

**GLOBAL  
ENVIRONMENT  
FACILITY**

**TRUSTEE ARRANGEMENTS FOR EXTERNAL  
AUDIT AND FINANCIAL  
REPORTING AND MONITORING**

(Note prepared by the Trustee)

**GEF Council Meeting  
Washington, D.C.  
April 2 - 4, 1996**

**GEF/C.7/Inf.12  
March 13, 1996**

# **THE GEF TRUST FUND**

## **TRUSTEE ARRANGEMENTS FOR EXTERNAL AUDIT AND FINANCIAL REPORTING AND MONITORING**

### **I. INTRODUCTION**

1. The purpose of this note is to inform Council of the arrangements that have been made for financial audit of the GEF and the preparation of periodic audited and unaudited financial statements for submission to Council.

### **II. BACKGROUND**

2. The fiscal year of the GEF is July 1 to June 30. Although the GEF agencies have a synchronized planning and budget cycle for their GEF activities, their fiscal and audit reporting periods are determined by their own constitutions and differ both as to length and closing dates. The Trustee, the Secretariat and IBRD's Implementing Agency activities have the same fiscal year end as the GEF, June 30, with a corresponding annual audit. On the other hand, UNDP's and UNEP's fiscal year is January 1 through December 31 with a biennial audit cycle closing every alternate December 31 (the most recent completed cycle closed on December 31, 1995). Arrangements for the conduct of external audit also vary between the agencies: the external audits of IBRD and the Secretariat are currently performed by Price Waterhouse - one of the "Big Six" international accounting and auditing firms - while the external audits of UNDP and UNEP are carried out by the UN Board of Auditors, which comprises Government Audit Departments elected by the UN General Assembly.

3. In light of these operational considerations, the Trustee initiated dialogue with both UNDP and UNEP, with the intent of determining whether these agencies could adopt an annual audit cycle with a June 30 closing for their GEF activities. Both agencies have advised that it is not possible to change their fiscal year end from December 31. UNDP and UNEP are parts of the UN system; changing their year ends would place them out of step with the rest of the UN system, making it difficult and more expensive to prepare consolidated reports of UN activities and to reconcile inter-agency accounts. The UN Board of Auditors further informed UNEP that it is advisable for them to maintain a fiscal year ending December 31 for the presentation of their GEF financial statements. Both agencies have however confirmed their ability to adopt an annual, instead of their current biennial, GEF audit cycle closing on December 31.

4. IBRD examined the practicabilities of itself adopting a December 31 annual audit cycle for its GEF activities. While December 31 is not the GEF fiscal year end, IBRD's adoption of it for audit purposes would have enabled the presentation of audited financial statements of all agencies at a common date. This was however found to be impracticable: IBRD's accounting for the GEF is integrated into its own systems and procedures which are geared to a June 30 financial year end; to undertake a separate financial year end closing for the GEF at any other date would require extensive, complex and costly modifications to systems and procedures.

5. It has thus not proved practicable to adopt a common audit cycle for all GEF agencies. Instead the external audit arrangements for the GEF will observe the institutional practices of each agency, with the important exception that UNDP and UNEP will provide audited GEF financial statements on an annual as opposed to biennial basis. The Trustee believes that, in the circumstances, acceptance of non co-terminus audit cycles is a practicable and cost effective solution that provides for annual external audit of all GEF agency activities, albeit with differing reporting dates. The Trustee also believes and has agreed with the agencies that, due to their differing auditing regulations, rules and procedures, and in the interests of cost effectiveness, the audit of each agency's GEF activities should be conducted by its own external auditors.

6. The provision by UNDP and UNEP of separate audited GEF financial reports on an annual basis will result in an increase in the costs of both agencies directly related to the needs of the GEF; these incremental costs would therefore need to be borne by the GEF. UNDP has estimated that its

own direct incremental audit and administrative costs will be in the region of \$10,000 to \$15,000 per annum, and that there could be additional costs incurred in obtaining reports and audit satisfaction on the GEF activities of other agencies responsible for the execution of UNDP's GEF projects. UNEP has estimated its incremental costs of providing annual audited financial statements of its GEF activities as being approximately \$12,000 per annum. In addition, incremental costs will be incurred by IBRD in terms of administration and coordination, and audit fees for the provision of separate audit reports for the Trustee, for IBRD as an Implementing Agency and for the Secretariat; these are estimated not to exceed \$10,000 per annum.

### III. AUDIT AND REPORTING ARRANGEMENTS

7. Each agency will present separate audited financial statements drawn up for its respective fiscal year. The Trustee, IBRD as Implementing Agency and the Secretariat will present these statements annually as of June 30, while UNDP and UNEP will present their statements annually as of December 31. Because of the differing audit cycles and the use of each institution's own auditors, the Trustee will not be able to present audited consolidated GEF financial statements. However unaudited consolidated financial statements will be prepared twice yearly, as of December 31 for the six months ending on that date and as of June 30 for the year. Unaudited financial statements of the Trustee will also be provided as of December 31 for the six months ending on that date.

8. The Trustee's financial statements will include statements of Commitment Authority, Cumulative Pledges, and Receipts, Disbursements (to and on behalf of the GEF agencies) and Fund Balance. The statements of the Implementing Agencies and the Secretariat will include a statement of the uses of funds provided by the Trustee, the balance of these funds on hand at period end, and such other items as investment income where applicable, together with a statement of approved commitments. The consolidated financial statements will combine the financial information from all of the Implementing Agencies, the Secretariat and the Trustee.

9. The Trustee intends that financial statements will be distributed to Council members as and when they become available, thus enabling Council members, should they so wish, to place discussion of the financial statements on the agenda for the Council meeting following distribution. Information on the financial reports Council may expect to receive and when the Trustee expects to be able to submit these reports is presented in the table below.

GEF Financial Statements				
Financial statements for:	Audited financial statements		Unaudited financial statements	
	As of and for years ended:	Available for submission in:	As of and for periods ended:	Available for submission in:
Trustee	June 30	September	6 months to December 31	February
IBRD (IA)	June 30	September		
UNDP	December 31	June/July		
UNEP	December 31	June/July		
Secretariat	June 30	September		
Consolidated			6 months to December 31	April/May
			Year to June 30	September

Note: The timetables of the UN agencies are constrained by the need to obtain reports and certificates from a number of executing agencies.

#### **IV. MONITORING**

10. The Trustee will rely on the reports of the external auditors as the basis upon which it discharges its monitoring responsibility under Annex B of the Instrument for the Establishment of the Restructured Global Environment Facility.