

# United Nations Nations Unies

BOARD OF AUDITORS

NEW YORK

FAX: (212) 963.3684

## **Report of the United Nations Board of Auditors on the financial statements of the United Nations Development Programme Global Environment Trust Fund for the year ended 31 December 2011**

### **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 2011 (Statement I), the statement of assets, liabilities, reserves and fund balances as at 31 December 2011 (Statement II), the statement of cash flows for the year then ended (Statement III), and the notes to the financial statements. These financial statements were derived from the audited financial statements of UNDP for the biennium ended 31 December 2011.

### *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, and for such internal control as management deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 includes 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 also 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.

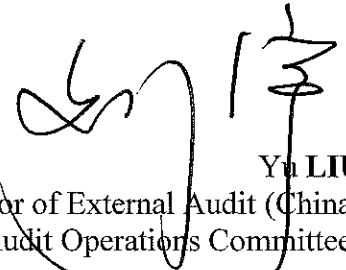
### *Opinion*

In our opinion, these summarized financial statements present fairly, in all material aspects, the financial position of the UNDP-GEF as at 31 December 2011 and its financial performance and cash flows for the year then ended, in accordance with the United Nations system accounting standards.

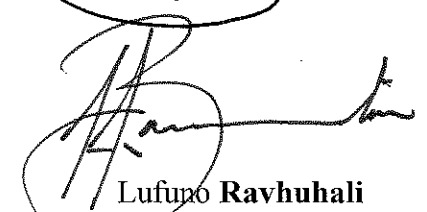
**Report on other legal and regulatory requirements**

Furthermore, in our opinion, the transactions of the UNDP-GEF 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.

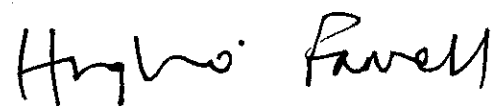
For and on behalf of  
the United Nations Board of Auditors



**Yu LIU**  
Director of External Audit (China)  
Chairman (Audit Operations Committee)



**Lufuno Ravhuhali**  
Director of External Audit (South Africa)  
(Lead auditor)



**Hugh O'Farrell**  
Director of External Audit (United Kingdom of Great Britain and Northern Ireland)

30 June 2012



*Empowered lives.  
Resilient nations.*

Reference: GEF Audit

17 July 2012

Dear Mr Ravhuhali,

I have the honour to submit to you the financial statements of the Trust Fund for the Global Environment Facility for the year ended 31 December 2011.

I certify that, to the best of my knowledge, the information contained in these statements 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.

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 2011

(Thousands of United States dollars)

		2011	2010
<b>INCOME</b>			
Voluntary contributions		130 636	237 000
Interest income		2 128	2 679
Other income		47	40
<b>TOTAL INCOME</b>		<b>132 811</b>	<b>239 719</b>
<b>EXPENDITURE</b>			
Programme resources	note 3	199 609	220 644
Biennial support budget - net			
Management and administrative costs		-	(1)
UNDP support costs		85	13
<b>Sub Total</b>		<b>85</b>	<b>12</b>
Other Expenditure		-	120
<b>TOTAL EXPENDITURE</b>		<b>199 694</b>	<b>220 776</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>		<b>(66 883)</b>	<b>18 943</b>
Less: Refunds to donors and transfers to/from other Funds	note 4	(2 680)	(910)
Transfer of balances from regular resources to RSS		-	(66)
<b>Fund balances, 1 January</b>		<b>164 366</b>	<b>146 399</b>
<b>FUND BALANCES, 31 DECEMBER</b>		<b>94 803</b>	<b>164 366</b>

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 2011

(Thousands of United States dollars)

		2011	2010
<b>ASSETS</b>			
Cash and Investments	note 5	-	-
Operating funds provided to Governments		10 527	11 926
Operating funds provided to Executing agents		3 622	1 527
Due from UNDP-Regular Resources		95 816	167 284
Other accounts receivables and deferred charges		116	200
Accrued Interest		-	-
<b>TOTAL ASSETS</b>		<b>110 081</b>	<b>180 937</b>
<b>LIABILITIES</b>			
Operating funds payable to Governments		39	83
Operating funds payable to Executing agents		1 542	1 092
Unliquidated Obligations	note 6	13 124	15 136
Accounts payable		573	260
Due to UNDP - Regular Resources		-	-
<b>Total Liabilities</b>		<b>15 278</b>	<b>16 571</b>
<b>RESERVE AND FUND BALANCES</b>			
Unexpended resources	note 7	94 803	164 366
<b>Total Reserves and Fund Balances, 31 December</b>		<b>94 803</b>	<b>164 366</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>		<b>110 081</b>	<b>180 937</b>

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 2011

(Thousands of United States dollars)

	2011	2010
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Excess (shortfall) of Income over expenditure	(66 883)	18 943
<b>Add inflows ( Less outflows)</b>		
(Increase) decrease in other accounts receivable	84	471
Increase (decrease) in due to/from Other Programmes	71 468	(328 605)
(Increase) decrease in operating funds provided to Executing agents	(1 645)	(3 221)
(Increase) decrease in operating funds provided to Governments	1 355	(3 741)
Increase (decrease) in accounts payable and other liabilities	313	( 683)
Increase (decrease) in unliquidated obligations	(2 012)	117
Less Interest income	(2 128)	(2 679)
Net cash from operating activities	552	(317 398)
<b><u>CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES</u></b>		
<b>Add inflows (Less outflows)</b>		
Add Interest Income	2 128	2 679
Net cash from investing and financing activities	2 128	2 679
<b><u>CASH FLOWS FROM OTHER SOURCES</u></b>		
Refunds to Donors and Transfer to/from other funds-net	(2 680)	( 976)
Net cash from other sources	(2 680)	( 976)
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	-	(315 695)
<b>CASH AND INVESTMENTS AS AT 1 JANUARY</b>	-	315 695
<b>CASH AND INVESTMENTS AS AT 31 DECEMBER</b>	-	-

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 2011 to 31 December 2011.

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:

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<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.

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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):

<b>Executing agents</b>	<b>2011</b>	<b>2010</b>
National execution	124 212	124 049
UN specialised Agencies	63 883	88 495
Non-Governmental Organizations	6 958	5 699
Direct execution	4 556	2 401
<b>Total</b>	<b>199 609</b>	<b>220 644</b>

Programme Expenditure for 2011 of \$199.6 million includes reversals of \$1.489 million relating to prior years. Should those adjustments have been reflected in prior years, 2011 programme expenditure would have been \$198.1 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):

	<b>2011</b>	<b>2010</b>
Transfer to/from other funds	(1)	(66)
Refund to donors	(2 679)	(910)
<b>Total</b>	<b>(2,680)</b>	<b>(976)</b>

**Note 5**  
**Investments**

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	2011	2010
Executing entities	13 124	15 136
<b>Total</b>	<b>13 124</b>	<b>15 136</b>

**Note 7**  
**Unexpended Resources – Regular Resources**

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

	2011	2010
Programme resources	94 803	164 366
<b>Total</b>	<b>94 803</b>	<b>164 366</b>

The programme expenditure resources figure of \$94.8 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.