices, thus enabling the development of common procedures for responding to those risks.**

6. Treasury and cash management

Management of the microcredit community support programme

44. UNRWA established the microcredit community support programme as a subprogramme of the Social Services Division of the Relief and Social Services Department. The programme seeks to promote the socioeconomic development of refugee communities. Specifically, it aims to increase the individual household assets of vulnerable Palestine refugees by supporting community-managed initiatives that provide Palestine refugees with access to financial products and non-financial services.

Performance evaluation of the microcredit community support programme

45. UNRWA hired a consultant to evaluate the general operations of the programme, assessing its contribution to the reduction of poverty among the intended refugees and determine if it was feasible for UNRWA to continue operating the programme in its current structure.

46. In a report, the consultant made several recommendations, including for the development of a loan-tracking system and of a management information system for the loan portfolio, introducing training courses for staff of the programme and of community-based organizations, establishing other forms of guarantees, such as guarantors employed in the private sector rather than considering only refugees with a relative working in UNRWA, and involving community-based organizations fully in the operation of the programme rather than using a direct lending system.

47. The Board concurs with the consultant's recommendations and that their timely implementation would enhance the operation of the programme.

48. **UNRWA agreed with the Board's recommendation that it conduct a thorough review of the consultant's report and apply the proposed recommendations to improve the operations of the microcredit community support programme without compromising its basic mandate of helping Palestine refugees to achieve their full potential in human development.**

7. Asset management

Repair and maintenance of motor vehicles

49. The UNRWA manual of transport and technical instruction required a uniform approach to the scheduling of vehicle maintenance according to the intervals recommended by vehicle manufacturers. UNRWA vehicles were maintained and repaired at workshops located in each field office under the procurement departments.

50. The Board reviewed the operations of the motor vehicle workshop in the Jordan field office and noted that the workshop record-keeping system was manual; even the job card forms were filled in manually. The job card forms were filled for each motor vehicle that arrived at the workshop for service and kept in the respective files for future record. The form included the signature of a workshop foreman authorizing the work to be done and of a driver acknowledging completion of the service. The forms also contained information on odometer readings and the dates on which a given vehicle was received and dispatched from the workshop.

51. From reviewing a sample of 111 completed job card forms for 22 motor vehicles in the Jordan field office, the Board noted that neither the drivers nor the workshop foremen had signed the job card forms after the services had been performed to prove that the services had been rendered to the required standards. In addition, the dates on which motor vehicles were received and dispatched were indicated on only five cards. Upon reviewing the odometer readings for the 22 motor vehicle files, the Board found that there were 10 vehicles (including three vehicles exceeding the threshold of more than 1,000 km) with mileages in excess of the standard mileage for maintenance (the excesses ranged from 100 to 4,200 km). Exceeding the required standard mileage for motor vehicle services might lead to an increase in maintenance costs and expose UNRWA vehicles to the risk of abnormal wear and tear.

52. The Board also found that there were no reports prepared for monitoring workshop operations, despite UNRWA stating that such reports would have been generated once the new software system for managing the workshop operations had been implemented. The Board considered that the present manual system at the workshop in the Jordan field office needed improvement, to enhance operational controls within the workshop.

53. **The Board recommends that UNRWA: (a) expedite the implementation of a new software system to manage vehicles' workshop operations and record-keeping; and (b) enforce the available operational controls of the vehicles' workshop, including proper record-keeping and the completion of job card forms.**

54. UNRWA agreed with the Board's recommendation and stated that the software would be installed by the end of 2014, after which time job cards would be

generated automatically, records would be maintained accurately and all costs would be charged to the vehicle being repaired or maintained.

8. Inventory management

Deficiencies in the classification of inventory items

55. In its previous report, the Board reported items with a value amounting to $0.542 million that qualified as inventory but were classified as non-inventory and expensed in the statement of financial performance at the time of purchase (A/68/5/Add.3, paras. 84-88). UNRWA agreed that, in the future, all qualified inventories would be counted and reported in the statement of financial position at year end. The Board was also informed that the current information technology systems of UNRWA did not capture non-inventory items and that this particular deficiency would be addressed in 2015 with the introduction of the new enterprise resource planning system.

56. While reviewing the inventory stock-taking sheets from the Gaza, Jordan and Lebanon field offices as at 31 December 2013, the Board noted that UNRWA had disclosed 2,087 items valued at $1.30 million as non-inventory. It also noted, however, that, of the 2,087 items, 322 items valued at $1.19 million fell under inventory, in accordance with IPSAS 12.

57. While the Board recognizes the efforts made by UNRWA to assess non-inventory items for reclassification, further follow-up would be needed to verify that the valuation process was completed in a timely manner and that the opening and closing inventory balances were adjusted accordingly. In addition, UNRWA would need to ensure that the new enterprise resource planning system was properly customized to capture all categories of inventory items. Nevertheless, the fact that the opening and closing inventory balance was assessed, at cost, at $0.208 million and $0.438 million, respectively, did not materially affect the fair presentation of the financial statements.

58. **UNRWA agreed with the Board's recommendation that it expedite the evaluation process and adjust the opening and closing inventory balances accordingly to comply with IPSAS 12.**

9. Procurement and contract management

59. Procurements account for approximately 27 per cent of UNRWA total expenses. The procurement process involves the acquisition of goods, services and construction, as well as maintenance. The Board assessed the level of compliance with the procurement manual, reviewed the effectiveness of the internal control system and identified a number of areas in need of improvement (see paragraphs below).

Inadequate procurement plans

60. In chapter 3 (1) of the UNRWA procurement manual, UNRWA is encouraged to conduct regular procurement planning sessions with all project and procurement personnel from each department and field office to generate the information required for its procurement plan. UNRWA has centralized procurement operations for certain categories of items, such as basic commodities, motor vehicles, spare

parts and medicines, while procurement operations for other items have been decentralized at the respective field offices.

61. The Board reviewed procurement plans from individual departments and field offices and noted that UNRWA had prepared procurement plans only for items that had been procured under its regular budget. Procurement plans for items acquired through project funds had not been prepared. The Board was informed that normally the procurement and logistics departments at headquarters and in field offices were not involved at the initial stage of project procurement and therefore lacked information vital for planning.

62. The exclusion of project funds from the procurement plans prevents UNRWA from identifying and obtaining economies of scale through the consolidation of similar items into one contract/tender. It also hinders effective monitoring and evaluation of the procurement process.

63. **UNRWA agreed with the Board's recommendation that it: (a) include items procured under project funds during the preparation of procurement plans to benefit from economies of scale; and (b) involve the Chief of the Procurement and Logistics Division and field procurement and logistics officers in project-level procurement planning at headquarters and in the field to obtain input for the preparation of each procurement plan.**

Inconsistency in the preparation of individual procurement plans

64. A review of procurement plans from two departments (the Health Department and the Relief and Social Services Department) and two field offices (Lebanon and Jordan), showed that most of the plans lack key information, for example on the procurement method, the estimated amount, the nature of the procurement and the specified range of time from tendering to awarding. The Board was of the view that the absence of such information makes it difficult to carry out an effective evaluation of the procurement process.

65. Moreover, the plans lack uniformity and were not reviewed and approved by the appropriate levels of procurement authority. The Board attributes the divergences to the absence of systematic approval of the individual procurement plans and lack of information in the procurement manual on the format and content of the procurement plans.

66. **UNRWA agreed with the Board's recommendation that it: (a) develop and implement a standard methodology and template for procurement planning to bring consistency to its headquarters departments, field offices and project undertakings; and (b) ensure that procurement plans are thoroughly reviewed and agreed by the concerned departments, project managers and the Procurement and Logistics Division to ensure they contain all the appropriate information before they are implemented.**

Ex post facto/retroactive approval of variation orders

67. In accordance with chapter 9.4 of the UNRWA procurement manual, ex post facto/retroactive approval is possible; the reviewing authorities (the Local Committee on Procurement, the Director of Administrative Support and the Advisory Committee on Procurement), however, can only note the submission but cannot clear it for award. In such cases, the contract is signed after delivery of the

intended service has begun. In addition, in chapter 9.4, paragraph 9, of the procurement manual, it is specified that all UNRWA staff members are expected to make every effort to avoid ex post facto or retroactive cases, and that, when they do nevertheless occur, special approval of the awarding authority is required before related payments are made or, if already made, for such expenditures to be accepted by UNRWA as legitimate charges against the appropriate budget line or lines.

68. The Board reviewed 13 construction contracts at the Gaza field office, three of which had been amended while at different stages of completion and subsequently submitted for ex post facto approval (see table 3).

Table 3
Sample of variation orders made in 2013
(Amounts in millions of United States dollars)

Contract number	*Original contract amount*	*Total amount of variations*	*Revised contract amount*	*Variation change (percentage)*
BC/62/2011	1.28	0.59	1.87	46
BC/45/2012	0.19	0.08	0.28	42
BC/14/2012	1.36	0.33	1.68	24

Source: List of variation orders and contracts.

69. The variations were assessed to confirm their compliance with the requirements of the procurement manual. The Board noted that, in some cases, the variation orders were submitted for ex post facto approval despite most of the work having been completed. For instance, variation order No. 2, in respect of contract No. BC/14/2012, was submitted for ex post facto approval while the variations were almost 96 per cent completed. The Board reviewed three variation orders totalling $1 million in three contracts and noted that the reasons for the variations included: the omission or addition of items in the original bill of quantities, a change in the construction location and a change from repair to reconstruction to accommodate user requirements. The Board believes that the reasons given relate to the inadequate survey and design of the referred constructions and that the costs arising from those variation orders could have been avoided.

70. In addition, the variation orders were approved on an ex post facto/retroactive basis without there being sufficient evidence to prove that responsible officials took every effort to avoid such approval (in accordance with chapter 9.4, para. 9, of the procurement manual). Unjustified ex post facto approval not only creates additional costs for UNRWA but also limits effective competition among contractors and reduces transparency during the negotiation process. It might also expose UNRWA to the risk of unexpected liabilities resulting from the approval of variation orders with an insufficient budget.

71. **UNRWA agreed with the Board’s recommendation that it: (a) enforce compliance with the procurement manual and minimize ex post facto approval and, where such approval is inevitable, clearly document the factors which necessitated the ex post facto approval; (b) conduct detailed surveys and designs for construction work and ensure thorough reviews of survey reports to avoid unnecessary variations; and (c) improve the process of reviewing the**

contents of each bill of quantities and ensure that all necessary items for a particular construction project are included before being approved.

Waiver to shorten the tender period

72. Chapter 5.4.1, paragraphs 1 and 2, of the procurement manual provides circumstances where waivers in the competitive procurement process are acceptable. The manual also requires that the reasons for the requested waiver be recorded properly.

73. The Board sampled 18 tenders valued at $59.6 million for basic commodities (Amman headquarters) and 14 service contracts valued at $0.59 million (Jordan field office) and noted that UNRWA had documented the reasons for the waivers in each tender and contract. Of the 18 reviewed tenders, however, only 2 had justifiable reasons for receiving a waiver, while the remaining 16 waivers had not been fully justified. The most common reason given for the waiver was to shorten the duration of the tender so that the deadline set by users, which was also affected by the late submission of the list of requirements from the respective field offices, could be met. For the Jordan field office, in 7 of the 14 reviewed contracts the competitive process for renewing the contracts had been waived, on the grounds that the suppliers had performed well, but there was no supplier evaluation report to substantiate the good performance. In most cases, the waiver was sought to shorten the tender period to 3-14 days from the normal period of 21 days.

74. Short tender submission time frames lead to low vendor responses to invitations to bid owing to insufficient time to properly prepare for the tender process and meet the delivery schedule. This also limited the scope of competition among vendors, which might eventually affect tender prices and value for money. It might also increase the risk of fraud and corruption.

75. **The Board recommends that UNRWA: (a) improve coordination between the procurement department and users at the field offices to ensure that all procurement requirements are identified and communicated to the Procurement and Logistics Division at headquarters on a timely basis, to avoid the unnecessary shortening of the tender periods; (b) perform regular reviews of lead times and inventory balances to avoid emergency orders; and (c) review the grounds for waivers to ensure they are consistent with current good practice.**

76. UNRWA agreed with the Board’s recommendation and stated that the noted deficiencies would be addressed through the automation of procurement processes in the new enterprise resource planning system. The change to an automated system would significantly enhance the ability of UNRWA to plan requirements in detail on the basis of actual data.

Lack of a formal evaluation committee

77. Chapter 8.4.1, paragraph 2, of the UNRWA procurement manual provides guidance on how tender evaluation teams can be appointed so that the Chief of the Procurement and Logistics Division at headquarters and the field procurement and logistics officers are empowered to appoint the evaluation teams for operations falling under their authority. The method and process to be followed by the appointing authority was not, however, specified in the manual.

78. The Board reviewed tendering procedures with respect to goods contracts at the Amman headquarters and at the Lebanon and Jordan field offices, and construction contracts at the Jordan and Gaza field offices. The Board noted that there were no formal evaluation teams at the Amman headquarters or in the Jordan field office and that, while evaluation team members at the Lebanon field office existed, they had not been formally appointed.

79. At the Amman headquarters and the Jordan field office, two procurement officers performed bid analyses as their normal duty, but their names and signatures did not appear on some of the bid analyses. The Board noted that there were signatures and names on 10 of 18 bid analyses worth $32.6 million for goods contracts at the Amman headquarters and in 6 of 7 construction contracts worth $0.48 million at the Jordan field office. Moreover, the members of the evaluation team at the Amman headquarters and in the three field offices did not sign the forms indicating whether they had a conflict of interest, as required under chapter 8.4.1, paragraph 5, of the procurement manual. UNRWA management has since enforced compliance with that requirement.

80. The Board considers the establishment of a formal evaluation committee and the declaration of any conflict of interest to be steps that are necessary to enhance integrity and transparency during the procurement process.

81. **UNRWA agreed with the Board's recommendation that it: (a) establish a formal evaluation committee to enhance transparency, objectivity and equity in the bid evaluation process; (b) develop a standardized template for declarations of interest by evaluation committee members; and (c) design and document formal appointment letters for evaluation committee members.**

10. Results-based budgeting

Formulation of strategic objectives

82. The UNRWA budget structure, which reflects the medium-term strategy for the period 2010-2015, was based on the biennium implementation plans prepared for each field and headquarters department.

83. The Board reviewed the integrated planning and budget matrices contained in field and headquarters implementation plans for the biennium 2012-2013. The matrices indicated the financial resources required for the implementation of the intended strategic objectives for each goal. The Board noted, however, that some of the strategic objectives lack the financial resources required to achieve the targeted goal. In this respect, it appears that the UNRWA results-based budget was formulated without considering the resources required to implement the respective strategic objectives for each goal (see table 4 for examples of the strategic objectives for which financial resources are lacking).

Table 4
Strategic objectives without financial resources

Office	*Goals*	*Strategic objectives*
Headquarters	A long and healthy life	To protect and promote family health
Jordan field office	Knowledge and skills	To improve access to education opportunities for learners with special educational needs
Gaza field office	A decent standard of living	To offer inclusive financial services and increased access to credit and savings facilities, especially for vulnerable groups such as women, youth and the poor

Source: Field and headquarters implementation plans for the biennium 2012-2013.

84. The allocation of financial resources to each strategic objective was fundamental for the achievement of the intended results in line with the results-based budgeting concept.

85. **UNRWA agreed with the Board's recommendation that it indicate the financial resources required for each strategic objective in the headquarters and field implementation plans for effective results evaluation.**

Mismatch between medium-term strategy, biennium programme budget and field and headquarters implementation plans

86. UNRWA adopted a results-based budgeting approach during the biennium 2010-2011. The focus of the results-based budgeting framework was to link the predefined objectives and expected results with resource requirements. The logical frameworks and the corresponding resource requirements were directly linked to the UNRWA medium-term strategy and would eventually be included in the budget proposal for each field office. The medium-term strategy was a crucial document containing the pre-established goals that form the basis for preparing the biennium programme budget and the headquarters and field implementation plans, keeping in mind the resources available.

87. The Board reviewed the UNRWA budget for the biennium 2012-2013 against the medium-term strategy, the results-based budgeting strategic frameworks and the headquarters and field implementation plans, with a view to establishing the effectiveness of the UNRWA budget process. The Board noted that the medium-term strategy for 2010-2015 contained only four goals, while the biennium programme budget (Blue Book) for 2012-2013 and the headquarters and field implementation plans included five goals (see table 5). The goal "effective and efficient governance and support in UNRWA" is included only in the Blue Book and in the implementation plans for headquarters and the field.

Table 5
Goals in the medium-term strategy and the headquarters and field implementation plans

Document	*Goals*
Medium-term strategy, results-based budgeting framework	(a) A long and healthy life; (b) Acquired knowledge and skills; (c) A decent standard of living; (d) Human rights enjoyed to the fullest.
Budget for the biennium 2012-2013 (Blue Book), headquarters and field implementation plans	(a) A long and healthy life; (b) Acquired knowledge and skills; (c) A decent standard of living; (d) Human rights enjoyed to the fullest; (e) Effective and efficient governance and support in UNRWA.

Sources: Medium-term strategy, headquarters implementation plan and budget for the biennium 2012-2013.

88. The Board believes that the focus of the results-based budgeting frameworks was to articulate the expected achievements of UNRWA and to justify resource requirements derived from the medium-term strategy and the implementation plans for headquarters and the field. In that regard, the goals contained in the medium-term strategy that form the basis of the allocation of resources should be consistent with those in the biennium programme budgeting (headquarters and field implementation plans) to reflect the UNRWA vision of effective and efficient governance and support.

89. **The Board recommends that UNRWA include the goal on internal governance and support in the upcoming medium-term strategy for 2016-2021 for consistency with the implementation plans for headquarters and the field and the biennium budget.**

11. Programme and project management

Review of project information and documentation

90. UNRWA has developed a project process manual to guide project officers. In accordance with paragraph 7.4 of the manual, project officers are required to receive and archive all relevant project information from the project manager during the project life cycle. In addition, they are required to make sure that all key project documents are archived and uploaded on the intranet by project managers (see para. 5.4 of the manual). The manual does not, however, specify which of the three UNRWA project officers — for the field offices, at headquarters or in the External Relations and Communications Department project unit — is responsible for maintaining and archiving the project documents.

91. A review of 25 projects at the Gaza field office revealed that project documents had not been archived together to provide a record of each stage of the project life cycle in compliance with the project process manual and donors' funding agreements. For instance, monthly project reports, draft project documents and project status lists were maintained by the project officer, while project proposals, funding agreements and project progress reports for non-Arab donors were kept by the External Relations and Communications Department at the Gaza headquarters. In addition, the same project documents for Arab donors were maintained by the project unit at the Amman headquarters. All project-related financial reports were kept at the Finance Department at the Amman headquarters.

92. In addition, project information was not uploaded on the UNRWA intranet as required, making it difficult to obtain complete project information at any field office. The Board believes that the improper mobilization of project documents hampers project assessment and evaluation by donors and other stakeholders. Complete information is essential for effective project performance review and future reference.

93. **The Board recommends that UNRWA: (a) establish a mechanism for mobilizing and uploading all vital project documents on the intranet on a regular basis; and (b) review the project process manual and specifically define the project officer responsible for maintaining and archiving all project documents in one location.**

94. UNRWA stated that all documents relating to project management had been uploaded on the intranet page of the Department of Planning while documents concerning grant agreements had been uploaded to an External Relations and Communications Department database accessible to the staff concerned. In addition, the project process manual was being updated to address the noted deficiencies.

Review of programme support costs at the Lebanon field office

95. The UNRWA project procedures manual of 2003, which was replaced by the project process manual of 2011, sets out the percentages for programme support costs to compensate UNRWA for the costs of managing and implementing donor projects. According to the project procedures manual, for projects that involve scholarships or the procurement of equipment and supplies only, that percentage was 5 per cent, while for other projects, including those containing multiple components such as equipment and supplies, it was fixed at 12 per cent. In addition, Budget Technical Instruction No. 22 of 2011 set the programme support costs at a uniform standard rate of 11 per cent for all non-regular-budget activities. The stated rates may change if approved by the Director of Finance.

96. The Lebanon field office has begun implementing the project for the reconstruction of the Nahr el-Bared Refugee Camp. The Board reviewed the accumulated construction expenditures as at June 2013 and noted that $19.4 million (some 18 per cent of the total project costs of $106 million) were for programme support costs. The amount charged as programme support costs to the project was beyond the allowable rate of 12 per cent, and no approval had been provided by the Director of Finance to substantiate the additional charges. The close management of and proper justification for programme support cost charges is vital to continued donor confidence.

97. **UNRWA agreed with the Board's recommendation that it: (a) monitor the current trend with regard to programme support costs and ensure that the amount charged is in line with the approved standard rate; and (b) ensure that any deviation from the standard rate is agreed to by donors and approved by the Director of Finance on the basis of a valid and documented justification.**

Delay in the implementation of Nahr el-Bared Refugee Camp projects

98. In paragraph 6 of the project process manual, the importance of monitoring as an integral part of the day-to-day implementation of a project is emphasized. In addition, project managers are required to perform systematic and continuous monitoring and reporting to identify and resolve implementation problems, as well as to assess progress in relation to the original plan. This is vital for senior management control and decision-making.

99. The Board reviewed eight Nahr el-Bared Refugee Camp construction projects implemented by the Lebanon field office and noted that all of them were behind schedule for periods ranging from two to eight months. Management attributed the delays to the discovery of extensive archaeological sites, which needed to be excavated and documented, delays on the part of UNRWA headquarters in submitting detailed designs to the Directorate-General for Urban Planning and delays in planning approval by the Government of Lebanon. Most of the reasons provided evidence of ineffective supervision and monitoring of the projects. Delays in project implementation might result in additional costs, due to increases in prices, and undermine donor confidence and therefore affect future contributions.

100. The Board also noted that there was no evidence to prove that monthly financial statements and construction progress reports for projects financed by the Palestine Liberation Organization had been prepared, in accordance with agreements. UNRWA management noted the challenge of not producing monthly reports and that it had taken deliberate measures to address it by employing an information officer and recruiting a project manager who shall be responsible for the timely preparation of the various reports and for monitoring the projects.

101. While the Board acknowledges management's decision to employ an information officer and a dedicated project manager, it believes that there is a greater need for UNRWA to strengthen the overall supervision and coordination of project activities.

102. **UNRWA agreed with the Board's recommendation that it: (a) expedite the recruitment of the project manager for the Nahr el-Bared Refugee Camp; and (b) ensure the timely submission of designs and all project requirements to the Directorate-General for Urban Planning in Lebanon for clearance to avoid further delays and future cost overruns.**

Lack of clear guidelines for the establishment of project steering committees

103. UNRWA implemented a number of different projects in its field offices and at headquarters involving construction and the procurement of goods and services. In order to enhance the control mechanism and accountability, UNRWA developed a project process manual setting out a project's governance structure and defining roles and responsibilities for key players throughout the project life cycle.

104. The manual contains a flow chart summarizing the responsibilities of each key player. The Board noted that, in line with the flow chart, the steering committee is required to oversee the implementation of all projects valued at over $1 million. The manual does not, however, clearly set out any other factor determining whether a given project requires a steering committee, nor does it explicitly state the composition of a steering committee or the roles and responsibilities of its members.

105. In UNRWA, most projects include procurement activities of a value exceeding $1 million but not all projects need a steering committee. The Board believes that not stating clearly which kinds of projects deserve to have a steering committee might result in the establishment of numerous unwanted steering committees. The Board also believes that the lack of clear guidance on the composition of a committee and of the roles and responsibilities of its members, as well as of a blanket statement on the types of projects that need such a committee, might make it difficult for the implementer to establish a steering committee.

106. Furthermore, having reviewed eight Nahr el-Bared Refugee Camp construction projects implemented by the Lebanon field office and 25 construction projects implemented by the Gaza field office, the Board noted the absence of a steering committee for all projects, despite the fact that the selected projects were valued at over $1 million. The absence of steering committees in the field offices was attributed to deficiencies in the project process manual. The Board also noted that the eight construction projects implemented by the Lebanon field office were behind schedule for periods ranging from two to eight months. The Board thinks that the delay might have been shortened had a steering committee been in place.

107. Given the number of projects being implemented by UNRWA, the Board believes that the establishment of effective steering committees would aid in monitoring project implementation, evaluating the performance of project managers and handling delays.

108. **UNRWA agreed with the Board’s recommendation that it: (a) establish steering committees for construction projects as currently required by project process manual while waiting for the revised manual; and (b) review the project process manual and provide clear guidance on the establishment of project steering committees, including with regard to the composition of the committees and on the roles and responsibilities of their members, and guidance on the kinds of projects that require a steering committee.**

12. Human resources management

Induction course not conducted for newly recruited staff

109. In paragraph 20 (a) of UNRWA area staff personnel directive No. PDA/22/Rev.5, it is stated that induction courses for newly recruited staff are mandatory, to create a sense of belonging within UNRWA and commitment to its mandate and values. During its review of the report on the performance of personnel at the Lebanon field office, the Board noted that 35 staff had been recruited in 2013. A review of the personal files of seven new recruits did not provide evidence, however, that they had attended an induction course. Furthermore, a review of the training plan for 2013 showed that funds had not been allocated for induction training.

110. In response, UNRWA stated that the specific receiving departments in field offices had conducted in-house induction courses. Nonetheless, the Board was of the view that such isolated induction training was not sufficient to provide new staff with an opportunity to grasp and familiarize themselves with the general operating environment of UNRWA.

111. While the Board recognizes the financial constraints facing UNRWA, it considers that induction courses for new staff are vital given the complexity of the UNRWA mandate and that such courses provide new staff with the opportunity to familiarize themselves with UNRWA rules and regulations, structure, mission, culture, management system, code of ethics and general operating environment before undertaking their duties. UNRWA management needs to balance budget constraints with the potential for, and impact of, weak compliance and poor performance that might stem from inadequate induction training.

112. **The Board recommends that UNRWA: (a) ensure that evidence of staff attendance in an induction course is filed in their respective personal files; (b) consider allocating funds to cover the cost of induction courses in the forthcoming biennium budget; and (c) consider alternative methods, other than classroom training (such as e-learning), for delivering induction courses at a lower cost where there are budget constraints.**

113. UNRWA stated that currently induction courses were being conducted in the Gaza, West Bank and Jordan field offices, as well as at the Amman headquarters. The Lebanon field office was exploring alternative methods for delivering induction trainings, while the Syrian Arab Republic field office was focused on providing training on safety and security owing to the prevailing crisis.

Non-involvement of individual staff in the training needs assessment

114. In accordance with section 30 of area staff directive No. A/22/Rev.5, each field office and headquarters department is required to define its present and future learning needs relative to the strategic goals and objectives of UNRWA and the competencies required for its staff to achieve and deliver those goals. In addition, in line with section 32 of the directive, staff members from each field office and headquarters department are required to be involved in the assessment process, in order to encourage broad identification of UNRWA staff development goals and objectives.

115. UNRWA informed the Board that the training plan for 2013 had been developed after the Management Committee had discussed the priorities. There was no evidence of the discussion, however. According to UNRWA, the absence of individual staff involvement in the training needs assessment was due to a budget deficit.

116. The Board was of the view that individual staff involvement in the training needs assessment was important in identifying gaps that impede effective staff performance and assisting management in developing appropriate training courses, according to staff needs.

117. **The Board recommends that UNRWA incorporate the identification of individual staff training needs in its performance evaluation process to minimize costs.**

118. UNRWA stated that a new electronic personnel system for all staff would require managers to discuss learning needs with staff. Holding discussions before making a decision on training was seen as a priority given the budget constraints for 2014-2015 and UNRWA priorities for programmatic and organizational reform.

Management of vacant posts

119. A review of the business continuity and succession plan of human resources management revealed that 11 key management posts had remained vacant for periods ranging from 30 to 330 days (table 6). In addition, the Board noted that 1,128 operational staff posts from different field offices and headquarters departments had remained vacant for an average of between 294 and 1,251 days (table 7).

Table 6
Vacant key management posts

Position	*Location*	*Number of days the post remained vacant*
Operations Support Officer	Lebanon field office	330
Senior External Relations and Projects Officer	Gaza headquarters	270
Project Coordinator (P-3)	Gaza field office	270
Operations Support Officer	Gaza field office	240
Chief of Staff	Gaza headquarters	120
Monitoring and Evaluation Officer	Amman headquarters	90
Project Coordinator (P-3)	Gaza field office	60
Education Programme Specialist	Amman headquarters	60
Deputy Director of UNRWA Affairs	Jordan field office	30
Project Manager, Barrier Monitoring Unit	West Bank field office	210
Deputy Chief of Accounts	Amman headquarters	30

Source: List of terminated key management personnel.

Table 7
Vacant operational staff posts

Field office/headquarters department	*Number of vacant posts*	*Average days the posts remained vacant*
Gaza headquarters	10	1 251
Amman headquarters	47	635
West Bank	51	426
Lebanon field office	177	298
Jordan field office	168	294
Gaza field office	252	295
Syrian Arab Republic field office	409	499
International staff	14	467
Total vacant posts	**1 128**	

Source: List of vacant posts for operational staff.

120. UNRWA said that the vacancy rate was decreasing, however, and that insufficient funds, restructuring and political instability in some field offices, such as those in the Syrian Arab Republic and Lebanon, were the main reasons why the posts remained unfilled. While acknowledging the explanations provided, the Board noted that given the nature of the vacant posts (most of which were in the health and education departments), UNRWA needed to expedite the process of filling those posts so as to enhance the delivery of services to refugees or to review the existing posts and abolish those which were no longer required.

121. **The Board recommends that UNRWA review the staff table by performing detailed assessments so as to eliminate redundant posts and identify key posts that need to be filled in a timely manner in order to enhance the delivery of services to refugees.**

122. UNRWA stated that the review of international staffing had been conducted to ensure that its scarce international staffing resources were allocated in an optimal way. As a result of the review, three posts were identified as no longer needed. While the operational reality in the field, for example in the Syrian Arab Republic, does not allow for filling vacant posts that are nonetheless still needed in the long term, some of the posts in the staffing table take longer to fill owing to insufficient funds.

Prolonged recruitment lead times

123. Paragraph 20 of the UNRWA Area Staff Selection Policy states that recruitment processes should be completed within the maximum target period of 90 days from the date of publication of the vacancy notice to the date on which a selection decision is made.

124. The Board reviewed the recruitment process for the posts that were filled in 2013, in the education, health, and relief and social services departments in the Lebanon field office, and noted that the process covered all the recruitment stages, including advertising the post, screening, shortlisting, testing and grading the

candidates, holding interviews and approving the selected applicant. The Board also noted that the recruitment process for the posts exceeded the maximum target period of 90 days set out in the policy and ranged from 135 to 198 days.

125. UNRWA stated that the excessive delay was caused by the hiring department, which took a long time to screen the applicants and prepare the technical questions. This, in turn, was due to the fact that the persons hiring were also involved in handling Palestine refugees from the Syrian Arab Republic. The Board was also informed that management intended to shorten the recruitment period by improving coordination within the hiring departments, including by having regular meetings to discuss a recruitment plan and providing updates on a weekly basis.

126. **UNRWA agreed with the Board's recommendation to expedite the planned initiatives to reduce the length of the recruitment process and to enhance the timely delivery of services to refugees.**

13. Outstanding electricity liabilities

Unresolved electricity bills for refugee camps in Lebanon

127. The Board noted that UNRWA refugee camps had electricity liabilities amounting to $184 million disclosed in UNRWA financial statements for the year ended 31 December 2012. Of that total, $134 million relates to the electricity bills of refugee camps in Lebanon. The liability accrued over the period from 1 September 2003 to 31 May 2012. The Lebanon Council of Ministers has served UNRWA with some payment demand notes.

128. UNRWA explained that it is not responsible for settling the individual debts of Palestine refugees, including fees for power consumption, whether inside or outside the camps, but its Department of Legal Affairs, together with the Office of the UNRWA Representative in New York, is liaising with the Executive Office of the Secretary-General to see how this matter can be addressed.

129. The Board is of the view that although the accrued electricity liability does not affect the financial statements of UNRWA, any power disconnection in the camps would affect refugees' welfare. The Board notes that ensuring the welfare of Palestine refugees is among the core functions of UNRWA.

130. **The Board recommends that UNRWA actively follow up with the Executive Office of the Secretary-General and the power service provider, to find a lasting solution on the settlement of the electricity bills, to avoid the risk of power disconnection in refugee camps.**

14. Information and communications technology

Lack of a contingency plan to support the existing enterprise resource planning system

131. The company that supplied UNRWA with its existing enterprise resource planning system (RAMCO) has declared that it will not support the existing version beyond 2014. The current system will be decommissioned once the new enterprise resource planning project has been completed.

132. Phases I and II of the new system were expected to go live in June 2014 and January 2015 respectively. The Board noted that there was a six-month delay in the

completion of phase I, which was deferred to January 2015, in order to coincide with phase II. Despite plans to terminate its contract with the supplier of the existing system in December 2014, UNRWA has not developed a contingency plan to support the existing RAMCO system in the event of further delays.

133. The risk of ongoing delays coupled with a lack of support from the supplier of the RAMCO system starting next year would elevate the operational risk to the existing RAMCO system to a higher level.

134. **UNRWA agreed with the Board's recommendation that it develop a contingency plan to support the existing enterprise resource planning system in case of further delays in the implementation of the new system.**

Lack of information technology support for the existing RAMCO system

135. The Board reviewed whether the existing enterprise resource planning system was capable of generating financial reports to support the effective and efficient preparation of financial statements and observed that the reports generated by the system were inadequate. For example, the system could not generate a report that shows depreciation expenses for selected fixed assets with asset-type information. Such information is important for creating a supporting schedule of depreciation expenses.

136. The Board observed that end-users of the existing system depended on internal information technology support staff to perform certain functions. Most of the time, however, those staff were engaged in the implementation of the new enterprise resource planning system and had little time to support the existing system. Inadequate capability of the existing system to generate the needed reports, low end-user operating skills and degraded database performance might have an impact on the timely production of financial and management reports.

137. **UNRWA agreed with the Board's recommendation that sufficient time be allocated for internal information technology staff to support the monthly closing of accounts and the preparation of annual financial statements and other management reports.**

Progress on the new enterprise resource planning project

138. The Board has reviewed the enterprise resource planning project by examining official project documents, including the minutes of meetings of the key sponsors group, the issue register, the risk register and the project status report, and by interviewing project management team members. It identified the areas for improvement set out below.

Project cost and components reusability level

139. The enterprise resource planning project commenced in 2012 and during the audit conducted in the interim two major phases were completed: the project preparation and fit/gap requirement phase (March-August 2012) and the business blueprinting phase (September 2012-February 2013). The realization phase commenced in April 2013. It was planned that all modules would be implemented by April 2014, with the exception of the payroll module, completion of which is planned for January 2015.

140. According to the internal governance document, the project governing body comprises a project sponsors board (which is responsible for the success of the project), a project steering committee (representing all UNRWA internal stakeholders), a project executive (the project owner) and the Director of Finance and Enterprise Resource Planning, to whom the project director reports.

141. The project had a cost overrun of $1.2 million gross (4.07 per cent of the estimated total cost of $29.5 million). The cost overrun was the result of a project delay that caused project internal staff and external consultants to remain idle for two and a half months while still getting paid (December 2012-February 2013). In addition, although the project charter requires UNRWA to maximize the reusability of components from their implementation partner (World Food Programme), the current reusability level was below 50 per cent of components, contrary to expectations.

142. The Board attributes this outcome to the project sponsors board's inability to act in unison for the timely approval or disapproval of the project deliverables and to effectively monitor them. If these weaknesses continue, the project cost overrun might increase and the realization of the intended benefits as outlined in the project business case might be delayed or not fully achieved.

143. **The Board recommends that UNRWA: (a) enhance communication among project governance stakeholders to expedite decision-making by the project sponsors board and avoid further delays; and (b) through the project governance structure, re-emphasize the need to achieve the level of reusability of components from the World Food Programme Wing II system as defined in the project charter.**

Project governance

144. In accordance with the original plan, which was set out in February 2012, phases I and II of the enterprise resource planning project would be completed in June 2014 and January 2015 respectively. In January 2014, however, the project sponsors board decided to change the completion date of phase I from June 2014 to January 2015.

145. The Board was informed by UNRWA management that the delay concerning phase I was attributable to:

(a) The need to define a new training and support strategy owing to the lower number of trainers identified by the business and the difficulty of accessing some fields of operations;

(b) Business decisions to be taken with respect to the General Ledger Chart of Accounts and material classification for inventory;

(c) The need for additional time and business participation to define the acceptance criteria for the software solution;

(d) Lack of data migration documentation/repeatability and data quality.

146. The Board believes that the above reasons should have been foreseen and mitigated through better risk management and by senior management having a strong grip on the project. In the context of the geographical location and political environment of UNRWA, the risk of not accessing some of the field offices for

training end-users was obvious; however, such risk was not reflected in the project risk register for mitigation, which is part of the project risk management practice of the agency.

147. The project sponsors document of 22 May 2013 set out the roles and responsibilities of the project sponsors board and established that the board would meet once a month. A review of the minutes of meetings of the board held in 2013, however, indicates that only one meeting took place in the second half of the year, compared to four in the first half. The delay in project activities that caused the overall delay in the completion of phase I occurred in the second half of 2013 and might have been attributable to the reduced number of board meetings held to discuss the progress of the project and to effectively control the project.

148. The impact of delays in the completion of phase I includes the increased risk of not getting support from the supplier of the existing enterprise resource planning system, which has said it would not provide support beyond the end of December 2014. UNRWA has agreed to develop a contingency plan, however, for supporting the existing RAMCO system in the event of further delays in making the new system operational.

149. **The Board recommends that UNRWA: (a) ensure regular meetings of the project sponsors board to properly monitor the progress of project implementation; and (b) review its project risk register to include key risks and identify mitigating factors for effective project management.**

Benefits realization plan of the enterprise resource planning project

150. A benefits realization plan is a document that outlines the expected benefits from a given project and details how such benefits would be measured, including who is accountable for such measurement and when. It also outlines the plan for benefits measurement and the expected results to ensure that stakeholders have the same expectations and that measurement results are well controlled and communicated.

151. The Board examined the enterprise resource planning project business case of 31 March 2014 and conducted an interview with the director of the project with regard to the project plan and noted that the business case document identified examples of qualitative benefits in the area of process efficiency, as well as some examples of quantitative benefits relating to financial management and supply chain optimization.

152. The Board noted that the project plan focused on building and operating enterprise resource planning in UNRWA but that it did not integrate benefits realization to ensure the optimal utilization of opportunities expected from the project. For example, in the business case document it is assumed that the cost-saving advantage of implementing the project would not come from making staff redundant and that the UNRWA leadership would take the necessary actions to realize benefit opportunities.

153. The Board noted, however, that the project plan did not set out tasks that would make such assumptions operational and that the identified benefits had not been assigned to specific business areas for proper monitoring and accountability. The Board found that UNRWA management had not developed a benefits realization plan that would ensure that the benefits of the project were clearly understood and

documented in such a way that they could be demonstrated or proven once the project was completed. A comprehensive benefits realization plan is a vital tool for guiding management in ensuring that the identified benefits are monitored and realized at an optimal level.

154. The Board is of the view that the absence of a comprehensive benefits realization plan may result in UNRWA being unable to benefit fully from the implementation of the new enterprise resource planning system.

155. **UNRWA agreed with the Board's recommendation that it develop a benefits realization plan for the enterprise resource planning project and integrate it with the project master plan to ensure effective monitoring and the realization of benefits.**

Business continuity and disaster recovery plan

156. A business continuity and disaster recovery plan defines how an organization responds to adverse conditions affecting the information systems. Not only does it strengthen the ability of an organization to maintain continuity of its critical business processes, but it also aids in the recovery of data whenever a disaster occurs. Inadequate plans may result in the failure to resume critical systems and services in a timely manner.

157. In accordance with section C (1) of the Information System Division's technical instruction No. 7, the UNRWA disaster recovery plan must be updated regularly and promptly to incorporate any additions or subtractions made to the information and communications technology environment that might change the contents of the previous plan. Also according to the technical instruction, the Information System Division is required to implement the changes and issue the revised plan no later than three calendar months after the changes.

158. The Board noted that UNRWA had not updated its disaster recovery plan of 2011 to reflect changes brought about by two projects implemented during 2013 (the extension of the information and communications technology infrastructure as part of building the new enterprise resource planning system in January 2013 and the upgrade of the UNRWA backup system in July 2013). Management explained that the updated disaster recovery plan was scheduled to be issued in 2014, once the update to the backup procedure instruction had been completed by the end of 2013. The Board considers this practice to be inconsistent with the requirement of technical instruction No. 7 and that it might lead to the loss of vital data in the event of disaster.

159. **The Board recommends that UNRWA: (a) enforce compliance with technical instruction No. 7 by regularly updating the disaster recovery plan to incorporate any changes in the information and communications technology environment; and (b) expedite the update of the backup procedure instruction and update the disaster recovery plan to reflect changes in the information and communications technology infrastructure.**

160. UNRWA stated that the update of the backup procedure instruction had been delayed by operational difficulties encountered during the implementation of the new technology. UNRWA also stated that the updates to both the backup procedure instructions and the disaster recovery plan would be completed at the end of 2014.

Lack of effective information security

161. In line with paragraph 5.3.1 of the UNRWA information security policy, information owners have primary responsibility for classifying data in accordance with their sensitivity. The policy also establishes the requirements for security regarding user access, recovery and disposal/destruction of electronic information assets. The Board noted the following deficiencies in relation to the security of information (see paras. 162 and 163).

162. General UNRWA procedures are followed when disposing of information and communications technology equipment, including Information System Division formatting hard disks, prior to handover to disposal authorities. The Board does not consider that this arrangement ensures effective protection of UNRWA information, however, owing to the absence of guidelines or procedures outlining the method used in formatting hard disk drives. Simply formatting hard disk drives may not prevent information from being retrieved using readily available software.

163. All authorized users can access UNRWA applications through the Internet using mobile devices but UNRWA has no policy governing the security of such devices. The Board is concerned that the absence of security guidelines for protecting critical information accessible through or contained in mobile devices increases the risk of security incidents.

164. **UNRWA agreed with the Board's recommendation that it: (a) develop appropriate procedures for erasing information contained in information and communications technology equipment, taking into consideration the sensitivity of the information being handed over to the disposal authorities; and (b) develop security guidelines based on good practices for protecting critical information on mobile devices.**

15. Department of Internal Oversight Services

165. The Department of Internal Oversight Services fulfils its oversight role through activities performed by its Assurance and Advisory Services Division, Evaluation Division, Ethics Office and Investigations Division. The Board evaluated the performance of the Department to determine its capacity in terms of number of staff and financial resources available to fulfil its mandate. In addition, the Board's evaluation aimed at determining the level of reliance on the work performed by the Department. The evaluation included a review of the Department's strategic plan, annual workplan and report. The review noted several areas for improvement.

Investigations Division

166. The responsibilities of the Investigations Division include looking into high-risk allegations of misconduct and maintaining a confidential registry of allegations and complaints in a centralized case management system. In addition, the Division provides technical advice, guidance and training to staff required to carry out investigations under the supervision of field and departmental directors.

Incomplete information and delays in recording cases in the case management system

167. Investigation activities are decentralized. Most cases are initiated and handled by individual field offices and headquarters departments under the authority of field and departmental directors. The Investigations Division monitors the progress of

each case through a web-based case management system that is connected to each field office and headquarters department. Staff add information on each case in the system, which assists the Investigations Division in monitoring and determining the appropriate response.

168. The Board noted that not all field offices record cases in the case management system and that, in some instances, cases and data are recorded in the system very late. Incomplete information and delays in recording cases in the system limits the ability of the Department of Internal Oversight Services to effectively monitor investigation cases and determine the appropriate action.

169. In addition, the Board noted that, owing to a shortage of professional investigators at both the field and departmental level, the investigation of sensitive and high-risk cases was performed by unqualified staff. The Board also noted that investigation activities in field and headquarters departments are conducted under the authority of the respective directors rather than by the Investigations Division of the Department of Internal Oversight Services. The Department has, however, conducted training for staff assigned to conduct investigations and the Division has been provided, since January 2014, with two professional investigators based in two field offices in order to bridge the gap. The Department still considers such training as not sufficient to ensure that all investigations are conducted to the required standard.

170. **The Board recommends that UNRWA: (a) through its field and department directors, ensure that investigation cases are recorded in the case management system accurately and on a timely basis; and (b) recruit additional professional investigators who would report directly to the Investigations Division of the Department of Internal Oversight Services and supervise staff involved in investigations at the field offices.**

Evaluation Division

171. The Evaluation Division is responsible for providing guidance and technical support, developing capacity for the management of decentralized self-evaluations and promoting a culture of evaluation in UNRWA. The Division performs a functional leadership and oversight role over the evaluation system of UNRWA, which consists of the evaluation function within the Department of Internal Oversight Services, headquarters departments and field offices.

Lack of evaluation guideline and workplan

172. The Board reviewed the Evaluation Division, in particular its current set-up and the resources available to achieve the objectives set out in organizational directive No. 14. It also reviewed the existing guidelines applied by the Division for day-to-day operations. The Board noted that the Evaluation Division had not planned any evaluation activity for 2013 and that most activities had been carried out on an ad hoc basis. Nevertheless, the Division did complete six evaluation reports during the year. The Board also noted that there was no evaluation framework to guide the decentralized functions at field offices and headquarters departments.

173. The Board was also informed that the development of an evaluation framework was in progress. The Board is of the view that the absence of an evaluation framework might hinder the smooth performance of evaluation activities.

174. **UNRWA agreed with the Board's recommendation that it: (a) expedite the finalization of the evaluation framework to guide and support the evaluation functions within UNRWA; and (b) review the current practice of handling evaluation activities at headquarters departments and field offices on an ad hoc basis with a view to improving the evaluation function.**

Assurance and Advisory Services Division

175. The Assurance and Advisory Services Division provides UNRWA with independent and objective assurance and advisory services designed to improve management practices, identify operational improvements and reduce exposure to risk.

176. The Board reviewed the annual workplan and audit report of the Assurance and Advisory Services Division to evaluate its level of performance. The Board noted that the Division had planned to perform 37 audit assignments during 2013, of which 27 (73 per cent) had been completed, 5 (13.5 per cent) had been cancelled and 5 (13.5 per cent) had been carried over to 2014. Management attributed the carried over assignments to the backlog from 2011 and 2012, which was carried over to 2013. Nevertheless, the Board noted some improvements compared to 2012, when only 2 of 20 assignments (10 per cent) had been completed and 18 (90 per cent) were carried over to 2013.

Follow-up on internal audit recommendations

177. The Board reviewed the annual report of the Department of Internal Oversight Services for the year ended 31 December 2013 and noted that from January 2011 to December 2013 the Department had issued a total of 481 audit recommendations. As at December 2013, management had fully implemented 318 (66 per cent) of the recommendations; 10 (2 per cent) had been partially implemented and 153 (32 per cent) had not been implemented (table 8).

Table 8
Status of implementation of recommendations issued by the Department of Internal Oversight Services

Status	*2011*	*2012*	*2013*	*Total*
Not implemented	5 (3%)	13 (9%)	135 (86%)	153 (32%)
Partially implemented	2 (1%)	2 (1%)	6 (4%)	10 (2%)
Fully implemented	175 (96%)	128 (90%)	15 (10%)	318 (66%)
Total	**182**	**143**	**156**	**480**

Source: Annual report of the Department of Internal Oversight Services for 2013.

178. The Board noted some improvement in the implementation of the general recommendations of the Department of Internal Oversight Services. The aggregate implementation rate for the three-year period ending 2013 was 66 per cent,

compared with 55 per cent for the three-year period ending 2012, representing an increase of 11 per cent.

179. For high-risk recommendations, however, the Board noted a decline in the implementation rate in 2013 compared with 2012. Of 160 high-risk recommendations, 117 (73 per cent) had been fully implemented (compared with 86 per cent in 2012), leaving a balance of 43 (27 per cent) for the three-year period ended 31 December 2013 (table 9).

Table 9
Summary of outstanding high-risk recommendations, 2011-2013

Status	*2011*	*2012*	*2013*	*Total*
Not implemented	–	1 (2%)	38 (86%)	39 (24%)
Partially implemented	–	–	4 (9%)	4 (3%)
Fully implemented	64 (100%)	51 (98%)	2 (5%)	117 (73%)
Total	**64**	**52**	**44**	**160**

Source: Annual report of the Department of Internal Oversight Services for 2013.

180. **The Board recommends that UNRWA enhance the internal control system by expediting the implementation of high-risk internal audit recommendations.**

16. Microfinance Department

181. The Microfinance Department is a small programme within UNRWA that provides credit facilities to micro-entrepreneurs. Activities and balances of the Department for 2013 have been included in the financial statements of UNRWA for the year ended 31 December 2013. In addition, the Department prepares its own set of financial statements, which are audited separately by the Board.

182. In 2013, the Microfinance Department recorded a surplus of $0.48 million, while in 2012 it recorded a loss of $2.36 million. The Board audited the 2013 annual financial statements and issued an unqualified opinion, but highlighted the issues below.

Management of loans receivable

183. The Board noted that loans in the amount of $30.54 million were issued during 2013 and that $31.05 million was received as repayment on the outstanding loans and interest. During the year, the Microfinance Department made loan provisions of $1.34 million and a write-off of $2.05 million. The closing loan balance as at 31 December 2013 was $18.77 million. In its previous audit report, the Board noted the lack of implementation of recommendations of internal auditors regarding weaknesses in granting loans, which might increase the risk of recoverability (A/68/5/Add.3, para. 110).

184. The Board noted similar weaknesses, including inaccuracy and inconsistency in filling out application forms by loan officers, non-compliance with operating manuals and weaknesses in adherence to procedures related to cashier functions and inadequate follow-up of late and delinquent clients by branch officials. The Board

also noted that project supervision and monitoring activities were not conducted by branch officials.

185. **UNRWA agreed with the Board's recommendations that its Microfinance Department: (a) improve controls by establishing an online loans application process in the new Omni Enterprise system in 2014; and (b) closely supervise cashiers' activities and issue instructions to the operations team to strictly follow the operational procedures and adopt proper follow-up procedures to address late payments.**

Property, plant and equipment

186. The Microfinance Department's management has changed its capitalization policy on fixed assets by changing the threshold amount of capitalized property, plant and equipment from $500 to $2,000 with retroactive effect from 1 January 2010. This has triggered the restatement of prior years' amounts presented in the financial statements to comply with International Accounting Standard 3, entitled "Accounting policies, changes in accounting estimates and errors".

187. The Board noted that the adjustments for restating amounts of property, plant and equipment related to prior years had not been properly reflected in the books by category (class) of assets. Moreover, property, plant and equipment recorded in the register and in the Microfinance Department's books did not match the disclosures made in the financial statements.

188. **The Board recommends that the Microfinance Department of UNRWA pass proper adjusting entries in 2014 to match balances from the register to the ledger by category and include fixed asset modules in the new enterprise resource planning system, which would maintain the link between the asset register and the ledger.**

189. The Microfinance Department stated that currently management is making proper adjusting entries between the categories to match balances from the register to ledger by category. It also said that it is currently negotiating to be part of the fixed asset module in the new enterprise resource planning system, which would maintain the link between the register and the ledger more directly.

Implementation of the Omni Enterprise loan management information system

190. In its previous report, the Board recommended that the Microfinance Department of UNRWA ensure that the general controls of the loan management information system are adequate for the mitigation of ever-growing business risks (see A/68/5/Add.3, para. 112 (c)). In response, the Department completed installation of the new Omni Enterprise loan management information system to overcome the system weaknesses previously noted.

191. The Board reviewed the new system's general and application controls and found that most of the controls were operating effectively. It also noted, however, a lack of formal policies and procedures for transferring a file exported from the Omni system and sent for uploading to the RAMCO accounting system. A policy should be in place, among other things, to ensure that a file can be exported and sent securely, and that such a file is created in an uneditable format to ensure no changes can be made to it. There has also been a lack of a uniform convention for naming all UNRWA resources, including the network and the Omni application. A uniform

naming convention would prevent naming conflicts and make it possible to easily identify the owners of user IDs.

192. **UNRWA agreed with the Board's recommendation that its Microfinance Department develop a formal policy and procedure for transferring files exported from the Omni system to the RAMCO system and that it establish a uniform naming convention for all UNRWA information technology resources, including the network and the Omni application.**

C. Disclosures by management

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

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

194. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs had been recognized: cash losses of $529, inventory losses of $0.12 million identified through physical inventory verifications, outstanding receivables of $0.43 million, outstanding pledges of $0.26 and outstanding loans of $2.05 million.

2. Ex gratia payments

195. As required by financial regulation 11.5, UNRWA reported ex gratia payments for the period under review amounting to $0.04 million. This was in respect of two staff members who were transferred from the Gaza field office to Amman headquarters.

3. Cases of fraud and presumptive fraud

196. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported to the Board 20 cases of fraud and presumptive fraud amounting to $0.02 million. For details of the cases, see annex II to the present report.

D. Acknowledgement

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

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

Annex I

Review of the status of implementation of recommendations for the year ended 31 December 2012

Summary of recommendation	*Paragraph reference (A/67/5/Add.3, chap. II)*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
Implement streamlined project monitoring tools to enable its project managers to monitor the implementation of projects at headquarters and the field	73	2010-2011	X		
Allow for adequate tender submission time frames in accordance with the Procurement Manual; provide clarity on what constitutes “due cause”; and instruct field offices to institute adequate procurement planning	82	2010-2011		X	
Enforce compliance with procurement procedures	95	2010-2011	X		
Enhance its supply manual to address the inconsistent procedures applied by its field offices in issuing inventories that it addresses the gaps identified in the process of issuing inventories	118	2010-2011		X	
Clearly define the responsibility for plan testing and process backlog initiation in its disaster recovery plan; finalize and approve the plan; and develop and approve a business continuity plan	158	2002-2003		X	
Develop plans to expedite the process of recruiting the Director of Internal Oversight Services	171	2010-2011	X		
Prioritize the implementation of internal audit recommendations, with emphasis on high-risk areas identified by internal audit	178	2010-2011		X	
Strengthen its controls to ensure that the system of processing, reviewing and summarizing financial information is more reliable and adequate for the preparation of its financial statements	24	2012	X		
Ensure that the implementation of the new enterprise resource planning system takes into consideration the full automation of all critical processes, including the generation of financial statements; and enhance the process of managing versions of accounting information produced for end-users to avoid the confusion caused by differing naming conventions and inaccurate aggregation of data	29	2012	X		
Develop a strategy for the recovery of the long-outstanding value-added tax receivable	33	2012	X		
Consider reviewing the existing policy and establish levels of write-off power, designating a different authority, preferably the Advisory Committee on Internal Oversight, to sanction write-offs whenever the amount involved is significant	37	2012	X		
Develop a funding strategy to enable it to honour all of its end-of-service liabilities	41	2012			X

Summary of recommendation	*Paragraph reference (A/67/5/Add.3, chap. II)*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
UNRWA rejects this recommendation, stating that the settlement of the liabilities is linked to the solution of the Palestine refugee issue and not the UNRWA mandate. Therefore, this recommendation should be made to the General Assembly, from which UNRWA receives its mandate					
The Board considers that this liability is part of the financial statements of UNRWA and, therefore, that it was right to direct the recommendation to UNRWA. Also, it considers that the responsibility of agreeing and obtaining from Headquarters a formal commitment of funding and settlement of the end-of-service liability rests with UNRWA					
Consider the revision of all service contracts to clearly specify their start and completion dates in order to ensure compliance and enforceability	49	2012	X		
Ensure that pre-bid site visits and the subsequent pre-bid meetings are conducted with a view to the transparent, fair and competitive tendering of all major/complex contracts; and ensure that whenever a pre-bid site inspection/pre-bid meeting was not practicable, the rationale is properly documented	55	2012	X		
Develop a clear mechanism for monitoring supplier performance during the contract period. This will ensure compliance with regulations and will give management assurance that poor supplier performance is being addressed	62	2012		X	
Continue to review the process of granting waivers and that it remind staff of the need to ensure that they are in line with the requirements set out in the Procurement Manual	67	2012		X	
Continue to mobilize resources to prevent buildings in bad condition from further deteriorating; prepare a comprehensive long-term asset management plan for its buildings in need of repair, as identified in the valuation report; and develop an asset repair and maintenance policy	72	2012		X	
Assign to specific officers responsibility for inspecting property and issue a directive to prepare and maintain reports for all inspections undertaken; and prepare an inspection plan for approval by the responsible heads of field engineering departments	74	2012	X		
Reconcile the general ledger and the asset register on a regular basis to ensure that the assets reported in the financial statements tally with the asset register	79	2012	X		
Endeavour to the best of its ability to obtain relevant documents to substantiate the right to use buildings and plots of land	82	2012		X	

Summary of recommendation	*Paragraph reference (A/67/5/Add.3, chap. II)*	*Financial period first made*		*Implemented*	*Under implementation*	*Not implemented*
Expedite the process of developing the inventory policy in order to enhance IPSAS compliance; and assess the closing value for non-inventory items to ensure compliance with IPSAS 12	88	2012			X	
Establish a structured investment review committee and ensure that its proceedings are recorded and maintained; and expedite the development of a hedging policy and strategy to guide the treasurer on hedging and the proper management of currency risks	91	2012		X		
Formalize its results-based management results review processes in a policy or organizational directive; ensure that the results review process takes place, as envisaged, at mid-year and on an annual basis; and ensure that measures are implemented to support alternative means of collecting performance data from the Syrian Arab Republic field office, for example, though the Internet	96	2012			X	
Set a time frame for establishing an information and communications technology steering committee to oversee the implementation and operation of related functions; develop a business case for deploying an electronic document management system that would act as a key central repository accessible anywhere and at any time; and set a time frame for and expedite the merging of the RAMCO application support unit under the Finance Department with the application support unit under the Information Systems Division	101	2012			X	
Continue monitoring the loan portfolio in the Syrian Arab Republic with a view to improving its operational self-sufficiency to a level that would enable it to cover its operational costs; improve controls by establishing a loan review committee for the management of loans receivable; and ensure that the general controls of the loan management information system are adequate for the mitigation of ever-growing business risks	112	2012			X	
Total			**25**	**12**	**12**	**1**
Percentage			**100**	**48**	**48**	**4**

Annex II

Cases of fraud and presumptive fraud reported to the Board

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-13-0153	Amman headquarters	Financial irregularities	450	A staff member forged signatures on four official UNRWA receipts for petty cash payments. Another staff member collected monies owed as salaries to other staff and took part of the money for himself. The same staff member received money for claiming a salary under another person's name.	Substantiated.
I-sight 13-013	Gaza field office	Theft at the Tuffah distribution centre	The amount of loss was not determined	UNRWA received allegations from a neighbour near the Tuffah distribution centre that a staff member working at the centre had stolen a food parcel from the centre.	Substantiated.
I-sight 13-129	Gaza field office	Theft incident from El Raze elementary school for girls	200	On 13 November 2013, the school principal reported the missing items.	No details were declared.
I-sight 13-0053	Gaza field office	Corruption in Abu Swaireh area	The amount of loss was not determined	On 16 April 2013, UNRWA received an e-mail from a staff member claiming that an engineer and a social worker were involved in corruption because they had registered residents in Abu Swaireh area on the list of people who have been affected as a result of Israeli shelling in November 2012, although those people were not affected.	This case is still under implementation.
I-sight 13-103	Gaza field office	Robbery at the Khan Younis Training Centre	100	On 3 September 2013, a staff member who worked as a skip-lift driver was seen by some Job Creation Programme staff, when he entered the Khan Younis Training Centre to remove garbage, putting four iron support bars underneath the skip-lift and covering them with garbage. The Job Creation Programme staff reported this incident to the Centre's administration.	This incident was not pursued owing to the suspected staff member's retirement.
INV-13-007	Jordan field office	Theft		Computer hardware was stolen from Nuzha Preparatory Girls School No. 1.	Unsubstantiated. No subject was identified.
INV-13-020	Jordan field office	Theft	35	Loss of 350 folic acid tablets at one clinic and loss of 190 folic acid tablets at another clinic.	Unsubstantiated. No subject was identified.

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-13-043	Jordan field office	Fraud		Forged ethics certificates.	Substantiated. It was decided at the intake committee meeting to verbally reprimand two staff members.
INV-13-061	Jordan field office	Theft		On 20 May 2013, two staff members of the Field Procurement and Logistics Department stood by the garage entrance away from camera surveillance and shook hands with the guard on duty, who immediately went to the garage area and left it with a plastic bag that he put in his private car, which was parked outside the garage area.	Unsubstantiated. It was decided not to investigate the allegation as no misconduct was found.
INV-13-068	Jordan field office	Fraud	141	A staff member engaged in a fraud case involving the Group Medical Insurance Policy by submitting three medical treatment claims supported by forged invoices. The staff member admitted that she was guilty.	Substantiated. Disposition memorandum under review by human resources.
INV-13-095	Jordan field office	Fraud	655	Gulf Insurance Group complained about falsified medical reports for five insured staff members that were related to the same doctor. The investigation substantiated the allegation that the staff members had engaged in misconduct by forging medical reports to accompany their medical claims.	Substantiated. Disposition memorandum under review by human resources.
INV-13-126	Jordan field office	Fraud	15 500	At the Sukhneh women's programme centre/ community-managed fund, a woman committed fraud by taking approximately 11,000 Jordanian dinars in faked loans since 2011. She has paid back about JD 3,000 but JD 9,000 is still outstanding. A written confession was obtained in which the woman admitted the fraud and all operations of the community-managed fund at the centre were frozen and the subject's signatory authority at the bank was frozen. An investigation into an allegation of fraud and departures from UNRWA standards of conduct was initiated to investigate whether two UNRWA staff members were complicit in the fraud committed by the loans officer.	Under investigation.

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-13-173	Lebanon field office	General fraud	0	An investigation was carried out into allegations that a civil engineer reportedly bought two unfinished shops. It was alleged that the engineer paid directly to the building owner only $5,000, while the remaining $21,000 was allegedly paid directly to the building owner by three contractors and one building material supplier working at the Nahr el-Bared Refugee Camp whom the engineer was directly supervising.	Allegations were not substantiated. Staff separated from the organization upon expiration of contract.
INV-13-169	Lebanon field office	Recruitment irregularity	0	The human resources department received information that, during the administration of tests for the recruitment of drivers, attempts were made by several staff members to provide truck driving training, providing an unfair advantage to a number of candidates. The investigation is looking into allegations that one or more staff members have misused their position to influence the recruitment process.	Under investigation.
INV-15-2013	Syrian Arab Republic field office	Recruitment for Project Associate (grade 8)	0	A senior staff member abused her authority with a view to assist her close relative in the technical test for a post in the same programme.	Allegations were substantiated. Disciplinary measure under consideration.
INV-16-2013	Syrian Arab Republic field office	Emergency cash assistance	0	Allegations of financial irregularities were reported against a certain staff member in the emergency cash assistance payments to Palestine refugees.	Report being finalized. Pending.
INV-17-2013	Syrian Arab Republic field office	Mazout procurement	0	A staff member working in procurement was reported to have abused her authority for personal benefit.	Allegations were substantiated. Disciplinary measure under consideration.

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-13-0089 (Two cases were created in the case management system by mistake; the second case number is INV-13-0119)	West Bank field office	Theft	0 No loss established	A staff member was accused of stealing diesel fuel from the Agency because he was seen leaving the generator area in his duty station with two bottles full of a liquid (estimated capacity being one gallon each). When later questioned as part of a preliminary investigation, the staff member explained that those bottles were filled with olive oil that he had brought with him to work and that he took home at the end of his shift. The preliminary investigation also suspected an estimated deficit of 800 litres of diesel fuel from the duty station but presented neither a solid evidentiary basis to support the existence of a deficit nor to implicate the staff member in any wrongdoing.	Unsubstantiated.
INV-13-0066	West Bank field office	Theft	0 No loss suffered by the Agency	A staff member was alleged to have stolen money from a colleague who had left the money in an Agency vehicle.	Substantiated.
INV-13-0092	West Bank field office	General fraud	0 No financial loss suffered by the Agency	A staff member was accused of falsifying a letter, represented as an official communication of the Agency, in order to support his claim for social assistance from the Ministry of Social Assistance of Palestine.	Substantiated. Investigation established that the staff member had falsified the letter. The staff member will be disciplined in accordance with Agency rules and regulations.
INV -13-0181	West Bank field office	General fraud	0 Based on information collected to date, no loss suffered by the Agency	A staff member was alleged to have tried to convert her annual leave to sick leave using a falsified sick note. No loss suffered by the Agency because the falsified sick note was discovered before the sick leave had been converted.	

Chapter III
Certification of the financial statements

Letter dated 27 March 2014 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 of the Financial Regulations and Rules of the United Nations, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2013.

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 2013.

(*Signed*) Bernard **Laufenberg**
Director of Finance

Chapter IV
Financial report for the year ended 31 December 2013

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of the United Nations Relief and Works Agency for Palestine Refugees in the Near East, I have the honour to submit the consolidated financial statements of UNRWA for the year ended 31 December 2013, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

B. Financial and budget analysis

Summary

2. The year 2013 has been a challenging one for UNRWA, its donors and its beneficiaries. The Agency continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5 million registered persons and the amelioration of their plight, pending the just resolution of the question of Palestine refugees. Throughout 2013, UNRWA continued its efforts to meet the needs of Palestine refugees across its five fields of operations, despite access problems in the West Bank, the continuing blockade on the Gaza Strip, the conflict in the Syrian Arab Republic and the security concerns with which the Agency is faced on a daily basis.

3. Notwithstanding the difficult financial climate, donors continued to provide strong support, with $1,122.1 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and to address emergencies in the Gaza Strip and the Syrian Arab Republic.

4. The financial statements of the Agency have been prepared in accordance with IPSAS. Until 2011, the financial statements had been prepared in accordance with the United Nations system accounting standards.

Move to the International Public Sector Accounting Standards

Improved financial reporting and management information

5. On 30 November 2005, the High-level Committee on Management recommended that all United Nations system organizations should adopt IPSAS as their accounting standards. This recommendation was driven by a need within the United Nations system to move to improved, independent and universally accepted accounting standards, with the aim of increasing quality and credibility in financial reporting.

6. On 7 July 2006, the General Assembly decided to approve the adoption by the United Nations of IPSAS (see Assembly resolution 60/283, sect. IV, para. 1).

7. Subsequently, the Commissioner-General approved the adoption of IPSAS by UNRWA, and the work of preparing for the implementation of IPSAS began in 2009.

8. The adoption of IPSAS represents a best management practice that will keep the Organization up to date with the latest developments in financial matters. It will also lead to greater harmonization in the presentation of financial statements between United Nations system organizations and will improve the comparability of their financial statements with those of other international organizations and national Governments.

9. Financial statements prepared in accordance with IPSAS provide greater insight into the actual assets, liabilities, revenues and expenses of the Agency. Increased transparency with regard to assets and liabilities results in greater internal control and enhanced management of resources. IPSAS-compliant information about revenues and expenses better supports decision-making and enhances strategic planning.

Summary of changes to the financial statements

10. Applying IPSAS requires the introduction of the full accrual basis of accounting, a significant change from the modified cash basis of accounting applied under the United Nations system accounting standards. “Accrual-basis accounting” means the recognition of transactions and events when they occur, recorded in the accounting records and reported in the financial statements for the financial periods to which they relate, and not only when cash or its equivalent is received or paid.

11. Contributions are recognized when confirmed in writing by donors or upon the submission and approval of the required report for subsequent payments in the case of multi-year contracts. Where contributions are due to the Agency, a receivable balance is shown, but this is reduced to reflect an allowance for the amount that is considered unlikely to be received. Previously, under the system accounting standards, revenue from voluntary contributions was simply recognized when cash was received. The Agency now also assesses the value of non-monetary contributions of goods and services in kind, to the extent possible, and includes this in revenue.

12. Expenses are recognized in the financial statements only when services or goods have been received and accepted by the Agency or when goods or services are delivered to UNRWA beneficiaries, not when cash payments have been made.

13. UNRWA now reports the value of its investment in both tangible and intangible assets. Tangible fixed assets (property, plant and equipment) represent the buildings and non-expendable property of the Agency. Intangible assets represent property that does not have physical substance. For the Agency, this is essentially information technology software. Previously, all these assets were immediately recorded as expenditure on acquisition.

14. The value of future employee benefits that UNRWA international and area staff have earned but not yet received (for example, termination liability in the event of the Agency’s cessation of operations, accumulated annual leave, repatriation grants) is now recorded on an accrual basis to capture the full cost of employing staff. In the previous financial statements, these types of benefits were shown as an expense only when paid, and the liabilities were disclosed only in the notes.

15. Under the United Nations system accounting standards, the principal financial statements (statements I and II) were presented showing the split by fund. Under IPSAS, only the total consolidated position is shown on the face of financial statements I and II, with the split by fund included in the notes.

16. The last biennial budget (for 2012-2013) 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.

Financial performance for 2013

17. The Agency's total revenue and income for 2013 was $1,141.9 million, compared with total expenses of $1,118.5 million, resulting in a net surplus of $20.0 million for 2013.

18. The financial performance of each fund is detailed in note 32 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 2013
(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund elimination*	*Total*
Total revenues	618.3	40.5	9.8	153.2	356.7	(36.6)	1 141.9
Total expenses	678.9	44.3	9.3	145.8	277.0	(36.9)	1 118.5
Surplus/(deficit) for the year	**(60.6)**	**(3.8)**	**0.5**	**7.4**	**79.8**	**0.2**	**23.5**

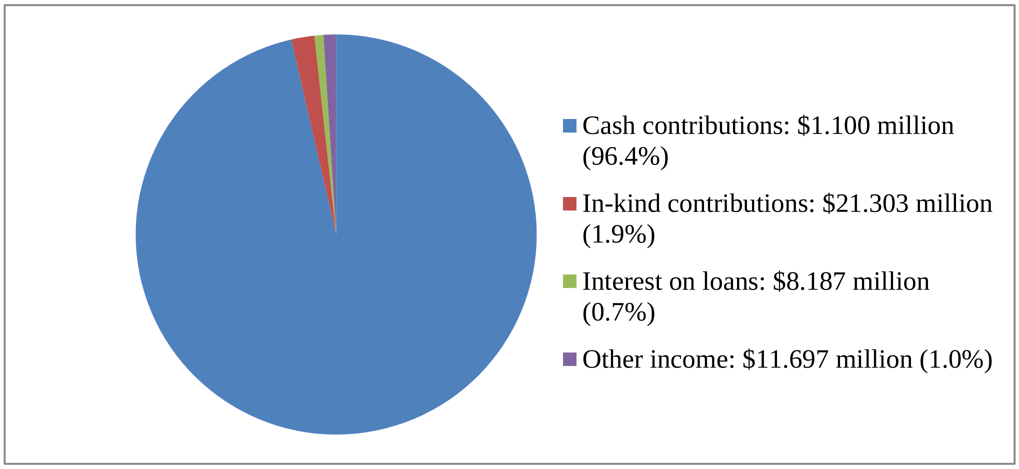
19. The General Fund and restricted funds recorded deficits of $60.6 million and $3.8 million, respectively.

20. The Microfinance Department, emergency appeals and projects funds recorded a surplus of $0.5 million, $7.4 million and $79.8 million, respectively, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods.

Revenue analysis

21. Voluntary cash contributions are the primary source of revenue for the Agency, providing more than 97 per cent ($1,100.8 million) of total revenue and income. In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects), recognized under IPSAS, were valued at $21.3 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 I
Revenue and income sources

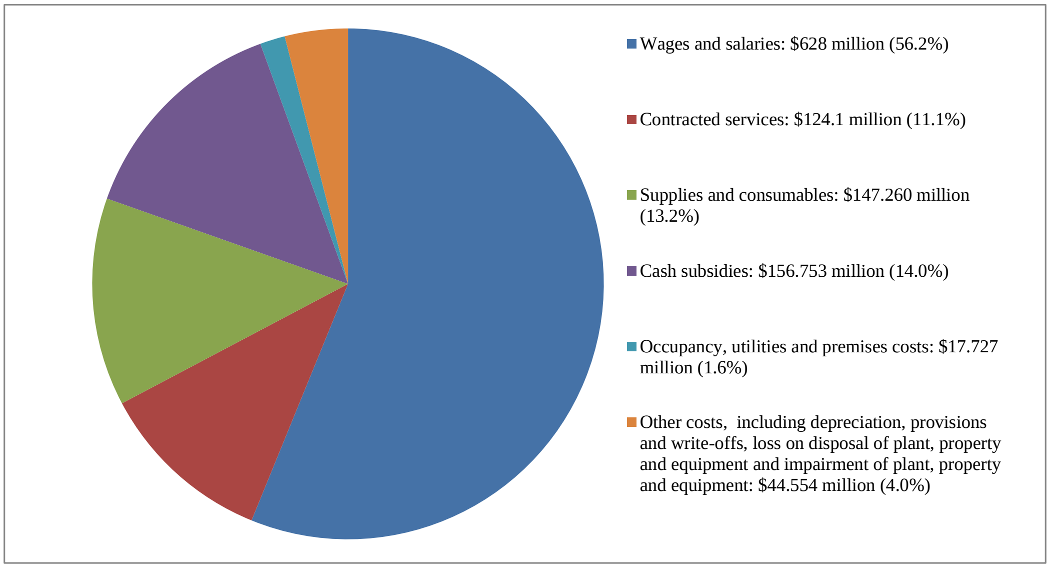


22. All key donors reaffirm their support every six months at a semi-annual Advisory Commission meeting. UNRWA is also actively diversifying its funding base by successfully targeting and increasing donations from emerging markets, such as the Middle East.

Nature of expense analysis

23. UNRWA spent a total of $1,118.5 million in 2013. Staff costs of $628.0 million represented 56 per cent of total expenses. As already 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 II
Expense analysis by nature of expense



24. A total of $124.1 million was spent on contracted services, representing expenses relating to the Agency's engagement of third parties to perform work on its behalf. Of that amount, $58.2 million was spent on equipment and construction, which includes shelters and equipment that was donated to UNRWA beneficiaries and was therefore expensed, in addition to minor equipment for use by the Agency. A total of $22.6 million under the category of contracted services was spent on hospital services for the benefit of refugees.

25. A total of $156.8 million was spent on subsidies, including $131.1 million distributed to beneficiaries providing selective cash assistance for conflict-affected Palestine refugees in the Syrian Arab Republic, food security and rent subsidies. The sum of $19.6 million was provided as subsidies for the construction and repair of shelters, and $4.3 million was provided for patient subsidies.

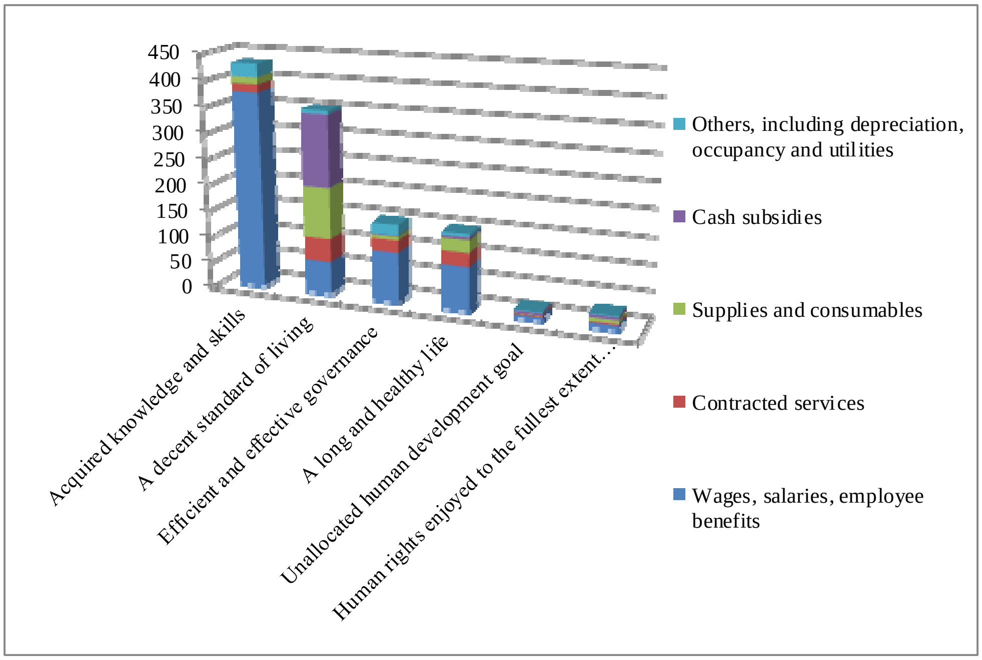
26. A total of $147.3 million was spent on supplies and consumables, including $83.5 million for basic commodities and $4.2 million for fresh food. The amount of $22.5 million was spent on medical supplies, and $6.0 million was spent on textbooks and library books. The sum of $6.6 million was spent on transportation supplies.

27. Occupancy and utility costs totalled $17.7 million in 2013. Other expenses amounted to $44.5 million, including depreciation, impairment of fixed assets, loss on disposal and provisions and write-offs.

Human development goals and Agency programmes: expense analysis

28. As part of its planning approach, UNRWA has five human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees. The goals, and the amount spent on each, are shown in figure III.

Figure III
Expense analysis by human development goal[a]
(Millions of United States dollars)

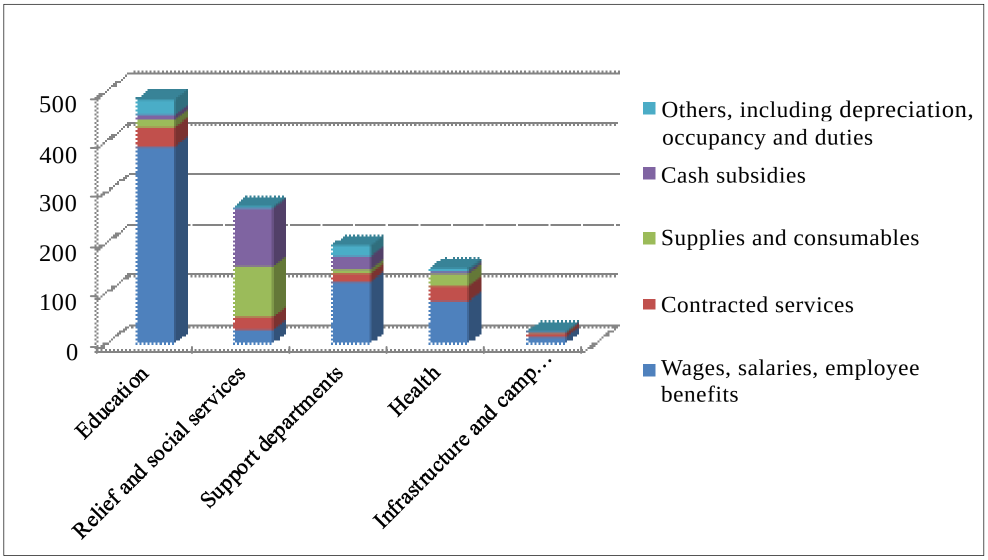


[a] $36.9 million in inter-segment eliminations excluded from analysis.

29. UNRWA is functionally organized under five programmes that provide services to its UNRWA beneficiaries or internal support services. The 2013 expenses by programme, as shown in figure IV, follow a similar expense profile as categorized by human development goal.

30. The largest amount, $427.8 million, representing 39 per cent of the Agency's 2013 expenses, was spent on the goal of acquired knowledge and skills, delivered through the education programme ($485.5 million). The goal is aimed at ensuring universal access to and coverage of basic education, enhancing education quality and outcomes against set standards and improving 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 expenditure in this area is spent on educational staff wages and salaries.

Figure IV
Expense analysis by programme[a]
(Millions of United States dollars)



[a] $36.9 million in inter-segment eliminations excluded from analysis.

31. An amount of $349.5 million, or 31 per cent of UNRWA expenditure, supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp development programmes ($284.0 million and $33.4 million, respectively). The objectives of this goal are to reduce abject poverty, to mitigate the effects of emergencies on individuals, to offer inclusive financial services and increased access to credit and savings facilities, to improve employability and to improve the urban environment. Twenty-seven per cent of the expenditure ($95.1 million) in pursuit of this goal was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional $138.8 million was provided in the form of cash subsidies.

32. An amount of $151.9 million, or 13 per cent of the Agency's 2013 expenses, supported the effective and efficient governance goal, accomplished largely through the support departments programme ($202.4 million). The goal is aimed at providing overall direction and control of UNRWA and ensuring efficient operations and effective financial and risk management. The programme includes the effective management of personnel and financial resources, oversight, internal communication, legal support, fundraising, advocacy and outreach to external interlocutors. Sixty-one per cent of the expenditure in pursuit of this goal ($122.0 million) was spent on wages and salaries.

33. The human development goal of a long and healthy life is aimed at ensuring universal access to quality and comprehensive primary health care, protecting and promoting family health and preventing and controlling diseases. An amount of $146.7 million (13 per cent of the Agency's total expenditure) was spent in pursuit of this goal, which is supported through the health programme ($150.0 million). Nearly 58 per cent ($83.0 million) of the expenditure in pursuit of this goal was

spent on wages and salaries, with 16 per cent ($23.6 million) spent on medical supplies and consumables and 18 per cent ($30.7 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 3 per cent ($5.3 million) was spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

34. A total of $52.9 million was spent on projects that have not been assigned to a human development goal, such as emergency appeals. Of this amount, 4 per cent ($2.1 million) was spent on contracted services and 70 per cent ($36.9 million) on programme support costs, reflecting the project nature of the unassigned costs.

35. Lastly, $26.5 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. This includes the objectives of 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 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, together with the services provided to achieve the objectives of the human development goal of a decent standard of living.

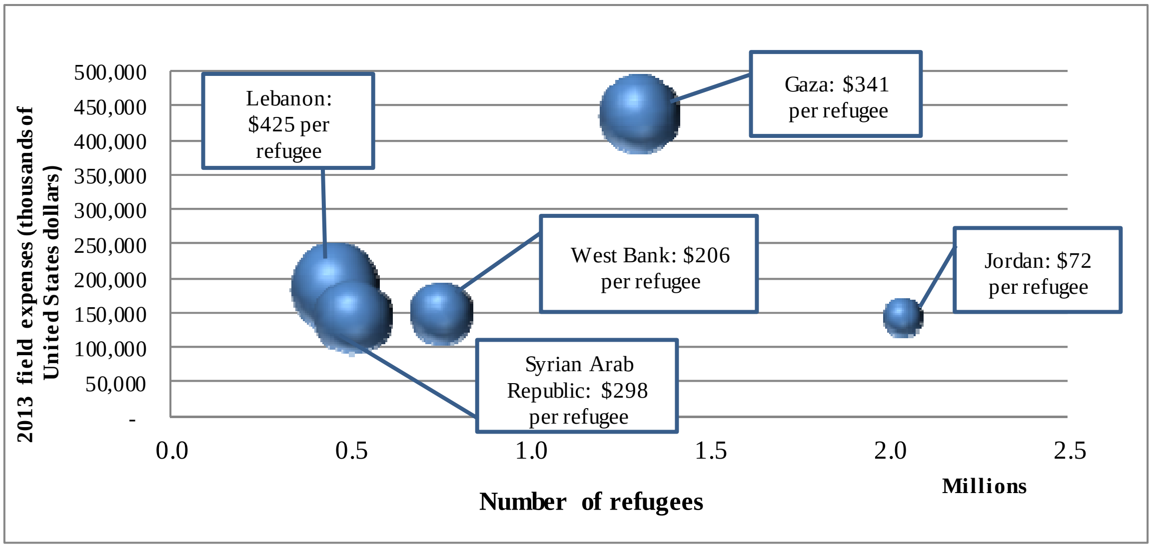
Geographical location: expense analysis

36. Although UNRWA goals and services are delivered primarily within a programme approach, the Agency’s 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 V shows the costs of UNRWA services per refugee for each field. The different levels of expenditure reflect the situations prevailing in each of the fields.

37. The average 2013 expenses per refugee in the Gaza field office are $341. The Gaza Strip has a population of more than 1.5 million, including some 1.3 million registered Palestine refugees. The ongoing blockade of the Gaza Strip has severely affected the economy and the enjoyment of a range of human rights by Palestine refugees, which is reflected in the average expenses per refugee in the field. The field office supports 8 camps, 245 schools, 2 vocational and technical training centres, 22 primary health centres, 6 community rehabilitation centres and 7 women’s programme centres.

38. The Lebanon field office has the lowest number of registered refugees, at just in excess of 450,000, and the highest average 2013 expenses per refugee, at $425, which reflects the conditions prevailing in Lebanon. Palestine refugees do not enjoy several basic human rights (e.g., they have restricted access to the local labour market) and many live in UNRWA refugee camps. The field office supports 12 camps, 69 schools, 2 vocational and technical training centres, 27 primary health centres, 1 community rehabilitation centre and nine women’s programme centres.

Figure V
Average 2013 expenses per registered refugee, by field[a]



[a] $69.6 million in headquarters expenses and $36.9 million in inter-segment eliminations excluded from analysis.

39. The West Bank field office serves more than 750,000 registered Palestine refugees, with one quarter of the registered refugees living in 19 refugee camps. West Bank refugees have been hard hit by closures imposed on the West Bank by the Israeli authorities, as historically they have been largely dependent on income from work inside Israel. The average 2013 expenditure per registered refugee in the West Bank was $206. In addition to the 19 camps, the field office supports 99 schools, 3 vocational and technical training centres, 42 primary health centres, 15 community rehabilitation centres and 18 women’s programme centres.

40. The Syrian Arab Republic field office is mandated to provide services to some 508,000 Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The average 2013 expenses per registered refugee totalled $298. The ongoing armed conflict in the Syrian Arab Republic has affected the economy, thus which has in turn had an impact on the Palestine refugee community. The field office supports 9 camps, 118 schools, the Damascus Training Centre, 23 primary health centres, 5 community rehabilitation centres and 13 women’s programme centres.

41. Lastly, more than 2 million Palestine refugees are registered in Jordan. All Palestine refugees in Jordan have full citizenship, with the exception of some 140,000 refugees originally from Gaza, who are eligible for temporary passports but are not entitled to vote or to work in government. The lowest average 2013 expenses per refugee, at $72, reflect the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 172 schools, 2 vocational and technical training centres, 24 primary health centres, 8 community rehabilitation centres and 12 women’s programme centres.

Financial position at the end of 2013

42. The Agency's net assets/equity increased from $206.5 million as at 31 December 2012 to $230.158 million as at 31 December 2013.

43. The financial position of each fund is detailed in note 32 to the financial statements and is summarized in table IV.2.

Table IV.2
Summary financial position by fund as at 31 December 2013
(Millions of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund elimination*	*Total*
Current assets	84.5	25.3	29.5	51.5	237.6	(0.4)	427.9
Non-current assets	435.7	7.0	2.5	0.3	17.5	–	463.0
Total assets	**520.1**	**32.3**	**32.0**	**51.8**	**255.0**	**(0.4)**	**890.9**
Current liabilities	130.3	8.5	1.3	14.0	24.0	(0.4)	177.6
Non-current liabilities	470.3	0.2	12.4	0.0	0.0	–	483.1
Total liabilities	**600.7**	**8.7**	**13.8**	**14.0**	**24.0**	**(0.4)**	**660.7**
Net assets/equity	**(80.5)**	**23.6**	**18.2**	**37.9**	**231.0**	**(0.0)**	**230.2**

44. The negative net assets/equity position of the General Fund is due primarily to the significant post-employment benefits liabilities.

45. The net assets/equity balance of the projects fund showed a balance of $231.0 million, due primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

46. Net assets/equity are divided into fund balances ($215.7 million) and reserves ($14.4 million).

47. Although there is a negative net current asset balance for the General Fund, the net current assets (current assets less current liabilities) of the Agency were $250.3 million as at 31 December 2013 (compared with $206.5 million as at 31 December 2012), indicating positive short-term liquidity. The Agency's current assets amount to 48 per cent of its total assets, whereas current liabilities constitute 27 per cent of total liabilities.

Cash, cash equivalents and investments

48. Total cash amounted to $278.4 million as at 31 December 2013, covering four to five months of operations (based on average monthly cash outflows in 2013). UNRWA holds no short-term investments.

Receivables

49. Contributions receivable represent confirmed pledges outstanding from donors that are due within 12 months and were valued, net of allowances for estimated reductions in contribution revenue and doubtful accounts, at $23.6 million as at 31 December 2013, owing primarily to projects ($15.7 million) and emergency appeals ($4.1 million).

50. Accounts receivable, net of allowances, were valued at $52.2 million as at 31 December 2013. This relates primarily to significant value-added tax refund claims of $93.2 million, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, in addition to $3.3 million relating to personal accounts of UNRWA staff members. Loans receivable, net of allowances, were valued at $21.0 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, $18.7 million relates to short-term (current) loans receivable.

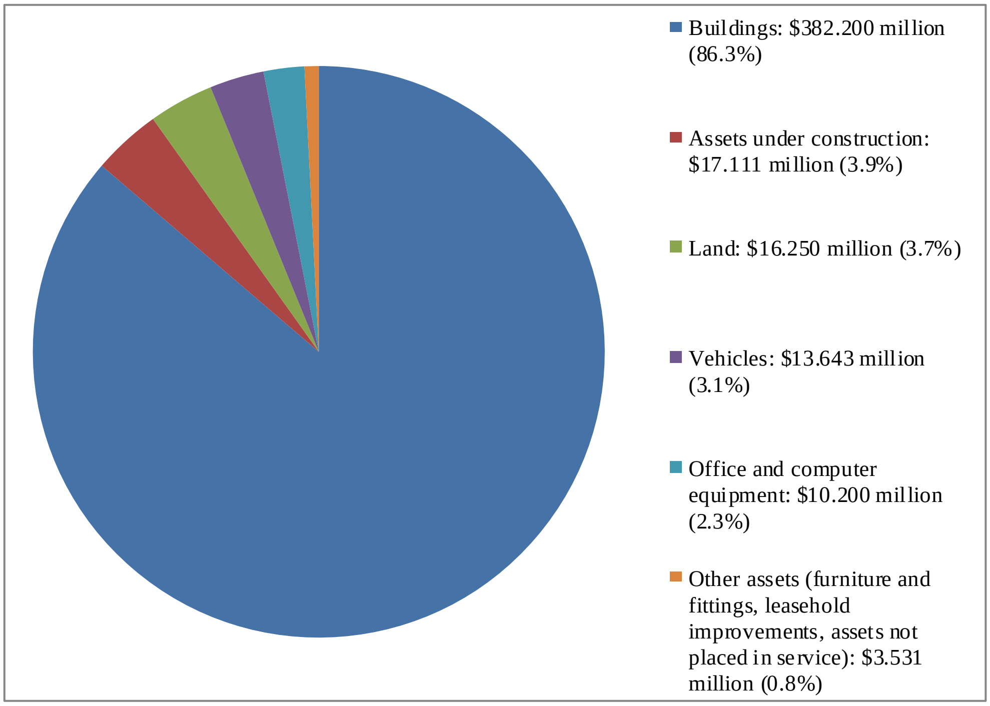
Inventories

51. The value of the Agency's inventory at the end of 2013 was at $47.6 million, reflecting an increase of $18.0 million compared with 31 December 2012. This included warehouse inventory of $28.1 million, in addition to inventory in transit of $15.5 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at $3.8 million, and production unit inventory, for the embroidery centre located in the Gaza Strip, was valued at $0.2 million.

Plant, property and equipment

52. The total net carrying amount of property, plant and equipment as at 31 December 2013 was $442.9 million, representing 50.0 per cent of total Agency assets. This was composed mainly of buildings used for the provision of services to UNRWA beneficiaries.

Figure VI
Property, plant and equipment



53. Assets under construction amounted to $17.1 million as at 31 December 2013, relating largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the General Fund for use in the delivery of the Agency's core services to Palestine refugees.

54. Land was valued at $16.2 million as at 31 December 2013. This figure appears relatively low, because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. Given that the leases under those contracts have been assessed as operating leases, such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

55. The Agency has significant liabilities relating to post-employment and other long-term employee benefits, amounting to $526.6 million as at the end of 2013, reflecting an increase of $29.2 million during the year. The employee benefits liabilities represent 79.6 per cent of the Agency's liabilities, with $53.3 million categorized as current liabilities and $473.2 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.

Budgetary analysis

Basis of the budget

56. UNRWA budget figures are determined on a modified cash basis (i.e., United Nations system accounting standards) and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2012-2013 programme budget (Blue Book), as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

Explanation of material differences

57. The 2013 programme budget for General Fund, projects and in-kind donations, as reflected in the Blue Book for 2012-2013, amounted to $997.6 million (United Nations system accounting standards view). This is disclosed in financial statement V as “original” budget. In compliance with the United Nations system accounting standards, the final 2013 programme budget was $1,155.0 million, representing an increase of $157.5 million, or 15.8 per cent. This is disclosed in financial statement V as “final” budget. The amount of $157.5 million is a reflection of the increase in the final budget for each entity as follows: a decrease in the General Fund budget by $55.7 million, reflecting the reduced requirements (see para. 2 above); an increase in the projects budget by $204.2 million, reflecting the additional needs primarily in the Syrian Arab Republic (Syria Humanitarian Assistance Response Plan projects), Gaza and Lebanon; and an increase in General Fund in-kind donations by $9.0 million.

C. Enhancing transparency and accountability

58. 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.

59. 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.

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

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

D. Enterprise and financial risk management

Enterprise risk management

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

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

64. Operational risk is also managed at the field level because, although the five fields in which UNRWA operates share similarities, they are also distinctive. In recognition of this, in 2009, responsibility was devolved to the fields for the delivery of services to UNRWA beneficiaries. 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 providing services geared towards local needs, given the realities in the field and within the field's available resources. This devolution, along with centralized policymaking and the regular monitoring of results, provides for enhanced management of the Agency's operational risk.

65. "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, in particular in the areas where the Agency operates: Jordan, the Syrian Arab Republic, Lebanon, the West Bank and the Gaza Strip. The security alerts are set at the appropriate levels, and all risk-mitigating elements are installed and monitored on an ongoing basis.

Financial risk management

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

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

68. UNRWA employee benefits liabilities totalled $526.6 million as at 31 December 2013. 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.

E. Responsibility

69. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of UNRWA, I am pleased to submit the following financial statements, which have been prepared under IPSAS. The financial statements have been prepared and certified as correct by the Director of Finance.

Statement I	Financial position as at 31 December 2013
Statement II	Financial performance for the year ended 31 December 2013
Statement III	Changes in net assets/equity for the year ended 31 December 2013
Statement IV	Cash flow for the year ended 31 December 2013
Statement V	Comparison of budget and actual amounts for the year ended 31 December 2013

Notes to the financial statements

Chapter V
Financial statements for the year ended 31 December 2013

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

I. Statement of financial position as at 31 December 2013

(Thousands of United States dollars)

	Reference	*31 December 2013*	*31 December 2012 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 4	278 395	232 433
Short-term loans receivable	Note 5	18 682	19 421
Contributions receivable	Note 6	23 595	22 801
Accounts receivable	Note 7	52 169	50 555
Other current assets	Note 8	7 435	3 977
Inventories	Note 9	47 632	29 632
Non-current assets			
Other non-current assets	Note 8	325	354
Long-term loans receivable	Note 5	2 395	2 677
Property, plant and equipment	Notes 3, 11	442 920	437 618
Intangible assets	Note 12	17 337	6 874
Total assets		**890 885**	**806 342**
Liabilities			
Current liabilities			
Payables and accruals	Note 13	104 050	62 015
Employee benefits	Notes 14, 15	53 341	63 648
Derivative financial liability	Note 10	82	–
Other current liabilities	Note 16	13 213	9 443
Advance contributions	Note 17	6 950	19 998
Non-current liabilities			
Employee benefits	Notes 14, 15	473 216	433 571
Other non-current liabilities	Note 13	9 875	11 188
Total liabilities		**660 727**	**599 863**
Net assets		**230 158**	**206 479**
Net assets/equity			
Revaluation and other reserves		(11 776)	(11 555)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	26 193	25 756
Accumulated surplus/deficit	Note 3	215 741	192 278
Total net assets/equity		**230 158**	**206 479**

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

II. Statement of financial performance for the year ended 31 December 2013

(Thousands of United States dollars)

	Reference	*31 December 2013*	*31 December 2012 (restated)*
Revenue			
Cash contributions	Note 20	1 100 771	897 884
In-kind contributions	Note 21	21 303	21 686
Interest on loans	Note 22	8 187	8 870
Interest on bank deposits	Note 23	522	1 155
Other revenue			
Foreign currency exchange gain	Note 24	5 972	1 931
Programme support cost recovery	Note 25	136	167
Financial derivative gain/(loss)	Note 10	(36)	11 232
Miscellaneous revenue	Note 26	5 067	4 258
Total revenue		**1 141 922**	**947 183**
Expenses			
Wages, salaries and employee benefits	Note 27	628 038	591 389
Supplies and consumables	Note 28	147 260	122 507
Occupancy, utilities and premises costs	Note 29	17 727	17 872
Contracted services	Notes 3, 30	124 127	145 679
Revenue			
Subsidies	Note 31	156 753	82 414
Depreciation	Notes 3,11	24 022	22 912
Provision and write-offs	Note 32	13 434	9 774
Loss on disposal	Note 11	2 350	1 422
Impairment of property, plant and equipment	Note 11	4 748	679
Total expenses		**1 118 459**	**994 648**
Surplus/(deficit) for the year	Note 3	**23 463**	**(47 465)**

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 2013

(Thousands of United States dollars)

	Revaluation and other reserve	*Reserves, microcredit community support programme and Microfinance Department*	*Accumulated surplus/deficit — unearmarked*	*Accumulated surplus/deficit — earmarked (restated)*	*Total*
Balance as at 1 January 2013	**(11 555)**	**25 756**	**(49 742)**	**242 174**	**206 633**
Change in accounting policy (Note 3)	–	–	–	(154)	(154)
Balance as at 1 January 2013 as restated	**(11 555)**	**25 756**	**(49 742)**	**242 020**	**206 479**
Changes in net assets/equity for 2013					
Surplus/(deficit) for the period	–	–	(60 570)	84 033	23 463
Reclassification of funds	–	–	41 718	(41 718)	–
Loss on revaluation of derivative financial instruments	(82)	–	–	–	(82)
Reserves, microcredit community support programme and Microfinance Department, during 2013	–	437	–	–	437
Actuarial (loss) on staff termination liabilities	(139)	–	–	–	(139)
Total net assets/equity	**(11 776)**	**26 193**	**(68 594)**	**284 335**	**230 158**

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

IV. Statement of cash flow for the year ended 31 December 2013

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Cash flows from operating activities		
Surplus/(deficit) for the year	23 463	(47 465)
Adjustment for non-cash items		
Add depreciation	24 022	22 911
Loss on disposal	2 350	1 422
Impairment of property, plant and equipment	4 748	679
Actuarial loss on employee benefit liabilities	(139)	(11 555)
Revaluation gain on derivative	–	(17 375)
Increase in allowance for doubtful debts	8 805	4 748
(Increase) in inventories	(18 001)	(1 019)
(Increase)/decrease in contributions receivable	748	(1 449)
(Increase) in accounts receivable	(13 159)	(23 249)
Decrease in loans receivable	2 219	1 829
(Increase)/decrease in other assets	(3 429)	186
Increase in accounts payable and accruals	42 035	2 084
Increase in leave encashment and employee benefits	29 338	54 494
Increase in other liabilities	2 457	7 610
Increase/(decrease) in advance contributions	(13 048)	2 916
Net cash from operating activities	**92 409**	**(3 233)**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	140	–
Purchase of property, plant and equipment	(36 562)	(47 938)
Purchase of intangible assets	(10 462)	(6 725)
Decrease in investments	–	20 197
Net cash from investing activities	**(46 884)**	**(34 466)**
Cash flows from financing activities		
Increase in capital reserve for Microfinance Department and microcredit community support programme	437	118
Net cash from financing activities	**437**	**118**
Net increase (decrease) in cash	45 962	(37 580)
Cash balance at the beginning of the year	232 433	270 013
Cash balance at the end of the year	**278 395**	**232 433**

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 2013

(Thousands of United States dollars)

	Reference	Budget amounts		Actual on comparable basis	Variances: final budget and actual
		Original	Final		
Staff costs					
International staff		30 843	41 283	37 152	4 130
Area staff					
Basic salary		335 254	350 964	341 955	9 009
Hazard pay and special elements		–	5 285	5 300	(14)
Provident Fund Agency contribution		48 693	52 328	50 553	1 775
Special professional occupational allowance, special occupational allowance and others		10 349	10 554	9 971	583
Overtime and excess hours supplement		815	1 332	1 226	105
Currency adjustment factor		21 331	14 294	33 273	(18 979)
Special allowance		19 005	18 415	18 272	143
Health-related expenses		10 879	8 599	8 423	176
Miscellaneous allowances		226	203	223	(20)
Severance cash payment out		18 716	21 903	24 079	(2 176)
Annual leave expenses		–	–	994	(994)
Limited duration contract and temporary staff		6 395	25 414	21 444	3 970
Total staff costs (A)	Note 34	**502 505**	**550 575**	**552 861**	**(2 286)**
Non-staff costs					
Purchase of inventories		51 202	49 690	46 299	3 391
Non-inventory supplies		13 982	46 732	40 134	6 598
Utilities		3 994	5 460	5 053	408
Maintenance of premises		11 264	9 176	11 709	(2 534)
Equipment and non-capital construction		49 257	128 542	107 838	20 704
Training		4 153	6 148	3 515	2 633
Travel		2 302	3 109	2 379	730
Administrative support services		5 015	6 515	5 583	932
Consultancy services		2 394	14 472	11 175	3 296
Hospital services		16 145	19 051	19 248	(197)
Miscellaneous services		19 518	63 375	45 110	18 266
Subsidies to hardship cases		14 624	114 898	104 802	10 095
Subsidies to patients		5 677	4 000	4 135	(136)
Third-parties subsidies		–	2 034	1 482	552
Other subsidies		523	31 354	18 321	13 033
Cost recovery		(27 671)	(3 643)	(2 905)	(738)
Total non-staff costs (B)	Note 34	**172 379**	**500 912**	**423 879**	**77 033**
Reserves (C)		**321 723**	**3 261**	**–**	**3 261**
Capital expenditure (D)		**1 000**	**100 352**	**78 361**	**21 990**
Total resource requirements (A+B+C+D)	Note 34	**997 606**	**1 155 099**	**1 055 102**	**99 997**

United Nations Relief and Works Agency for Palestine Refugees in the Near East
Notes to the 2013 financial statements

Note 1
Mission statement

The mission of UNRWA is to help Palestine refugees achieve their full potential in human development under the difficult circumstances in which they live. The Agency fulfils this mission by providing a variety of essential services within the framework of international standards, to Palestine refugees in the Gaza Strip, the West Bank, Jordan, Lebanon and the Syrian Arab Republic. Among United Nations agencies, UNRWA is unique in terms of delivering services directly to refugees, and is similar in nature to a public service organization.

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 IPSAS. Where IPSAS are silent concerning any specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

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

(b) Accounting convention

2.3 The financial statements have been prepared using the historical cost convention, except for some financial instruments that are carried at fair value and donated inventory or property, plant and equipment, which is 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 (including all fund groups) is the United States dollar, with the exception of the Microfinance Department, which uses the Syrian pound as the functional currency in the Syrian Arab Republic and the Jordanian dinar as the functional currency in the West Bank and Jordan.

` **Transactions and balances**

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

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

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

Management of currency risks

2.8 The primary principle of the currency risk management policy of UNRWA is the preservation of the value of its financial resources in United States dollar terms. The Agency's currency risk can be identified mainly as a potential loss in the value of non-received non-United States dollar contributions and non-United States dollar cash assets as a result of a strengthening United States dollar. The risk arises from the date on which the contributions are pledged. To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach (e.g., hedging) to minimize its exposure to exchange rate fluctuations. To hedge the currency risk, UNRWA entered into several forward contracts in 2013 for expected non-United States dollar contributions in 2014 (see note 10).

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

2.10 UNRWA provides protection against local currencies (currency adjustment factor) to its area staff for their salaries. The Agency's currency risk management policies allow hedging against local currencies to reduce the exposure stemming from fluctuations in exchange rates between the United States dollar and local currencies. At the end of the year, there were no outstanding hedging investments for local currencies.

(d) Materiality and use of judgement and estimates

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

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

(e) Significant accounting policies

Cash and cash equivalents

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

Revenue

2.14 Revenue is recognized in the statement of financial performance when an increase in future economic benefits relating to an increase in an asset or a decrease in a liability has arisen from a mutually agreed interaction between two parties and can be measured reliably.

(a) Revenue from non-exchange transactions

Contributions are recognized in accordance with IPSAS 23: Income from non-exchange transactions. Revenue recognition occurs when the contributions are confirmed in writing by donors or upon the submission and approval of the required report for subsequent payments in the case of multi-year contracts. When projects are coming to an end, and in the event that some contributions will not be fully expended on the project for which they were given, then at that point in time, and in accordance with the donor agreement, the amounts that will not be expended will be recognized as amounts to be refunded to donors and included in the statement of financial position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities in the statement of financial position until the criteria for recording revenue are met. Notes 20 and 21 give further details of cash contributions revenue and in-kind contributions revenue, which are recognized in accordance with this policy.

(b) Revenue from exchange transactions

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

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

Contributions receivable

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

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

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

Accounts receivable

2.18 Receivables are recognized at their nominal value.

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

Loans receivable and allowance for loan losses

2.20.1 *Loans receivable*

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

2.20.2 *Provision for impairment of loans*

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

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

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

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

2.20.4 *Accrued interest on loans*

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

2.20.5 *Recoveries*

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

Financial instruments

2.21 UNRWA has applied the following new IPSAS, which have been issued and are effective from 1 January 2013: IPSAS 28: Financial instruments: presentation; IPSAS 29: Financial instruments: recognition and measurement; and IPSAS 30: Financial instruments: disclosures. They replaced IPSAS 15: Financial instruments: disclosure and presentation. They establish principles for recognizing and measuring financial assets and financial liabilities, presenting financial instruments as liabilities or net assets/equity, offsetting financial assets and financial liabilities, and requirements for disclosure.

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

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

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

Financial risk management

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

Advances and prepayments

2.26 Advances and prepayments are recognized at their nominal value.

Inventories

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

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

2.29 Cost is determined using a weighted average cost formula.

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

Property, plant and equipment

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

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

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

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

(Percentage)

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

Capital work in progress

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

Intangible assets

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

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

Asset class	*Useful life (years)*
Software acquired separately	3
Software internally developed	3
Licences and rights	2
Copyrights	3

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

Software acquisition and development

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

Impairment

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

Operating leases

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

Payables and accruals

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

Employee benefits

2.43 UNRWA recognizes the following categories of employee benefits:

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

2.44 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. All international staff members participate in the Fund.

2.45 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the United Nations Joint Staff Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. Neither the Fund nor UNRWA, nor any other organization participating in the Fund, is in a position to identify its respective proportionate share of the defined benefit obligation, plan assets and costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements set out in IPSAS 25: Employee benefits. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

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

Provisions and contingent liabilities

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

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

Interest revenue

2.49 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is $0.522 million.

Programme support cost recovery

2.50 UNRWA is entitled to a specific percentage of the expenditure incurred on certain projects according to agreements with donors. Programme support cost recoveries are recognized as income and represent recoveries of overhead costs incurred by the Agency to implement the related projects. The amount of programme support cost recovery is $0.136 million.

Fund accounting and segment reporting

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

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

- Unearmarked activities;
- Earmarked activities, which include:
  - Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined

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

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

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

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

Budget comparison

2.53 The budget for the biennium 2012-2013 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

2.54 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 of preparing budgets and financial statements, statement V, comparison of budget and actual amounts, as required under IPSAS 24: Presentation of budget information in financial statements, is prepared on the same basis of accounting, classification and period as the approved budget.

2.55 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.

2.56 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 3
Amendments to the presentation of the 2012 financial statements

3.1 The Microfinance Department amended the threshold amount for its property, plant and equipment capitalization policy from $500 to $2,000, with retroactive effect from 1 January 2010, to be consistent with UNRWA policy. The accounting entries were effected in 2013, however, to achieve comparability. The presentation of the 2012 financial statements was amended to effect the below changes of decrease in assets and net equity by $0.154 million.

(Thousands of United States dollars)

	2012 audited statement	*Adjustment*	*2012 amended*
Statement I: financial position			
Property, plant and equipment	437 772	(154)	437 618
Accumulated surplus/deficit	192 432	(154)	192 278
Statement II: financial performance			
Contracted services	145 644	35	145 679
Depreciation	22 933	(21)	22 912
Surplus/deficit of the year	(47 451)	(14)	(47 465)
Statement III: changes in net assets/equity			
Accumulated surplus/deficit earmarked opening balance	242 174	(154)	242 020

Note 4
Cash and cash equivalents

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

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Cash in hand	15 122	1 747
Cash at banks	263 273	230 686
Total	**278 395**	**232 433**

4.2 The Agency held funds for other United Nations entities in the amount of $2.712 million at 31 December 2013 and $1.869 million at 31 December 2012.

4.3 The balances of cash and cash equivalents on hand as at 31 December 2013 were held in the currencies shown below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2014.

	Balance as at 31 December 2013			*Balance as at 31 December 2012*		
Currency	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*	*Amount*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*
Australian dollar	0.14	1.122	0.12	–	0.965	–
Canadian dollar	209	1.067	196	231	0.993	233
Swiss franc	118	0.887	133	341	0.911	374
Danish krone	275	5.406	51	500	5.621	89
Egyptian pound	56	6.942	8	(8)	6.188	(1)
Euro	26 699	0.725	36 827	14 652	0.754	19 432
Pound sterling	126	0.605	209	1 876	0.619	3 030
Jordanian dinar	3 765	0.708	5 318	4 578	0.708	6 466
Yen	630 145	104.93	6 005	630 132	86.070	7 321
Lebanese pound	3 160 335	1 506	2 098	312 117	1 499	208
New Israeli sheqel	8 976	3.486	2 575	5 502	3.722	1 478
Norwegian krone	94	6.117	16	20 030	5.562	3 601
Swedish krona	428	6.488	66	301	6.488	46
Syrian pound	236 165	143.57	1 645	88 763	74.370	1 194
United States dollar	208 126	1.000	208 126	187 215	1.000	187 215
Cash at banks			263 273			230 686
Cash on hand			15 122			1 747
Total			**278 395**			**232 433**

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 allowance for bad debts by maturity, is as follows:

(Thousands of United States dollars)

	31 December 2013			31 December 2012		
	Microfinance Department	*Microcredit community support programme*	*Total*	*Microfinance Department*	*Microcredit community support programme*	*Total*
Current	17 282	1 400	18 682	18 256	1 165	19 421
Non-current	1 490	905	2 395	1 871	806	2 677
Total	**18 772**	**2 305**	**21 077**	**20 127**	**1 971**	**22 098**

Provision for loans receivable

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

(Thousands of United States dollars)

	31 December 2013			31 December 2012		
	Microfinance Department	*Microcredit community support programme*	*Total*	*Microfinance Department*	*Microcredit community support programme*	*Total*
Beginning balance	(2 539)	(18)	(2 557)	(1 390)	(20)	(1 410)
Additions	(853)	(3)	(856)	(1 986)	–	(1 986)
Less: write-off	2 053	1	2 054	837	2	839
Ending balance	**(1 339)**	**(20)**	**(1 359)**	**(2 539)**	**(18)**	**(2 557)**

Allowance for loan losses

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

5.5 For the Microfinance Department, the provision for doubtful loans is based on an “aged portfolio at-risk report” (see below), 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	*Allowance*
Current	1% general provision
1-30 days overdue	5% general provision
31-60 days overdue	10% general provision
61-90 days overdue	25% general provision
91-120 days overdue	50% general provision
121-180 days overdue	75% general provision
181-360 days overdue	100% general provision

5.6 Effective as from September 2012, a special impairment on outstanding Microfinance Department loans was adopted in the Syrian Arab Republic to mitigate the risk posed by the situation of armed conflict. The rates of reserve calculation are set out below for the special impairment at year-end 2013:

Loan status	*Allowance*
1-30 days overdue	95% special impairment
31-60 days overdue	90% special impairment
61-90 days overdue	75% special impairment
91-120 days overdue	50% special impairment
121-180 days overdue	25% special impairment
181-360 days overdue	0% special impairment

5.7 Based upon the above percentages, if a loan is not serviced, an increasing reserve should be provided for. This provision will be shown in the statement of financial performance for the period. On a monthly basis, an adjustment is made to reflect the changes in the general provision. After a loan is in arrears for 360 days or more and has been fully provisioned in the general provision, a write-off will take place. 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 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 2013	31 December 2012
Due from Governments	7 649	3 979
Due from intergovernmental organizations	14 564	20 483
Due from non-governmental organizations	1 932	–
Due from United Nations organizations	–	431
Provision against contributions receivable	(550)	(2 092)
Total contributions receivable	**23 595**	**22 801**

6.2 There are no non-current receivables due after 12 months from 31 December 2013.

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

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

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

(Thousands of United States dollars)

	31 December 2013	31 December 2012
Beginning balance	2 092	5 589
Reduction in provision	(1 403)	(3 042)
Addition during the period	119	–
Less: write-off	(258)	(455)
Ending balance	**550**	**2 092**

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

(Percentage)

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

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

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)

	Reference	*31 December 2013*	*31 December 2012*
Value-added tax receivable	Note 7.1.1	93 137	76 648
Other accounts receivable	Note 7.1.2	6 726	9 592
Due from Area Staff Provident Fund		–	464
Less provisions	Note 7.1.3	(47 694)	(36 149)
Accounts receivable net of provisions		**52 169**	**50 555**

Value-added tax receivable

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

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Value-added tax receivable from the Palestinian Authority	91 063	73 221
Value-added tax receivable from the Government of Israel	1 110	1 052
Value-added tax receivable from the Government of Lebanon	964	2 375
Total	**93 137**	**76 648**

Other accounts receivable

7.1.2 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
From Governments	207	134
Miscellaneous receivable	3 066	4 066
Personal accounts of staff members	3 296	5 253
Refundable utility deposits	157	139
Total	**6 726**	**9 592**

7.1.3 *Provisions*

(Thousands of United States dollars)

	31 December 2013			*31 December 2012*		
	Value-added tax	*Accounts receivable*	*Total*	*Value-added tax*	*Accounts receivable*	*Total*
Beginning balance	(34 914)	(1 235)	(36 149)	(27 767)	(1 284)	(29 051)
Additions	(11 772)	(201)	(11 973)	(7 147)	(534)	(7 681)
Less: write-off	–	428	428		583	583
Ending balance	**(46 686)**	**(1 008)**	**(47 694)**	**(34 914)**	**(1 235)**	**(36 149)**

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

(Percentage)

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

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

Note 8
Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled $7.760 million at 31 December 2013 and $4.331 million as at 31 December 2012. Included therein are prepayments to staff in the amount of $0.099 million as at 31 December 2013 and $0.381 million as at 31 December 2012.

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2013 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Current		
Advances to supplier	7 336	3 596
Prepayment to staff	99	381
Non-current		
Advances to supplier	325	354
Total	**7 760**	**4 331**

Note 9
Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

Type	*31 December 2013*	*31 December 2012*
Warehouse	28 071	23 253
Pharmacy/clinic	3 838	3 256
In transit	15 482	2 927
Production unit	241	196
Total	**47 632**	**29 632**

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

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

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

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

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Raw materials inventory — embroidery	73	73
Work in progress — embroidery	9	10
Finished goods — embroidery	159	113
Total	**241**	**196**

9.6 Impairment expense for inventory in the amount of $0.122 million was recorded in 2013 and in the amount of $0.124 million in 2012.

9.7 The Agency conducts stock counts of inventory on a quarterly basis. Owing to an UNRWA staff strike in the West Bank field in December 2013 and January 2014, the most recent comprehensive inventory stock count in this field was completed on 30 September 2013. The ending inventory value for the West Bank field office as at 31 December 2013 represents the previous-quarter stocktake balance and additions and reductions during the period from September to December 2013.

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

Financial derivatives

10.3 All the outstanding financial derivative forward contracts were revalued as at 31 December 2013. The revaluations resulted in a revaluation loss. The loss of $0.082 million is disclosed as a liability in the statement of financial position, and the details are presented in the table below.

10.3.1 Revaluation of 2013 contracts as at 31 December 2013

Hedged items			*Hedged instruments*						
Donor contributions			*Foreign exchange forwards*				*Gain/(loss)*		
Currency	*Amount (thousands)*	*Expected receipt date*	*Currency hedged*	*Hedged amount (thousands)*	*Forward rate*	*Forward amount (thousands of United States dollars)*	*United Nations rate*	*Amount, United Nations rate (thousands)*	*Revaluation as at 31 December 2013 (thousands of United States dollars)*
Euro	35 000	January 2013	Euro	35 000	1.3772	48 202	1.3793	48 276	(73)
Euro	66 000	April 2013	Euro	66 000	1.3792	91 026	1.3793	91 034	(9)
Total classified as liability in statement of financial position									**(82)**

10.3.2 The forward contracts that matured in 2013 resulted in a realized loss of $0.036 million during the year; the details are shown below. This loss is disclosed in the statement of financial performance.

Realized loss on forward contracts matured in 2013

Currency	*Amount (thousands)*	*Valuation date*	*Bank*	*Outright*	*Amount received (thousands of United States dollars)*	*Status*	*United Nations rate*	*Gain/(loss) (thousands of United States dollars)*
Euro	15 000	10 December 2013	HSBC	1.3563	20 344	Settled	1.3587	(36)
Euro	(15 000)	10 December 2013	HSBC	1.3707	(20 561)	Settled	1.3587	(180)
Euro	15 000	23 December 2013	HSBC	1.3707	20 561	Settled	1.3587	180
Subtotal								**(36)**
Total realized loss on forward contracts								**(36)**

Credit risk

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

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

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

10.6 In 2013, the credit risk in the Syrian Arab Republic and the Gaza Strip continued to increase as a result of conflict. The Microfinance Department manages this risk by increasing provisions as the portfolio at risk increases as a percentage of the full portfolio.

10.7 UNRWA has its cash deposited with various banks, and is therefore exposed to the risk that a bank will default in its obligation towards the Agency. However, UNRWA holds all significant cash deposits in banks that have a "P-1" credit rating.

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

Interest rate risk

10.9 UNRWA deposits its funds in short-term fixed interest accounts, and therefore has no significant interest rate risk exposure.

Foreign currency risk

10.10 UNRWA receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2013, 38 per cent of contributions were denominated in the United States dollar base currency and 62 per cent were denominated in other currencies. The Microfinance Department lends in different currencies in each of 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.

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

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

10.13 During the year ended 31 December 2013, three contracts were settled. As at 31 December 2013, UNRWA had two unrealized contracts. The realized losses are included in the currency exchange differences presented in the statement of financial performance.

10.14 As at 31 December 2013, 80 per cent of cash held in banks was denominated in the United States dollar base currency, 4 per cent was denominated in local currencies used by the UNRWA field offices to support operating activities, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11
Property, plant and equipment

11.1.1 The table below presents a summary of property, plant and equipment as at 31 December 2013.

(Thousands of United States dollars)

Description	*2013* *Land*	*Buildings*	*Leasehold improvements*	*Furniture and fittings*	*Office and computer equipment*	*Motor vehicles*	*Construction in progress*	*Assets not placed in service*	*Total*	*2012* *Total*
Cost										
As at 1 January	16 250	397 423	511	932	31 532	33 140	41 411	1 407	522 606	476 905
+ Additions in year	–	56 098	56	625	2 110	1 656	(24 300)	824	37 069	47 607
(-) Disposals/adjustments in year[a]	–	3 030	–	2	264	296	–	–	3 592	1 906
Balance as at 31 December 2013 (A)	**16 250**	**450 491**	**567**	**1 555**	**33 378**	**34 500**	**17 111**	**2 231**	**556 083**	**522 606**
Depreciation and impairment										
Balance at 1 January	–	46 686	398	178	19 091	18 633	–	–	84 986	62 226
Depreciation in year	–	17 287	54	193	4 256	2 232	–	–	24 022	22 563
(-) Depreciation on disposals/adjustments in year*	–	440	–	1	146	7	–	–	594	482
Impairment in year	–	4 747	–	–	1	–	–	–	4 748	679
Balance as at 31 December (B)	**–**	**68 280**	**452**	**370**	**23 202**	**20 858**	**–**	**–**	**113 162**	**84 986**
Net book value as at 31 December (A minus B)	**16 250**	**382 211**	**115**	**1 185**	**10 176**	**13 642**	**17 111**	**2 231**	**442 921**	**437 620**

[a] See note 11.1.2.

11.1.2 Net disposals and adjustments comprise the following:

(Thousands of United States dollars)

	2013	*2012*
Loss on disposal	2 350	1 422
Sale of assets proceeds	140	–
Adjustments	509	2
Net disposal/adjustments in accordance with note 11.1	**2 999**	**1 424**

Note 12
Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

	2013				*2012*			
Class	*Beginning balance*	*Additions*	*Disposals*	*End balance*	*Beginning balance*	*Additions*	*Disposals*	*End balance*
Software acquired separately	528	222	–	750	150	378	–	528
Software internally developed	6 346	10 219	–	16 565	–	6 346	–	6 346
Licences and rights	–	27	–	27	–	–	–	–
Copyrights	–	–	–	–	–	–	–	–
Total	**6 874**	**10 468**	**–**	**17 342**	**150**	**6 724**	**–**	**6 874**
Amortization	–	5	–	5	–	–	–	–
Total	**6 874**	**10 462**	**–**	**17 337**	**150**	**6 724**	**–**	**6 874**

12.2 The Agency has applied IPSAS 31 prospectively as from 1 January 2012 and, accordingly, has recognized intangible assets acquired on or after that date. Except for software acquired separately by the Microfinance Department, intangible assets acquired prior to that date have not been recognized, owing to the fact that prior to 2012 there were no tracking mechanisms in place to provide a reliable cost determination.

12.3 In 2012, the Agency undertook a significant software development initiative related to a new enterprise resource planning system. This is a multi-year project and represents the total amount of computer software internally developed as shown in the table above.

12.4 The majority of intangible assets are currently under construction, and therefore a total of $5,000 for the amortization of intangible assets was recorded in 2013.

Note 13
Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	Reference	*31 December 2013*	*31 December 2012*
Supplier accounts payable	Note 13.1.1	28 993	15 355
Accrued salaries and wages		3 592	2 239
Accrued expenses	Note 13.1.2	36 137	32 458
Other accounts payable	Note 13.1.3	24 752	11 963
Accounts payable, non-current	Note 13.1.4	9 875	11 188
Due to Area Staff Provident Fund	Note 14A.1	10 576	–
Total		**113 925**	**73 203**

The composition of accounts payable is as follows:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Current	104 050	62 015
Non-current	9 875	11 188
Total	**113 925**	**73 203**

Supplier accounts payable

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

Accrued expenses

13.1.2 Accrued expenses include the following:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Accrued expenses for services and utilities	30 849	30 949
Area staff group medical insurance	3 544	869
Accrued salaries, wages and other expenses	358	444
Other salary related payable	1 223	–
Payable — reclassifications of accounts receivable balance staff	163	196
Total	**36 137**	**32 458**

Other accounts payable

13.1.3 Other accounts payable consist of the following:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Deposits received	203	228
West Bank water supply, Palestinian Authority	68	69
Unpaid cheques	1 001	200
Funds held for other United Nations entities	2 712	1 869
Interest payable for projects	2 136	3 494
Miscellaneous accounts payable	3 100	2 606
Accounts payable — goods in transit	10 765	463
Staff liabilities payable	4 270	3 034
Unearned income canteen rent	497	–
Total	**24 752**	**11 963**

Accounts payable, non-current

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

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
OPEC Fund for International Development PalFund Trust Fund — Microfinance Department	9 875	9 875
Vendor balances, non-current	–	1 313
Total	**9 875**	**11 188**

Note 14
Employee pension fund

14A UNRWA Area Staff Provident Fund

14A.1 The UNRWA Area Staff Provident Fund, established under article XIII of the Agency’s Financial Regulations, is a retirement benefit plan that applies to all area staff members and vests after six months of service. UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements of IPSAS 25. The Agency’s contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. The balances outstanding with the Provident Fund as at 31 December 2013 and as at 31 December 2012 are shown below.

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Opening balance	(464)	(1 154)
Employee contributions	45 046	40 552
Agency contributions	56 805	67 930
Withdrawals	(66 264)	(83 029)
Area Staff Provident Fund employee loans	(24 653)	(24 864)
Area Staff Provident Fund loan commission	106	101
Total	**10 576**	**(464)**

14B United Nations Joint Staff Pension Fund: international staff

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

14B.2 The Agency's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the provision of article 26 is invoked by the General Assembly, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension 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.

14B.3 The actuarial valuation performed as at 31 December 2011 revealed an actuarial deficit of 1.87 per cent (compared with 0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower-than-expected investment experience in recent years. The results of the next actuarial valuation, which will be conducted for 31 December 2013, will be presented to the Pension Board at its July 2014 session.

14B.4 As at 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (compared with 140 per cent in the 2009 valuation). The funded ratio was 86 per cent (compared with 91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

14B.5 After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2011, 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 Fund. The market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

14B.6 In July 2012, the Pension Board noted, in its report on its fifty-ninth session to the General Assembly (A/67/9), that an increase in the normal age of retirement for new participants in the Fund to 65 was expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the Assembly in December 2013. The increase in the normal retirement age will be reflected in the actuarial valuation of the Fund as at 31 December 2013. The results of the next valuation, which will be completed using data as at 31 December 2013, will be presented to the Pension Board at its July 2014 session.

14B.7 During 2013, the Agency's contributions paid to the United Nations Joint Staff Pension Fund amounted to $7.195 million (compared with $7.310 million for 2012). Expected contributions due in 2014 are expected to amount to $7.606 million.

14B.8 The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments; these can be viewed by visiting the Fund's website (www.unjspf.org).

Note 15
Staff end-of-service and termination benefits

15.1 UNRWA recognizes the following categories of employee benefits:

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

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Current	53 341	63 648
Non-current	473 216	433 571
Total	**526 557**	**497 219**

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Annual leave encashment for area staff	32 113	31 975
End-of-service liability for area staff	491 717	463 018
Short-term employee benefits for international staff not funded through the United Nations regular budget	2 336	1 434
Long-term employee benefits for international staff not funded through the United Nations regular budget	391	792
Total	**526 557**	**497 219**

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 2013. The total employee annual leave liability as at 31 December 2013 amounted to $32.113 million (compared with $31.975 million as at 31 December 2012).

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 2013, total employee benefits liabilities amounted to $491.717 million (compared with $463.018 million as at 31 December 2012). 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 International Public Sector Accounting Standard 25, the actuary has used the projected unit credit actuarial method to assess the plan's liabilities. Under this method, a "projected accrued benefit" is calculated for each benefit that will accrue for all active members of the plan. The projected accrued benefit is based on the plan's accrual formula and on the service period as at the valuation date but using a member's final compensation, projected to the age at which it is assumed that the employee will leave active service. The plan liability is the actuarial present value of the projected accrued benefits as at the valuation date for all active employees.

Normal and early retirement benefit

15.5 In the case of normal and early retirement, area staff are paid end-of-service benefits in accordance with rule 109.2 of the UNRWA area staff rules. The criteria and assumptions used in calculating normal and early retirement benefits according to the actuarial method under IPSAS include the following: (a) all area staff employees are eligible, and the normal retirement age is considered to be 60, plus a minimum service period of three years; (b) the amount payable is calculated on the basis of the formula of base salary times 11 per cent times number of completed years of service; (c) the service period is prorated until the last completed month of service; and (d) the base salary is the basic matrix salary without allowances. However, in Jordan, Lebanon and the Syrian Arab Republic, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar. In the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar.

15.6 The benefit referred to above is also payable in the case of early voluntary retirement. The conditions for early voluntary retirement are as follows: (a) the attainment of age 50 to 59, with 10 years of service or more; (b) a service period of 25 years or more; (c) the attainment of age 45 to 49, with a service period of 10 years or more; and (d) 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 or greater than one year; (b) the employee is paid under either of the two schemes set out below, with the benefit amount and the application terms varying by years of qualified service and attained age:

Years of qualifying service	*Months of base salary*
0	0
1	1
2	1
3	2
4	3
5	4
6	5
7	6
8	7
9 or more	8

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

Death benefits

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

Disability benefits

15.9 Area staff are paid in accordance with UNRWA area staff rule 109.7 if terminated on the stated ground that they are, for reasons of health, incapacitated for 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, 4, 5 and 6 of the above-mentioned rule, a disability benefit is computed either: (a) as 11 per cent of ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service; or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Reconciliation of end-of-service benefits

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

15.11 IPSAS 25 allows the actuarial gains and losses that are within the corridor to be recognized outside the statement of financial performance and requires the presentation of the actuarial gains and losses in the statement of changes in net assets/equity. The amount of actuarial (gains) losses presented in the statement of changes in net assets/equity is $0.139 million.

15.12 Interest costs and service costs amounting to $55.666 million referring to year ended 31 December 2013, and for year 2012 $51.112 million. The actuarial (gains) losses are directly accounted for in the statement of changes in net assets/equity in accordance with IPSAS 25. In the 2013 valuation of end-of-service liabilities, the actuaries determined actuarial losses to be $0.139 million. Accordingly, in the cash flow statement the actuarial losses were deducted rather than added, because they were directly accounted for in the statement of changes in net assets/equity.

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Opening balance as at 1 January	463 016	412 569
Interest costs for the year	21 981	20 760
Service costs for the year	33 685	30 352
Past service costs[a]	–	16 447
Payments in the year	(27 104)	(28 668)
Actuarial (gains)/losses	139	11 556
Total	**491 717**	**463 016**

[a] Benefit enhancement due to the introduction of currency protection in Jordan field in 2012.

Key assumptions

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

15.14 The discount rates and future escalation used, by location and currency, are as follows:

(Percentage)

Location	*Currency*	*Currency protection*	*Discount rate*	*Future escalation*
Gaza	United States dollar	No	4.75	2.50
Gaza headquarters	United States dollar	No	4.75	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.75	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.75	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.75	2.50
Lebanon	Lebanese pound	Yes (Lebanese pound/United States dollar)	4.75	2.50
Syrian Arab Republic	United States dollar	No	4.75	2.50

15.15 The discount rates were set with reference to government bonds, high-quality corporate bonds and other instruments, depending on the currency, term and availability of such instruments for the currency under consideration.

Step increments

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

Exchange rates as at 31 December 2013

15.17 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1,506.000; Syrian pound, 143.570.

Resignation rates

15.18 It is assumed that plan members will resign at the following rates per annum according to their attained ages. The resignation rate for attained ages of less than 30 is 3 per cent; for 30-34, 2 per cent; for 35-39, 1.5 per cent; and for 40 and above, 0 per cent.

Early retirement rates

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

(Percentage)

	Number of years since early retirement conditions have been satisfied			
Attained age	*0*	*1*	*2*	*3+*
Less than 45	8.0	5.0	3.0	1.0
45-49	8.0	5.0	3.0	1.0
50-54	8.0	5.0	3.0	1.0
55-59	8.0	5.0	3.0	1.0
60 and above	100.0	100.0	100.0	100.0

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

Mortality

15.21 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

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

Disability rate (per thousand)

Age	*Male*	*Female*
Less than 45	0.50	0.75
45-54	1.00	1.50
55-60	1.50	2.25

International staff end-of-service liability

15.23 The separation costs of international staff funded from the regular budget of the United Nations (146 posts as at 31 December 2013 and 146 posts as at 31 December 2012) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements, as the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements. These liabilities relating to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

15.24 As 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)

Benefit	*31 December 2013*	*31 December 2012*
Repatriation grant	730	565
Shipment	690	585
Travel	213	179
After-service health insurance	495	491
Outstanding annual leave	599	406
Total	**2 727**	**2 226**

Assumptions

15.25 The discount rate is assumed to be 4.75 per cent, and future 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 only is 6 per cent, and that applied for other nationalities is 4 per cent. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30, 3 per cent; 30-34, 2 per cent; 35-39, 1.5 per cent; and 40 and above, 0 per cent. 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.

15.26 After-service health insurance coverage is optional for eligible former international project staff members and their dependants. The Agency contribution to the after-service health insurance premium is set at 50 per cent, with the rest paid by the former staff member. Aetna rates were used for international staff members not funded from the United Nations regular budget and holding United States citizenship, while Vanbreda rates were used for other nationalities. It is of note that only three employees are expected to qualify for this benefit on the assumption of no contract extension.

Note 16
Other current liabilities

Other current liabilities comprise the following:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Goods not paid for and not received	9 935	6 375
Other goods in transit liabilities	–	1 744
Donor refunding	3 278	1 324
Total	**13 213**	**9 443**

Note 17
Advance contribution

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

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Received from Governments	6 694	19 998
Received from United Nations agency	256	–
Total	**6 950**	**19 998**

Note 18
Contingent liabilities, contingent assets and operating lease commitments

Contingent liabilities

18.1 The Agency’s contingent liabilities as at 31 December 2013, compiled by the Legal Department, arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement/purchase orders, construction and claims from landlords from whom the Agency rents buildings.

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 relating to these appeals amounted to approximately $0.978 million as at 31 December 2013 (compared with $1.042 million as at 31 December 2012).

18.3 The contingent liabilities for commercial contracts amounted to approximately $149.954 million as at 31 December 2013 (compared with $183.454 million as at 31 December 2012).

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 2013 was $312.594 million (compared with $242.462 million as at 31 December 2012).

Operating lease commitments

18.5 Operating costs include lease payments in the amount of $3.601 million recognized as operating lease expenses during 2013 (compared with $3.026 million in 2012). 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 warehouses/distribution centres. The total of future minimum lease payments is as follows:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Not later than one year	222	333
Later than one year and not later than five years	116	365
Later than five years	–	27
Total	**338**	**725**

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

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

18.9 These in-kind donations for the use of land have been valued at a fair value of $3.981 million in 2013 (compared with $4.111 million in 2012) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors that is provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of $5.286 million from sublease payments in 2013 (compared with $1.953 million in 2012). All subleases are cancellable and contain no contingent lease payments.

Note 19
Revolving loan fund

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

19.2 The composition of the revolving loan fund as at 31 December 2013 and 31 December 2012 was as follows:

(Thousands of United States dollars)

	31 December 2013	*31 December 2012*
Microfinance Department	23 423	23 424
Microcredit community support programme	2 770	2 332
Total	**26 193**	**25 756**

Note 20
Cash contributions revenue

Total cash contributions revenue by source received in 2013 and 2012 was as follows:

(Thousands of United States dollars)

	2013	*2012*
Governments	819 072	655 773
Intergovernmental organizations	216 988	191 395
Non-governmental organizations and other entities	21 005	15 011
United Nations organizations	43 706	35 705
Total	**1 100 771**	**897 884**

Note 21
In-kind contributions revenue

Total in-kind contributions by source received in 2013 and 2012 were as follows:

(Thousands of United States dollars)

	2013	*2012*
Governments	11 018	18 997
Non-governmental organizations and other entities	9 100	1 582
United Nations organizations	1 185	1 107
Total	**21 303**	**21 686**

Note 22
Interest on loans

Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2013 and 2012 was as follows:

(Thousands of United States dollars)

	2013	*2012*
Microfinance Department	7 958	8 870
Microcredit community support programme	229	–
Total	**8 187**	**8 870**

Note 23
Interest revenue

Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is $0.522 million in 2013 (compared with $1.155 million in 2012).

Note 24
Currency exchange gain/(loss)

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)

	2013	*2012*
Realized currency exchange rate gain	7 099	2 072
Unrealized currency exchange rate loss	(1 366)	(2 355)
Accounts receivable income realized exchange rate gain	239	2 214
Total	**5 972**	**1 931**

Note 25
Project support cost recovery

UNRWA is entitled to a specific percentage of the expenditures incurred on certain projects in accordance with donor agreements. Programme support cost recoveries are recognized as income and represent recoveries of overhead costs incurred by the Agency in implementing the related projects. The amount of programme support cost recovery was $0.136 million in 2013 (compared with $0.167 million in 2012).

Note 26
Miscellaneous revenue

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2013	*(Restated)[a] 2012*
Canteen lease revenue	5 286	1 953
Profit on income-producing activities	8	26
Sundries	3 573	3 337
Income received from United Nations agencies	264	265
Refunds to donors	(4 064)	(1 323)
Total	**5 067**	**4 258**

[a] Due to changes in presentation of provision recoveries.

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

Note 27
Wages, salaries and employee benefits

Wages, salaries and employee benefits in 2013 consisted of the following:

(Thousands of United States dollars)

	2013	*2012*
International staff	44 744	38 236
Area staff		
Basic salaries, allowances and benefits	522 696	497 559
Area Staff Provident Fund contributions	51 916	49 692
Health-related expenses	8 682	5 902
Total	**628 038**	**591 389**

Note 28
Supplies and consumables

The composition of supplies and consumables in 2013 and 2012 was as follows:

(Thousands of United States dollars)

	2013	*2012*
Basic commodities	83 512	75 287
Clothing supplies	4 363	302
Fresh food	4 196	1 510
Medical supplies	22 473	23 255
Miscellaneous supplies	19 767	9 862
Sport supplies	325	175
Textbooks and library books	6 011	5 811
Transportation supplies	6 613	6 305
Total	**147 260**	**122 507**

Note 29
Occupancy, utilities and premises costs

Occupancy, utilities and premises costs in 2013 and 2012 included the following:

(Thousands of United States dollars)

	2013	*2012*
Rental of premises	7 583	7 491
Maintenance of premises	4 668	4 604
Utilities	5 476	5 777
Total	**17 727**	**17 872**

Note 30
Contracted services

The composition of services expenses in 2013 and 2012 was as follows:

(Thousands of United States dollars)

	2013	*2012*
Construction and equipment	58 200	74 238
Contractual costs	18 607	20 790
Hospital costs	22 555	18 669
Miscellaneous, including accruals	3 734	8 644
Consultancy costs	10 444	11 786
Demurrage and port charges	4 391	4 838
Training costs	3 666	3 913
Travel	2 530	2 801
Total	**124 127**	**145 679**

Note 31
Subsidies

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

(Thousands of United States dollars)

	2013	*2012*
Cash subsidies to beneficiaries	131 108	61 255
Job creation programme	–	2 265
Patient subsidies	4 306	4 931
Subsidies for the construction and repair of shelters	19 626	13 963
Subsidies payable to a third party	1 713	–
Total	**156 753**	**82 414**

31.2 Cash subsidies paid to beneficiaries provide selective cash assistance for conflict-affected Palestine refugees in the Syrian Arab Republic, food security and rent subsidies whereas subsidies paid to a third party are in the form of cash disbursed by UNRWA to the community for activities that will improve the life of the refugees.

Note 32
Provisions and write-off

The composition of provisions and write-off expenses in 2013 and 2012 was as follows:

(Thousands of United States dollars)

	2013	*(Restated)*[a] 2012
Provisions and write-off expenses on accounts receivables	12 296	7 778
Recoveries of provision on contribution receivables	119	–
Provisions and write-off expenses on loan receivables	1 019	1 996
Total	**13 434**	**9 774**

[a] See note 26.

Note 33
Segment reporting

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

(a) Sources of funds

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

33.3 UNRWA 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 General Fund 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 General Fund, but the use of funds is restricted to specific activities (e.g., for direct support, cash and food assistance, through the social safety net programme) 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 sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

33.7 Emergency appeal funds are used to address emergency needs through the delivery of emergency relief, for example, food aid, shelter and medical supplies.

Funds are raised mainly through the Consolidated Appeals Process and are to be utilized during specified time periods.

33.8 Project funds are used to meet capital expenditure needs (e.g., school/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 the specified purpose(s).

(b) Human development goals

33.9 As part of its planning approach, UNRWA has five human development goals, to provide it with direction in fulfilling its mission of helping Palestine refugees. Fifteen strategic objectives that guide UNRWA core activities are consolidated into the five human development goals as follows:

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

(c) Programme

33.10 UNRWA is functionally organized under five programmes that provide services to its beneficiaries or internal support services, as follows:

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

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

- The infrastructure and camp improvement programme addresses the deteriorating living conditions of Palestine refugees in camps. The programme promotes environmentally and socially sustainable neighbourhoods. UNRWA repairs shelters and, in coordination with the host Governments, plans for rehousing and reconstruction projects after demolitions caused by armed conflict or other emergencies. The programme manages the construction and maintenance of all UNRWA facilities and installations, and also promotes a safe and healthful urban environment for Palestine refugees through the provision of well-maintained water, wastewater and storm-water drainage. It also maintains electricity infrastructure and accessible road and footpath networks;

- 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, one-off cash grants for basic household needs in family emergencies. In addition, the subprogramme provides direct aid during emergencies caused by violence and political unrest, along with shelter rehabilitation in coordination with other programmes. The social services subprogramme promotes community-based action that enables particularly vulnerable refugees to become more self-reliant. The programme particularly addresses the needs of women, refugees with disabilities, young people and the elderly. It also helps vulnerable refugees through its microcredit programme, which is managed by community-based organizations;

- The support departments assist the Commissioner-General in the smooth running and governance of the Agency. This includes the effective management of personnel and financial resources, oversight, internal communication, legal support, fundraising, advocacy and outreach to external interlocutors.

(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. UNRWA operates in five field offices: Jordan, Lebanon, the Syrian Arab Republic and the occupied Palestinian territory (the West Bank, including East Jerusalem, and the Gaza Strip). Through each field office, the Agency provides services that are similar but distinct to some extent owing to their particular political, humanitarian and economic context and the status and rights enjoyed in them by the Palestine refugees.

33.12 The operations of the five field offices, which, together with UNRWA headquarters, provide services directly to Palestine refugees, are described below:

- *Gaza field office*. The Gaza Strip has a population of more than 1.5 million, including some 1.3 million registered Palestine refugees. The field office supports 8 camps, 245 schools, 2 vocational and technical training centres, 22 primary health centres, 6 community rehabilitation centres and 7 women's programme centres. The ongoing blockade of the Gaza Strip has severely affected the economy and the enjoyment of a range of human rights by Palestine refugees;

- *Lebanon field office*. Approximately 450,000 Palestine refugees are registered with UNRWA in Lebanon, with many living in refugee camps. The field office supports 12 camps, 69 schools, 2 vocational and technical training centres, 27 primary health centres, 1 community rehabilitation centre and 9 women's programme centres. Palestine refugees in Lebanon do not enjoy several basic human rights; for example, they have restricted access to the local labour market;

- *Syrian Arab Republic field office*. UNRWA is mandated to provide services to more than 508,000 Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The ongoing armed conflict in the Syrian Arab Republic has affected the economy, which has in turn had an impact on the Palestine refugee community. The field office supports 9 camps, 118 schools, the Damascus Training Centre, 23 primary health centres, 5 community rehabilitation centres and 13 women's programme centres. While Palestine refugees have many of the rights of Syrian citizens, including access to social services provided by the Government, development indicators reveal that they lag behind the host population in key areas; Palestine refugees have also been vulnerable to the ongoing conflict. Many have been displaced within the Syrian Arab Republic, while thousands of others have fled to neighbouring countries, including Lebanon and Jordan. The situation remains volatile, with numbers and needs constantly changing, but despite the many challenges, UNRWA is continuing its emergency relief, health and education services in the Syrian Arab Republic. In Lebanon and Jordan, the Agency is also trying to provide for the needs of those fleeing the conflict;

- *Jordan field office*. More than 2 million Palestine refugees are registered in Jordan. The field office supports 10 camps, 172 schools, 2 vocational and technical training centres, 24 primary health centres, 8 community rehabilitation centres and 12 women's programme centres. All Palestine refugees in Jordan have full citizenship, with the exception of some 140,000

Palestine refugees originally from Gaza, who are eligible for temporary passports but are not entitled to vote or to work in government;

- *West Bank field office*. The West Bank covers 5,500 square kilometres and has an estimated population of 2.4 million people, around 750,000 of whom are registered Palestine refugees. A quarter of the registered Palestine refugees live in 19 refugee camps; most of the others live in West Bank towns and villages. The field office supports 19 camps, 99 schools, 3 vocational and technical training centres, 42 primary health centres, 15 community rehabilitation centres and 18 women's programme centres. West Bank refugees have been hard hit by closures imposed on the West Bank by the Israeli authorities, as historically they have been largely dependent on income from work inside Israel;
- *UNRWA headquarters* covers three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Planning Department, the Administrative Support Department, the Department of Internal Oversight Services, the Human Resources Department, the Department of Legal Affairs, the Executive Office, the Finance Department, the Enterprise Resource Planning Department and the External Relations and Communication Department, as well as the education, health, relief and social services, infrastructure and camp improvement, and microfinance programme departments. Headquarters functions are also carried out in representative offices in New York, Washington, D.C., and Brussels, and a liaison office in Cairo.

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

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

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

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

Segment reporting by fund: financial position as at 31 December 2013

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Assets							
Current assets							
Cash and cash equivalents	2 174	16 836	11 592	34 013	213 780	–	278 395
Short-term loans receivable	–	–	17 282	–	1 400	–	18 682
Contributions receivable	2 853	891	13	4 113	15 738	(13)	23 595
Accounts receivable	52 076	7	–	–	86	–	52 169
Other current assets	5 167	101	561	1 160	446	–	7 435
Operational Microfinance Department account with UNRWA	–	391	–	–	–	(391)	–
Inventories	22 216	7 089		12 215	6 112		47 633
Non-current assets							
Other non-current assets	325	–	–	–	–	–	325
Long-term loans receivable	–	–	1 490		905	–	2 395
Property, plant and equipment	423 695	1 693	617	337	16 578	–	442 920
Intangible assets	11 639	5 299	399	–	–	–	17 337
Total assets	**520 145**	**32 307**	**31 954**	**51 838**	**255 045**	**(404)**	**890 886**
Liabilities							
Current liabilities							
Payables and accruals	68 063	8 265	536	9 869	17 317	–	104 050
Employee benefits	51 337	160	410	932	501	–	53 341
Operational Microfinance Department account with UNRWA	–	–	391	–	–	(391)	–
Derivative financial liability	82	–	–	–	–	–	82
Other current liabilities	3 911	44	–	3 157	6 101		13 213
Advance contributions	6 950	–	–	–	–	–	6 950
Non-current liabilities							
Employee benefits	470 338	202	2 560	8	108		473 216
Other non-current liabilities	–	–	9 875	–	–	–	9 875
Total liabilities	**600 682**	**8 671**	**13 772**	**13 966**	**24 027**	**(391)**	**660 727**
Net assets	**(80 537)**	**23 636**	**18 182**	**37 872**	**231 018**	**(13)**	**230 158**
Revaluation and other reserves	(11 943)	–	–	–	–	167	(11 776)
Capital reserve: microcredit community support programme and Microfinance Department	–	–	23 423	–	2 770	–	26 193
Accumulated surplus/deficit	(68 594)	23 635	(5 241)	37 872	228 249	(180)	215 741
Total net assets/equity	**(80 537)**	**23 636**	**18 182**	**37 872**	**231 018**	**(13)**	**230 158**

Segment reporting by fund: financial performance as at 31 December 2013

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Revenue							
Cash contributions	573 378	20 384	978	149 703	355 988	339	1 100 771
In-kind contributions	–	13 242	–	4 441	3 620	–	21 303
Interest on loans	–	–	7 958	–	229	–	8 187
Interest on bank deposits	226	–	264	–	32	–	522
Other revenue							
Foreign currency exchange gain	5 657	(539)	(232)	477	609	–	5 972
Programme support cost recovery	37 055	–	–	–	–	(36 919)	136
Financial derivative loss	(36)	–	–	–	–	–	(36)
Miscellaneous revenue	2 006	7 382	833	(1 419)	(3 735)	–	5 067
Total revenue	**618 287**	**40 469**	**9 800**	**153 201**	**356 744**	**(36 580)**	**1 141 922**
Expenses							
Wages, salaries and employee benefits	542 961	9 414	6 025	33 317	41 789	(5 466)	628 038
Supplies and consumables	32 484	32 530	290	55 566	26 599	(209)	147 260
Occupancy, utilities and premises costs	10 232	4 983	633	558	1 482	(161)	17 727
Contracted services	34 100	(2 950)	1 130	12 989	72 857	6 003	124 127
Programme support costs	520	51	20	13 214	23 115	(36 919)	–-
Cash subsidies	15 652	246	–	30 181	110 674	–	156 753
Depreciation	23 811	–	211	–	–	–	24 022
Provisions	12 001	–	1 016	(28)	445	–	13 434
Loss on disposal	2 350	–	–	–	–	–	2 350
Impairment of property, plant and equipment	4 748	–	–	–	–	–	4 748
Total expenses	**678 857**	**44 271**	**9 325**	**145 796**	**276 961**	**(36 752)**	**1 118 459**
Surplus/(deficit) for the year	**(60 570)**	**(3 802)**	**475**	**7 405**	**79 783**	**172**	**23 463**

Segment reporting by human development goal: expenses as at 31 December 2013

(Thousands of United States dollars)

	Long and healthy life	*Acquired knowledge and skills*	*Decent standard of living*	*Human rights enjoyed to the fullest*	*Effective and efficient governance and support in UNRWA*	*Unallocated human development goal*	*Inter-fund balances*	*Total*
Wages, salaries and employee benefits	84 694	374 544	62 861	8 255	96 911	6 241	(5 466)	628 038
Supplies and consumables	23 788	12 575	95 111	7 560	7 559	875	(209)	147 260
Occupancy, utilities and premises costs	2 016	6 115	3 653	250	5 305	548	(161)	17 727
Contracted services	27 138	16 052	45 867	3 141	23 801	2 126	6 003	124 127
Programme support costs	–	–	–	–	–	36 919	(36 919)	–
Cash subsidies	5 151	234	138 775	5 848	1 797	4 948	–	156 753
Depreciation	3 211	13 070	2 632	845	4 053	211	–	24 022
Provisions	34	126	11	1	12 246	1 016	–	13 434
Loss on disposal	333	956	360	615	85	–	–	2 350
Impairment of property, plant and equipment	288	4 147	185	–	129	–	–	4 748
Total	**146 652**	**427 819**	**349 452**	**26 515**	**151 888**	**52 883**	**(36 752)**	**1 118 459**

Segment reporting by programme: expenses as at 31 December 2013

(Thousands of United States dollars)

	Education	*Health*	*Infrastructure and camp development*	*Relief and social services*	*Support departments*	*Inter-fund balances*	*Total*
Wages, salaries and employee benefits	389 379	82 984	12 545	26 664	121 933	(5 466)	628 038
Supplies and consumables	14 782	23 557	918	100 238	7 974	(209)	147 260
Occupancy, utilities and premises costs	8 646	1 885	922	932	5 503	(161)	17 727
Contracted services	38 489	30 731	7 224	25 213	16 464	6 003	124 127
Programme support costs	4 736	1 932	9 493	13 748	7 010	(36 919)	–
Cash subsidies	9 115	5 268	1 730	114 735	25 905	–	156 753
Depreciation	15 134	2 926	538	1 291	4 133	–	24 022
Provisions	132	34	–	6	13 262	–	13 434
Loss on disposal	960	333	–	972	85	–	2 350
Impairment of property, plant and equipment	4 147	260	51	185	105	–	4 748
Total	**485 518**	**149 911**	**33 422**	**283 985**	**202 373**	**(36 752)**	**1 118 459**

Segment reporting by geographical location: financial performance as at 31 December 2013

(Thousands of United States dollars)

	Gaza field office	*Lebanon field office*	*Syrian Arab Republic field office*	*Jordan field office*	*West Bank field office*	*Headquarters*	*Inter-fund balances*	*Total*
Expenses								
Wages, salaries and employee benefits	248 158	77 217	53 143	117 041	96 150	41 796	(5 466)	628 038
Supplies and consumables	87 919	13 067	22 497	12 677	10 394	915	(209)	147 260
Occupancy, utilities and premises costs	3 691	2 569	1 184	5 242	3 721	1 480	(161)	17 727
Contracted services	42 964	49 870	3 613	1 852	7 743	12 076	6 003	124 127
Programme support costs	17 347	6 187	8 534	677	3 873	302	(36 919)	–
Cash subsidies	28 258	39 320	53 064	6 835	27 908	1 367	–	156 753
Depreciation	12 283	2 686	1 709	2 552	4 183	608	–	24 022
Provisions	–	3	22	176	1	13 231	–	13 434
Loss on disposal	2 042	310	–	2	16	(20)	–	2 350
Impairment of property, plant and equipment	–	–	4 678	–	71	–	–	4 748
Total	**442 662**	**191 229**	**148 446**	**147 053**	**154 063**	**71 756**	**(36 752)**	**1 118 459**

Note 34
Presentation of budget information

34.1 UNRWA budget figures are determined on a modified cash basis (i.e., United Nations system accounting standards) and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2012-2013 programme budget (Blue Book), as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

34.2 As compared with the Blue Book budget, the General Fund budget, made available at the beginning of each year, reflects reduced requirements based on the end-of-year income forecast and acceptable cash deficit. However, for projects budget, the resources are made available when contributions are received and/or, on exceptional basis, when funds are confirmed by donors for approved projects.

34.3 With the adoption of IPSAS, UNRWA has 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 (fund types): the General Fund unearmarked budget, funded mainly by voluntary contributions along with 146 international staff funded through the United Nations regular budget form assessed contributions; General Fund in-kind donations; and the projects budget.

34.5 The Agency's budget structure follows a results-based budgeting format, as reflected in the two-year field implementation and headquarters department implementation plans, which are derived from the medium-term strategy for the period 2010-2015.

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

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

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

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

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

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

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amount (statement V) and the actual amounts in the statement of cash flow (statement IV) for the period ended 31 December 2013 is presented below:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Actual amounts on a comparable basis (statement V)	1 055 102	–	–	1 055 102
Basis differences	(98)	(44 313)	437	(43 974)
Timing differences	–	–	–	–
Entity differences	(10 907)	(2 571)	–	(13 478)
Presentation differences	(951 689)	–	–	(951 689)
Actual amounts in the statement of cash flow (statement IV)	**92 408**	**(46 884)**	**437**	**45 961**

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

34.14 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2012-2013 programme budget as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	Total expenses
Actual amounts on a comparable basis (statement V)	1 055 102
Basis differences	(123 409)
Timing differences	–
Entity differences	186 765
Actual amounts in the statement of financial performance (statement II)	**1 118 458**

Explanations of material differences

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

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

34.16 The original income of the General Fund budget is the projected income as reflected in the Blue Book, which for 2013 was $597.2 million. As for the General Fund in-kind donations and projects budgets, original income is equivalent to the budgeted figures reflected in the Blue Book on the assumption that all will be funded.

34.17 The final income of the General Fund budget is the actual income received, while for the General Fund in-kind donations and projects budgets, final income is equivalent to the total budget allocation at year-end.

34.18 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2013 budget allocation at year-end.

34.19 The 2013 programme budget, as reflected in the Blue Book for 2012-2013, amounted to $997.6 million (modified cash basis view). This is disclosed in financial statement V as “original” budget. In compliance with modified cash basis, the final 2013 programme budget was $1,155.0 million, representing an increase of $157.5 million, or 15.8 per cent. This is disclosed in financial statement V as “final” budget. The amount of $157.5 million is a reflection of the increase in the final budget for each entity as follows: a decrease in the General Fund budget by $55.7 million, reflecting the reduced requirements; an increase in the projects budget by $204.2 million, reflecting the additional needs primarily in the Syrian Arab Republic (Syria Humanitarian Assistance Response Plan projects), Gaza and

Lebanon; and an increase in General Fund in-kind donations by $9.0 million. The following are the main basic changes during the budget execution in 2013:

$673.4 million	General Fund, in accordance with the Blue Book — 2013 original budget
-$57.1 million	Unfunded requirements
+$616.3 million	Reduced programme requirements — 1 January 2013 (modified cash basis)
+$5.1 million	Inventory and supplies (food and medical supplies — redeployment through the year)
+$3.1 million	Hospital services (redeployment through the year)
+$2.2 million	Cash subsidies (redeployment through the year)
+1.1 million	Administrative services (redeployment through the year)
-$20.1 million	Headquarters/field reserves (redeployment through the year)
+$3.0 million	Capital expenditure (redeployment through the year)
+$7.0 million	Food aid — advanced in 2012
$617.7 million	31 December 2013 — General Fund budget
+$526.5 million	31 December 2013 — Projects budget
+$10.8 million	31 December 2013 — In-kind donations budget
$1,155.0 million	31 December 2013 — Total final budget

Utilization of the budget

34.20 The variation in the budgetary utilization of the different budget costs components is due to various factors such as salary increase, General Fund relieving activities, Social Safety Net Programme cash distribution and other budget risks. The utilization rate against the key various cost components rates is outlined below:

- Staff costs: 89.3 per cent — the underutilization of the staff costs budget was chiefly due to the cost recovery of General Fund (mainly in the Syrian Arab Republic, Lebanon and Jordan), delays in General Fund-financed recruitment and delays in project timelines resulting in the carrying over of the projects budget to 2014;
- Inventories and supplies: 89.6 per cent — the underutilization of inventory and supplies was due to time variance and delays in project timelines resulting in the carrying over of the projects budget to 2014;
- Training and travel: 64 per cent — the underutilization is due to austerity measures in the General Fund and time variance of obligating the donor-funded projects budget that are carried over to 2014;
- Cash subsidies: 84.5 per cent, due to timing variances for cash subsidies to be funded from projects.

- Hospital services: 101 per cent, due to the increase in the Group Medical Insurance Policy rate for hospitalization in the field offices in Lebanon and Jordan.

Note 35
Going concern

35.1 The accompanying financial statements have been prepared under the assumption that the Agency will continue to operate as a going concern. As shown in the financial statements, however, the Agency incurred a net gain of $23.463 million in 2013 and incurred a net loss of $47.465 million in 2012. The factors set out below provide evidence as to the continuing nature of the Agency as a going concern.

35.2 In 2013, the Agency had total net assets of $230.158 million (compared with $206.478 million in 2012) and its total current assets exceeded total current liabilities by $250.272 million (compared with $203.715 million in 2012). The balance of cash and cash equivalents held by the Agency as at 31 December 2013 was $278.395 million (compared with $232.433 million in 2012). In addition, as described in note 18, as at 31 December 2013 the Agency had contingent assets in the amount of $312.594 million (compared with $242.462 million as at 31 December 2012), which related to contributions from donors for which the agreements had been signed but the criteria for revenue recognition had not yet been met.

35.3 UNRWA is funded by voluntary contributions from Member States and other donors for the support of its ongoing programmes and activities. All key donors reaffirm their support every six months at a semi-annual Advisory Commission meeting. Furthermore, UNRWA is actively diversifying its funding base by successfully targeting and increasing donations from emerging markets, such as the Middle East. As at 1 January 2012, the Agency had established a new Partnerships Unit, which has had successful discussions with high-net-worth philanthropic organizations.

35.4 Given the history of the Agency and the continuous efforts of management to mobilize resources for its operations, there is no threat to the Agency's short-term ability to operate as a going concern.

35.5 In 2013, as part of a strategic, medium-term approach, UNRWA began to develop its next medium-term strategy. The aim of the medium-term strategy is to provide the strategic framework for the Agency's operations for the period 2016-2021.

35.6 Funding the operations of the unearmarked activities of the General Fund has presented the greatest challenge to the Agency in recent years. As reflected in the segment reporting by fund, unearmarked activities incurred a deficit of $60.570 million as at 31 December 2013 (compared with a deficit of $77.063 million as at 31 December 2012). The net assets of the fund reflected a net deficit of $80.537 million as at 31 December 2013 (compared with $61.297 million as at 31 December 2012). The Agency is actively seeking contributions to support its unearmarked activities in order to sustain core operations.

Note 36
Related parties

Related parties for UNRWA include:

(a) The Area Staff Provident Fund, as it is controlled by the Agency;

(b) The United Nations Secretariat, since it exercises significant influence over UNRWA, including because the salaries, related expenditures and liabilities of the majority of the Agency's international staff, including its key management personnel, are paid from the regular budget of the United Nations;

(c) Key management personnel, which include the members of the Management Committee, as they have authority with respect to planning, directing and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances. Transactions conducted with key management personnel in 2013 are summarized as follows:

(Thousands of United States dollars)

	Number of individuals	*Total remuneration*	*Outstanding advances against entitlements*	*Outstanding loans*
Key management personnel	26	5 208	279	–

(d) No close family members of key management personnel were employed by the Agency during the year;

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

Note 37
Subsequent events

Area staff retirement age

37.1 In 2013, the Agency increased the retirement age for area staff on an optional basis from 60 to 62, effective 1 January 2014. The change is expected to result in an increase in the respective employee benefit costs.

Ongoing conflict in the Syrian Arab Republic

37.2 While the destabilizing aspects of the so-called Arab Spring has so far bypassed Palestine and had limited political impact in Jordan, in the Syrian Arab Republic it has developed from limited demonstrations and protests in early 2011 into a full-scale armed conflict by June 2012. The ongoing conflict in the Syrian

Arab Republic has affected the economy and the stability of the region. The consequent decrease in the value of the Syrian pound, the increase in the costs of basic commodities, the ongoing conflict and the physical damage to Agency assets have affected UNRWA operations in the region. The conflict has continued in 2013, with no indication of a final resolution.

Note 38
Date and approval

The financial statements and notes were certified as correct by the Director of Finance and approved by the Commissioner-General and were issued on 31 March 2014.

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