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BOARD OF AUDITORS



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Reference: GEF Audit

16 April 2012

Dear Mr. Ravhuhali,

I have the honour to submit to you the financial statements of Global Environment Facility for the year ended 31 December 2010.

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 a horizontal line. The signature is fluid and cursive.

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

Mr. Lufuno Ravhuhali
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 2010

(Thousands of United States dollars)

		2010	2009
INCOME			
Voluntary contributions		237 000	240 014
Interest income		2 679	908
Other income		40	91
TOTAL INCOME		239 719	241 013
EXPENDITURE			
Programme resources	note 3	220 644	212 894
Biennial support budget - net			
Management and administrative costs		(1)	(11)
UNDP support costs		13	44
Sub Total		12	33
Other Expenditure		120	0
TOTAL EXPENDITURE		220 776	212 927
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		18 943	28 086
Less: Refunds to donors and transfers to/from other Funds	note 4	(910)	(4 578)
Transfer of balances from regular resources to RSS		(66)	0
Fund balances, 1 January		146 399	122 891
FUND BALANCES, 31 DECEMBER		164 366	146 399

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 2010

(Thousands of United States dollars)

		2010	2009
ASSETS			
Cash and Investments	note 5	-	315 695
Operating funds provided to Governments		11 926	8 920
Operating funds provided to Executing agents		1 527	1 437
Due from UNDP-Regular Resources		167 284	-
Other accounts receivables and deferred charges		200	157
Accrued interest		-	514
TOTAL ASSETS		180 937	326 723
LIABILITIES			
Operating funds payable to Governments		83	818
Operating funds payable to Executing agents		1 092	4 223
Unliquidated Obligations	note 6	15 136	15 019
Accounts payable		260	943
Due to UNDP - Regular Resources		-	159 321
Total Liabilities		16 571	180 324
RESERVE AND FUND BALANCES			
Unexpended resources	note 7	164 366	146 399
Total Reserves and Fund Balances, 31 December		164 366	146 399
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		180 937	326 723

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 2010

(Thousands of United States dollars)

	2010	2009
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Excess (shortfall) of income over expenditure	18 943	28 086
Add inflows (Less outflows)		
(Increase) decrease in other accounts receivable	471	(190)
Increase (decrease) in due to/from Other Programmes	(326 605)	46 809
(Increase) decrease in operating funds provided to Executing agents	(3 221)	(4 043)
(Increase) decrease in operating funds provided to Governments	(3 741)	574
Increase (decrease) in accounts payable and other liabilities	(683)	483
Increase (decrease) in unliquidated obligations	117	802
Less Interest income	(2 679)	(704)
Net cash from operating activities	<u>(317 398)</u>	<u>71 817</u>
<u>CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES</u>		
Add inflows (Less outflows)		
Add Interest income	2 679	704
Net cash from investing and financing activities	<u>2 679</u>	<u>704</u>
<u>CASH FLOWS FROM OTHER SOURCES</u>		
Refunds to Donors and Transfer to/from other funds-net	(976)	(4 578)
Net cash from other sources	<u>(976)</u>	<u>(4 578)</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(315 695)	67 943
CASH AND INVESTMENTS AS AT 1 JANUARY	315 695	247 752
CASH AND INVESTMENTS AS AT 31 DECEMBER	0	315 695

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

UNITED NATIONS DEVELOPMENT PROGRAMME Trust Fund for the Global Environmental 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:

GEF shall operate, on the basis of collaboration and partnership among the implementing agencies, as a mechanism for international cooperation 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:

- (a) Biological diversity;
- (b) Climate change;
- (c) International waters;
- (d) land degradation;
- (e) Ozone layer depletion; and
- (f) Persistent organic pollutants.

The agreed incremental costs of activities to achieve global environmental benefits concerning chemicals management 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 four 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

(a) Reporting period

The financial period of UNDP is biennial. The present biennium covers the period from 1 January 2010 to 31 December 2011. 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 2010 to 31 December 2010.

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 Co-ordination, 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):

Executing agents	2010	2009
National execution	124 049	120 804
UN specialised Agencies	88 495	83 343
Non-Governmental Organizations	5 699	5 874
Direct execution	2 401	2 873
Total	220 644	212 894

Programme Expenditure for 2010 of \$220.6 million includes reversals of \$1.389 million relating to prior years. Should those adjustments have been reflected in prior years, 2010 programme expenditure would have been \$222.0 million.

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):

	2010	2009
Transfer to/from other funds	(66)	-
Refund to donors	(910)	(4 578)
Total	(976)	(4 578)

Note 5
Investments

The carrying value of investments is broken down as follows:

	<i>2010</i>	<i>2009</i>
Interest bearing current accounts	-	2
Time deposit	-	147 300
Certificates of Deposit/Commercial Paper/Bank	-	114 966
Bond/Note (callable)	-	20 272
Money Market	-	33 155
Total	-	315 695

Investments on behalf of United Nations Global Environment Facility (GEF), including bonds and notes, were transferred to UNDP comingled funds during 2010. Due to this change, undertaken to improve the potential income on GEF investments, investments for GEF are no longer reported separately as in prior years. Instead the amount appears as a Receivable Due from UNDP. Unexpended resource balances attributable to GEF are invested with interest revenue apportioned annually and credited to GEF as part of the annual interest apportionment exercise consistent with UNDP practice.

Note 6
Unliquidated obligations (ULOs)

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

In thousands of United States dollars	<i>2010</i>	<i>2009</i>
Executing entities	15 136	15 019
Total	15 136	15 019

Note 7

Unexpended Resources – Regular Resources

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

	<i>2010</i>	<i>2009</i>
Programme resources	164 366	146 399
Total	164 366	146 399

The programme expenditure resources figure of \$164.4 million 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.