

United Nations  Nations Unies

BOARD OF AUDITORS

NEW YORK

FAX: (212) 963 3684

3 March 2009

Mr. Ad Melkert
Administrator, a.i.
United Nations Development Programme (UNDP)
Room DC1-2118
One United Nations Plaza
New York, NY 10017

Dear Mr. Melkert,

Please find attached the Report of the United Nations Board of Auditors on the financial statements of the United Nations Development Programme (UNDP) – Global Environment Trust Fund (GEF) for the year ended 31 December 2007.

Yours sincerely,



Swatantra A. Goolsarran
Executive Secretary
United Nations Board of Auditors

cc: Mr. Yannick Glemarec
Mr. Jonathan Ng

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Report of the United Nations Board of Auditors
on the financial statements of the United Nations Development Programme
(UNDP)-Global Environment Trust Fund (GEF)
for the year ended 31 December 2007

Report on the Financial Statements

We have audited the accompanying summarized financial statements of the United Nations Development Programme (UNDP)-Global Environment Trust Fund (GEF), which comprise the statement of income and expenditure for the year ended 31 December 2007 (Statement I), the statement of assets, liabilities, reserves and fund balances as at 31 December 2007 (Statement II), the statement of cash flows for the year then ended (Statement III), and the notes to the financial statements. These financial statements should be read in conjunction with the notes and accounting policies of UNDP (A/63/5/Add.1), from which they were derived.

Administrator's Responsibility for the Financial Statements

The Administrator of UNDP is responsible for the preparation and fair presentation of these financial statements in a format agreed to with the Global Environment Fund Trustee and in accordance with the United Nations system accounting standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on 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 about whether 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 judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

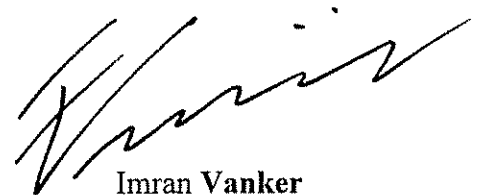
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

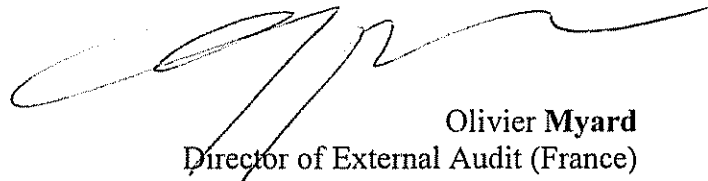
In our opinion, these summarized financial statements present fairly, in all material aspects, the financial position of the UNDP-GEF as at 31 December 2007 and its financial performance and cash flows for the year then ended, in accordance with the United Nations system accounting standards.

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of the UNDP-GEF for the year ended 31 December 2007 that have come to our notice, or which we have tested as part of our audit have, in all significant respects, been in accordance with the Instrument for the establishment of the Trust Fund.



Imran Vanker
Director of External Audit (South Africa)
United Nations Board of Auditors
Lead auditor



Olivier Myard
Director of External Audit (France)
United Nations Board of Auditors



Xue Wen **Hu**
Director of External Audit (China)
United Nations Board of Auditors

27 February 2009



Reference: GEF Audit

21 November 2008

Dear Mr. Vanker,

I have the honour to submit to you the financial statements of Global Environment Facility for the year ended 31 December 2007.

I certify, that to the best of my knowledge, the information contained in this statement and attached notes properly reflects the activities for the Global Environment Facility financed from contributions received from the World Bank, as GEF Trustee.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Darshak Shah', is written over the typed name and title.

Darshak Shah
Deputy Assistant Administrator,
Deputy Director and Chief Finance Officer
Bureau of Management
United Nations Development Programme

KM.
PK

Mr. Imran Vanker
Director of External Audit
Republic of South Africa

UNITED NATIONS DEVELOPMENT PROGRAMME
TRUST FUND FOR THE GLOBAL ENVIRONMENTAL FACILITY

Statement I: Statement of income and expenditure for the year ended 31 December 2007

(Thousands of United States dollars)

		2007	2006
INCOME			
Voluntary contributions		266 313	266 284
Interest income		8 108	4 531
Other income		11	(177)
TOTAL INCOME		274 432	270 638
EXPENDITURE			
Programme resources	note 3	214 721	215 055
Biennial support budget - net			
Management and administrative costs		21 033	18 183
UNDP support costs		194	516
Sub Total		21 227	18 699
Other expenditure		34	1
TOTAL EXPENDITURE		235 982	233 755
EXCESS OF INCOME OVER EXPENDITURE		38 450	36 883
Refunds to donors and transfers to/from other Funds	note 4	(496)	(2 118)
Fund balances, 1 January		176 226	141 461
FUND BALANCES, 31 DECEMBER		214 180	176 226

The accompanying notes are an integral part of the financial statements

UNITED NATIONS DEVELOPMENT PROGRAMME
TRUST FUND FOR THE GLOBAL ENVIRONMENTAL FACILITY

Statement II: Statement of Assets, Liabilities, Reserves and Fund Balance as at 31 December 2007

(Thousands of United States dollars)

	2007	2006
ASSETS		
Investments	313 356	273 352
Operating funds provided to Governments	12 691	15 414
Operating funds provided to Executing agents	2 474	2 187
Other accounts receivables and deferred charges	42	163
Accrued Interest	3 887	1 815
TOTAL ASSETS	332 450	292 931
LIABILITIES		
Operating funds payable to Governments	1 724	3 085
Operating funds payable to Executing agents	9 424	9 667
Unliquidated Obligations	21 748	20 007
Accounts payable	626	1 138
Due to UNDP - Regular Resources	84 748	82 808
Total Liabilities	118 270	116 705
RESERVE AND FUND BALANCES		
Unexpended resources	214 180	176 226
Total Reserves and Fund Balances 31 December	214 180	176 226
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	332 450	292 931

The accompanying notes are an integral part of the financial statements

UNITED NATIONS DEVELOPMENT PROGRAMME
TRUST FUND FOR THE GLOBAL ENVIRONMENTAL FACILITY

Statement III: Statement of Cash Flows for the year ended 31 December 2007

(Thousands of United States dollars)

	2007	2006
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Excess of Income over expenditure	38 450	36 883
Add inflows (Less outflows)		
Increase (decrease) in accounts payable	(512)	440
(Increase) decrease in other accounts receivable and deferred charges	121	73
(Increase) decrease in operating funds provided to Governments - net	1 362	3 167
(Increase) decrease in operating funds provided to Executing agents - net	(530)	8 601
Increase (decrease) in unliquidated obligations	1 741	7 100
Less Interest income	8 108	4 531
Net cash from operating activities	<u>32 524</u>	<u>51 733</u>
<u>CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES</u>		
Add inflows (Less outflows)		
Increase (decrease) in Due from other programmes	1 940	19 543
(Increase) decrease in accrued interest	(2 072)	(464)
Add Interest income	8 108	4 531
Net cash from investing and financing activities	<u>7 976</u>	<u>23 610</u>
<u>CASH FLOWS FROM OTHER SOURCES</u>		
Refunds to Donors and Transfers to/from other funds - net	(496)	(2 118)
Net cash from other sources	<u>(496)</u>	<u>(2 118)</u>
NET INCREASE (DECREASE) IN CASH, LETTERS OF CREDIT AND INVESTMENTS	40 004	73 225
CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 1 JANUARY	<u>273 352</u>	<u>200 127</u>
CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 31 DECEMBER	<u>313 356</u>	<u>273 352</u>

The accompanying notes are an integral part of the financial statements

^{1/} See note 2(f)

Notes to the Financial Statements

UNITED NATIONS DEVELOPMENT PROGRAMME Trust Fund for the Global Environment Facility

Note 1

(a) Mandate and goals

The Trust Fund for the Global Environment Facility (GEF) was established for the receipt and administration of funds to finance UNDP pre-investment studies, technical assistance and training for global environment policies, programmes and projects. The agreement between UNDP and the World Bank, as trustee for GEF, was signed on 29 April 1991. As stated in the Instrument for the Establishment of the Restructured Global Environment Facility:

- (i.) “GEF shall operate, on the basis of collaboration and partnership among the implementing agencies, as a mechanism for international co-operation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas:
 - i. Climate change,
 - ii. Biological diversity,
 - iii. International waters,
 - iv. Land degradation, primarily desertification and deforestation
 - v. Persistent organic pollutants, and
 - vi. Ozone layer depletion.

The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation as they relate to the above focal areas shall be eligible for funding. The agreed incremental costs of other relevant activities under Agenda 21 that may be agreed by the Council shall also be eligible for funding insofar as they achieve global environmental benefits by protecting the global environment in the focal areas;

GEF shall ensure the cost-effectiveness of its activities in addressing the targeted global environmental issues, shall fund programs and projects that are country-driven and based on national priorities designed to support sustainable development and shall maintain sufficient flexibility to respond to changing circumstances in order to achieve its purposes.”

UNDP will play the primary role in ensuring the development and management of capacity building programs and technical assistance projects. Through its global network of field offices, UNDP will draw upon its experience in human resources development, institutional strengthening and non-governmental and community participation to assist countries in promoting, designing and implementing activities consistent with the purpose of GEF and national sustainable development strategies. Also drawing on its inter-country programming experience, UNDP will contribute to the development of regional and global projects within the GEF work programme in co-operation with the other implementing agencies.

Note 2

Summary of Significant Accounting Policies

Notes 2 (b), (c), (d), and (e) are extracted from note 2 of UNDP notes to the financial statements. (Except for note (a) and para. 1 of note (d) rewritten for this report)

(a) Reporting period

The financial period of UNDP is biennial. The present biennium covers the period from 1 January 2006 to 31 December 2007. The GEF trust fund which is incorporated in UNDP's financial statements follows the regulations and rules of UNDP and the accounting and reporting procedures of UNDP. However, in accordance

with Article VII of the agreement between UNDP and the World Bank Trustee of the GEF, UNDP is required to submit an annual report. Therefore, the financial period of the UNDP GEF annual report as presented here is on an annual basis for the financial period from 1 January 2007 to 31 December 2007.

The financial statements cover only regular resources and reflect the application of the following significant accounting policies:

(b) Framework

UNDP activities are accounted for in accordance with:

- (a) The Financial Regulations formulated by its Executive Board and the Rules established by the Administrator under the above regulations; and
- (b) The United Nations System Accounting Standards, as adopted by the Administrative Committee on Coordination, are based to a large extent on relevant International Accounting Standards issued by the International Accounting Standards Committee. Where differences from the International Accounting Standards exist, it is mainly because of the essentially non-commercial nature of the Organisation's activities. The standards are based on the following principles and assumptions:
 - (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If these fundamental accounting assumptions are not followed, that fact should be disclosed together with the reasons;
 - (ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;
 - (iii) Financial statements should include clear and concise disclosure of all significant accounting policies which have been used;
 - (iv) The disclosure of the significant accounting policies used is an integral part of the financial statements;
 - (v) Unusual items or prior period items should be disclosed if they have a material effect on the financial statements or schedules;
 - (vi) If there is a change in accounting policy that has a material effect in the current period, or may have a material effect in subsequent periods, the effect of such change should be disclosed and quantified, together with the reason for the change.

(c) Income

Interest income is accrued as income in the year to which it relates. All other income is accounted for on a cash basis, with the exception of income accrued on government letters of credit which are irrevocable.

(d) Expenditure

All expenditure of UNDP is accounted for on an accrual basis, except for staff entitlements (other than costs related to after-service health insurance) and programme expenditure implemented by Governments and non-government organizations (NGOs), which are accounted for on a cash basis. Where applicable to staff, staff entitlements relating to after-service health insurance are borne by UNDP and the relevant liabilities are reported and disclosed in the accounts for UNDP.

Where UNDP transfers cash to executing agencies, the transfer is recorded as an advance and the programme expenditure is recorded upon receipt of certified expenditure reports (PDRs and financial reports) prepared by the executing agencies.

The following criteria are generally used in applying the accrual basis:

<i>Experts and other project personnel</i>	Costs relating to the period of contractual service falling within the current biennium up to the amount provided for in the current budget.
<i>Travel on official business</i>	Costs of travel taking place in the current biennium and travel commencing before the end of the current biennium but extending into the next biennium.
<i>Subcontracts</i>	Payments falling due in the current biennium according to the terms of the contract or payment schedule.
<i>Fellowships</i>	Cost of the fellowship from the anticipated date of commencement of study or start of the current biennium to completion of study or end of the current biennium, whichever is earlier.
<i>Group training</i>	Full cost of any training activity held in the current biennium or beginning in the current and ending in the next biennium.
<i>Equipment</i>	Full cost of a contractual agreement or a firm order placed with the supplier prior to the end of the current biennium up to the amount provided in the current budget.
<i>Miscellaneous</i>	Cost of events occurred (for example, hospitality), goods or services delivered or firm orders placed for delivery in the current biennium.

Effective with the biennium 2004/2005, UNDP revised its accounting policy with respect to the recording of expenditure executed by UNDP and by governments and NGOs where UNDP provides support services to the executing agency. Previously this expenditure had been recorded on a cash basis. UNDP decided to change the policy to make it consistent with the policy for recording UN agency expenditure. The impact of this change is an increase in programme expenditure and a corresponding increase in accounts payable. There is no change in the accounting policy for recording national execution expenditure where UNDP does not provide support services. This remains on a cash basis because many of the national entities that execute UNDP projects account for this expenditure on a cash basis.

(e) Currency exchange

Contributions in currencies other than US dollars

Voluntary contributions received from Governments are translated into United States dollars using the United Nations operational rate of exchange in effect on the date of payment. All exchange differences against market rates are recorded as other income/expenditure.

Transactions in currencies other than US dollars

For the purposes of accounting for transactions, and the maintenance of other financial records, other currencies are translated into United States dollars at the United Nations operational rate of exchange in effect on the date of the transaction. Assets and liabilities in other currencies are translated into United States dollars at the United Nations operational rate of exchange in effect on the date of the report.

(f) Investments

Carrying value of investments

Investments are carried at cost.

Marketable securities

UNDP purchases marketable securities with the intent to hold them to maturity. However, management may sell marketable securities in cases where there is a liquidity need or unexpected credit risk, or where it is otherwise in the best interest of the organization's overall investment management.

Credit risk

The marketable securities that potentially subject the organization to concentrations of credit risk consist primarily of bonds and certificates of deposit. The organization's investments are placed in high credit quality financial instruments as determined through reputable third party rating agencies. The credit quality of issuers of these investments is reviewed on an ongoing basis.

Liquidity risk

In addition to only placing investments in high credit quality financial instruments as determined through reputable third party rating agencies, to manage liquidity risk UNDP also limits its maximum exposure to any one issue and to any one counter party.

Note 3

Programme expenditure

The amounts shown on statement I consist of the following (in thousands of United States dollars):

<i>Executing agents</i>	<i>2007</i>	<i>2006</i>
National execution	125 915	109 390
UN specialised Agencies	83 100	95 392
Non-Governmental Organizations	3 739	5 308
Direct execution	1 967	4 965
Total	214 721	215 055

Note 4**Refunds to donors and transfers to/from other funds**

The amount shown on statement I is broken down as follows (in thousands of United States dollars):

	2007	2006
Transfer to/from other funds:		
Transfer of investment income (2004-2005) to Reimbursable support Services	-	(1 712)
Transfer to/from other funds - various	496	370
Refund to donors	-	(776)
Total	(496)	(2 118)

Note 5**Investments**

The carrying value of investments is broken down as follows:

	2007	2006
Interest bearing current accounts	1	(8)
Time deposit	135 000	184 400
Certificates of Deposit/Commercial Paper/Bank	110 000	25 000
Money Market	68 355	63 960
Total	313 356	273 352

Note 6**Unliquidated obligations (ULOs)**

The balance of unliquidated obligations shown in statement II consists of the following (in thousands of United States dollars):

	2007	2006
Executing agents	21 304	19 811
Biennial support budget	444	196
Total	21 748	20 007

Note 7**Unexpended Resources – Regular Resources**

The amount shown in statement II consists of the following (in thousands of United States dollars):

	<i>2007</i>	<i>2006</i>
Programme resources	155 643	125 035
Implementing Agency Fee resources	58 537	51 191
Total	214 180	176 226

The programme expenditure resources figure of \$155,643,000 above represents funds required for the delivery of agreed GEF activities. These funds are held by UNDP until such time that the commitments and liabilities are satisfied and the project activities are brought to an orderly conclusion.