



**United Nations**

**United Nations Development Programme**

# **Financial report and audited financial statements**

**for the biennium ended  
31 December 2001 and**

## **Report of the Board of Auditors**

**General Assembly**

**Official Records**

**Fifty-seventh Session**

**Supplement No. 5A (A/57/5/Add.1)**

**General Assembly**  
Official Records  
Fifty-seventh Session  
Supplement No. 5A (A/57/5/Add.1)

**United Nations Development Programme**

**Financial report and audited  
financial statements**

**for the biennium ended 31 December 2001 and**

**Report of the Board of Auditors**



United Nations • New York, 2002



*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.

## Contents

<i>Chapter</i>	<i>Paragraphs</i>	<i>Page</i>
Letters of transmittal and certification. . . . .		vii
I. Financial report for the biennium ended 31 December 2001 . . . . .	1–60	1
Changes in accounting practices and policies in the biennium . . . . .	4–8	2
Regular resources . . . . .	9–14	5
Other resources activities . . . . .	15	7
Cost-sharing. . . . .	16–17	9
Trust Funds established by the United Nations Development Programme. . . . .	18–39	10
Junior Professional Officers programme . . . . .	40–41	15
Reserve for field accommodation. . . . .	42–43	15
Funds established by the General Assembly and administered by the United Nations Development Programme . . . . .	44–60	15
II. Report of the Board of Auditors. . . . .	1–194	18
A. Introduction . . . . .	1–12	20
1. Previous recommendations not fully implemented . . . . .	9–10	21
2. Main recommendations . . . . .	11–12	21
B. Financial issues . . . . .	13–64	22
1. Financial overview . . . . .	13–25	22
2. United Nations system accounting standards . . . . .	26–29	24
3. Valuation of non-expendable equipment. . . . .	30–36	25
4. Bank and investment reconciliations. . . . .	37–48	26
5. Unidentified receipts . . . . .	49–51	28
6. Unliquidated obligations . . . . .	52–57	28
7. Accounts receivable . . . . .	58–60	29
8. End-of-service benefits . . . . .	61–62	30
9. Write-off of losses of cash, receivables and property . . . . .	63	30
10. Ex gratia payments . . . . .	64	30
C. Management issues . . . . .	65–193	30
1. Programme expenditure . . . . .	65–121	30

2.	Shared services . . . . .	122–132	41
3.	Non-expendable equipment . . . . .	133–137	43
4.	Trust funds . . . . .	138–148	44
5.	Human resources management . . . . .	149–150	45
6.	Investments: segregation of incompatible functions . . . . .	151–154	45
7.	Procurement . . . . .	155–167	46
8.	Internal oversight reports . . . . .	168–176	47
9.	Green office policy . . . . .	177–180	49
10.	Information and communications technology . . . . .	181–188	50
11.	Cases of fraud and presumptive fraud . . . . .	189–193	52
D.	Acknowledgements . . . . .	194	53
	Annex		
	Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999 . . . . .		54
III.	Audit opinion . . . . .		62
IV.	Financial statements for the biennium ended 31 December 2001 . . . . .		63
	Abbreviations used in the financial statements . . . . .		64
	Overview . . . . .		67
	Income, expenditure and fund balances for the biennium ended 31 December 2001 . . . . .		67
	Assets, liabilities, reserves and fund balances at 31 December 2001 . . . . .		68
	Statement of cash flows for the biennium ended 31 December 2001 . . . . .		70
	Movement in resources balances for the biennium ended 31 December 2001 . . . . .		71
	Statement I. Income, expenditures and fund balances for the biennium ended 31 December 2001 . . . . .		72
	I.1. Regular resources activities . . . . .		72
	I.2. Other resources activities . . . . .		73
	Statement II. Assets, liabilities, reserves and fund balances at 31 December 2001 . . . . .		74
	II.1. Regular resources activities . . . . .		74
	II.2. Other resources activities . . . . .		76
	Statement III. Cash flows for the biennium ended 31 December 2001 . . . . .		78
	III.1. Regular resources activities . . . . .		78
	III.2. Other resources activities . . . . .		79
	Statement IV. Movement in fund balances for the biennium ended 31 December 2001 . . . . .		80
	IV.1. Regular resources activities . . . . .		80

IV.2. Other resources activities .....	81
Schedule 1. Regular resources: other income and expenditure for the biennium ended 31 December 2001.....	83
Schedule 2. Programme expenditure by executing agents and by source of funds for the biennium 2000-2001 .....	84
2.1. Agents support costs and technical support services by implementing agents and source of funds for the biennium 2000-2001 .....	86
Schedule 3. Biennial support budget for the biennium ended 31 December 2001: programme support activities, management and administration costs, support to operational activities of the United Nations system .....	88
Schedule 4. Regular resources: biennial support budget (gross) and expenditure against biennial support budget (gross by major category of expenditure) for the biennium ended 31 December 2001.....	89
Schedule 5. Trust funds established by the United Nations Development Programme: schedule of income, expenditure and fund balances for the biennium ended 31 December 2001.....	90
5.1. State of sub-trust funds established by the United Nations Development Programme: schedule of income, expenditure and fund balances for the biennium ended 31 December 2001 .....	128
5.2. Selected trust funds established by the United Nations Development Programme: statement of accounts for the biennium ended 31 December 2001 .....	151
5.3. Trust funds established by the United Nations Development Programme: biennial support budget for the biennium ended 31 December 2001 .....	157
5.4. Status of bilateral and other resources received under management service agreements.....	158
Schedule 6. Reimbursable services and miscellaneous activities: income, expenditure and fund balances for the biennium ended 31 December 2001 and assets, liabilities, reserves and fund balances at 31 December 2001 .....	159
6.1. Management services agreements: status of bilateral and other resources received under management services agreements for the biennium ended 31 December 2001 .....	161
6.2. Junior Professional Officers programme: status of funds for the biennium ended 31 December 2001 .....	164
6.3. Reserve for field accommodations: income, expenditure and fund balances and assets, liabilities and reserves and fund balances as at 31 December 2001 .....	165
6.4. Reimbursable support services: income, expenditure and fund balances and assets, liabilities and fund balances as at 31 December 2001 .....	167
6.5. Special activities: income, expenditure and fund balances and assets, liabilities and fund balances as at 31 December 2001 .....	169
6.6. Inter-Agency Procurement Service Office: income, expenditure and fund balances for the biennium ended 31 December 2001 .....	171

---

Schedule 7. Funds established by the General Assembly and administered by the United Nations Development Programme: statement of accounts for the biennium ended 31 December 2001. ....	172
7.1. State of sub-trust funds and funds established by the General Assembly and administered by the United Nations Development Programme: schedule of income, expenditure and fund balances for the biennium ended 31 December 2001. ....	176
7.2. Funds established by the General Assembly and administered by the United Nations Development Programme: biennial support budget for the biennium ended 31 December 2001 . ....	195
7.3. United Nations Volunteers: summary of projects financed under full funding arrangement by donor Governments and institutions. ....	196
Schedule 8. Investments at 31 December 2001. ....	198
Notes to the financial statements . ....	202



---

## Letters of transmittal and certification

30 April 2002

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the biennium ended 31 December 2001, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements.

The financial statements have been prepared in accordance with the United Nations system accounting standards and include certain amounts that are based on management's best estimates and judgements.

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. UNDP internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.

The management provided the United Nations Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.

The recommendations of the United Nations Board of Auditors and UNDP internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

---

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charge in the accounting records and are properly reflected in the appended financial statements.

*(Signed)* Mark Malloch **Brown**  
Administrator

*(Signed)* Jan **Mattsson**  
Assistant Administrator  
Bureau of Management

The Chairman of the Board of Auditors  
United Nations  
New York

---

27 June 2002

I have the honour to transmit to you the financial statements of the United Nations Development Programme ended 31 December 2001, which were submitted by the Administrator. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

(Signed) Shauket A. **Fakie**  
Auditor-General of the Republic of South Africa  
and Chairman  
United Nations Board of Auditors

The President of the General Assembly of the United Nations  
New York



---



## Chapter I

### Financial report for the biennium ended 31 December 2001

1. The Administrator has the honour to submit his financial report, together with the audited financial statements of the United Nations Development Programme (UNDP) for the biennium ended 31 December 2001 and the report of the Board of Auditors. This submission is made in conformity with the Financial Regulations of the United Nations Development Programme. The financial statements consist of statements and schedules, accompanied by notes, which are an integral part of the financial statements, and include all trust funds established by the Administrator as well as all funds established by the General Assembly and administered by UNDP.

2. The UNDP financial statements incorporate expenditure data obtained from the executing agents. As far as possible, the data are obtained from the agents' audited statements or, when such statements are not available at the time of the year-end closing of the UNDP accounting records, either from the agents' statements as submitted for audit or from the agents' unaudited statements.

3. As at the date of preparation of the present financial statements, the status of information received from the executing agents was as follows:

- (a) Audited statements were provided by the World Tourism Organization;
- (b) Statements for audit or unaudited statements were provided by the following:

African Development Bank

Asian Development Bank

Economic Commission for Africa

Economic Commission for Europe

Economic Commission for Latin America and the Caribbean

Economic and Social Commission for Asia and the Pacific

Economic and Social Commission for Western Asia

International Atomic Energy Agency

International Bank for Reconstruction and Development

International Civil Aviation Organization

International Finance Corporation

International Labour Organization

International Maritime Organization

International Monetary Fund

International Organization for Migration

International Telecommunication Union

International Trade Centre

United Nations Department of Economic and Social Affairs

United Nations Centre for Human Settlements (Habitat)  
United Nations Conference on Trade and Development  
United Nations Educational, Scientific and Cultural Organization  
United Nations Industrial Development Organization  
United Nations Institute for Training and Research  
Universal Postal Union  
World Health Organization  
World Intellectual Property Organization  
World Meteorological Organization

## **Changes in accounting practices and policies in the biennium**

### **Accounting policies**

4. A summary of significant accounting policies applied in the preparation of the financial statements is provided in note 2 to the financial statements. Overall policies are the same as those applied in the financial statements of 31 December 1999. Changes in accounting policies, if any, are disclosed appropriately in note 2.

### **Presentation of accounts**

5. Following the recommendation of the Administrative Committee on Coordination (now the United Nations System Chief Executives Board for Coordination) on the common interorganizational accounting standards and harmonized presentation of financial statements, UNDP has fully adopted the recommended format for the biennium ended 31 December 2001.

6. In addition, the Executive Board may recall its decision 97/6 in which it harmonized the budget presentation for UNDP, the United Nations Children's Fund and the United Nations Population Fund. The new harmonized format distinguishes UNDP regular resources from its other resources (cost-sharing, government cash counterpart contributions, trust funds established by UNDP, reimbursable support services activities and other miscellaneous activities) and from the activities of the funds established by the General Assembly and administered by UNDP (United Nations Capital Development Fund (UNCDF), United Nations Volunteers (UNV), United Nations Development Fund for Women (UNIFEM), United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE) and United Nations Fund for Science, Technology and Development (UNFSTD)). UNDP adopted this decision in the biennium 1996-1997 in order to facilitate the Board's review of the biennial financial results.

7. In the biennium 2000-2001, UNDP mobilized contributions of \$5 billion overall, of which 25.6 per cent related to regular resources activities, 47.7 per cent to cost-sharing, 17.7 per cent to trust funds, 6 per cent to reimbursable support services and miscellaneous activities and 3 per cent to UNDP-administered funds established by the General Assembly.



8. Total expenditure amounted to \$5.2 billion, out of which 80.8 per cent (\$4.2 billion) was spent on programme/project activities, 2.5 per cent (\$131.9 million) on support costs paid to other United Nations agents, 14.7 per cent (\$771 million) for the biennial support budget and 2 per cent (\$106.2 million) on miscellaneous costs. Miscellaneous costs include a \$54 million provision for after-service health insurance, which is explained further in note 16 to the financial statements. Income and expenditure for the biennium are summarized in table I.1 and figure I.1.

Figure I.1

**Summary of income and expenditure for the biennium ended  
31 December 2001**

(Millions of United States dollars)

Figure I.1. goes here

Table I.1  
**Combined income and expenditure as at 31 December**

(Millions of United States dollars)

	<i>Regular resources</i>		<i>Other resources</i>		<i>Funds</i>		<i>Total <sup>a</sup></i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
<b>Income</b>								
Contributions, net	1 285.9	1 427.1	3 570.8	3 410.0	148.9	148.5	5 005.6	4 985.6
Interest income	(35.7)	68.3	181.6	127.1	14.7	20.8	160.6	216.2
Other income, net	64.4	9.0	131.5	84.2	21.0	17.3	216.9	110.5
<b>Total income</b>	<b>1 314.6</b>	<b>1 504.4</b>	<b>3 883.9</b>	<b>3 621.3</b>	<b>184.6</b>	<b>186.6</b>	<b>5 383.1</b>	<b>5 312.3</b>
<b>Expenditure</b>								
Programme	710.9	1 077.8	3 333.2	3 275.1	164.2	159.8	4 208.3	4 512.7
Programme support — implementing agents	75.8	89.9	45.9	57.5	10.2	6.2	131.9	153.6
Biennial support budget	500.4	493.1	237.6	169.6	33.0	28.7	771.0	691.4
Support to resident coordinator	16.6	21.0	3.2	0.7	-	-	19.8	21.7
Development support services	2.3	-	-	-	-	-	2.3	-
UNDP sectoral support	-	0.5	-	-	-	-	-	0.5
Other expenditure	99.7	10.0	5.3	3.3	1.2	0.6	106.2	13.9
<b>Total expenditure</b>	<b>1 405.7</b>	<b>1 692.3</b>	<b>3 625.2</b>	<b>3 506.2</b>	<b>208.6</b>	<b>195.3</b>	<b>5 239.5</b>	<b>5 393.8</b>
Excess (shortfall) of income over expenditure	(91.1)	(187.9)	258.7	115.1	(24.0)	(8.7)	143.6	(81.5)
Net excess (shortfall) of income over expenditure	(91.1)	(187.9)	258.7	115.1	(24.0)	(8.7)	143.6	(81.5)
<b>Unexpended resources</b>								
Opening balance	107.0	285.0	1 251.0	1 199.1	117.7	130.8	1 475.7	1 614.9
Transfers, refunds and savings	29.4	9.9	(19.3)	(63.2)	5.8	(4.4)	15.9	(57.7)
Closing balance	45.3	107.0	1 490.4	1 251.0	99.5	117.7	1 635.2	1 475.7

<sup>a</sup> Aggregate totals only; not consolidated.

## **Regular resources**

### **Income**

9. Voluntary contributions declined by 9.9 per cent (\$141.2 million) in comparison with the previous biennium (see figure I.2).

10. The average rate of return on investments was around 6 per cent. Other income comprised mainly exchange gains and losses, including \$19.2 million in gains from foreign exchange management activities.

Figure I.2

### **Contributions for regular resources activities as at 31 December**

(Millions of United States dollars)

### **Expenditure**

11. Programme expenditure (including programme support) declined by \$381 million, from \$1.2 billion in 1998-1999 to \$0.8 billion in 2000-2001. National execution remained the leading modality for the execution of projects, in keeping with UNDP policy. In the biennium 1998-1999, recipient countries executed \$445.3 million, or 56.6 per cent, of programme expenditure for regular resources. This compared with \$579.3 million, or 53.8 per cent, of programme expenditure for regular resources for the biennium 1998-1999 (see figure I.3).

Figure I.3  
**Expenditure by execution modality as at 31 December**  
(Millions of United States dollars)

*Abbreviations:* NEX, nationally executed expenditure; UNOPS, United Nations Office for Project Services.

12. There was a 39 per cent decrease in the United Nations system's share of programme expenditure, from \$167 million in 1998-1999 to \$102 million in 2000-2001. The marked decline in the share of projects executed by the "Big Five" (the United Nations Secretariat, the United Nations Industrial Development Organization, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization and the International Labour Organization) was due primarily to a transfer in 1999 of cumulative expenditure from regular resources incurred by UNDP as part of its activities under the United Nations Iraq oil-for-food programme to a designated trust fund under other resources.

13. Biennial support budget expenditure for 2001 was higher than that in 2000, representing to a large extent the normal trend of higher expenditures in the second year of the biennium. Gross support budget expenditure for the biennium 2000-2001 was \$553 million, representing a marginal 1.5 per cent increase in expenditure over the \$545 million expended in 1998-1999. The net 2000-2001 biennial support budget expenditure was \$500 million, \$18 million below the approved 2000-2001 net budget, which represents overall savings of 3.4 per cent. By appropriation group, 56 per cent (55 per cent in 1998-1999) was spent on programme support activities,

21 per cent on management and administration (23 per cent in 1998-1999) and 23 per cent on support to operational activities of the United Nations system (22 per cent in 1998-1999). In total, 63 per cent of expenditures were related to country offices, with the remaining 37 per cent attributed to headquarters locations, including the United Nations Volunteers and the Inter-Agency Procurement Services Office (IAPSO).

### **Unexpended resources**

14. The decrease in voluntary contributions accompanied by a smaller decrease in programme/project delivery resulted in a decrease in unexpended regular resources to \$45 million as at 31 December 2001, about 0.8 months of total expenditure. This compares to \$107 million, about four months of expenditure, in the previous biennium. Of the \$45 million in unexpended resources, \$11.4 million has been set aside as a transitional reserve for information and communication technology.

### **Other resources activities**

15. While other resources activities overall increased by 4.7 per cent, the increase was confined to trust fund activity. Contributions to trust funds increased by \$282 million (46 per cent). Cost-sharing contributions decreased by \$77 million (3 per cent). The increase in trust funds and the decrease in cost-sharing is attributable mainly to the Iraq Trust Fund, which was previously accounted for under cost-sharing (see figure I.4 and table I.2).

Figure I.4

#### **Income for other resources activities for the biennium ended 31 December 2001**

(Millions of United States dollars)

*Abbreviations:* CS, cost-sharing; GCCC, government cash counterpart contributions; TF, trust fund; MSA, management service agreements; JPO, Junior Professional Officers.

Table I.2 goes here

## **Cost-sharing**

16. The cost-sharing funding modality remained the largest modality for UNDP, despite a reduction in total contributions of \$77 million. Of the total \$2,375 million received in 2000-2001, \$377 million was attributable to third-party cost-sharing (\$326 million in 1998-1999) and \$1,997 million to recipient Governments (\$2,125 million in 1998-1999) (see figure I.5).

17. Programme expenditure and support costs paid to implementing and executing agents in 2000-2001 decreased \$61 million, to \$2,237 million, compared with 1998-1999 (\$2,298 million).

Figure I.5

### **Summary of cost-sharing income and expenditure as at 31 December**

(Millions of United States dollars)

## **Trust funds established by the United Nations Development Programme**

18. The detailed financial results of the trust funds are in schedules 5 to 5.3. A total of 86 trust funds and 69 sub-trust funds were established during the biennium 2000-2001. Six trust funds were closed during the biennium. In addition, 78 trust funds and 15 sub-trust funds funded by the Swedish International Development Cooperation were consolidated under one trust fund. The environmental sector and countries/territories in post-conflict circumstances received the most resources under the trust funds category.

19. Under trust funds dealing with the environment, in 2000-2001 the Global Environment Facility (GEF), the Montreal Protocol, Capacity 21 and the United Nations Office to Combat Desertification and Drought (UNSO) received \$299 million — 34 per cent of total trust fund contributions. GEF alone received \$233 million. Countries/territories in post-conflict circumstances, such as Iraq, Rwanda, Angola, the Palestine territory, etc., were also an important sector for trust fund activities. The UNDP Trust Fund for the Iraq programme received \$186 million during 2000-2001. (See figure I.6.)

Figure I.6.

### **Summary of trust fund income and expenditure as at 31 December**

(Millions of United States dollars)



### **Trust Fund to Combat Desertification and Drought**

20. During the biennium, the UNDP Office to Combat Desertification and Drought provided technical and financial support to 60 countries worldwide for the development of national action programmes for the implementation of the United Nations Convention to Combat Desertification. Support was provided for the development of subregional action programmes in Africa and in Latin America and the Caribbean and for partnership and capacity-building to mobilize resources in Africa. Technical, strategic policy and capacity-building support was provided for the mainstreaming and integration of drylands issues into national development planning and other macroeconomic frameworks and for building and broadening the knowledge base on drylands issues.

21. The year 2001 brought marked changes in the operations and location of UNSO. At the end of June 2001, UNSO was relocated from New York to Nairobi as part of the Administrator's goals to bring services closer to programme countries. UNSO became operational at its new location in Nairobi on 1 July 2001 and continues to provide core global support for drylands development to affected countries worldwide. In early 2002, UNDP established the Drylands Development Centre in Nairobi. The Centre is one of the three Bureau for Development Policy thematic centres around the world. The new Centre incorporates UNSO as part of the Bureau's decentralized network of policy advisers. In line with the overall management changes within UNDP, the Drylands Development Centre now provides policy-level advice and programme support through country offices. The Centre has formulated a new integrated drylands development programme that is being piloted in 16 countries in Africa and the Arab States.

22. Total programme expenditure decreased from \$9.9 million in 1998-1999 to \$5 million in 2000-2001. Unexpended resources declined by 39 per cent, from \$14.5 million to \$8.8 million.

### **Trust Fund for the Global Environment Facility**

23. Four formal GEF Council meetings were held during the spring and fall of 2000 and 2001. In addition, four informal intersessional GEF Council meetings were held in the summer and winter, during which the GEF corporate business plans and corporate management budgets, as well as the individual work programme allocation targets and implementing agency fees for UNDP/GEF, were reviewed and approved by the GEF Council for the fiscal years 2001 and 2002. The GEF secretariat also conducted a separate project implementation review exercise in 2000 and 2001 with respect to all GEF-funded full and medium-sized projects.

24. During the biennium 2000-2001, the Facility's approved work programmes, corporate management budgets and implementing agency fees amounted to a total of \$434.3 million, 19 per cent higher than in the biennium 1998-1999 (\$362 million). Total programme expenditure amounted to \$200 million in 2000-2001 compared with \$135 million in 1998-1999 (an increase of 48 per cent).

25. Income from replenishments received from the GEF trustee of the World Bank in 2000-2001 amounted to \$223 million (\$130 million in 1998-1999). In addition, GEF has received \$11 million in cost-sharing and sub-trust fund projects and other contributions (\$10 million in 1998-1999).

**Multilateral Fund for the Implementation of the Montreal Protocol**

26. The Multilateral Fund for the Implementation of the Montreal Protocol was established in 1991 with a mandate to implement national programmes to phase out chlorofluorocarbons, halons and other ozone-depleting substances. Four implementing agencies have been designated to implement this programme: UNDP, the United Nations Environment Programme, the United Nations Industrial Development Organization and the World Bank.

27. To achieve this objective, UNDP activities include:

- (a) Formulation of national country programmes for the Montreal Protocol;
- (b) Data surveys, national and sectoral plans (performance-based, multi-year programmes);
- (c) Technical training and demonstration projects;
- (d) Institutional strengthening and national capacity-building;
- (e) Technology transfer investment projects.

28. Contributions received for 2000-2001 amounted to \$61 million (\$77 million in 1998-1999). Total programme expenditure amounted to \$83 million in 2000-2001 (\$70 million in 1998-1999).

**Capacity 21 Trust Fund**

29. A global evaluation of the pilot phase of Capacity 21 (1992-2001) was conducted by a team of independent consultants over the past year. The team was of the view that Capacity 21 had been successful, but that it had not reached enough countries or communities and should be expanded with a broader mandate. The team further recommended a framework for the way forward, which, through intense consultation within UNDP senior management, has been developed into a platform entitled Capacity 2015. Capacity 2015, the successor to Capacity 21, has a wider community-based approach, which is not limited to Agenda 21 but that will also develop synergies with other capacity-building initiatives, particularly poverty reduction strategies, multilateral environmental agreements and sustainable development strategies. It is anticipated that the Capacity 21 Trust Fund will be the financial instrument for Capacity 2015.

30. The total resources mobilized in 2000-2001 amounted to \$2 million (\$7 million in 1998-1999), a decrease of 71 per cent compared with 1998-1999. Total programme expenditure declined marginally in 2000-2001 compared with 1998-1999, at \$15 million compared with \$16 million.

**UNDP Energy Account**

31. Energy Account activities, which are financed from extrabudgetary resources, focus on FINESSE (financing energy services for small-scale energy users), which supports policy dialogue, institutional strengthening, regulatory framework and capacity development to provide technically feasible and economically viable renewable energy and energy efficiency services to residential, commercial and industrial energy users. These activities are designed to create the conditions and mechanisms for the credit sector to on-lend capital to small-scale energy users.

FINESSE is in line with the UNDP Initiative for Sustainable Energy, which is based on the fact that traditional approaches to energy will make energy a barrier to socio-economic development and are not sustainable. FINESSE activities are presently being implemented in selected countries in Asia, in partnership with the World Bank. Activities in the Southern African Development Community region have been completed, and follow-up will soon be initiated in partnership with the African Development Bank. The Energy Account received contributions of \$1.1 million in 2000-2001 (\$1.8 million in 1998-1999) against total expenditure of \$1.7 million (\$2.2 million in 1998-1999).

#### **UNDP Fund for the Programme of Assistance to the Palestinian People**

32. The programming strategy of the UNDP Fund for the Programme of Assistance to the Palestinian People is based on two objectives:

(a) To utilize the Fund's limited core resources in a catalytic manner so as to launch high-priority capacity-building programmes that are subsequently sustained and expanded largely through voluntary bilateral donor contributions;

(b) To ensure the sustainability of these capacity-building programmes through the utilization of joint implementation structures, ensuring the long-term viability and local accountability of the Palestinian counterparts.

33. Total income of \$62 million was received in 2000-2001, compared with \$69 million in 1998-1999, a decline of 9 per cent. Programme expenditure in 2000-2001 amounted to \$58 million (\$66 million in 1998-1999), making UNDP one of the largest implementers of donor-funded projects in the Occupied Palestinian Territory. Pursuant to the strategies and initiatives identified in its programme framework, during the biennium the Fund continued to increase its focus on the expansion of its advocacy role in the promotion of sustainable human development themes such as poverty elimination, sustainable livelihoods, gender in development and environmental management, as well as a number of infrastructure activities.

34. During 2000-2001, the Fund continued its activities launched in the prior biennium to enhance governance at the local, municipal and central levels of the Palestinian Authority, taking full advantage of the considerable local expertise available in the area.

#### **UNDP Trust Fund for Rwanda**

35. The UNDP Trust Fund for Rwanda was established in April 1995 to enhance programme activities in support of the Government of Rwanda's programme of national reconciliation, reintegration, socio-economic rehabilitation and recovery.

36. In February 1997, the direct execution modality was approved for the UNDP Rwanda country office. The civil war and the genocide of 1994 having reduced the capacity of the Government to formulate and execute projects, the rationale for authorizing the Rwanda country office to apply direct execution was to establish a UNDP-managed system to respond to the crisis quickly and effectively.

37. In general, projects in Rwanda directly executed by UNDP cover sectors that are critical in the country context, such as the reintegration and reinstallation of returnees, governance, justice and social development. Most projects are quick-

impact and of short duration. UNDP has directly executed 29 per cent of all approved projects and 37 per cent of Trust Fund projects.

38. In the biennium 2000-2001, the UNDP Trust Fund for Rwanda mobilized \$9 million in contributions, compared with \$32 million in 1998-1999. Programme expenditures in 2000-2001 were \$29 million, compared with \$47 million in 1998-1999. As at 31 May 2002, UNDP had mobilized through the Trust Fund mechanism an amount of \$118 million since 1995.

#### **Management service agreements**

39. Management service agreements signed by UNDP and various donors (detailed in schedule 6.1) are executed by the United Nations Office of Project Services on behalf of UNDP. During the biennium, 63 new agreements were implemented, 13 agreements were financially completed and 32 were operationally completed. Total income declined 17 per cent in 2000-2001, to \$248 million compared with \$300 million in 1998-1999. Total expenditure declined by 25 per cent in 2000-2001, to \$231 million) from \$306 million in 1998-1999 (see figure I.7).

Figure I.7

#### **Summary of income and expenditure for management service agreements as at 31 December**

(Millions of United States dollars)

## **Junior Professional Officers programme**

40. UNDP currently has 252 Junior Professional Officers in active service under this programme, financed by 19 countries. Of those, 203 are in country offices and 49 are in New York and at other headquarters locations. As at 31 December 1999 there were 274 Junior Professional Officers — 247 in country offices and 27 in New York and at other headquarters locations.

41. UNDP received \$52 million in contributions for the programme in the biennium 2000-2001, compared with \$53 million in 1998-1999. Total expenditure decreased to \$52 million in 2000-2001 from \$56 million in 1998-1999.

## **Reserve for field accommodation**

42. With the support of the Executive Board, UNDP is moving towards the disposal of houses and offices it owns in the field and has in the past established provisions for asset write-downs as was deemed necessary.

43. Total income in the biennium 2000-2001 for the reserve for field accommodation activities, which consists almost entirely of rental income, amounted to \$3.9 million, a drop of \$1.6 million from the \$5.5 million received in 1998-1999. The reserve for field accommodation activities recorded an overall surplus of \$1.4 million in 2000-2001, compared with a surplus of \$2.5 million in 1998-1999.

## **Funds established by the General Assembly and administered by the United Nations Development Programme**

44. The funds established by the General Assembly are: UNCDF, UNV, UNIFEM, UNRPNRE and UNFSTD. Their financial results are detailed in schedules 7 to 7.3. UNCDF, UNV and UNIFEM remain the most active of the funds. In the biennium 2000-2001, their programme delivery represented 99.6 per cent of all funds' activities (99 per cent in 1998-1999). The combined income of the three funds likewise constituted 99.7 per cent of all income of the funds in 2000-2001 (98.7 per cent in 1998-1999).

## **United Nations Capital Development Fund**

45. The United Nations Capital Development Fund's main goal is to help reduce poverty by piloting small-scale investments in two areas of concentration: local governance and microfinance. The Fund defines its particular approach as investing with the poor. This approach aims to build the productive capacity and self-reliance of poor communities by increasing their access to essential local infrastructure and services and by strengthening their influence over economic and social investments that directly affect their lives and livelihoods.

46. The priority of UNCDF for the biennium 2000-2001 was to implement the 1999 external evaluation recommendations endorsed by the UNDP Executive Board in September 1999 in its decision 99/22. UNCDF has successfully complied with the decision. Annual independent external evaluations of the Fund's work continue to indicate that its operations contribute significantly to the well-being of the poor while providing strong support for the UNCDF overall local development strategy. A significant achievement was the formalizing of partnership arrangements with

UNDP in the area of microfinance, and discussions are ongoing for similar arrangements in the area of local governance. UNCDF also realigned programmes and projects to its new policies, concentrated on reducing administrative costs and emphasized the importance of policy impact and replication with positive results by attracting other donors and Governments to upscale its pilot programmes.

47. Core contributions were \$48 million in 2000-2001 compared with \$58 million in 1998-1999. The 17 per cent decrease from 1998-1999 is attributable to adverse exchange rates as well as the withdrawal of one donor. It is important to note that this reduction took place despite the addition of four new Organisation for Economic Cooperation and Development/Development Assistance Committee countries to the list of UNCDF contributors. In 1998, 11 projects were approved for \$36.3 million, and 13 projects were approved in 1999 for \$56.3 million. While the 1998 targets were not reached because of emergency situations in some of the Fund's programme countries, the 1999 targets were surpassed, as project approvals from 1998 were brought forward into 1999. Four projects were approved in 2000 for \$19.1 million, and five projects for \$10.6 million were approved in 2001. Project expenditure (including programme support costs) for the biennium 2000-2001 was \$78 million compared with \$88 million in 1998-1999.

#### **United Nations Volunteers**

48. The biennium 2000-2001 marked an important turning point for the United Nations Volunteers. Building on three decades of experience and the contributions of some 30,000 global citizens who engaged as volunteers in United Nations activities for peace and development, UNV carried out its role as focal point for the International Year of Volunteers, 2001, while at the same time expanding its own programme activities. Through its role as focal point, UNV, and thus UNDP, has deepened its own understanding of the value of volunteerism as a development concept, the important economic contributions that it makes to society and its role in creating social cohesion by building trust and reciprocity among people.

49. The UNV programme, in terms of the number of volunteer assignments and individual volunteers involved, continued to grow in 2000 and 2001 with the financial equivalent of all activities in the broader United Nations system context surpassing \$100 million in each of the years. Development cooperation activities remained the hallmark of UNV programme implementation. The trend towards humanitarian and emergency relief, peace-building and electoral support also continued to gain momentum.

50. In 2001, 5,090 volunteers carried out 5,432 assignments, representing the fifth consecutive record year for UNV. The volunteers represented 160 nationalities and contributed to development and peace-building efforts in 140 countries. The majority of the volunteers (66 per cent in 2001) were nationals of developing countries. This demonstrates the universality of the UNV programme, encompassing all regions of the world and providing a channel for South-South cooperation.

51. In the biennium 2000-2001, there were increases in funding to the UNV Special Voluntary Fund and for the fully funded, United Nations joint venture and cost-sharing modalities, and a slight reduction in contributions to sub-trust funds. Full-funding arrangements represent United Nations Volunteer assignments directly funded by donor Governments. United Nations joint ventures represent volunteers participating in United Nations peace operations. Total income in 2000-2001 was \$64 million, an increase of \$8 million from the \$56 million recorded in the previous biennium.

52. Programme expenditures increased in 2000-2001 to \$46.4 million from \$43.7 million in 1998-1999, an increase of \$2.7 million (6 per cent).

#### **United Nations Development Fund for Women**

53. The UNIFEM strategy and business plan, which covers the four-year period from 2000-2003, aimed to expand the Fund's donor base and to increase the amount of contributions flowing into UNIFEM. During the biennium 2000-2001, UNIFEM continued to focus its efforts on its three thematic areas and to refine the principles of results-based management.

54. Total contributions for UNIFEM increased by \$10.1 million, or 22 per cent, to \$54.6 million in the biennium 2000-2001 from \$44.5 million in 1998-1999. Voluntary contributions increased by \$7.2 million, and cost-sharing by \$3.2 million, compensated by a decline in sub-trust funds of \$0.3 million.

55. Programme expenditure increased by \$12.2 million, or 43 per cent, to \$40.7 million in the biennium 2000-2001 from \$28.5 million in 1998-1999. Regular resources expenditure rose to \$28 million in 2000-2001 from \$20.3 million in 1998-1999, an increase of \$7.7 million, or 38 per cent. Cost-sharing expenditure increased by \$2.3 million, or 59 per cent, to \$6.2 million in 2000-2001 from \$3.9 million in 1998-1999. Sub-trust fund expenditure increased by \$2.1 million, or 49 per cent, to \$6.4 million from \$4.3 million in 1998-1999.

56. Unexpended resources as at 31 December 2001 totalled \$24.3 million, an increase of \$5.2 million from the \$19.1 million recorded as at 31 December 1999. The level of the operational reserve was reviewed in accordance with Executive Board decision 97/4 of January 1997, and the reserve was increased to \$7.4 million as at 31 December 2001, up from \$6.7 million as at 31 December 1999.

#### **United Nations Revolving Fund for Natural Resources Exploration**

57. As noted at its third regular session, in September 1999 (DP/1999/42), the Executive Board endorsed plans to phase out the activities of UNRFNRE by the end of 2000. The plans ensured that all existing projects and contractual commitments would be accomplished in a responsible manner.

58. No voluntary contributions were received in 2000-2001 (\$1.7 million in 1998-1999). Total expenditure was \$0.8 million in 2000-2001, compared with \$2.2 million in 1998-1999. Unexpended resources as at 31 December 2001 amounted to \$2.7 million.

#### **United Nations Fund for Science and Technology for Development**

59. As at 31 December 1999, the total unexpended resources of the Fund amounted to \$0.9 million. UNDP has appointed an interim fund manager to oversee the closure of the Fund.

60. Should there be any residual funds, UNDP will inform the donors accordingly and obtain their agreement to transfer the remaining balance to the Bureau for Development Policy programme as cost-sharing contributions for information technology/development-related activities.

## Chapter II

### Report of the Board of Auditors

#### *Summary*

The Board of Auditors has reviewed the operations of the United Nations Development Programme (UNDP) and has audited the financial statements for the biennium ended 31 December 2001.

The Board's main findings are as follows:

(a) UNDP total expenditure from regular resources in the biennium 2000-2001 of \$1.406 billion exceeded its total income of \$1.315 billion by \$91 million. This excess of expenditure over income, together with other adjustments and transfers, reduced the UNDP fund balance by \$62 million, from \$107 million to \$45 million. In addition to regular funds, the operational reserve balance remains some \$151.6 million. The combined balance will be sufficient to cover only about 3.5 months of total regular resources expenditure;

(b) The total expenditure for the funds administered by UNDP (mainly the United Nations Capital Development Fund) of \$208.6 million exceeded its total income of \$184.6 million by \$24 million;

(c) The Board was unable to obtain adequate assurance that the value of non-expendable equipment was reasonable, as disclosed in the notes to the financial statements;

(d) Throughout 2000 and the first quarter of 2001, UNDP was unable to perform monthly bank reconciliations;

(e) The unidentified receipts at 31 December 2001, as disclosed in note 4 to the financial statements, were \$10.1 million;

(f) UNDP could provide the Board with an age analysis for only \$9.7 million (18 per cent) of receivables from regular resources, excluding United Nations agencies and trust funds;

(g) The present value of UNDP post-retirement health insurance liability as disclosed in the financial statements amounted to \$256 million, of which 21 per cent had been accrued for. The balance was not funded (see para. 61);

(h) The Board remains concerned that the functioning of controls in respect of programme expenditure (nationally executed expenditure in particular) is not at an optimum level to ensure the effectiveness of procedures and to provide adequate assurance on the proper performance of the funds. The following main issues were noted:

(i) Reconciliations of United Nations agency-implemented expenditure were outstanding. For reconciliations received, differences amounting to \$42.2 million were noted;

(ii) Inconsistent and inadequate audit scopes resulted in differing quality of audit reports in respect of nationally executed expenditure;



- (iii) UNDP received audit certificates covering 64 per cent of nationally executed expenditure at the time of audit;
- (iv) The impact of qualified nationally executed expenditure audit opinions was not quantified;
- (v) The evaluation of nationally executed expenditure audits was delayed in some instances;
- (vi) UNDP did not have a consolidated risk-based assessment model, and UNDP records of nationally executed expenditure audit costs were incomplete;
- (i) Service-level agreements with the United Nations Office for Project Services and the United Nations Population Fund had not yet been finalized at the time of the audit, except for internal audit services;
- (j) Of the 281 trust funds established by UNDP and disclosed in schedule 5 of the financial statements, 16 were in deficit, as at 31 December 2001, for an amount of \$2.7 million;
- (k) There was no segregation of duties between the following investment functions: investment management; credit risk monitoring; performance reporting; and investment accounting (see para. 152);
- (l) Several control weaknesses existed in the general computer control environment.

The Board made recommendations to address its findings on the disclosure of relevant information; bank and investment reconciliations; follow-up on long-outstanding balances; nationally executed programme expenditure; proper custody and recording of non-expendable equipment; service-level agreements; proper segregation of duties regarding investments; follow-up of inactive trust funds; and improvement of general computer controls.

A list of the Board's main recommendations is provided in paragraph 11 of the present report.

## A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Development Programme (UNDP) for the biennium 2000-2001. The audit was conducted in accordance with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 2000-2001 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNDP presented fairly the financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered it necessary to form an opinion on the financial statements.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations and Rules of the United Nations. The reviews concerned primarily the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNDP. The audit covered headquarters as well as 16 country offices in Botswana, Denmark, Ethiopia, India, Malaysia, Morocco, Mozambique, Nepal, Paraguay, the Philippines, Swaziland, Turkey, the United Republic of Tanzania, Uruguay, Zambia and Zimbabwe.

4. The Board continued its practice of reporting the results of specific audits in management letters providing detailed observations and recommendations to management.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNDP. UNDP has confirmed the facts on which the Board's observations and conclusions are based and provided explanations and answers to the Board's queries.

6. A summary of the Board's recommendations is contained in paragraph 11 below. Detailed findings are in paragraphs 13 to 193.

7. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving the implementation of its recommendations approved by the Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for specification of timetables for the implementation of recommendations;

(b) The disclosure of office-holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be

in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

8. The Board noted that UNDP had generally complied with those requirements.

## **1. Previous recommendations not fully implemented**

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by UNDP to implement the recommendations made in its reports for the biennium ended 31 December 1997<sup>1</sup> and earlier and confirms that there were no outstanding matters.

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNDP to implement the recommendations made in its report for the period ended 31 December 1999<sup>2</sup>. Details of the action taken and the comments of the Board are set out in the annex to the present report.

## **2. Main recommendations**

11. The Board recommends that UNDP:

(a) **Monitor the financial position of the funds administered by it to ensure that it maintains healthy fund balances (paras. 16 and 23);**

(b) (i) **Review its headquarters non-expendable equipment inventory in a cost-effective manner to ensure that it provides realistic valuations; (ii) closely monitor the annual country office inventory returns; and (iii) implement stricter measures to ensure that all returns are received in time (para. 35);**

(c) **Intensify its efforts to develop and maintain a suitable inventory control system in compliance with the financial rules and other directives (para. 136);**

(d) **Reconcile all bank accounts and review material bank account reconciliations on a monthly basis (para. 38);**

(e) **Continue its efforts with regard to zero-balance bank accounts in order to further reduce the amount of unidentified receipts (para. 51);**

(f) **Regularly review a complete ageing of its accounts receivable with a view to collecting long-outstanding amounts (para. 60);**

(g) **Review the funding mechanism and targets for end-of-service benefits in conjunction with the United Nations and other funds and programmes (para. 62);**

(h) **Intensify its efforts to complete the review of outstanding advances provided to Governments and provide for amounts considered doubtful or write off all necessary amounts (para. 83);**

(i) **Ensure that standard terms of reference are agreed between the Government implementing partners and the country office as well as the nationally executed expenditure auditor and that the audit scope and the format of the audit report is consistent (para. 92);**

<sup>1</sup> *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5A (A/53/5/Add.1), chap. II.*

<sup>2</sup> *Ibid., Fifty-fifth Session, Supplement No. 5A (A/55/5/Add.1), chap. II.*

(j) **Actively follow up and investigate the reasons for the non-submission of country office action plans in respect of nationally executed expenditure audits (para. 100);**

(k) **Quantify the financial effect of the nationally executed expenditure audit qualifications (para. 105);**

(l) (i) **Include a condition that the audit must be completed within a specific time frame in the contract between the nationally executed expenditure auditor and the implementing partners; and (ii) perform a forward-planning exercise to ensure that sufficient resources are available to perform evaluations of nationally executed expenditure reports following the prescribed deadline (para. 109);**

(m) **Create a comprehensive database to facilitate the implementation of a risk-based assessment model for non-UNDP-implemented expenditure (para. 117);**

(n) **The service-level agreements for services provided by UNDP to the United Nations Population Fund and the United Nations Office for Project Services should be finalized and implemented as a matter of priority (para. 127);**

(o) **Follow up on all trust funds in deficit positions with a view to recovering the overexpenditures (para. 147);**

(p) **Implement proper segregation of duties between investment functions (para. 154).**

12. The Board's other recommendations are shown in paragraphs 29, 40, 44, 46, 48, 54, 56, 69, 85, 87, 94, 97, 103, 111, 114, 120, 129, 132, 140, 144, 157, 159, 164, 166, 170, 173, 175, 188 and 192.

## **B. Financial issues**

### **1. Financial overview**

#### **Regular resources**

13. Total UNDP expenditure from regular resources in the biennium 2000-2001 of \$1.406 billion exceeded its total income of \$1.315 billion by \$91 million. This excess of expenditure over income, together with other adjustments and transfers, reduced the UNDP fund balance by \$62 million, from \$107 million to \$45 million. In the biennium 1998-1999, UNDP regular resources expenditure had exceeded its income by \$188 million.

14. The excess occurred even though UNDP expenditure decreased, from \$1.692 billion in 1998-1999 to \$1.406 billion in 2000-2001. The primary reason for these deficits is the continuing reduction in voluntary contributions from member Governments, which declined by 10 per cent (\$146 million), from \$1.452 billion in 1998-1999 to \$1.306 billion in 2000-2001. In 1998-1999, voluntary contributions declined by 11.3 per cent (\$182 million). UNDP informed the Board that its regular resource balance had been deliberately brought down over the past three bienniums in order to respond to donor concerns over large surpluses of unutilized resources and in order to maximize the flow of resources to low-income countries during a period of falling voluntary contribution levels and unfavourable exchange rates. As

such, it is inevitable that UNDP would have expenditures from regular resources exceeding income received in the same period. While the biennium overall reflects a decline, UNDP believes that the year 2001 represents a turning point. Contributions to regular resources increased marginally, by \$15.5 million, from 2000 to 2001, for a total of \$660.7 million. UNDP expects this trend to continue.

15. The Board noted that the remaining regular resources balance of \$45 million in the fund at 31 December 2001 was not even sufficient to cover one month's total regular resources expenditure. This fund balance, together with the regular resources operational reserve of \$151.6 million as at 31 December 2001, will be sufficient only to cover about 3.5 months of total regular resources expenditure. The Board is concerned that if UNDP expenditure continues to exceed income by the same level as in 2000-2001, the fund balance will be insufficient to absorb the current levels of expenditure. UNDP informed the Board that early warning systems were in place whereby preventive action could be taken if a programme appeared to be in danger of exceeding its established target. In extreme cases where immediate action is not taken, the approval authority of the resident representative and/or programme manager would be revoked. There were no such cases in 2001.

**16. The Board recommends that UNDP monitor its financial position and continue to adopt measures to ensure that it maintains a healthy fund balance for its regular resources.**

#### **Other resources**

17. As shown in the overview statement, UNDP total income of \$3.884 billion from other resources in 2000-2001 exceeded its total expenditure of \$3.625 billion by \$259 million. This excess of income over expenditure, together with other adjustments and transfers, increased the fund balance by \$239 million, from \$1.251 billion to \$1.490 billion. In 1998-1999, UNDP other resources income had exceeded its expenditure by \$115 million.

18. While the fund balance of other resources increased by 19 per cent overall, the increase was due mainly to the increase in contributions to trust funds. During 2000-2001, contributions to trust funds grew by \$283 million to \$887 million, while contributions to cost-sharing decreased by \$77 million to \$2.375 billion.

19. Total other resources expenditure increased as contributions increased. However, while total other resources income increased by 7 per cent in 2000-2001 compared with the previous biennium, total expenditure increased by only 3 per cent. UNDP transferred \$10.6 million of the excess of income over expenditure to the operational reserve, following prescribed requirements.

20. The Board was pleased to note that UNDP had generated an increasing level of other resources income, which enabled it to further increase its programme expenditure with a view to achieving its objectives in its business plan.

#### **Funds administered by UNDP**

21. UNDP administers three active funds, the United Nations Volunteers, the United Nations Development Fund for Women (UNIFEM) and the United Nations Capital Development Fund. UNDP also administers two other inactive funds: the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Fund for Science and Technology for Development.

22. **Total expenditure for the funds administered by UNDP in 2000-2001 of \$208.6 million exceeded its total income of \$184.6 million by \$24 million.** This excess of expenditure over income, together with other adjustments and transfers, reduced the fund balance by \$18 million, from \$118 million to \$100 million. In 1998-1999, the total expenditure of the funds administered by UNDP had exceeded income by \$8.7 million. While the balance of funds administered by UNDP decreased by 15.5 per cent overall, this was confined to the United Nations Capital Development Fund. The total expenditure of \$92 million for the Fund in 2000-2001 exceeded its total income of \$61 million by \$31 million. UNDP informed the Board that the reduction in contributions continued despite the addition of four new countries to the list of Fund contributors. The decrease is attributable to adverse exchange rates as well as one donor's discontinuing its contribution to the core fund. However, efforts are being made to intensively monitor the situation and to reduce expenditures commensurate with the level of income.

23. **The Board recommends that UNDP monitor the financial position of the funds administered by it to ensure that it maintains healthy fund balances.**

24. The combined income of the United Nations Capital Development Fund, the United Nations Volunteers and UNIFEM constituted 99.7 per cent of all income of the funds in 2000-2001 (98.7 per cent in 1998-1999). During the biennium 2000-2001, the United Nations Revolving Fund for Natural Resources Exploration received no contribution while the United Nations Fund for Science and Technology for Development received only voluntary contributions amounting to \$16,000.

25. The Executive Board had decided to discontinue the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Fund for Science and Technology for Development, and a work plan was established to close all financial activities of the funds. The follow-up actions were in the final stage and were expected to be completed by the end of June 2002.

## **2. United Nations system accounting standards**

26. The Board assessed the extent to which the UNDP financial statements for the biennium ended 31 December 2001 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards except for the matters mentioned below.

### **Miscellaneous income from foreign exchange management activities**

27. UNDP reported exchange gains of \$12.5 million and exchange losses of \$4.8 million on the revaluation of currencies as at 31 December 2001. UNDP also disclosed in schedule 1 of the financial statements net miscellaneous income from foreign exchange management activities of some \$19.3 million in respect of hedging transactions entered into by UNDP during the biennium. UNDP made use of various hedge derivative instruments, including forward contracts and options to protect the value of non-dollar pledges. Although it is not the objective of UNDP to make a profit on such activities, UNDP benefited from gains during the biennium as the United States dollar appreciated. The success of the hedge programme is, however, very much dependent upon the accuracy of donor information in respect of both the amount and the timing of payments.

28. UNDP did not disclose its policy in respect of hedging against currency fluctuations in its summary of significant accounting policies (note 2 to the financial statements). Note 2 (g) deals only with the exchange rates to be used in translating other currencies. The Board also noted that UNDP did not disclose in a note to the financial statements details of its hedging activities. Paragraph 28 of the United Nations system accounting standards requires that where an organization enters into forward exchange contracts or other financial instruments for hedging against currency fluctuations, it should disclose in its financial statements the value of outstanding contracts, together with the basis used for measuring and reporting the transactions. As at 31 December 2001, UNDP did not have any outstanding hedging contracts in place. The international accounting standards provide useful guidance on the recognition, measurement and disclosure of financial assets and liabilities.

**29. The Board recommends that UNDP expand its current disclosure of foreign currency transactions and other financial instruments used for hedging against currency fluctuations and UNDP agreed. UNDP should also consider incorporating in its disclosure aspects regarding risks relating to foreign currency, as well as its financial risk-management objectives and policies.**

### **3. Valuation of non-expendable equipment**

**30. The Board was unable to obtain adequate assurance that the value of non-expendable equipment was reasonable, as disclosed in the notes to the financial statements.** Non-expendable equipment is not capitalized in the accounts of UNDP but is only disclosed in the notes to the financial statements. The value of the Programme's non-expendable equipment as at 31 December 2001, as disclosed in note 3 (d) to the financial statements, was \$25.1 million (\$18.3 million in 1999) for headquarters and \$69.4 million (\$73.8 million in 1999) for country offices. (Refer also to comments made in section C.3 below.)

31. United Nations system accounting standard 49 requires United Nations organizations to disclose the value of non-expendable equipment, furniture and motor vehicles and the method of valuation in a note to the financial statements (actual cost or valuation).

32. UNDP derived the \$25.1 million value of headquarters non-expendable equipment by applying standard costs to the results of a physical inventory verification performed in December 2001 by a private firm. The standard costs applied were the same as the standard costs used during the biennium 1998-1999 and were not always representative of the actual cost or value of the non-expendable equipment.

33. Different policies were used for the valuation of non-expendable equipment at headquarters and country offices. The value of headquarters non-expendable equipment was based on standard costs, while the actual historical cost of country office non-expendable equipment was disclosed.

34. UNDP was unable to provide the Board with an accurate value of country office non-expendable equipment as at 31 December 2001 because 56 (41 per cent) of the 137 country offices had not submitted their annual inventory returns to headquarters. This was in spite of the follow-up efforts made by UNDP to obtain the returns on time. The Board noted that the accuracy of the returns was not certified by the country offices' resident representatives.

35. **The Board recommends that UNDP: (a) review its headquarters non-expendable equipment inventory in a cost-effective manner to ensure that it provides realistic valuations in accordance with the United Nations system accounting standards; (b) closely monitor the annual country office inventory returns; and (c) implement stricter measures to ensure that all returns are received on time.**

36. UNDP informed the Board that it would establish in 2002 a standard cost method of evaluation for UNDP assets at headquarters where there is no supporting documentation owing to the age of the asset. All other assets at headquarters would be valued at cost. The assets in country offices would be valued at actual cost. UNDP confirmed that in 2002 it would follow up with all the country offices to resolve problems with outstanding inventory returns.

#### **4. Bank and investment reconciliations**

37. The Board reviewed the Programme's reconciliation of its 95 bank accounts and noted that **throughout calendar year 2000 and the first quarter of 2001, UNDP was unable to perform monthly bank reconciliations.** However, annual reconciliations were performed retroactively for all bank accounts as at 31 December 2000. UNDP started to perform monthly bank reconciliations from May 2001, but still experienced problems due in part to the sequencing of the Millennium (treasury system) and Integrated Management Information System (IMIS) systems. The treasury section could provide the Millennium data to the general accounting section only by the fifteenth day of the following month because of system constraints, which delayed the performance of the monthly reconciliations. Also, there was no evidence of review of the reconciliations at an appropriate level.

38. **The Board recommends that all bank accounts be reconciled and a formalized procedure be implemented for the review of material bank account reconciliations, and UNDP agreed.**

39. The December 2001 reconciliation of the main disbursement account was finalized only during April 2002, and at the time of audit, UNDP had not performed any monthly bank reconciliations for 2002 in respect of the account. The Board noted that long-outstanding items on the bank reconciliation relating to the IMIS conversion had been cleared. UNDP is to be commended for the substantial efforts made to clear the 2,763 unresolved items representing some \$11.1 million as at 20 July 2000, as reported in the previous report of the Board for the biennium 1998-1999.<sup>2</sup> The Board noted, however, that long-outstanding items relating to the IMIS conversion amounting to \$271,868 had been transferred from the bank reconciliation to accounts receivable.

40. **The Board recommends that UNDP follow up on long-outstanding items in receivables and thereafter consider writing off the irrecoverable amounts, and UNDP agreed.**

41. The Board also found that a misallocation of an amount of \$10 million on 6 March 2001 still appeared on the bank reconciliation at 31 December 2001. This amount was incorrectly debited to the disbursement bank account instead of the contribution bank account. UNDP informed the Board that because of the focus on clearing items from earlier periods, prompt action on this item was overlooked, but that the adjustment was made by the Treasury Division in 2002.



42. The bank accounts shown in table II.1 were not reconciled during the biennium. As a result, unresolved differences were noted between the bank statements and the general ledger as at 31 December 2001. UNDP informed the Board that those accounts were overnight investment bank accounts that in future would be reflected as part of the investment schedule reported by the Treasury Division.

Table II.1

**Unresolved differences**

(In United States dollars)

<i>Bank</i>	<i>Bank statement balance</i>	<i>General ledger balance</i>	<i>Difference</i>
Bankers Trust Company	5 364 176	5 275 294	88 882
Bankers Trust Company	-	3 334 294	3 334 294
Bank of America	2 030 000	2 037 342	7 342

43. Creditanstalt Bankverein was reviewed and it was found that on 9 June 2001 an amount of \$7 million had been recorded in the general ledger while an amount of \$6.5 million had appeared on the bank statement. The difference remained unreconciled at year's end. The Board reviewed the summary of bank accounts and found that there was a line item called "Without bank account" totalling \$2,348,000, of which \$584,700 was not reconciled. UNDP informed the Board that it had analysed the unreconciled credit balance of \$584,700 against the line item "Without bank account" and that corrections would be made in 2002.

**44. The Board recommends that UNDP expedite its follow-up of all outstanding reconciling items and unresolved differences in order to effect the appropriate adjusting entries in a timely manner.**

45. None of the six payroll bank accounts in the name of UNDP had been reconciled by UNDP on a monthly basis. Although the United Nations performed bank reconciliations for those accounts, UNDP did not review the reconciliations to ensure that they were reasonable and that they agreed with their general ledger. UNDP informed the Board that the Comptroller's Division, which has oversight for those accounts, was following up with the United Nations to secure copies of the 2001 bank reconciliations.

**46. The Board recommends that UNDP review payroll bank reconciliations.**

47. The Board noted that as at 3 May 2002, there was a difference of \$13 million in the investment holdings for UNDP regular resources (DPVC) for the biennium 2000-2001 between the IMIS and Millenium systems. These were the result of unresolved differences carried forward from the biennium 1998-1999 as well as journal vouchers recorded on IMIS but not in the Millenium system. UNDP informed the Board that the ongoing reconciliation of differences between Millenium and IMIS had brought the unreconciled amount down from \$13 million to \$0.7 million as at 17 May 2002. The Board noted that during the biennium 2000-2001, UNDP had not performed regular reconciliations between the IMIS and Millenium systems. At the time of the audit, UNDP was in the process of reconciling the differences as at year's end.

48. **The Board recommends that efforts be continued to reconcile differences and to make the necessary adjustments to the financial records, and UNDP agreed. The Board further recommends that UNDP reconcile the Millennium system to the IMIS system on a monthly basis in order to expedite the follow-up of differences that may occur.**

## **5. Unidentified receipts**

49. In follow-up to the Board's report on UNDP for the period ended 31 December 1999,<sup>2</sup> **the Board noted that the unidentified receipts as at 31 December 2001, as disclosed in note 4 to the financial statements, were \$10.1 million.** The corresponding amounts for 1996-1997 and 1998-1999 were \$13.4 million and \$19.6 million respectively. Those receipts represented contributions and other amounts received in UNDP bank accounts where UNDP had not yet identified the source of the funds or their specific purpose. The Board had expressed its concern about the increase in unidentified receipts and the corresponding delay in applying those amounts for the purposes intended by the donors.

50. Since 2000, UNDP has implemented procedures to identify the source of amounts received in UNDP bank accounts. These procedures included the decentralization of United States dollar cost-sharing contributions to UNDP country offices' zero-balance bank accounts as well as the implementation of Internet banking facilities, where feasible, which enabled the country offices to view current-day banking transactions online. The successful implementation in the Latin American countries during 2000 was followed by targeted implementation in the Asian and Eastern European regions in 2001. It is the intention of the UNDP Treasury to introduce this practice to all eligible UNDP country offices.

51. **The Board recommends that UNDP continue its efforts with regard to the lack of information provided by donors when paying contributions in order to further reduce the amount of unidentified receipts, and UNDP agreed.**

## **6. Unliquidated obligations**

52. The Board noted that **the Programme's unliquidated obligations increased by 10 per cent, to \$70.8 million, in respect of its regular resources, by 6 per cent, to \$193.8 million, in respect of other resources and by 10 per cent, to \$5.8 million, in respect of funds administered by UNDP.** In aggregate, unliquidated obligations represented 5 per cent of total expenditure for the biennium 2000-2001, compared with 4.7 per cent in the biennium 1998-1999.

53. The UNDP Comptroller's Division provided all organizational units with a schedule detailing the unliquidated obligations of units according to their records. A total of 51 committing officers were required to certify the accuracy and completeness of outstanding obligations listed in schedules for return to the Comptroller's Division. As at the end of May 2002, 31 (61 per cent) of the certifications were outstanding. UNDP informed the Board that it would take appropriate action against those committing officers not responding in a timely manner.

54. **The Board recommends that UNDP ensure that all organizational units review unliquidated obligations on a monthly basis and provide the required certification of valid obligations in a timely manner and follow up on any**

**differences in unliquidated obligations reported by organizational units to make the necessary adjustments to the financial records.**

55. The United Nations Volunteers programme's unliquidated obligations in respect of its core budget, which was zero as at 31 December 1999, had increased to \$527,705 as at 31 December 2001. These unliquidated obligations represent obligations created in the last quarter of 2001. An amount of \$343,900 was obligated for the purchase of computer equipment based on an estimate of the purchase price. The respective purchase orders were placed only in the first quarter of 2002, and therefore those transactions were recorded in the incorrect accounting period, as no financial liability had occurred at the time that the obligation was created, but rather when the order was placed with the supplier. According to the United Nations Volunteers, this was due to delays in receiving quotations from the Inter-Agency Procurement Services Office (IAPSO).

**56. The Board recommends that obligations be recorded only on the basis of valid obligating documents and that they be recorded in the appropriate accounting period.**

57. The United Nations Volunteers considered that it was appropriate in this specific case to obligate the funds since it was clearly committed to making those purchases and had taken all necessary steps to do so before 31 December 2001 against a specific budget allocation identified and confirmed at the end of the third quarter.

## **7. Accounts receivable**

58. The Programme's accounts receivable in respect of its regular resources increased by 58 per cent, from \$33 million in the biennium 1998-1999 to \$52 million in 2000-2001. The majority of this increase was due to the reclassification of operating fund accounts to current accounts for those United Nations agencies which are not executing agencies of UNDP. **UNDP could provide the Board with an ageing analysis for only \$9.7 million (18 per cent) of those receivables, representing transactions that originated from headquarters.** Based on this analysis, amounts totalling \$178,299 and \$374,687 were outstanding for more than one year and two years respectively at 31 December 2001. UNDP expected that it would be able to provide a comprehensive ageing analysis once the planned implementation of its new system took place. In addition, the Board noted that for \$1.3 million in respect of staff loaned to the United Nations and other United Nations agencies, receivables outstanding for longer than a year were not included in the ageing analysis.

59. UNDP reduced its other accounts receivable and deferred charges, as disclosed in note 11 to the financial statements, with a provision of \$305,000. This provision had been established in 1987 to reduce the deficit in operating the fisheries vessel pool of the Food and Agriculture Organization of the United Nations (FAO) and represents 100 per cent of the receivables in UNDP accounts. UNDP has requested FAO to provide final details on the status of the project so that it can formally request write-off.

**60. The Board recommends that a complete ageing of accounts receivable be regularly reviewed with a view to collecting long-outstanding amounts, and UNDP agreed.**

## **8. End-of-service benefits**

61. The Board noted that UNDP had made an accounting accrual of \$54 million for the biennium ended 31 December 2001 in respect of post-retirement health insurance. This was the first biennium in which UNDP had accrued for that liability. In note 16, on unspent allocations and future commitments, UNDP disclosed that this had been done on the basis of an actuarial valuation, as at 1 January 2001, of after-service health insurance benefits covering all participants in UNDP and that the total present value of future benefits liability as at 1 January 2001 was \$256 million. Therefore, the amount accrued represented some 21 per cent of the estimated liability calculated on the present value of future benefits.

**62. The Board recommends that UNDP, in conjunction with the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service benefits to provide for the full estimated liability.**

## **9. Write-off of losses of cash, receivables and property**

63. During the biennium 2000-2001, UNDP informed the Board that it had written off \$820,262 of receivables and property. An amount of \$461,390 of this related to the sale of UNDP property in Haiti. Another \$358,872 related to unrecoverable balances on fully funded arrangements managed by the United Nations Volunteers. An amount of \$8.7 million was written off in the biennium 1998-1999. A further amount of \$217,194 in respect of the biennium 2000-2001 was pending write-off.

## **10. Ex gratia payments**

64. UNDP reported two ex gratia payments totalling \$16,640 during the biennium 2000-2001 in respect of an old-age supplemental payment and a humanitarian payment.

# **C. Management issues**

## **1. Programme expenditure**

65. Programme expenditure is a non-administrative expenditure incurred through the implementation of projects. Programme expenditure in the biennium 2000-2001 amounted to \$4.2 billion, compared with \$4.5 billion in the previous biennium. Of this amount, \$710.8 million was funded from regular resources, \$3.3 billion from other resources and \$164 million from funds administered by UNDP. Of the total of \$4.2 billion, nationally executed expenditure implemented by Governments amounted to some \$2.6 billion and that implemented by non-governmental organizations (NGOs) amounted to some \$46.6 million. **In its review of programme expenditure, the Board noted the following main issues:**

**(a) Reconciliations of United Nations agency-implemented expenditure were outstanding. For reconciliations received, \$42.2 million in differences were noted;**

**(b) Inconsistent and inadequate audit scopes resulted in a different quality of audit reports in respect of nationally executed expenditure;**

- (c) As at the date of audit, UNDP received audit certificates covering 64 per cent of nationally executed expenditure;
- (d) The impact of qualified nationally executed expenditure audit opinions was not quantified;
- (e) The evaluation of nationally executed expenditure audits was delayed in some instances;
- (f) UNDP did not have a consolidated risk-based assessment model;
- (g) UNDP records of nationally executed expenditure audit costs were incomplete.

**Programme expenditure incurred by United Nations executing agencies**

66. In schedule 2 of the financial statements, UNDP reported expenditure of \$486 million implemented by United Nations executing agencies on its behalf for the biennium 2000-2001, a decrease of 26 per cent compared with the corresponding figure for the previous biennium.

67. UNDP provided the agencies with monthly operating fund statements detailing the expenditure implemented by the agencies according to UNDP records. The agencies were required to provide UNDP with quarterly reconciliations of those statements to their own status of funds, on which their agencies' own auditors report at the close of the financial period. As at the end of May 2002, 13 of the 32 executing agencies had not provided UNDP with reconciliations of the expenditure incurred by them. For the reconciliations received, the Board noted differences of \$42.2 million between the amounts reported by the executing agencies and the amounts recorded by UNDP. Differences between the UNDP balance and the agencies' status of funds where amounts were not supported by reconciliations amounted to \$18.3 million net. Differences are attributable to timing since, in many instances, the agencies have not accounted for these differences in inter-office vouchers.

68. UNDP is to be commended for its efforts during the biennium 2000-2001 in resolving long-outstanding differences between the amounts recorded and those reported by the executing agencies amounting to \$98 million.

**69. However, the Board recommends that UNDP intensify its efforts to clear the remaining long-outstanding differences with executing agencies and make the necessary adjustments to the records. Also, UNDP should follow up in a timely manner on any differences in the quarterly reconciliations and apply a consistent basis of comparison.**

70. UNDP informed the Board it had issued reminders for all outstanding reconciliations and that it would also require all executing agencies to submit quarterly reconciliations by the twentieth day of the month following the end of quarter and to ensure that differences were addressed and resolved in a timely manner.

## **Programme expenditure incurred by Governments**

### *Background*

71. UNDP provides funds directly to Governments and non-governmental organizations as one of the forms of project implementation. The expenditure incurred by Governments is referred to as nationally executed expenditure, and expenditure incurred by NGOs is referred to as NGO-executed expenditure. The following definition of nationally executed expenditure was adopted by the Consultative Committee on Programme and Operational Questions for inclusion in the Operational Activities Reference Manual at its thirteenth session, held in New York in September 1998 (ACC/1998/15, para. 9):

“National execution includes the gradual transfer of all responsibilities to national entities, including procurement, recruitment, accounting, reporting, monitoring and evaluation. The responsibility and management of financial accounting, recruitment and procurement may vary depending on local conditions. In keeping with the objectives of sustainability and ownership, financial management by national entities through the provision of financial assistance for specific activities is encouraged. Depending on the local situation in each programme country, national execution might entail cash advances to national authorities or NGOs, alternatively reimbursing actual expenditures in other cases. This would not detract from the separate responsibility of United Nations entities to be accountable to their governing bodies or funding sources for the proper reporting of expenditure and appropriate monitoring and evaluation.” (United Nations System High-level Committee on Programmes Operating Activities Reference Manual, sect. A.4, para. 28.)

72. UNDP exercises control and accountability for nationally executed expenditure by implementing procedures at the headquarters and the country office levels. One of the main features of the nationally executed expenditure modality is that funds are advanced to executing partners and the subsequent expenditure is recorded only when such advances are cleared through the receipt of supporting documentation from the executing partner and country offices.

73. The UNDP financial statements include details of outstanding advances made to executing agencies as well as the expenditure incurred on the Programme's behalf by the agencies. The expenditure incurred on the Programme's behalf by executing agencies and by Governments is based on annual expenditure statements certified and submitted to UNDP each year. Those statements are in turn based on quarterly financial reports prepared by implementing partners. For each nationally executed project, UNDP prepares a combined delivery report that indicates the expenditure incurred during the year. It sends the report to the respective Governments for certification by their independent auditors, whose audit reports are sent to UNDP.

74. The UNDP financial statements for the biennium ended 31 December 1999 were qualified by the Board of Auditors. The basis of the qualification was a lack of assurance owing to a lack of receipt of audit reports from government implementing partners for programme expenditure of \$723 million. The amount reflected an increase of \$203 million, compared with the scope restriction of \$520 million for the biennium 1996-1997. Nationally executed expenditure for the biennium 2000-2001

amounted to approximately \$2.6 billion (excluding United Nations agency and NGO implementing partners).

75. The Advisory Committee on Administrative and Budgetary Questions expressed its concern with regard to the level of audit coverage of programme expenditure, and further expressed its concern that the Board of Auditors had qualified the UNDP financial statements for the past three bienniums (A/55/487). Consequently, in its resolution 55/220 A of 23 December 2000, the General Assembly decided to defer action on the financial statements of UNDP for the period ended 31 December 1999 pending certification by the Board of Auditors that satisfactory progress was being made to remove the reasons for the qualified opinions.

76. In response to the action taken by the General Assembly, UNDP drew up a plan that included the following measures to address the reasons that led to the qualified audit opinion:

(a) Continued efforts to obtain audit reports in respect of the biennium 1998-1999. The level of coverage had increased from 51 per cent to 75 per cent at the time of the audit;

(b) Setting targets to secure audit reports covering up to 95 per cent of expenditures incurred through Governments and non-governmental organizations. In the biennium 2000-2001, UNDP required 3,306 projects out of a total of 7,339 to be audited;

(c) Proposals to revise a financial rule and related internal directives to require an increased level of audit coverage;

(d) More intensive focus by senior management on poorly managed projects and those with large expenditures;

(e) Closer monitoring and evaluation of audit plans and their timely submission;

(f) Increased use of private firms where government auditors do not have the capacity to conduct audits.

77. In its resolution 55/220 B of 12 April 2001, the General Assembly took note of the comments of the Board that it was satisfied that, in principal, the plans developed by UNDP provided an adequate basis for improving the extent to which nationally executed expenditure was covered by audit reports (A/55/820, para. 4). The Assembly accepted the audited financial statements, but requested UNDP to adhere to the plan to correct deficiencies leading to the qualified audit opinion.

#### *Approach and objective*

78. The nationally executed expenditure audit reports provide a form of assurance that funds advanced to executing agencies and Governments and reported in the UNDP financial statements have been properly utilized for the purpose for which they were intended. Therefore, nationally executed expenditure audit reports form part of the internal control structure of UNDP.

79. The Board noted that in addition to the nationally executed expenditure audit reports required from implementing partners, UNDP had regulations, instructions and directives in place that could support its responsibility to be accountable to the

General Assembly. The regulations are to ensure that expenditures were valid, properly incurred, accurately recorded and completely accounted for. The extent of control assurance is, however, dependent on the level of compliance with the requirements and the effective functioning of the controls.

80. The Board separated the procedures aimed at ensuring better control and compliance with authorities from the procedures that affect the accuracy of expenditures recorded in the accounts of UNDP. The outcome of the assessment of the former had an impact on the Board's opinion on compliance with regulations and legislative authorities and its comments on internal controls, while that on the latter had an impact on the Board's opinion on the UNDP financial statements.

*Advances: operating funds provided to Governments*

81. In its report on the UNDP financial statements for the biennium 1996-1997,<sup>1</sup> the Board expressed concern regarding the level of advances to Governments (some \$11.6 million) that were outstanding for more than a year. During the biennium 1998-1999, UNDP reviewed many of the advances and wrote off \$4.1 million, identifying an amount of \$4.7 million that required further investigation. UNDP did not write off any advances during 2000-2001 and, as at 31 December 2001, the advances outstanding for more than a year had increased to \$15.1 million. Accordingly, UNDP did not have assurance that funds of up to \$15.1 million that had been advanced to implementing government partners had been effectively utilized for the purpose intended.

82. The Board took note of the current process under way at UNDP headquarters to follow up on those advances on a case-by-case basis. According to UNDP, this follow-up process was, at year's-end, approximately 50 per cent completed in respect of the total number of advances made to Governments (not 50 per cent of the total amount of advances). UNDP indicated that there would be a need to write off some of those advances, although it was unable to quantify the amount. UNDP also did not make a provision in its financial statements for the possible write-offs. UNDP informed the Board that outstanding advances had been identified as one of the key areas that required further analysis and that it planned to assign additional resources to this key task in 2002.

**83. The Board recommends that efforts be intensified to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide for amounts considered doubtful or to write off all necessary amounts; UNDP agreed.**

*Appointment of nationally executed expenditure auditors*

84. The UNDP Programming Manual (section 6.8.3) indicates that auditors of nationally executed expenditure should be appointed by implementing partners. However, UNDP headquarters did not monitor the appointments of such auditors to evaluate whether they (especially in the national audit office) were made by the implementing partners, which was the preferred option. The Board noted that nationally executed expenditure auditors were appointed by both implementing partners and the UNDP country offices.

**85. The Board recommends that details of the appointment of nationally executed expenditure auditors be included in their monitoring tools and that**



**such details be used to verify compliance with the UNDP Programming Manual; UNDP agreed.**

86. The Board noted that there was no evidence that any internal control procedures had been formulated and implemented to ensure that the nationally executed expenditure auditors appointed had the required integrity, technical competence and experience. Checking of the appointment of nationally executed expenditure auditors remained the responsibility of the country office and the executing partner. However, the quality of nationally executed expenditure audit reports differed, as noted by the Office of Audit and Performance Review. In order to promote consistency in the quality of audits of nationally executed expenditure, the Board was of the opinion that UNDP headquarters should play a more active role in providing guidance in the selection of auditors of nationally executed expenditure.

**87. The Board recommends that specific procedures and predetermined criteria be included in its directives on nationally executed expenditure to ensure that auditors of the required independence, integrity and technical competence are appointed and that the compliance with those directives is monitored by the country office. UNDP agreed with the recommendation.**

*Terms of reference, audit scope and format of audit reports*

88. Section 6.8 of the UNDP Programming Manual sets out a standard minimum objective and scope for nationally executed expenditure audits, which includes: purpose of the audit; audit scope; audit certification; methodology and timetable; sources of information; and the audit report. These matters should form part of the contract or agreement with the auditor. Furthermore, internal control weaknesses are required to be communicated to the implementing partners in the form of management letters or draft reports. The audit report should contain comments, recommendations and an opinion on each of the aspects of the audit scope as well as a general opinion on programme management.

89. The UNDP Mozambique country office had a total of 58 projects with total project expenditure as at 31 December 2000 of approximately \$18.1 million. One commercial audit firm audited all the nationally executed expenditure projects. The audit scope for those audits was not in accordance with the Programming Manual. In the case of nationally executed expenditure projects in Zambia, with total project expenditure of approximately \$3,042,737 for the year 2000, audit reports did not refer to the scope of the audit. Furthermore, the Board noted that the Zambia country office had not received management letters detailing findings for comments and discussion.

90. It is also best practice to include the status of implementation of the prior-year audit recommendations in the current audit report. None of the projects audited in our sample had covered the status of prior-year recommendations.

91. Inadequate and inconsistent audit scopes resulted in reports of varying quality. The resulting inadequate coverage and incomparable information did not facilitate the monitoring and evaluation process. UNDP subsequently advised the Board that sample terms of reference had recently been added to the Office of Audit and Performance Review nationally executed expenditure audit web site, which was accessible to all country offices.

**92. The Board recommends that UNDP: (a) ensure that standard terms of reference are agreed upon by the government implementing partners and the country office as well as the nationally executed expenditure auditor and that the scope and format of the audit report is consistent; and (b) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the Programming Manual. UNDP agreed with the recommendations.**

93. The Board noted that for the six nationally executed projects totalling \$4.7 million, the project agreements evaluated did not contain clauses providing that the nationally executed expenditure projects were subject to audit, although the audits were implemented. Including the clause that the projects would be audited or subject to audit would promote the implementing partners' understanding and acceptance of the requirements for the nationally executed expenditure audit process.

**94. The Board recommends that audit clauses be included in project agreements and that their implementation be monitored; UNDP agreed.**

*Plans for nationally executed expenditure audit coverage*

95. Monitoring the submission of plans for audit coverage from country offices was one of the actions that UNDP identified for improving the audit coverage of nationally executed expenditure. The Board noted the significant efforts made by UNDP headquarters in this regard. For the biennium 2000-2001, UNDP headquarters sent instructions to country offices to significantly increase the level of audit coverage. The instructions included requirements that country offices include projects with expenditures of over \$100,000 in their audit plans and submit the plans by November of the period subject to audit. Audit plans were assessed by comparing the list of projects submitted by the country office to the list of project expenditures maintained at headquarters.

96. Furthermore, the status and timeliness of audit plans submitted as detailed on the monitoring database was encouraging, as a significant number of plans were submitted. Based on the database compiled by UNDP headquarters, a total of 1,661 projects for 2000 and 1,645 for 2001 were planned to be audited. In certain instances there were delays in the submission of audit plans by country offices of up to seven months.

**97. The Board recommends that special attention be devoted to country offices that have not submitted plans for audit on time by requesting such offices to commence the planning exercise well in advance of the prescribed deadline, and that UNDP headquarters intensify its follow-up action with respect to country offices that have defaulted in adhering to requirements. UNDP agreed with the recommendations.**

*Country office action plans*

98. The UNDP Programming Manual, in section 6.8.3, paragraph 10, requires nationally executed expenditure audit reports to be followed up. The country office action plan is based on the findings of the audit reports. The action plans are an important tool in the monitoring and evaluation of projects, as matters relating to project activity, delivery and compliance with relevant laws and regulations are reported by nationally executed expenditure auditors. The review is also important

in that it provides a report to UNDP headquarters as to how the country office and implementing partner plan to resolve matters raised by the nationally executed expenditure auditors as well as the progress made in that regard.

99. The Board noted that of the randomly selected projects for 2000, there was no evidence of country office action plans to address the contents of the nationally executed expenditure audit reports for four projects totalling \$52 million. In the case of the Argentina country office, actions were discussed and implemented, although no formal structured plan was developed for each project.

**100. The Board recommends that the reasons for the non-submission of country office action plans be actively followed up and investigated, and UNDP agreed.**

*Audit coverage of nationally executed expenditure*

101. The Board noted the high audit coverage of nationally executed expenditure achieved by UNDP for 2000 (see table II.2). According to the database provided by UNDP, an amount of approximately \$2.6 billion (excluding United Nations agency-implemented projects) was incurred as nationally executed expenditure. UNDP headquarters planned to have approximately \$2.3 billion (89 per cent) of this expenditure subjected to nationally executed expenditure audits. The Board noted that the planned coverage was below the intended 95 per cent that was included in the UNDP action plan. UNDP succeeded in auditing approximately \$1.647 billion (2,616 projects) in nationally executed expenditure during the biennium 2000-2001. The combined audit coverage of 64 per cent achieved for the biennium at the time of the audit is a marked improvement when compared with the actual coverage of 51 per cent achieved in the biennium 1998-1999. At the time of the audit, UNDP had managed to increase its coverage of the biennium 1998-1999 expenditures to a level of 75 per cent.

Table II.2

**Audit coverage of nationally executed expenditure**

(In United States dollars)

	2000	2001	Total
Actual nationally executed expenditure	1.3 billion	1.3 billion	2.6 billion
Planned coverage	1.1 billion (89 per cent)	1.2 billion (92 per cent)	2.3 billion (88 per cent)
Actual coverage	1.058 billion (81 per cent)	0.589 billion (45 per cent)	1.647 billion (64 per cent)

102. The audit plan database, in certain instances, did not include the actual expenditure figures, as the plan was compiled before the end of the fourth quarter of the year under scrutiny. Therefore, projected figures for the fourth quarter were used in the audit planning exercise but were not updated for material differences. Hence, actual figures may differ significantly from planned figures in certain instances, thereby affecting the level of planned coverage. From the sample of year-2000 projects selected, a difference of \$11.5 million was found for five countries totalling planned expenditure of \$17.8 million, according to the database.

**103. In order to ensure suitable audit coverage of nationally executed expenditure audits, the Board recommends that UNDP actively follow up on the final expenditure figures to update the level of planned coverage, and UNDP agreed. Furthermore, planned coverage should be based on criteria established by UNDP.**

104. The Board further noted that the database used to monitor the nationally executed expenditure audits did not specifically indicate which audit reports were qualified and the impact of such qualifications in quantifiable terms. The database did indicate the audit reports that were without "scope restrictions". It was apparent, from the observations made by the Office of Audit and Performance Review, that there could well be a number of qualified nationally executed expenditure audit opinions. The qualified audit opinions affect the ability of UNDP to obtain assurance as to the performance of the funds; that is, that funds have been used properly for the purpose intended. The Board was pleased to note that the Office of Audit and Performance Review did document significant findings concerning the use of the funds for the purposes intended or their misuse.

**105. The Board recommends that the financial effect of the nationally executed expenditure audit qualifications be quantified and that UNDP evaluate such qualifications against the action plans for reasonableness. UNDP agreed with the recommendations.**

*Evaluation of nationally executed expenditure audit reports*

106. Out of a total of 1,661 expected reports for the year 2000, only 383 (23 per cent) had been received by the 30 April 2001 due date, mainly because of the late completion of the audits by the nationally executed expenditure auditors. The Board noted the improvement made by UNDP headquarters in the evaluation and oversight of nationally executed expenditure audit reports, such as posting on the Office of Audit and Performance Review web site the assessment of the Office, the global nationally executed expenditure audit plan and the list of audit reports received. The Office of Audit and Performance Review assessed and scored country offices on four aspects of the audit exercise, namely, the timeliness of the audit reports, the adequacy of plan, the adequacy of the audit scope and adequacy of country office action plans.

107. The assessments were maintained in a database to facilitate comparisons across country offices. Out of the 1,586 nationally executed expenditure audit reports received for 2000, UNDP evaluated some 1,124 (71 per cent). However, for 2001 it was still too early to assess the percentage of audits evaluated, partly because at the time of the Board's audit, only 15 days had passed since the deadline for the submission for audit reports.

108. However, the Board noted delays in the evaluation of the nationally executed expenditure reports for 2000 by UNDP headquarters of up to six months. The objective of the audit is not only to detect problems and non-compliance with regulations, but also to apply preventive measures that must be identified and reported in a timely manner. Therefore, the timely evaluation of nationally executed expenditure audit reports is important to ensure that country offices take prompt and appropriate corrective action in response to audit findings.

109. **The Board recommends that: (a) more guidance and assistance be provided to country offices in the planning and administration of the nationally executed expenditure audits; (b) a condition that the audit must be completed within a specific time frame be included in the contract between the nationally executed expenditure auditor and the implementing partners in order that the country office might meet the 30 April deadline; and (c) a forward-planning exercise be drawn up to ensure that sufficient resources are available to perform evaluations of nationally executed expenditure reports following the prescribed deadline. UNDP agreed with the recommendations.**

110. Nationally executed expenditure auditors are required to sign the combined delivery report prepared by the country office that is submitted to UNDP headquarters for review. In a specific case, the Board noted that the total project expenditure amount as per the certified combined delivery report was nil, while the programme expenditure as per the nationally executed expenditure database and the Project Financial Management System reflected that the correct amount was in fact \$26.8 million. This difference was not initially detected by the Office of Audit and Performance Review in its review. The country office and the applicable auditor were following up the difference.

**111. The Board recommends that UNDP intensify its efforts to reconcile the amount, and UNDP agreed.**

112. The Board reviewed the compensating controls for selected projects that were not subjected to nationally executed expenditure audits as a means of testing the controls aimed at ensuring that funds were incurred for the purposes intended, thus promoting accountability. Approximately 1,972 projects (54 per cent of the total), representing some \$205 million (16 per cent of nationally executed expenditure), were not subject to audit in 2000. For 2001, approximately 2,061 projects (56 per cent of total), representing some \$725 million (56 per cent of nationally executed expenditure), were not subject to audit.

113. The Board selected projects at country offices to evaluate the effectiveness of such procedures such as tripartite reviews and project field visits in compliance with UNDP directives. In general, there were no significant findings of non-compliance, although some deviations were noted and discussed with country office management. UNDP country offices were not required to provide headquarters with information on the projects not subjected to nationally executed expenditure audit. UNDP has started to implement such an approach, but agreed with the Board that the practice should be expanded and formalized.

**114. The Board recommends that country offices provide to UNDP headquarters information on their evaluations of projects not subjected to nationally executed expenditure audit and that headquarters, in turn, utilize such information as a component for risk-based assessments.**

*Risk-based nationally executed expenditure database*

115. UNDP headquarters maintained data relating to various aspects of the nationally executed expenditure audit exercise on separate databases. However, UNDP headquarters did not actively utilize the existing data to provide it with a trend analysis or a history of projects or country offices as a means of assessing

project risk and identifying those projects/country offices that were problematic and that therefore warranted further attention and guidance from headquarters.

116. The Board is of the opinion that combining existing data with further data, such as the results of the audit quantification of qualifications noted in nationally executed expenditure reports and any form of alternative assurances received, into one comprehensive database would provide a useful tool for UNDP headquarters to identify problematic projects and offices. UNDP could then assess what further measures should be adopted to negate any risks identified as a means of obtaining adequate assurance that funds were utilized for the purposes intended. The consolidated information could also be used by the Office of Audit and Performance Review as a tool for enhancing country office assessments. In future, a risk-based model may enable UNDP to establish requirements for nationally executed expenditure audits based on risk rather than quantitative thresholds only.

**117. The Board recommends that a comprehensive database be created to facilitate the implementation of a risk-based assessment model, and UNDP agreed.**

118. UNDP informed the Board that it hoped to have this comprehensive database in place for the 2003 audit exercise. Headquarters will take responsibility for developing the model, while country offices will take responsibility for the application of the model.

#### *Audit costs for nationally executed expenditure audits*

119. In accordance with section 6.8.3, paragraph 5, of the UNDP Programming Manual, the cost of an audit should be borne by the implementing partner. Only in exceptional cases should the cost be provided for against the project, and even then the resident representative should specifically approve it. It is apparent that in most cases UNDP covers the cost of the nationally executed expenditure audits from project funds. The UNDP database indicates a cost of nationally executed expenditure audits amounting to some \$1.5 million for 2000. However, out of a total of 146 nationally executed expenditure audits by private firms, only 76 audits on the database indicated the total estimated cost. The costs for the year 2001 were not available at the time of the audit.

**120. The Board recommends that UNDP: (a) update the policy in line with the UNDP Programming Manual with regard to the funding of audit costs; (b) maintain data relating to audit costs for each project on the consolidated database; and (c) have country offices analyse the audit costs to determine whether the benefit of the audit of the project exceeds the cost and its relation to the project expenditure as well as risk assigned to the project.**

#### *Conclusion*

121. The Board has noted the significant efforts made by UNDP leading to improvements in the coverage of programme expenditure to validate that funds have been utilized for the intended purpose, especially with regard to nationally executed expenditure. However, **the Board remains concerned that the functioning of controls is not at an optimum level to ensure the effectiveness of procedures and to obtain adequate assurance of the proper performance of the funds.** While this limitation does not affect the fair presentation of the financial statements,

UNDP should implement measures, in a cost-effective manner, to address accountability and the proper utilization of funds implemented as nationally executed programme expenditure.

## 2. Shared services

### Headquarters service-level agreements

122. UNDP headquarters provides reimbursable services to the United Nations Population Fund (UNFPA) and the United Nations Office for Project Services (UNOPS) in the following areas: human resources, finance and administration, budgets, information technology, internal audit and external affairs. A signed service-level agreement existed only for internal audit services.

123. The provision of services by UNDP to UNFPA and UNOPS in the biennium 2000-2001 was still based on the existing service arrangements for the biennium 1996-1997. However, because of the changing business environments, organizational changes and shortcomings, there was often controversy regarding the quality and type of services provided or to be provided by UNDP, as well as on the reimbursement to UNDP for the services provided.

124. The Board reviewed the revised draft service-level agreement between UNDP and UNFPA on the provision of financial and administrative services. According to the draft agreement, the Executive Director of UNFPA and the Director of the Office of Finance and Administration of UNDP shall periodically conduct a quality assessment on the services provided by UNDP to UNFPA. This was a considerable improvement on the previous service agreements, as it was much more detailed and provided for periodic quality assessments. The quality and timeliness of inputs provided by UNFPA is important in order for UNDP to provide effective and efficient services to UNFPA.

125. The Board also noted that during the first quarter of 2001, UNDP undertook a study on changing to a method of activity-based costing for reimbursements. This method would have ensured that only those costs attributable to services provided were included and that the sharing of costs was fair and reasonable. The study showed, however, that IMIS did not support the use of the activity-based costing method, as data were not captured on the activity level. UNDP informed the Board that it would ensure that the methods used to calculate reimbursements were fair and reasonable.

**126. The Board is concerned that the service-level agreements had not yet been finalized at the time of the audit, in May 2002.** UNDP informed the Board that the Office of Budget was giving high priority, along with the concerned divisions of UNDP, to completing their negotiations with UNFPA and UNOPS. Once these negotiations are concluded, the agreements will be signed and implemented.

**127. The Board recommends that the service-level agreements for services provided by UNDP to UNFPA and UNOPS be finalized and implemented as a matter of priority.**

128. The Board also noted considerable delay in the reimbursement for services delivered. UNDP was reimbursed only by the end of 2001 for services delivered to UNFPA in the biennium 1998-1999. At the time of the audit, UNDP had been only partially reimbursed for the services delivered to UNFPA in 2000-2001.

**129. The Board recommends that UNDP implement stricter time frames for the reimbursement of services delivered and that the outstanding reimbursements for the biennium 2000-2001 be made as soon as possible.**

**Common premises**

130. UNDP country offices often share office space with other United Nations agencies in the various countries, commonly referred to as United Nations House. **The Board noted, however, that not all UNDP country offices had established formal agreements with the other United Nations agencies for the sharing of common costs, such as electricity, telephone and maintenance. In addition to this, the Board noted that in country offices where formal agreements had been established, those agreements did not always properly address the diversity of the common services and the reimbursement to UNDP for the services delivered. Also, the modality of cost reimbursements differed.** The following are specific examples noted during the country office audits:

(a) *Paraguay.* An agreement existed regarding the sharing of costs based on the proportional share of the common building. However, the Board determined that this agreement did not provide for the recovery of other costs, for example, the costs of the administration of the common premises by the UNDP country office;

(b) *Ethiopia.* A 3 per cent handling fee was charged by UNDP Ethiopia to other agencies for services rendered effective from 2001. The basis of the rate was not clear;

(c) *Malaysia.* The office area occupied was used as a basis for calculating the contribution by the participating United Nations agencies, and the cost was recovered on a quarterly basis. The country office was also responsible for the payment to suppliers for costs related to premises on behalf of the host Government. An administrative levy of 3 per cent was charged for this service;

(d) *Morocco.* The Board noted that a 4.5 per cent recovery fee was charged on financial services rendered to UNFPA and 2 per cent was charged on services rendered to the World Food Programme;

(e) *Uruguay.* UNDP and other United Nations agencies shared common premises and facilities in Uruguay. However, no proper agreement was in place in respect of the sharing of these costs or the mechanism for cost sharing nor for identifying each agency's responsibility at the shared premises;

(f) *Zimbabwe.* The costs of common services were financed by means of a common cost account to which each agency had to contribute to fund the expenditures. The Board furthermore noted that the amount of office space occupied was used as the basis for calculating the contributions by the participating United Nations agencies to the common cost account, except for local area network management where the number of terminals for each agency was used as a basis.

131. The salaries of some of the country offices' staff members responsible for rendering common services to other United Nations agencies were paid from the common service account. However, the cost allocation for those salaries was based on the amount of office space occupied, which did not provide an appropriate distribution of costs, since it was not based on the actual services rendered. Also,



UNDP country offices were not always able to provide evidence to the Board that the rates of recovery fully covered the costs incurred.

**132. The Board recommends that UNDP intensify its efforts to conclude formal agreements with other United Nations agencies as soon as possible. UNDP should also implement cost-recovery strategies to ensure recovery of the full cost of all services rendered. Furthermore, the country offices should consider apportioning the cost of common services based on the activity rendered.**

### **3. Non-expendable equipment**

#### **Inventory control system**

133. UNDP headquarters did not have a suitable inventory control system in accordance with the financial rules. UNDP had a computerized headquarters inventory system since 1995 that was not year-2000-compliant. Consequently, UNDP headquarters operated a manual system for inventory during 2000-2001. During the interim audit, the Board noted control weaknesses in the manual system, such as: (a) the inventory records were not continuously updated with purchases and disposals of non-expendable property items; (b) the physical existence of non-expendable property items, recorded in the inventory system, could not be verified because of inadequate descriptions and identification of items; and (c) the UNDP Intranet help desk was also not continuously updated with purchases of computer items.

134. In following up the interim audit findings on non-expendable equipment, the Board noted that UNDP had engaged the services of a consulting firm to undertake a physical inventory of non-expendable equipment at UNDP headquarters and to upload the data into the Aperture inventory software package.

135. The Aperture software inventory module was installed during December 2001 at no additional cost, as it had previously been utilized for lease commitments and space management. However, the Board noted that the weaknesses previously identified in the manual system had not been completely addressed. Those weaknesses included inventory records that were not continuously updated with purchases and disposals and the inability to verify the physical existence of non-expendable equipment items because of inadequate descriptions and identification of items on the system. The system does provide for the tracking of inventory items, however those controls were not implemented and the physical numbering or tagging of items was not done. Similar weaknesses were also identified during our country office audits in Ethiopia, Nepal, Paraguay, Turkey, the United Republic of Tanzania and Uruguay.

**136. The Board recommends that UNDP intensify its efforts to develop and maintain a suitable inventory control system in compliance with the financial rules and other directives.**

137. UNDP informed the Board that during 2002 it would verify the inventory accuracy on a test basis. Also, inventory records would now be continuously updated with purchases and disposals. The heads of units would be required to sign off on the inventory database in Aperture and to note any discrepancies. Furthermore, the tracking controls in Aperture would be implemented, and country

offices would be requested to take corrective action, including the requirement to certify the physical inventory, and to submit the results for review.

#### **4. Trust funds**

##### **Inactive trust funds**

138. The Board reviewed the trust funds established by UNDP and noted that for 130 of the 281 trust funds disclosed in schedule 5 of the UNDP financial statements, no contributions or expenditure had been reported for two or more years. However, the fund balances of 95 of the 130 trust funds had been either refunded or transferred to other trust funds during the biennium, leaving 35 inactive trust funds in the UNDP records as at 31 December 2001. UNDP is commended for its efforts to follow up and finalize these trust funds. The fund balance as at 31 December 2001 amounted to \$417 million.

139. The Board reviewed the steps taken by UNDP to follow up on the remaining 35 inactive trust funds and found that letters had been issued to the respective fund managers requesting them to review the trust fund statements and to complete the final project revisions. The finance section can close the outstanding activities and remove the inactive trust funds from the system only after receipt of the signed final project revisions from the fund managers. However, the Board found that the fund managers did not always respond to the letters and that they were not regularly followed up, resulting in some of the trust funds being inactive since 1998, for example, the UNDP Trust Fund for demobilization, reintegration, rehabilitation and recovery in Sierra Leone. The Board further noted that UNDP did not have a formal system in place to track the expiry dates of projects or trust funds. This could lead to UNDP not complying with the specific closure requirements included in trust fund agreements.

**140. The Board recommends that UNDP intensify its efforts to finalize all outstanding activities of inactive trust funds and implement a formal system to track and monitor expiry dates and specific closure requirements included in trust fund agreements.**

141. UNDP informed the Board that it would continue to follow up inactive trust funds with the relevant fund managers to ensure that the final project revisions are done and any balances are either refunded or transferred to other projects according to the donor's wishes. In cases where it is unclear what to do with the remaining funds, UNDP will close the trust fund and retain the funds in a payable account, pending a decision by the fund manager on the disposal of the funds after consultations with the donor. UNDP also informed the Board that its project management systems did not currently track expiry dates for either trust funds or cost-sharing agreements, but that the new release of the financial information management system that was being developed was expected to have such functionality. However, it was working on an interim solution to address the issue for at least trust funds.

142. Based on a review of the sub-trust funds and fully funded arrangements of the United Nations Volunteers, it was noted that at least 37 of the 80 sub-trust funds and 20 of the 96 fully funded arrangements listed in schedules 7.1 and 7.3 of the financial statements respectively were inactive as at 31 December 2001. No

contributions or expenditure were reported for these sub-trust funds and fully funded arrangements during the last two or more years.

143. The total remaining fund balances of inactive sub-trust funds and fully funded arrangements as at 31 December 2001 were still \$631,062 and \$144,736 respectively.

**144. The Board recommends that the United Nations Volunteers follow up on all inactive sub-trust funds and fully funded arrangements with a view to finalizing all outstanding activities and to comply with the specific closure requirements included in the donor agreements.**

145. The United Nations Volunteers informed the Board that it would follow up with the donor regarding the financial closure by either refunding balances or transferring them to other funding arrangements with the same donor. It would also follow up with the donors with regard to residual funds to obtain their agreement to either retain the funds for other arrangements or to refund the balance.

#### **Trust funds in deficit**

**146. The Board noted that 16 of the 281 trust funds established by UNDP and disclosed in schedule 5 of the UNDP financial statements were in a deficit position as at 31 December 2001. The total deficit of those trust funds was \$2.7 million.** This is contrary to UNDP financial regulation 5.07 (b), which states that contributions should be paid in advance of the allocation made for the implementation of planned UNDP programme activities.

**147. The Board recommends that UNDP follow up on all trust funds in deficit positions with a view to recovering the overexpenditures. The Board further recommends that UNDP implement a system to monitor such overexpenditures.**

148. UNDP informed the Board that it had been very actively following up all such deficits with a view to eliminating or recovering them and would continue to do so. Where no other options are available, UNDP will seek to recover the amounts in deficit and close the trust fund in accordance with UNDP regulations and rules.

### **5. Human resources management**

149. The total authorized posts at UNDP, as at 31 December 2001, amounted to 4,029 (603 international Professional and 3,426 General Service), of which 599 were unencumbered (26 international Professional and 573 General Service). This represented a vacancy rate of approximately 15 per cent. Payroll expenses for the biennium 2000-2001 amounted to \$95.6 million at headquarters.

150. UNDP informed the Board that the 2002-2003 budget contained a reduction of 706 posts. The vacancies represented a conscious effort towards achieving that target. In January 2002, no vacancies were available.

### **6. Investments: segregation of incompatible functions**

151. As at 31 December 2001, UNDP had the following types of investments: interest-bearing current accounts; call accounts; time deposits; bonds and notes; and money-market funds. The carrying value of investments at that date amounted to \$1.96 billion. The treasury section of UNDP invests and manages its own surplus funds, with oversight from the UNDP Investment Committee.

**152. The Board noted, however, that there was no segregation of duties between the following investment functions: investment management; credit risk monitoring; performance reporting; and investment accounting.**

153. At the time of the audit, the portfolio manager performed all of these functions. The UNDP treasury section informed the Board that procedures that relied on oversight by the Treasurer and the UNDP Investment Committee had been necessitated by a lack of sufficient staffing resources in the treasury section.

**154. The Board recommends that proper segregation of duties between investment functions be implemented, and UNDP agreed.**

## **7. Procurement**

### **Lead time for contract letting**

155. The Board found that for a sample of contracts, UNDP took an average of 30 days between the due date for the receipt of bids and the date of approval of the contract by the Advisory Committee on Procurement. There was an average of 50 days between the date of approval of the contract by the Committee and the date the contract was signed. In its report on the biennium 1998-1999, the Board also raised a concern on the lead time for contract letting.

156. The Board was informed of the initiatives of the Office of Legal and Procurement Support to shorten this process, including the re-engineering of the Advisory Committee on Procurement process and the development of standard contract documents to facilitate the preparation of various types of contracts. The Board will review the impact of these initiatives on lead time during future audits.

**157. The Board reiterates its recommendation that UNDP establish benchmarks for performance for contract letting and monitor performance against those standards, and UNDP agreed.**

### **Monitoring of supplier performance**

158. **UNDP did not formally evaluate supplier performance.** During the interim audit, UNDP informed the Board that a mechanism to appraise supplier performance had been developed in cooperation with the Inter-Agency Procurement Working Group and that it would be provided to all units concerned with contracting. The Board was pleased to note that this mechanism had been included in the revised UNDP Procurement Manual of 1 September 2001. However, the Board noted that such a mechanism was not yet utilized by headquarters at the time of the audit.

**159. The Board recommends that UNDP ensure that the mechanism for evaluating supplier performance included in its Procurement Manual is optimally utilized by all units concerned with contracting.**

### **Corporate/purchase cards**

160. During January 2000, UNDP introduced the use of corporate cards for the purpose of streamlining and simplifying the procurement process for small transactions in dollars. Those credit cards were replaced by purchase cards in September 2000, which provided more flexibility in monitoring their use. By the end of 2001 there were some 65 cardholders at UNDP headquarters and another 3 at

country offices. Annual transactions made with purchase cards totalled some \$1.2 million.

161. With the introduction of the corporate cards, UNDP implemented control limits to prevent the misuse of cards, namely, a monthly limit of \$10,000, a transaction limit of \$1,000 and the blockage of some merchant categories, such as cash and travel.

162. The Board noted, however, that six cardholders had exceeded the standard transaction limit of \$1,000 as specified in the UNDP corporate card manual, but that those cases had been pre-authorized by the card administrator to allow the respective units to meet urgent procurement requirements. The Board was concerned that the use of cards for purchases of high-value items might result in expenditure exceeding allotment lines, as this system eliminates the use of purchase orders, and therefore the funds were not obligated first.

163. The Board further noted that the transaction limit of \$1,000 had been increased to \$2,500 in October 2001. It is expected that this increase in the transaction limit will increase the total annual spending through purchase cards from \$1.2 million to nearly \$2 million.

**164. The Board recommends that UNDP implement proper controls to ensure that the requirements of the corporate card manual in respect of transaction limits are adhered to and that where there is a need for an increased limit, UNDP implement proper controls to ensure that expenditure is within the allotment lines.**

165. In terms of the agreement between UNDP and the relevant bank, payments for expenditure incurred on corporate cards should be made before the due date shown on the billing statement to avoid incurring delinquent and late fees. Since April 2001, the payment function of corporate cards has been decentralized to the various units. However, the Board noted that for six cardholders, UNDP did not make payments on time. This resulted in the suspension of two corporate cards.

**166. The Board recommends that UNDP implement controls to ensure that each cardholder comply with the terms of payment as stipulated in the agreement between UNDP to avoid unnecessary expenditure.**

167. UNDP informed the Board that cardholders who were delinquent would be informed of their delinquent status and of the fees and interest attached to the delinquency. Cardholders would also be reminded that late payment fees and interest owed as a result of late payments and delinquencies would be recovered from their salaries and that their card privileges would be withdrawn. The Comptroller's Division would also monitor the status of payments on a monthly basis and inform cardholders whose payments were still not made within one week of the due date.

## **8. Internal oversight reports**

168. During the biennium ended 31 December 2001, the Office of Audit and Performance Review completed a number of internal audits and investigations, which are summarized in table II.3.

Table II.3  
Internal oversight reports

<i>Internal audit and oversight services provided</i>	<i>Reports issued</i>		<i>Total</i>
	<i>2000</i>	<i>2001</i>	
Management reviews and advisory services	0	3	3
Internal audits/reviews of functions	1	3	4
Internal audits/reviews of projects	2	1	3
Internal audits/reviews of country offices	43	43	86
<b>Subtotal</b>	<b>46</b>	<b>50</b>	<b>96</b>
Control self-assessment sessions	18	16	34
Investigation cases	32	16	48
<b>Total</b>	<b>96</b>	<b>82</b>	<b>178</b>

169. Out of 96 UNDP internal audits and reviews completed during the biennium, only 2 related to UNDP headquarters. These audits related to the UNDP energy account and the contracting of travel services. There was also an audit of headquarters policies with respect to procurement in progress at year's end. Seven audits relating to UNDP headquarters were planned for 2002. However, as in the biennium 1998-1999, **the Office of Audit and Performance Review did not perform any audits evaluating and reporting on the reliability of the accounting and other data developed by UNDP for the production of its financial statements.**

170. **The Board recommends that UNDP revise its programme of work for internal audit to include an appropriate level of coverage of financial procedures and controls at headquarters.**

171. For each country office, the Office of Audit and Performance Review assessed the adequacy of internal controls according to the following ratings: good, satisfactory, marginally deficient, deficient and seriously deficient. Special audit reports do not have ratings. The breakdown by overall rating of the internal audit reports issued for UNDP country offices during the biennium is shown in table II.4.

Table II.4  
Rating of country offices

<i>Year</i>	<i>Good</i>	<i>Satisfactory</i>	<i>Marginally deficient</i>	<i>Deficient</i>	<i>Seriously deficient</i>	<i>Total</i>
2000	0	13	19	3	4	39
2001	1	7	19	9	1	37
<b>Total</b>	<b>1</b>	<b>20</b>	<b>38</b>	<b>12</b>	<b>5</b>	<b>76</b>

172. The Board noted that the adequacy of internal controls was assessed as less than satisfactory at 55 (72 per cent) of the country offices audited. The Office of Audit and Performance Review requires country offices to provide semi-annual

updates on the status of any outstanding recommendations, which are then reviewed and maintained on a central database. Country offices have direct access to this database and can update the status of their audit recommendations online. However, not all country offices complied with this requirement.

**173. The Board recommends that all outstanding recommendations be followed up with country offices, and the Office of Audit and Performance Review agreed.**

174. For the reports issued during 2000, it took the Office of Audit and Performance Review 11 weeks on average to issue the final report after the fieldwork was completed. The Board is concerned that in certain instances it took the Office more than six months to issue the final report. The risk of delayed reporting is that the conditions prevailing during the audit might have changed significantly, and therefore the efforts and results obtained by way of the audit are negated.

**175. The Board recommends that stricter time frames be established and enforced to improve and strengthen the processes of reporting and follow-up.**

176. The Office of Audit and Performance Review informed the Board that as from 2002 it would strictly enforce its internal policy of issuing draft audit reports to management for comment within four weeks of the completion of audit work. The Office also informed the Board that all efforts would be made to ensure that management comments are received on a timely basis so that the final audit reports will not be delayed.

## **9. Green office policy**

177. The Board examined green office issues as part of its report on the biennium 1998-1999 and followed up on those issues at UNDP headquarters during the audit for the biennium 2000-2001. The Board noted that, as at May 2002, UNDP did not have an environmental management strategy. UNDP informed the Board that since the environmental operations and policy adviser had been appointed, the momentum and level of accomplishment of its work on the environmental management strategy would increase. UNDP intends to submit an environmental management strategy to the Executive Board for approval in 2002.

178. UNDP launched its green office initiative in June 1995. The Board reviewed the progress made by UNDP in three of the major areas addressed by the initiative, namely, green procurement, energy efficiency and building management and recycling.

**179. The Board is pleased to note that UNDP had developed a green procurement policy that had been included in the revised UNDP Procurement Manual issued in September 2001. According to this policy, UNDP will seek to procure goods and services that lessen the burden on the environment in their production, use and final disposition, whenever possible and economical.**

180. UNDP signed a contract for the retrofitting of the FF building on 4 September 2001. This comprehensive energy-efficient retrofit addresses the upgrade of air conditioning and lighting equipment with control systems as well as managerial and maintenance issues. UNDP expects to save some \$900,000 in operating and energy consumption costs over the period of the contract. UNDP further informed the

Board that it had already advised the United Nations of the initiative and would report on the results for possible replication in the DC-1 building. UNDP has well-established recycling efforts in place. This includes the recycling of paper, cans, glass, old computers and printer and fax cartridges.

## **10. Information and communications technology**

### **Information systems change**

181. UNDP, UNFPA and UNOPS have utilized the Integrated Management Information System since 1998. IMIS, in conjunction with 22 other interfaces, makes up the financial system. UNDP provides the necessary information and communication technology services to UNFPA and UNOPS with regard to the IMIS system. IMIS was customized at an actual cost of \$20.2 million in the biennium 1998-1999. In May 2002, UNDP decided to replace the current IMIS system with PeopleSoft after the Executive Board approved a budget of \$47 million for information costs relating to legacy, infrastructure, the implementation of an enterprise resource planning system and business process re-engineering for the biennium 2002-2003.

182. The main reason for replacing IMIS was that it no longer met business requirements, such as access for country offices, cash management and the cumbersome user interface. The assessment showed that less than 40 per cent of the required business functionalities were met by IMIS.

183. UNDP went through a competitive bidding process before deciding on PeopleSoft. This process included an evaluation of IMIS and its functionalities by independent consultants. Through this process, UNDP was able to specify the need for a new system. PeopleSoft was selected after comparing cost, business needs, systems research and technical analysis, as well as benchmarking and best practices studies. PeopleSoft is an enterprise resource planning system. It was chosen above the SAP, Oracle, Great Plains and Agresso enterprise resource planning systems. UNDP decided on an enterprise resource planning system through a cost-analysis and cost-saving scenario pertaining to maintaining IMIS, replacing it with an off-the-shelf product or developing a new system internally.

184. Key functionalities are expected to be implemented and put into production by 1 January 2004. The cost of implementation will be approximately \$45 million over five years, with an anticipated saving of \$33 million over the other options considered, as noted in the consultant's report.

185. The UNDP Executive Board approved the proposal to implement the enterprise resource planning system. UNDP informed the Board that the need for such a system had been demonstrated to the High-level Committee on Management. In addition, both UNOPS and UNFPA were involved in the enterprise resource planning strategy process. UNDP distributed its enterprise resource planning strategy to every agency in the United Nations system. The Board is aware that the progress on the enterprise resource planning approach is being followed by other United Nations agencies, including the Office of the United Nations High Commissioner for Refugees, the United Nations Children's Fund, the United Nations International Drug Control Programme, the Food and Agriculture Organization of the United Nations, the International Civil Aviation Organization, the International Labour Organization, the United Nations Educational, Scientific



and Cultural Organization, the World Health Organization and the World Food Programme. A number of these agencies are known to be considering or developing their own enterprise resource planning solutions.

**186. The Board expresses concern about this concurrence of a number of very costly information and communication technology systems within the United Nations system at the expense of the same stakeholders, covering the same geographical areas, under similar rules and regulations and working towards similar global ends.**

#### **Computer audit of the general controls surrounding the Integrated Management Information System**

187. General controls establish a framework of overall control over the information technology environment and provide reasonable assurance that the information technology environment supports the overall objectives of internal control. They are important, as they serve as the foundation for controls of all application systems and ensure the effective operation of procedures, including controls over the design, implementation, security, use and amendment of programmes and files. The findings of these reviews highlighted that, although some general controls were in place, several weaknesses existed in the control environment as a whole. The most significant control weaknesses at UNDP were:

- (a) Security management was not governed by means of a formal, documented and approved security policy;
- (b) UNDP did not have formally documented and approved programme change control procedures. Change control meetings, involving all users, were not held on a regular basis;
- (c) The existing system development life-cycle methodology was not complete nor was it updated regularly to reflect the changes that took place in the UNDP environment. A formal project acceptance forum had not been established for the selection or launching of projects. Regular scheduled meetings were also not held with all relevant parties to discuss the progress of projects launched;
- (d) An off-site back-up location had not been established, and all the back-up tapes were kept onsite, which could be attributed to the lack of a formally documented, approved and updated disaster recovery plan and back-up and restoration procedures;
- (e) Although network-monitoring packages were used to monitor network performance and faults, reports were not formally submitted to management for review and input;
- (g) Activity logs and access violation logs were not generated for the (Unix) servers at UNDP to be reviewed by management. Formal procedures for the review of activity logs and access violation logs also did not exist;
- (h) Various weaknesses were identified with regard to the logical access controls on the Unix servers and UNDP;
- (i) The IMIS database administrators at UNDP did not have unique database administrator identifications;

(j) Formally approved and updated service-level agreements, stipulating services and responsibilities, had not been concluded between UNDP and the United Nations; UNDP and UNFPA; or between UNDP and UNOPS.

**188. The Board recommends that UNDP:**

(a) **Establish, formally approve, implement and update on a regular basis a security policy;**

(b) **Compile formally documented programme change control procedures;**

(c) **Complete and update its system development life-cycle;**

(d) **Establish and regularly test an off-site back-up location;**

(e) **Formally review network, intruder detection and activity violation reports;**

(f) **Ensure that each Unix administration uses its own user identification;**

(g) **Approve service-level agreements with UNFPA and UNOPS.**

**11. Cases of fraud and presumptive fraud**

189. During the biennium 2000-2001, UNDP reported 27 cases of fraud or presumptive fraud. UNDP had not yet determined the financial loss in 3 of the alleged cases, but estimated a total loss of \$190,602 on the other 24. Those cases related, among other things, to poor management of inventory, irregular disbursements, rental subsidy fraud, misuse of telephone services, theft of cash, falsified medical claims, misappropriation of funds and other financial irregularities. UNDP recovered only \$11,785.

190. During 2001, the Office of Audit and Performance Review worked on 55 investigation cases. The cases related, among other things, to rental subsidy fraud; payment of personal expenses; unauthorized renovation of facilities; fraud in the medical insurance programme; other types of fraud, theft, financial mismanagement or irregularities; procurement or contracting irregularities; and attempted bribery, extortion and conflict of interest.

191. UNDP includes elements of fraud prevention in different rules and procedures. However, fraud prevention cannot be achieved with regulations and internal controls alone, but rather with a proactive strategy and resulting structured plan. UNDP had not implemented a well-structured plan that could also have the benefit of increasing donor confidence in UNDP. In developing a fraud-prevention plan, UNDP should consider:

(a) Establishing a corruption and fraud-prevention committee to serve as an effective framework and coordination point;

(b) Conducting a formal corruption and fraud risk assessment;

(c) Conducting ethics, corruption and fraud-awareness training sessions and workshops;

(d) Strengthening existing and developing additional detection mechanisms;

(e) Developing appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud.

**192. The Board recommends that UNDP develop its own fraud-prevention plan, including fraud-awareness initiatives, in discussion with the Administration of the United Nations and the other funds and programmes to obtain the benefit of best practices, where available, in specific or all elements being considered.**

193. UNDP informed the Board that it would explore the best and most appropriate mechanisms for the formulation and oversight of such a strategy in the context of a review and revision of its internal justice system.

#### **D. Acknowledgements**

194. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Administrator and staff of the United Nations Development Programme.

(Signed) Shauket A. **Fakie**  
Auditor-General of the Republic of South Africa

(Signed) Guillermo N. **Carague**  
Chairman, Philippine Commission on Audit

(Signed) François **Logerot**  
First President of the Court of Accounts of France

27 June 2002

## Annex

### Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999<sup>a</sup>

1. The Board has followed up on the action taken by the United Nations Development Programme (UNDP) to implement the Board's recommendations made in the context of its report for the biennium ended 31 December 1999. Table A.1 summarizes the status of implementation of all the previous recommendations, while table A.2 details specifically those recommendations not implemented and those that are under implementation that require further comment.

2. In its previous report, out of 46 recommendations made by the Board, 31 were implemented, 11 were under implementation and 4 were not implemented.

Table A.1

#### Summary of status of implementation of recommendations for the biennium 1998-1999

<i>Topic</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Total</i>
<b>A. Financial issues</b>				
Programme expenditure	-	para. 10 (a)	-	1
Bank reconciliations	para. 37	-	-	1
Non-expendable equipment	-	-	para. 41	1
Advances	-	para. 42	-	1
<b>Subtotal</b>				
<b>Number</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>4</b>
<b>Percentage</b>	<b>25</b>	<b>50</b>	<b>25</b>	<b>100</b>
<b>B. Management issues</b>				
Change management	para. 64 para. 55 para. 59 para. 61 para. 67 para. 70 para. 72	para. 10 (g) para. 79	-	9
Procurement	para. 88 para. 102 para. 106	para. 10 (j) para. 97	para. 10 (i)	6

<sup>a</sup> Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5A (A/55/5/Add.1), chap. II.

<i>Topic</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Total</i>
Green office policy	para. 117 para. 118 para. 125 para. 131 para. 10 (l) para. 10 (m)	para. 10 (k)	-	7
Project management	para. 143 para. 145 para. 149	para. 10 (q) para. 10 (r) para. 10 (n)	-	6
Internal oversight	para. 10 (u) para. 162 para. 171 para. 174 para. 178 para. 181 para. 184 para. 191 para. 194 para. 199 para. 203	para. 10 (s)	para. 177 para. 186	14
<b>Subtotal</b>				
<b>Number</b>	<b>30</b>	<b>9</b>	<b>3</b>	<b>42</b>
<b>Percentage</b>	<b>71</b>	<b>21</b>	<b>7</b>	<b>100</b>
<b>Total</b>				
<b>Number</b>	<b>31</b>	<b>11</b>	<b>4</b>	<b>46</b>
<b>Percentage</b>	<b>67</b>	<b>24</b>	<b>97</b>	<b>100</b>

Table A.2

**Details on previous recommendations under implementation or not implemented for the biennium 1998-1999**

<i>Management</i>			<i>Comments of the Board</i>
<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action/comments as at 30 April 2002</i>	
Programme expenditure: Government and NGO, para. 10 (a)	UNDP should ensure regular follow-up on all outstanding audit reports and concentrate its efforts on those countries where it has the greatest levels of national execution.	UNDP closely monitors the status of the national execution and non-governmental organization audit reports. Frequent reminders are sent to country offices that fail to submit the audit reports on time. The Office of Audit and Performance Review also prepares evaluation letters that summarize the country office performance with respect to the management of the national execution and non-governmental organization audit exercise. The performance criteria include: timeliness of audit reports; expenditure reports signed by the executing agency and the auditor; adequacy of the audit plan; adequacy of audit scope; and adequacy of the country office action plan to address the audit findings and recommendations. Each country office is assigned a score, which is reported to senior management.	Under implementation. The Board's comments are contained in the present report (paras. 101-105).
Common services, para. 10 (g)	UNDP should require all country offices to investigate the possibilities of agreeing common service contracts with other United Nations organizations as a method of offering potential cash savings and administrative efficiencies.	UNDP is actively working with other United Nations organizations, especially those that are part of the United Nations Development Group, in implementing the Administrative Committee on Coordination Guidelines on Common Services at the country level. A workshop was organized at the International Labour Organization Training College in Turin in November 2001, and eight selected countries were invited to participate in the workshop, which assisted in strengthening common service initiatives within the United Nations system. It is UNDP policy to enter into common service contracts with other United Nations organizations where it is practical and cost-efficient to do so.	Under implementation. The Board's comments are contained in the present report (paras. 130-132).

<i>Management</i>			<i>Comments of the Board</i>
<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action/comments as at 30 April 2002</i>	
Procurement, para. 10 (i)	UNDP should establish a database of potential suppliers.	The recommendation is noted. Procurement at headquarters is done on a somewhat limited scale and covers a narrow range of goods and services, essentially computer equipment, office supplies, furniture and equipment and printing and building maintenance services. As such, an informal roster of potential suppliers is maintained. The divisions at headquarters undertaking procurement make use, where possible, of the United Nations supplier roster maintained by the Procurement Division of the United Nations. In addition, for a number of common items, UNDP is able to use the long-term agreements entered into by the United Nations and UFNPA. UNDP also has access to the United Nations common supply database maintained by UNDP/IAPSO on behalf of the United Nations system. It may not, therefore, be cost-effective for UNDP to establish and maintain its own separate formal database. The Chief, Administrative Services Division, Office of Finance and Administration, of the Bureau of Management, is responsible for implementation of this recommendation.	Not implemented. The Board notes the conclusion by UNDP that it may not be cost-effective to establish its own separate database, given the extent to which it uses the database of the United Nations system. The Board would recommend UNDP perform a cost-benefit analysis. The Board will continue to keep this matter under review.
Procurement, para. 10 (j)	UNDP should develop a more formal system for monitoring supplier performance.	A supplier performance evaluation has been incorporated into the recently issued UNDP Procurement Manual.	Under implementation. The Board's comments are contained in the present report (paras. 158-159).
Green procurement policy, para. 10 (k)	UNDP should undertake a cost-benefit analysis to assess the savings likely to accrue from the development of a green procurement policy.	UNDP has completed an informal study for the common-user items such as computers, vehicles, office supplies and equipment to identify the impact of incorporating environmental specifications on the cost. The findings are that the cost differences are negligible, and hence the environmental requirements have been incorporated as a standard in the specifications.	Under implementation. The Board's comments are contained in the present report (paras. 177-180).

<i>Management</i>			<i>Comments of the Board</i>
<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action/comments as at 30 April 2002</i>	
Change management, para. 10 (n)	At country offices UNDP should ensure that executing agencies provide quarterly reports on the progress of projects and take prompt corrective action when projects fall behind schedule.	The recommendation is noted. In the past, UNDP programming procedures required quarterly reporting by executing agencies (then primarily specialized agencies of the United Nations system), but this requirement became burdensome and was reduced to annual reporting in the context of annual tripartite reviews of projects. As the extent to which agency execution is utilized as a modality for managing UNDP-supported projects has become limited, it may not be efficient to change current practices. At present, a majority of UNDP-supported projects are under national execution. A requirement for quarterly reporting under this modality already exists since national executing agencies are required to report on the progress of projects in connection with requests for payment of quarterly advances of resources.	The Board has not made any significant findings in this regard and will continue to monitor this issue in the context of improvements made in the area of project management.
Project management, para. 10 (q)	Project plans should be prepared only on the basis of committed funding.	UNDP policy continues to be that project documents reflect only such funds as are available within ceilings for commitments for the current planning period. UNDP has a system in place for immediately alerting senior management when an office exceeds its approval authority. An aggregated listing is compiled monthly. The oversight group will monitor this through random reviews of projects. These random reviews include checking project budget approvals against uncommitted resources available to the approving office at the time of signature of the project document.	Under implementation. The Board will continue to keep this matter under review during country office audits.



<i>Management</i>			<i>Comments of the Board</i>
<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action/comments as at 30 April 2002</i>	
Project management, para. 10 (r)	UNDP should ensure that all projects contain quantified and measurable performance indicators or targets and measure the progress of a project against those criteria, and ensure that country offices carry out regular monitoring and evaluation in line with UNDP guidelines.	The UNDP Programming Manual already incorporates guidance to country offices on elements of the recommendation. However, following the introduction and institutionalization of results-based approaches in the organization, a process is under way to develop revised UNDP programming instruments that will include measurable results targets and indicators and seek to achieve consistency in this respect for all programme documentation, from the country cooperation framework to individual project documents. It was expected that the revised instruments would be ready for launch by the end of 2001. This would put UNDP in a leadership position in results-based management techniques.	Under implementation. The Board will continue to keep this matter under review during country office audits.
Internal oversight, para. 10 (s)	UNDP should require the Office of Audit and Performance Review to ensure that each member of the staff receives sufficient training to ensure that the organization retains its technical competency.	Annual training and development plans were developed as part of the annual performance assessment exercise. Long-term plans will be developed after the internal audit task force has completed its work. This task force, established by the Administrator, is reviewing the scope and approach of internal audits; this will have a direct impact on the training and development needs of internal audit staff. The long-term plans will address the overall needs of the Office, as well as individual needs.	Under implementation. Although not all staff received audit-related training, there was an improvement during the biennium 2000-2001. The Board intends to undertake a detailed audit of internal oversight during the biennium 2002-2003.
Non-expendable equipment, para. 41	UNDP should require resident representatives to certify the accuracy of the annual country office inventory returns and monitor returns to ensure that all are received; review the headquarters inventory and ensure that it provides realistic valuations for all equipment; and intensify its effort to develop a suitable inventory control system.	UNDP has implemented this recommendation, and certified annual inventory returns from country offices have improved considerably. With regard to the inventory control software, the remaining bugs in the current inventory system have been fixed; however, UNDP has concluded that it will be more efficient to introduce a new system for inventory control in the light of advances in information technology. UNDP intended to introduce such a system by the beginning of 2002.	Not implemented. The Board's comments are contained in the present report (paras. 30-36).

<i>Management</i>			<i>Comments of the Board</i>
<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action/comments as at 30 April 2002</i>	
Advances, para. 42	UNDP should complete the review of advances to Governments and write off all necessary amounts.	UNDP has continued the review of all pending receivables, including the outstanding advances to Governments, and will proceed with the write-off in 2002.	Under implementation. The Board's comments are contained in the present report (paras. 81-83).
Change management, para. 79	All country offices should complete job descriptions and competency statements for all posts and should use them to develop appropriate training plans for staff.	The Office of Human Resources Learning Resources Centre supports the development of appropriate training plans to accompany both new job descriptions and the alignment of competency statements for all posts, however the expertise available from the Centre is limited. The scope of creating new job descriptions and competency statements for the posts in all the UNDP country offices is extremely wide. In the context of the current reduction exercise at UNDP and the forthcoming restructuring expected of country offices, UNDP will need to determine the appropriate support for this important exercise and the level of additional resources required. It is too soon to know exactly the scope of this exercise, but it will be an early priority to be developed in connection with the eventual plans for country office restructuring.	Under implementation. The Board noted that UNDP had during 2000-2001 conducted a detailed results competency assessment process and that job descriptions could be finalized only on completion of such a process. The Board will continue to keep this matter under review.
Procurement, para. 97	UNDP should benchmark its performance in the time taken to let contracts, establish timetables for each element of the procurement process and monitor performance against them.	The recommendation is accepted. UNDP will establish appropriate benchmarks for contract letting.	Under implementation. The Board still noted some minor instances of long delays in the contract-letting process. The Board will continue to keep this matter under review.

<i>Management</i>			<i>Comments of the Board</i>
<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action/comments as at 30 April 2002</i>	
Internal oversight, para. 177	The Office of Audit and Performance Review should conduct formal, independent reviews to determine how effectively management is implementing the control self-assessment action plans.	Offices having undertaken control self-assessments are now required to submit action plans to the Office of Audit and Performance Review; a request for update is sent six months following the control self-assessment session. The tracking system began in April 2001. An independent review was planned, but was not carried out owing to other priorities relating to country offices. Such a review may be undertaken in future.	Not implemented. The Board plans to undertake an audit of internal oversight during the biennium 2002-2003.
Internal oversight, para. 186	The Office of Audit and Performance Review should develop a system to properly identify the full cost of each output.	The Office of Audit and Performance Review is participating in an activity-based costing pilot project, initiated by the Bureau of Management. Baseline data have been captured, and the pilot project was expected to be fully functional in 2002. The model would be reviewed and compared to a simpler alternative with time-sheet-based options.	Not implemented. The pilot project has been cancelled, and simpler alternatives are being sought. The Board plans to undertake an audit of internal oversight during the biennium 2002-2003.

## Chapter III

### Audit opinion

We have audited the accompanying financial statements, comprising statements I to IV, schedules 1 to 8, and the supporting notes of the United Nations Development Programme for the biennium ended 31 December 2001. The financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all significant respects, the financial position as at 31 December 2001 and the results of operations and cash flows for the period then ended in accordance with the policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial year.

Without qualifying our opinion above, we draw attention to our findings on nationally executed programme expenditure. Although we noted significant improvements, we were concerned about the effectiveness of internal controls and procedures as well as the adequacy of the assurance obtained by UNDP that funds had been properly used for the purpose intended. Furthermore, we draw attention to note 3 (d) to the financial statements, for which we have been unable to obtain assurance as to the reasonableness of the value of non-expendable equipment disclosed in the amount of \$94.5 million.

Further, in our opinion, the transactions of the Programme which we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and Rules and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the Programme's financial statement.

(Signed) Shauket A. **Fakie**  
Auditor-General of the Republic of South Africa

(Signed) Guillermo N. **Carague**  
Chairman, Philippine Commission on Audit

(Signed) François **Logerot**  
First President of the Court of Accounts of France

27 June 2002

## **Chapter IV**

### **Financial statements for the biennium ended 31 December 2001**

**Abbreviations used in the financial statements**

AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AIJ	activities implemented jointly
AMDA	Association of Medical Doctors of Asia
AOS	administrative and operational services
AsDB	Asian Development Bank
BCPR	Bureau for Crisis Prevention and Recovery
BDD	British Development Division
BDP	Bureau for Development Policy
BOM	Bureau of Management
BRSP	Bureau for Resources and Strategic Partnerships
CBO	community-based organization
CCD	United Nations Convention to Combat Desertification
CFC	chlorofluorocarbons
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
DANIDA	Danish International Development Agency
DDS	domestic development services
DESA	Department of Economic and Social Affairs
DEVNET	Development Network
DFID	Department for International Development
DRPC	Division for Resources Planning and Coordination
ECA	Economic Commission for Africa
ECE	Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Commission
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
CCCC	government cash counterpart contribution
GEF	Global Environment Facility
GLOC	government local office costs
GLOG	Guyana Long-term Observation Group
HCFC	hydrochlorofluorocarbons
HDRO	Human Development Report Office
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
IAPSO	Inter-Agency Procurement Services Office
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICT	information and communication technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IDLI	International Development Law Institute
IITA	International Institute of Tropical Agriculture
IMF	International Monetary Fund
IMO	International Maritime Organization

---

IOM	International Organization for Migration
IPF	indicative planning figure
IRRI	International Rice Research Institute
ITC	International Trade Centre UNCTAD/WTO
ITU	International Telecommunication Union
JAIDO	Japan International Development Organization
JOCV	Japan Overseas Cooperation Volunteers
LDC	least developed country
MOFA	Ministry of Foreign Affairs
MOU	memorandum of understanding
MS	Danish Association for International Cooperation
MSA	management service agreement
NEX	nationally executed expenditure
NGO	non-governmental organization
NORAD	Norwegian Agency for International Development
OA	Office of the Administrator
OCHA	Office for the Coordination of Humanitarian Affairs
ODS	ozone-depleting substances
OHADA	Organization for the Harmonization of Business Law in Africa
OSG	Operations Support Group
PAPP	Programme of Assistance to the Palestinian People
PFMS	Project Financial Management System
PPB	Pilot Programme Brazil
RFA	reserve for field accommodation
ROAR	results-oriented annual report
SADCC	Southern African Development Coordination Conference
SICA	Spanish International Cooperation Agency
SIDA	Swedish International Development Cooperation
SIS	special industrial services
SNV	Netherlands Development Organization
SPR	special programme resources
SRF	strategic results framework
SU/TCDC	Special Unit for Technical Cooperation Among Developing Countries
SUNV	SNV/UNV
SVA	Shanti Volunteer Association
TCA	trichloroethane
TCDC	technical cooperation among developing countries
TRAC	target for resource assignment from core
UNA	United Nations Association
UNCDF	United Nations Capital Development Fund
UNCHS	United Nations Centre for Human Settlements (Habitat)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNF	United Nations Foundation
UNFIP	United Nations Fund for International Partnerships
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization

UNIFEM	United Nations Development Fund for Women
UNISTAR	United Nations International Short-term Advisory Resources
UNITAR	United Nations Institute for Training and Research
UNOPS	United Nations Office for Project Services
UNSO	Office to Combat Desertification and Drought
UNTAC	United Nations Transitional Authority in Cambodia
UNV	United Nations Volunteers
UPU	Universal Postal Union
USAID	United States Agency for International Development
USO	Voluntary Service Overseas
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization





## **Notes to the financial statements**

### **Note 1**

#### **Mission statement**

The United Nations Development Programme (UNDP) is part of the United Nations and upholds the vision of the Charter of the United Nations. It is committed to the principle that development is inseparable from the quest for peace and human security and that the United Nations must be a strong force for development as well as peace.

The mission of UNDP is to help countries in their efforts to achieve sustainable human development by assisting them to build their capacity to design and carry out development programmes in poverty eradication, employment creation and sustainable livelihoods, the empowerment of women and the protection and regeneration of the environment, giving first priority to poverty eradication.

UNDP also acts to help the United Nations family to become a unified and powerful force for sustainable human development and works to strengthen international cooperation for sustainable human development.

UNDP, at the request of Governments and in support of its areas of focus, assists in building capacity for good governance, popular participation, private and public sector development and growth with equity, stressing that national plans and priorities constitute the only viable frame of reference for the national programming of operational activities for development within the United Nations system.

UNDP resident representatives normally serve as resident coordinators of the operational activities of the United Nations system, supporting, at the request of Governments, the coordination of development and humanitarian assistance. Resident coordinators also help to orchestrate the full intellectual and technical resources of the United Nations system in support of national development.

UNDP strives to be an effective development partner for the United Nations relief agencies, working to sustain livelihoods while they seek to sustain lives. It acts to help countries to prepare for, avoid and manage complex emergencies and disasters.

UNDP draws on expertise from around the world, including from developing countries, United Nations specialized agencies, civil society organizations and research institutes.

UNDP supports South-South cooperation by actively promoting the exchange of experiences among developing countries.

UNDP supports, within its areas of focus, technology transfer and adaptation and access to the most effective technology.

UNDP receives voluntary contributions from nearly every country in the world. UNDP seeks to ensure a predictable flow of resources to support its programmes. It provides grant funds through criteria based on universality that strongly favours low-income countries, particularly the least developed.

UNDP is politically neutral and its cooperation is impartial. It seeks to conduct its work in a transparent manner and is accountable to all its stakeholders.

UNDP is committed to a process of continuing self-evaluation and reform. It aims to improve its own efficiency and effectiveness to assist the United Nations system in becoming a stronger force for the benefit of the people and countries of the world.

UNDP will continue to support an international development cooperation framework that responds to changing global, regional and national circumstances.

## **Note 2**

### **Summary of significant accounting policies**

The financial period of the organization is the biennium. The present biennium covers the period from 1 January 2000 to 31 December 2001. The financial statements reflect the application of the significant accounting policies set out below.

### **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;

(b) The United Nations system accounting standards, as adopted by the Administrative Committee on Coordination, which 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 Organization's activities. The standards are based on the following principles and assumptions:

(i) Growing 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 that 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.

## 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.

## Expenditure

All expenditure of UNDP is accounted for on an accrual basis, except for that relating to staff entitlements (costs related to the early separation programme and after-service health insurance are, however, recorded on an accrual basis) and project components implemented by Governments and non-governmental organizations (NGOs) and through direct execution, which are accounted for on the basis of cash disbursements only. Project expenditure includes unliquidated obligations raised by the executing or implementing agents (other than Governments and NGOs). 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 occurring (for example, hospitality), goods or services delivered or firm orders placed for delivery in the current biennium.

Certain flexibility provisions may be applied to expenditure by an executing agent. In any given year, expenditure may exceed an approved project budget for that year by 4 per cent, provided that the executing agent does not incur overall expenditure for that year in excess of 2 per cent of total allocations made to it.

## Agency programme support costs and technical support services

Agency programme support costs denote the percentage of total project costs authorized by the Executive Board for payment to executing and cooperating agents and implementing agents to reimburse them for costs incurred in the administration (technical and otherwise) of UNDP-financed projects. These support costs are based on total annual programme expenditure. Sectoral support costs are also paid to certain agents for the provision of sectoral advice to Governments and UNDP. The

level of sectoral support and the use of its resources for a given cycle are determined by the Executive Board. The Executive Board, by its decisions 95/23 and 96/31, approved new successor programming arrangements and new directives on agency support costs. The major features of the new arrangements are the following:

- (a) To provide incentives for national execution and ensure that agency technical support services are available to Governments, particularly for nationally executed programmes and projects;
- (b) To improve the upstream technical focus of agents and reduce their administrative and operational involvement in programmed project implementation;
- (c) To assign resources that will permit programme countries to exercise increased choice in programme and project implementation;
- (d) To replace the cluster rate system by a flat rate not to exceed 10 per cent of the administration and operational services reimbursement.

Details of the support costs under the existing arrangements are provided in schedule 2.1.

Reimbursement for administration and operational services also applies to projects financed by UNDP-administered funds and trust funds. UNDP support costs denote the amounts paid to UNDP as reimbursement for costs incurred for the administration of those funds and trust funds.

### **Biennial support budget**

The biennial support budget comprises three components:

- (a) Programme support: expenditure incurred by organizational units (country offices and headquarters) whose primary function is the development, formulation, delivery and evaluation of the programmes of the organization. This will typically include units that provide backstopping of programmes either on a technical, theoretical, geographical, logistical or administrative basis;
- (b) Management and administration: expenditure incurred by organizational units whose primary function is the maintenance of the identity, discretion and well-being of the organization. This will typically include units that carry out the functions of executive direction, organizational policy and evaluation, external relations, information and administration;
- (c) Support to operational activities of the United Nations: this comprises four elements that are basically applicable to the regular resources activities, namely, country office support, the United Nations Development Group, the United Nations Volunteers programme and the Inter-Agency Procurement Services Office (IAPSO).

Expenditure under the biennial support budget is recorded in accordance with the principles set out under "Expenditure" above.

### **Exchange rates**

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.

Exchange adjustments arising from the receipt of contributions from Governments are recorded as increases or reductions to the contributions. All other exchange adjustments are recorded as other income/expenditure.

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.

### **Capital expenditure**

The costs of purchased or constructed premises as well as major rehabilitation costs are reflected as capital assets. These assets relate mainly to the housing and office premises under the activity of the reserve for field accommodation and the office premises purchased for the UNDP/Argentina country office (see notes 12 and 13 below).

The full cost of non-expendable equipment is charged to UNDP regular resources through its biennial support budget or to the appropriate project in the biennium in which it is purchased. An inventory is maintained for all non-expendable equipment (defined as items of equipment valued at \$500 or more per unit with a serviceable life of at least five years and items of equipment included in any special list for which formal inventory records are maintained). An inventory of items purchased for nationally executed projects is maintained but because such items generally revert to the project in the recipient country on completion of the project, the value of such items is not included. Inventory is valued at actual cost whenever possible. When the actual cost is not available, standard cost is used.

### **Operational reserve**

At its annual session in 1999, the Executive Board approved a change in the basis for calculation of the UNDP operational reserve for regular reserves, which is now the sum of the following components:

- (a) Income: the equivalent of 10 per cent of the average of the annual voluntary contributions received over the most recent three years, rounded to the nearest \$1 million;
- (b) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the most recent three years, rounded to the nearest \$1 million;
- (c) Liability and structural: the equivalent of 10 per cent of the sum of the income and expenditure components, rounded to the nearest \$1 million;
- (d) Cash-flow: the equivalent of the cash needs for one month, calculated as one twelfth of the total expenditure of the most recent year, rounded to the nearest \$1 million.

In addition, the Executive Board approved the establishment of an operational reserve with the UNDP extrabudgetary account for other resource activities. The calculation to arrive at the level of reserve follows the same basis as that of the regular reserve.

## Presentation

By its decision 97/6, the Executive Board approved the harmonization of the budget presentation format submitted by UNDP, the United Nations Children's Fund and the United Nations Population Fund. Therefore, the financial reports are presented in a way that is consistent with this decision.

The main features of this harmonization involve activities that are:

- (a) Regular resources activities: activities financed from voluntary contributions, donations from non-governmental sources and related interest earnings and miscellaneous income;
- (b) Other resources activities: activities financed from resources other than regular resources that are received for a specific programme purpose (cost-sharing, government cash counterpart contributions, trust funds established by the Administrator and activities from management service agreements;
- (c) For accounting presentation purposes, the reimbursable support services and other special activities, namely, Junior Professional Officers and reserve for field accommodation, among others, are included in the other resources activities;
- (d) Funds administered by UNDP: activities of the Funds established by the General Assembly and administered by UNDP.

The nature of some expenditure was redefined as explained above.

Other reclassifications and changes in presentation were made to better reflect the nature of the operations and/or to better comply with the accounting standards. These changes affected mainly the following:

- (a) Cost-sharing activities: interest earned and support costs charged by the regular resources activities to cost-sharing activities are reflected through the statement of income and expenditure. In the past, these transactions were reflected directly as transfers to UNDP extrabudgetary income;
- (b) Reimbursable support services for funds and trust funds: formerly termed "extrabudgetary activities", the reimbursable support services are now presented as part of the funds' and trust funds' income statement with the ending balance reflected in the unexpended resources balance section. In prior years, the net balance of such activities was shown between the liabilities section and the unexpended resources balance section;
- (c) Management service agreements for funds and trust funds: these are now presented as part of the funds' and trust funds' income statement with the ending balance reflected in the unexpended resources balance section. In prior years, the net balance of such activities was shown between the liabilities section and the unexpended resources balance section;
- (d) Full funding arrangements and United Nations joint venture activities at the United Nations Volunteers programme: these activities were presented as part of the income statement with the ending balances reflected in the "unexpended resources balance". In prior periods, the net balance of such activities was reflected in the balance sheet. The full funding arrangements net balance was part of the other accounts receivable and deferred charges, while the United Nations joint venture activities net balance was shown as other liabilities;

(e) Management source agreement funds and trust funds: a detailed schedule is provided for each of the following:

- (i) Volunteers' fully funded agreements with Governments and institutions, by country and by project;
- (ii) Trust funds' management service agreements;
- (iii) IAPSO trading activities.

### **Non-consolidated financial statements**

The results of the operations reflected in statements I to IV are presented on the basis of the three major components explained above.

The totals of each major component are shown only for the purpose of reflecting the component's aggregate data. Identified inter-activity/inter-fund balances (within each component) in the balance sheet have been eliminated in computing these totals. Other inter-fund transactions are not eliminated. Therefore, these aggregates are not intended to and do not reflect consolidated amounts, which would have required the elimination of all inter-fund transactions and balances within each component.

### **Determination of certain balance sheet items**

Owing to the nature of the activities, certain transactions pertaining to cost-sharing, government cash counterpart contributions and the like are commingled in the regular resources accounts (investments, deferred charges, receivables, payables, etc.). Whenever possible the balances of these accounts as at 31 December 2001 and the comparatives have been apportioned essentially on the basis of the best available information. The accounts not apportioned have been reflected in the inter-fund account balance.

### **Investments**

#### *Carrying value of investments*

Investments are carried at cost. In accordance with the United Nations accounting standards, the market value is disclosed if it is different from the carrying amount.

#### *Cost-sharing investments*

In 2000-2001 cost-sharing investments have been commingled with regular resources investments and reflected in the inter-fund balance. In the previous biennium, cost-sharing investments were included under cost-sharing. The amount of investments attributable to certain major components is identified separately under regular resources investments.



**Note 3**  
**Disclosure of off-balance-sheet items**

**(a) Contributions of Governments and other contributors**

*Regular resources*

Contributions due from Governments and other contributors for current and prior years that have not been paid as at 31 December 2001 are as follows (in thousands of United States dollars):

1997 and prior years	9 982
1998	5 370
1999	1 182
2000	5 113
2001	2 942
<b>Total</b>	<b>24 589</b>

*Cost-sharing and government cash counterpart contributions*

At 31 December 2001, \$4,863,000 was receivable for cost-sharing and government cash counterpart contribution projects. That amount is to be rephased to future years.

The amount in respect of cost-sharing and government cash counterpart contributions is based on budgeted expenditure for the year and will be adjusted on the rephasing of those budgets.

**(b) In-kind contributions**

As part of the agreements of UNDP with the recipient countries, the Governments of those countries are to provide UNDP with accommodations free of charge. These in-kind contributions received during the biennium 2000-2001 are estimated at \$19.1 million (\$16.5 million in 1998-1999). That estimate is based on the market value, if available, or the best estimate from the Government or UNDP country offices.

**(c) Related-party transactions**

In the biennium 1998-1999, UNDP, in partnership with Cisco Systems, Inc., KPMG LLP and Akamai Technologies Inc. and with the support of other partners, launched a long-term initiative to use the power of the Internet to help break the cycle of extreme poverty globally. Publicized by high-profile rock concerts, the web site <http://netaid.org> will use the Internet's interactive capabilities to draw attention to the issue of extreme poverty and to offer Internet users the possibility of becoming directly involved. Netaid.org is being managed for UNDP by the Netaid.org Foundation, an independent entity that enjoys not-for-profit status in the United States of America (United States Code, title 26, sect. 501 (c) (3)). Ownership of the Foundation is shared by UNDP and Cisco Systems. The UNDP contribution to the Foundation comes mainly in the form of an in-kind contribution of four

personnel on a full-time basis. This in-kind contribution was valued at \$1,111,000 for the biennium (\$76,000 in 1998-1999).

**(d) Inventory**

Inventory held at UNDP headquarters and at UNDP country offices as at 31 December 2001 was valued at \$25.1 million (\$18.3 million in 1999) and \$71.5 million (\$73.8 million in 1999) respectively. Assets capitalized are not amortized or depreciated.

**Note 4**

**Unidentified receipts**

Monies received but not identified as to purpose are held as accounts payable until identified. As at 31 December 2001, \$10,116,450 (\$19,557,223 in 1999) in unidentified receipts were held as accounts payable. This amount is included in note 11 (b).

**Note 5**

**Accounting linkage: voluntary contributions and contributions to local office costs**

At its thirty-first session, in 1984, the Governing Council authorized the establishment of a country-specific accounting linkage between voluntary contributions and contributions to local office costs in such a manner that voluntary contributions are first accounted for against any shortfall in contributions to local office costs. The total amount of \$20,063,558 (\$24,465,837 in 1999) that was transferred from voluntary contributions in respect of such linkage is included in the \$52,208,525 (\$51,396,485 in 1999) figure shown in schedule 3 and note 6.

**Note 6**

**Income received for the biennial support budget: regular resources**

The amount of \$52,208,525 (\$51,396,485 in 1999) shown in schedule 3 as income received for the biennial support budget consists of host Government cash contributions to local office costs of \$37,676,624 (\$38,746,118 in 1999), reimbursement of tax charges of \$10,946,055 (\$10,996,145 in 1999), United Nations Volunteers income of \$2,657,244 (\$1,174,519 in 1999) and other income of \$0 (\$479,203 in 1999).

Host government contributions consist of the following (in thousands of United States dollars):

	2001	1999
Government local office contributions	28 560	25 276
Transfers from voluntary contributions	20 063	24 466
<b>Total</b>	<b>48 623</b>	<b>49 742</b>

**Note 7****Interest income: regular resources**

Beginning in 2000-2001, interest earned on inter-fund balances has been distributed to trust funds and cost-sharing resources in the year itself. In prior bienniums, interest earned on inter-fund balances was credited one year in arrears. Therefore, in 2000-2001 three years' worth of interest was credited to trust funds and cost-sharing resources. As a result, interest income under regular resources reflects a deficit of \$35,672,000.

The amounts shown in statement I.1 consist of the following (in thousands of United States dollars):

	2001	1999
Interest from investments	129 807	166 001
Interest on construction loans	5	21
Interest transferred to		
Cost-sharing	(99 254)	(49 486)
Trust funds	(22 960)	(19 794)
Management service agreements	(21 812)	(17 262)
Reimbursable support services	(21 458)	(11 192)
<b>Total</b>	<b>(35 672)</b>	<b>68 288</b>

In 2000-2001, interest income was reduced by \$8,410,000, being an overstatement of interest in 1998-1999. Had the change in the timing of distribution of interest from regular resources not been made and had the adjustment of interest income by \$8,410,000 not occurred, interest income for 2000-2001 would have increased to \$6,789,000 and 1998-1999 interest would have decreased to \$59,878,000.

**Note 8****Cash and investments: regular resources**

The amounts shown in statement II.1 consist of the following (in thousands of United States dollars):

	2001	1999
Cash in headquarters bank accounts	23 474	44 647
Cash at country offices	(16 534)	(16 421)
Transfer from regular resource investments	12 660	-
<b>Subtotal</b>	<b>19 600</b>	<b>28 226</b>
Less: provision for depreciation of accumulating non-convertible currencies	19 600	14 600
<b>Total</b>	<b>-</b>	<b>13 626</b>

The cash balance at country offices takes into account the uncleared checks of \$225,718,613 (\$299,260,685 in 1999). There is an automatic replenishment from the headquarters' current and investment accounts once those checks are cashed.

The above provision was established to reflect the overvaluation of the Cuban peso against the United Nations rate of exchange.

The carrying value of investments for regular resources is disclosed in schedule 8. The actual market value of investments under regular resources at 31 December 2001 was higher by \$3,983,000 at \$1,645,965,000. The actual market value of investments under all other resources was higher by \$370,000 at 31 December 2001.

## Note 9

### Government letters of credit

Government letters of credit shown in statement II.2 were made to UNDP in respect of cost-sharing for the following activities (in thousands of United States dollars):

	2001	1999
Rehabilitation, reconstruction and development in Tajikistan	507	700
Bi-communal development programme	5 000	3 322
Enhancement of the security liaison officer network	955	-
Strengthening of civil society, phase II	300	-
Reinforcement of national management capacity	545	-
Disaster Management Centre	480	-
Support to the new approach to assistance to internally displaced persons	300	-
Somalia civil protection programme	250	-
Support to the secretariat of the Somalia aid coordination body	50	-
Emergency project in response to the damage caused by Hurricane Eline	1 000	-
Preparation, training and dissemination of a "best practice" manual	500	-
Youth employment support	2 000	-
Support to the promotion of human rights in Ukraine	-	194
Fight against the cholera epidemic	-	25
Others	(14)	265
<b>Total</b>	<b>11 873</b>	<b>4 506</b>

As the letters of credit are irrevocable, the amount is disclosed with cash and investments in statement II.2 and is included in cost-sharing contributions as presented in statement I.2.

**Note 10****Development support services**

In the biennium 2000-2001, development support services expenditure of \$2,311,000 was charged to this account. In previous bienniums, it was charged to the biennial support budget.

Had the same treatment been adopted in 1998-1999, programme support cost — other expenditure would have increased by \$4,877,000 and biennial support expenditure would have declined by the same amount.

**Note 11****Accounts receivable and payable****(a) Other accounts receivable and deferred charges**

The amounts shown in statements II.1 and II.2 consist of the following (in thousands of United States dollars):

	2001	1999
Accounts receivable	41 188	36 337
Current account with agencies	45 414	25 244
Miscellaneous deferred charges	5 578	6 834
Other account receivables	1 040	7 360
Accounts receivable from agencies	-	10 040
<b>Subtotal</b>	<b>93 220</b>	<b>85 815</b>
Less: provision to reduce the book value of accounts receivable	305	305
<b>Total</b>	<b>92 915</b>	<b>85 510</b>
This total is reported as follows:		
Regular resources, statement II.1	52 256	33 029
Cost-sharing, statement II.2	40 659	52 481
<b>Total</b>	<b>92 915</b>	<b>85 510</b>

The provision was established in 1987 to reduce the deficit in operating the fisheries vessel pool of the Food and Agriculture Organization of the United Nations.

**(b) Accounts payable**

The amounts shown in statements II.1 and II.2 consist of the following (in thousands of United States dollars):

	2001	1999
Accounts payable	67 304	66 274
Payment assignment	6 781	7 270
Deferred payables	4 109	2 335
Clearing account	(2 867)	-
Cash received and awaiting clarification	10 116	19 557
Other liabilities	-	2 842
<b>Total</b>	<b>85 447</b>	<b>98 278</b>
This total is reported as follows:		
Regular resources, statement II.1	55 528	45 901
Cost-sharing, statement II.2	29 919	52 377
<b>Total</b>	<b>85 447</b>	<b>98 278</b>

## Note 12

### Reserve for field accommodation

The reserve for field accommodation was established in 1979 at a maximum level of \$25 million to construct housing for United Nations international staff in the country offices. In 1989, the Governing Council authorized UNDP to expand the scope of the reserve to include financing for the United Nations system common premises, intended to accommodate the office needs of the agencies of the Joint Consultative Group on Policy.

The cumulative operating deficit of \$4.2 million shown in schedule 6 is derived mainly from the operations of housing rental and office premises.

As at 31 December 2001, the excess of total expenditure over the authorized level of reserve under reserve for field accommodation activities is \$22,557,000 (\$23,818,000 in 1999).

Schedule 6.3 on reserve for field accommodation activities now includes each of its elements: reimbursable support services, office premises and housing. The split of the balance sheet items is essentially based on the best available information: the market value, if any, the architect reports, the various bids for construction, and so on. The income statement data for both housing and office premises are based on the nature of the actual transactions.

The long-term receivable of \$780,030 (\$953,370 in 1999) shown in schedule 6.3 represents the amount receivable over the current biennium resulting from the sale of housing apartments in Cape Verde. The sale price was \$1,300,050 and is payable in 15 annual instalments of \$86,670. The current portion of \$86,670 is included in other accounts receivable.

**Note 13****Office premises and deferred income****(a) Office premises purchased for country office in Argentina**

In October 1996, office space was purchased for the country office in Argentina. The cost of this acquisition amounted to \$1,570,000 and was financed from the country office's extrabudgetary resources.

This asset, which has been exceptionally capitalized, is shown under regular resources.

**(b) Deferred income**

Deferred income comprises contributions received from donors during the biennium as an advance payment of contributions for future bienniums.

**Note 14****Reserves for special initiatives**

The Executive Board, at its first regular session in 2000, approved the establishment of two reserves for separations and transitional measures amounting to \$7.0 million and \$1.5 million respectively.

In addition, at its first regular session in 2000, the Executive Board approved the establishment of a capital reserve in the amount of \$3.8 million as a charge from UNDP general resources. This amount will cover relocation costs, such as renovations, furniture, fittings and moving costs.

The unexpended balance of resources for special initiatives shown in statement II.1 consists of the following (in thousands of United States dollars):

	<i>Balance as at 1 January 2000</i>	<i>Payments/adjustment during the biennium</i>	<i>Balance as at 31 December 2001</i>
Reserve for transitional measures	1 500	(1 500)	-
Reserve for separations	7 000	(7 000)	-
Reserve for United Nations House programme	3 800	(550)	3 250
<b>Total</b>	<b>12 300</b>	<b>(9 050)</b>	<b>3 250</b>

Disbursements against these reserves are in addition to expenditure incurred against appropriations approved by the Executive Board in the recurrent biennial support budget.

**Note 15****Unexpended resources****(a) Regular resources**

The Executive Board, at its second regular session in 2001, approved the setting aside of \$11.4 million as a transitional reserve for information and communication technology. As a result, unexpended resources comprise the following (in thousands of United States dollars):

<i>Balance at 31 December 2001</i>	
Transitional reserve for information and communication technology	11 400
Unencumbered resources	22 898
<b>Unexpended resources</b>	<b>34 298</b>

**(b) Reimbursable support services resources**

As a prudent measure, during the biennium UNDP management set aside \$2.5 million from the organization's reimbursable support services resources as a special reserve to help address financial and operational risks inherent in non-core-funded projects.

As a result, unexpended resources relating to reimbursable support services comprise the following (in thousands of United States dollars):

<i>Balance at 31 December 2001</i>	
Special reserve fund	2 500
Unencumbered resources — reimbursable support services	110 590
<b>Unexpended resources</b>	<b>113 090</b>

**Note 16**

**Unspent allocations and future commitments**

**(a) Unspent allocations**

Unspent allocations issued against UNDP resources for programme expenditure (excluding national execution) as at 31 December 2001 amount to approximately \$208 million (\$344 million in 1999), against which forward commitments reported by executing agencies are approximately \$6 million (\$12 million in 1999).

**(b) Leasehold commitments**

Future leasehold commitments against regular resources as at 31 December 2001 amount to \$49.4 million (\$66.7 million in 1999) for headquarters and \$29.8 million (\$52.7 million in 1999) for country offices. The figures for the country offices include the following long-term leases:

<i>Country office</i>	<i>Lease end date</i>
Ethiopia	4 October 2077
Mozambique	31 July 2087
Democratic People's Republic of Korea	31 December 2085

**(c) Post-retirement benefits**

In order to gain a better understanding of the financial dimensions of the organization's liabilities for after-service health insurance, an independent



consulting actuary was engaged in 2001 to carry out an actuarial valuation of post-retirement health insurance benefits as at 1 January 2001. The valuation method used was the projected credit unit method.

The principal actuarial assumptions used to determine the cost of expected claims were as follows:

Annual discount rate: 7 per cent

Medical inflation rate: 10 per cent in 2001, decreasing by 0.5 per cent per year to an ultimate rate of 5 per cent in 10 years

Dental inflation rate: 5 per cent

On the basis of that study, the actuary estimated that the liability as at 1 January 2001 for after-service health insurance benefits covering all participants in UNDP was as follows (in thousands of United States dollars):

	<i>Present value of future benefits as at 1 January 2001</i>	<i>Accrued liability as at 1 January 2001</i>
Gross liability	318 241	236 147
Offset from retiree contribution	62 007	47 265
<b>Net liabilities</b>	<b>256 234</b>	<b>188 882</b>

The present value of the future benefits figures shown above is the discounted value of all benefits to be paid in future to all current retirees and active employees expected to retire in future.

The accrued liability represents that portion of the present value of future benefits that has accrued from the staff members' dates of entry on duty until the valuation date, 1 January 2001. Active staff members' benefits are considered to be fully accrued on the date on which they become fully eligible for benefits.

UNDP has made an accounting accrual of \$54 million for the biennium ended 31 December 2001. This amount is made up of \$28 million for the accrued liability as at 1 January 2001 and \$26 million for the current biennium. These two components are explained further below. Because of the unique nature of these items, UNDP intends to continue to account for the accrual as part of other expenditure rather than as a charge to the biennial support budget.

The actuarial valuation of post-retirement health insurance benefits of UNDP and the United Nations Secretariat is carried out jointly. UNDP will carry out future valuations with the same frequency as the United Nations Secretariat.

#### *Accrued liability as at 1 January 2001*

As noted above, the accrued liability as at 1 January 2001 for after-service health insurance benefits was \$256.23 million. The consulting actuary has been engaged to propose alternatives for the funding of this liability.

In accordance with generally accepted principles, UNDP has made an accounting accrual of \$28 million in its books for the biennium ended 31 December

2001, which is included in other expenditure. The amount of the biennial accrual for future years is contingent on the results of the funding study referred to above.

*Current biennium liability*

UNDP has taken a charge of an additional \$26 million as its portion of the after-service health insurance liability for the biennium 2000-2001. This amount is over and above the disbursements by UNDP for after-service health insurance, which are included as part of the biennial support budget expenditure.

**(d) End-of-service liabilities**

Consistent with note 2 above, UNDP has not specifically accrued for liabilities for end-of-service benefits that will be owed when staff members leave the organization. The disbursements incurred in the financial period when staff members separate are reported as current expenditures.

Costs relating to annual leave dues as at 31 December 2001 are estimated at \$21.95 million (\$22.92 million in 1999).

The contingent liability resulting from the termination benefits that UNDP will be required to pay to its staff members in future years is estimated by management, as at 31 December 2001, to be \$17.9 million (\$18.94 million in 1999) in respect of repatriation grants and \$4.74 million (\$4.98 million in 1999) in respect of termination indemnity.

**(e) Pension benefits**

UNDP is a member organization of the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded defined-benefit plan. The financial obligation of the organization to the Fund consists of its mandated contribution at the rate established by the Assembly 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 Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. At the time of the submission of the present report the Assembly had not invoked that provision.

**(f) Air crash in the United Republic of Tanzania**

On 5 December 1980, four UNDP staff members died in an air crash in the United Republic of Tanzania. As a result, UNDP received insurance proceeds totalling \$623,948, from which it paid compensation to the beneficiaries of the victims. The remaining balance of these proceeds was fully utilized in 1996. Since then, compensation payments have been reported as expenditure in the year the payments were made. Payments of \$86,775 were made during the current biennium.

**Note 17**

**Unliquidated obligations**

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

	2001	1999
Executing agents	93 954	84 234
Biennial support budget	34 981	30 400
Reimbursable support services, reserve for accommodation and special activities	6 826	5 841
<b>Total</b>	<b>135 761</b>	<b>120 475</b>
Regular resources	70 801	64 434
Cost-sharing	58 134	50 200
Reimbursable support service	4 857	4 498
Reserve for field accommodation	21	24
Special activities	1 948	1 319
<b>Total</b>	<b>135 761</b>	<b>120 475</b>

**Note 18****Outstanding commitments of the reserve for field accommodation**

Unpaid invoices and commitments to contractors and subcontractors against the reserve for field accommodation totalled approximately \$1.5 million as at 31 December 2001 (\$1.8 million in 1999). Those invoices are not accrued in the current biennium.

**Note 19****Inter-Agency Procurement Services Office****(a) Accounts payable**

The amount of \$26,873,710 (\$14,530,733 in 1999) shown in schedule 6.4 represents advances received relating to direct procurement.

**(b) Biennial support budget**

The core support budget of \$3,106,899 (\$3,493,100 in 1999) for IAPSO is included in the amount for regular resources in the biennial support budget and is set out in detail in schedule 3.

**(c) Basis of accounting**

IAPSO direct procurement activity is accounted for on a cash basis.

**(d) Trading activities**

Based on trading activities, IAPSO earned procurement-handling and other fees amounting to \$7.8 million (\$7.1 million in 1998-1999), as shown in schedule 6.4.

**Note 20****Special activities (schedule 6.5)****(a) Support to United Nations resident coordinator activities**

The activities of the resident coordinator are supporting collaborative programming; following up major international conferences; carrying out United Nations system public information activities; and reviewing and planning United Nations system shared services, common premises and special assignments.

For the biennium ended 31 December 2001, total expenditure incurred with regard to these activities amounted to \$19,865,289. This expenditure is presented in the financial statements as follows (in thousands of United States dollars):

	2001	1999
Regular resources, statement I.1	16 626	21 033
Special activities, schedule 6.5	3 239	690
<b>Total</b>	<b>19 865</b>	<b>21 723</b>

**(b) Other activities**

Various other activities are classified under extra-budgetary support for special purposes, including the Centre of Experimentation, Sustainable Energy and Environment Division.

**Note 21****Amounts due to/from funds and trust funds administered by the United Nations Development Programme**

UNDP receives contribution for and makes advances to funds and trust funds that it administers. The balance of these transactions at 31 December 2001 is shown in schedule 7 for funds and statement II.2 for trust funds.

**Note 22****Trust Fund to Combat Desertification and Drought****(a) Mandate and goals**

To address the effects of the severe drought in the Sahel region in Africa in the early 1970s, the Secretary-General of the United Nations in 1973 established the United Nations Sahelian Office. In 1977, the Office was placed under UNDP administration. In 1978 its mandate was extended to assist, on behalf of the United Nations Environment Programme (UNEP), the countries of the Sudano-Sahelian region in their implementation of the 1977 World Plan of Action to Combat Desertification.

In Agenda 21, adopted at the United Nations Conference on Environment and Development in 1992, the Office was explicitly called upon to assume a major advisory role and to participate effectively in the implementation of Agenda 21 provisions related to combating drought and desertification and to land resource management, and to share its experiences in that respect with all relevant countries,

in particular those in Africa, with special attention to countries most affected or classified as least developed countries. The UNDP Governing Council and the General Assembly, in June and December 1993 respectively, endorsed the extension of the Office's mandate. In 1995, the UNDP Executive Board and the Economic and Social Council endorsed the renaming of the United Nations Sahelian Office to the Office to Combat Desertification and Drought.

In response to the Executive Board's call for greater functional integration of the Office into UNDP, the Administrator in 1994 brought together the Office to Combat Desertification and Drought and several other environment-related units in the new Sustainable Energy and Environment Division. Today, the Office may be characterized as a special programme in dryland management, desertification control and drought mitigation. Its principal goals are to spearhead UNDP support to affected programme countries in the implementation of the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, and to serve as the principal global advocate for an integrated approach to dryland degradation and poverty eradication in conformity with the broad sustainable human development agenda of UNDP.

Within a broad programme approach the Office, among other things:

(a) Provides technical support and/or catalytic funding to the launching of the participatory and integrated processes called for under the Convention to formulate and implement national, subregional and regional action programmes to combat desertification and to promote sustainable livelihoods in the world's drylands;

(b) Develops and tests new, innovative concepts and approaches to policy and programme formulation in dryland management and on cross-cutting issues critical for the successful implementation of the Convention and facilitates access to them through technical publications, training and capacity-building;

(c) Facilitates the dissemination of documentation and the exchange of knowledge, experience and best practices within the framework of selected thematic programme areas (such as water management, local-level natural resource management, pastoral development, environmental information systems, etc.);

(d) Promotes awareness of dryland development issues and facilitates the mobilization of resources and partnership-building with relevant intergovernmental and non-governmental agencies to avoid duplication of efforts and to optimize the use of resources available for the implementation of the Convention.

**(b) Combined accounts**

In the light of the evolution of the Office's mandate, the Administrator in 1995 established the Trust Fund to Combat Desertification and Drought. Appropriate steps were taken, including consultations with the United Nations legal services, to proceed towards a consolidation of the Trust Fund under the former mandate with the new Trust Fund.

In the meantime, the activities of the two funds have been combined as shown in schedule 5.2. The status of income received and expenditure incurred for the current biennium are as follows (in thousands of United States dollars):

	<i>United Nations Trust Fund for Sudano-Sahelian Activities</i>	<i>Trust Fund to Combat Desertification and Drought</i>	<i>Total</i>
Unexpended resources as at 1 January 2001	3 660	7 322	10 982
Income received	100	1 561	1 661
Expenditure incurred	(1 886)	(1 447)	(3 333)
Refunds to donors	(543)	-	(543)
<b>Unexpended resources as at 31 December 2001</b>	<b>1 331</b>	<b>7 436</b>	<b>8 767</b>

**(c) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 5.2 consists of the following (in thousands of United States dollars):

	<i>2001</i>	<i>1999</i>
Executing agents	43	145
Biennial support budget	46	85
UNDP/UNEP joint venture activities	-	-
<b>Total</b>	<b>89</b>	<b>230</b>

**(d) Unspent allocations and unexpended resources**

The amounts shown in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	11 581	2 538	3 186	6 427
Cost-sharing	2 683	5 030	3 235	5 432
Sub-trust funds	4 845	1 977	2 335	2 560
Management service agreements	-	-	11	113
<b>Total</b>	<b>19 109</b>	<b>9 545</b>	<b>8 767</b>	<b>14 532</b>

**Note 23**  
**Trust Fund for the Global Environment Facility**

**(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:

“The 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) Climate change,
- (b) Biological diversity,
- (c) International waters, and
- (d) Ozone layer depletion.

“The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation as they relate to the four 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.

“The GEF shall ensure the cost-effectiveness of its activities in addressing the targeted global environmental issues, shall fund programmes and projects which 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 programmes 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 cooperation with the other implementing agencies.

**(b) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 5.2 consists of the following (in thousands of United States dollars):

	2001	1999
Executing agents	15 926	7 426
Biennial support budget	406	1 125
<b>Total</b>	<b>16 332</b>	<b>8 551</b>

**(c) Unspent allocations and unexpended resources**

The amounts in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	2001	1999	2001	1999
Regular resources	328 680	301 922	14 014	12 500
Cost-sharing	34 254	1 806	13 844	13 032
Sub-trust funds	-	1 127	2 343	1 949
Management service agreements	-	-	(23)	154
<b>Total</b>	<b>362 934</b>	<b>304 855</b>	<b>30 178</b>	<b>27 635</b>

The unspent allocations for regular resources include \$27,224,500 for the small grants programme. Allocations exceeding regular resources in the amount of \$332,732,119 were issued on the basis of letters of commitment from the World Bank as trustee of the GEF Trust Fund confirming allocations of \$1,268,500,000 to UNDP. The amounts receivable under this mechanism are not included in the contributions receivable shown under note 35. Funds are remitted by the trustee as required by UNDP/GEF. As at December 2001, a total of \$644,724,745 had been received.

**Note 24**

**Multilateral Fund for the Implementation of the Montreal Protocol**

**(a) Mandate and goals**

The stratospheric ozone layer prevents most ultraviolet radiation from reaching the Earth. This ozone layer is under intense attack by chlorofluorocarbons, halons and other ozone-depleting substances used as refrigerants, foaming agents, aerosol propellants, fire retardants, solvents and fumigants. The depletion of the ozone layer allows more radiation to reach the Earth, raising the incidence of skin cancer and cataracts and affecting agriculture, fisheries and biological diversity.

The Montreal Protocol (1987) sets out the time schedule for freezing and reducing consumption of ozone-depleting substances. Developed countries have already eliminated most of them; developing countries have a grace period. A multilateral fund was established under the Montreal Protocol to assist developing countries in eliminating ozone-depleting substances; it is funded by developed countries (since they had contributed the most to the ozone layer depletion problem). The Multilateral Fund from 1991 to 2000 approved \$1.19 billion in projects to phase out the consumption of more than 142,000 ODP tons and the



production of about 39,000 ODP tons of ozone-depleting substances.<sup>1</sup> An additional \$540 million has been approved for the three-year period from 1997 to 1999.

UNDP is one of four implementing agencies under the Multilateral Fund (with UNEP, the United Nations Industrial Development Organization and the World Bank). UNDP assists 60 countries (51 under the Multilateral Fund and 9 under the GEF) in implementing national programmes to phase out chlorofluorocarbons, halons and other ozone-depleting substances through national country programme formulation, technical training and demonstration projects, institutional strengthening/national capacity-building and technology transfer investment projects.

UNDP helps Governments and industry design, implement, monitor and evaluate projects and programmes to phase out ozone-depleting substances in the aerosols, foams, solvents, refrigeration/air-conditioning and fire-extinguishing sectors, covering large-, medium- and small-scale enterprises. UNDP has also started working on demonstration projects to test alternatives to the use of methyl bromide — a pesticide that contains chlorofluorocarbons, in agricultural uses. The programme comprises a mix of activities executed by the United Nations Office for Project Services (80 per cent) and nationally executed (20 per cent) activities. UNDP is also assisting Australia, Belgium, Denmark, Germany, Japan, Sweden and the United States in implementing certain bilateral programmes under the Multilateral Fund.

**(b) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 5.2 consists of the following (in thousands of United States dollars):

	2001	1999
Executing agents	17 742	11 804
Biennial support budget	80	156
<b>Total</b>	<b>17 822</b>	<b>11 960</b>

**(c) Unspent allocations and unexpended resources**

The amounts in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	2001	1999	2001	1999
Regular resources and cost-sharing	77 709	65 302	71 477	95 826
Sub-trust funds	12 425	529	(1 487)	787
<b>Total</b>	<b>90 134</b>	<b>65 831</b>	<b>69 990</b>	<b>96 613</b>

<sup>1</sup> An ODP ton is 1 metric ton multiplied by the ozone-depleting potential (ODP) of a substance.

**Note 25**  
**Capacity 21 Trust Fund**

**(a) Mandate and goals**

The Capacity 21 Trust Fund was established by the Administrator in 1993, subsequent to a Governing Council decision, as an initiative to help countries to implement Agenda 21. Agenda 21 is the agenda for actions agreed to at the 1992 United Nations Conference on Environment and Development.

The mission of Capacity 21 is to pilot innovative methods of implementing Agenda 21 by helping selected countries to design and implement capacity-building programmes for sustainable development. Capacity 21 will ensure that, in addition to the substantial progress being made by the pilot countries in the achievement of sustainable forms of development, a body of knowledge will be built up that will be of material benefit to other countries that are implementing Agenda 21.

**(b) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 5.2 consists of the following (in thousands of United States dollars):

	2001	1999
Executing agents	1 654	797
Biennial support budget	30	58
<b>Total</b>	<b>1 684</b>	<b>855</b>

**(c) Unspent allocations and unexpended resources**

The amounts in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	2001	1999	2001	1999
Regular resources	13 840	15 263	30 264	41 368
Cost-sharing	684	284	106	50
Sub-trust funds	815	632	242	1 526
<b>Total</b>	<b>15 339</b>	<b>16 179</b>	<b>30 612</b>	<b>42 944</b>

**Note 26**  
**Energy Account**

**(a) Mandate and goals**

Established by the UNDP Governing Council in 1980, the UNDP Energy Account is the channel for specific contributions for energy activities within the context of the UNDP Initiative for Sustainable Energy. These activities are aimed at promoting sustainable energy strategies, such as the following:

(a) Utilizing renewable sources of energy to meet the basic energy needs of rural communities and focusing on energy efficiency in residential, commercial and industrial sectors (while renewable energy systems are environmentally benign and have demonstrated their reliability under a wide range of conditions, energy efficiency measures can, at a minimum, reduce carbon dioxide emissions and postpone investment by delaying the construction of new fossil-fuel-based power plants);

(b) Contributing to innovative financing mechanisms, such as financing energy services for small-scale energy users, to identify and promote ways to provide technically feasible and economically viable renewable energy and energy efficiency services to various types of energy users;

(c) Mobilizing support for indigenous capacity-building so that countries can identify and make use of new approaches and technological opportunities as well as train entrepreneurs and implement new financial/credit modes;

(d) Encouraging countries to create a supportive legal, institutional and regulatory climate for sustainable energy development.

**(b) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 5.2 consists of the following (in thousands of United States dollars):

	2001	1999
Executing agents	7	70
Biennial support budget	7	11
<b>Total</b>	<b>14</b>	<b>81</b>

**(c) Unspent allocations and unexpended resources**

The amounts shown in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	2001	1999	2001	1999
Regular resources and cost-sharing	3 281	1 458	2 785	2 854
Sub-trust funds	-	-	-	-
<b>Total</b>	<b>3 281</b>	<b>1 458</b>	<b>2 785</b>	<b>2 854</b>

**Note 27**

**Fund for the Programme of Assistance to the Palestinian People**

**(a) Mandate and goals**

The UNDP Programme of Assistance to the Palestinian People has been operational in the West Bank and the Gaza Strip since 1980, having been mandated by the Governing Council to undertake both technical and capital assistance projects. The Programme is a decentralized assistance programme that reports

directly to the office of the Administrator. Most of the activities supported by UNDP are directed at strengthening newly created Palestinian institutions and creating employment opportunities in the occupied territories.

Since the establishment of the Palestinian Authority in the West Bank and the Gaza Strip in May 1994, there has been a redefinition of the Programme's strategies and initiatives. The Programme's primary counterparts for development activities are the Palestinian ministries, municipalities and village councils, as well as civil society organizations. In conjunction with the Palestinian Authority, UNDP is also identifying and launching longer-term types of initiatives that are essential to the long-term development of the Palestinian territories. Whenever possible, UNDP uses Palestinian implementation networks and expertise.

UNDP, under the auspices of the Programme, has sought to improve the social, economic and environmental conditions of all Palestinians in the occupied territories by implementing specific projects. The development and assistance strategies have resulted from a joint assessment of the top priorities in each sector by the Programme and the Palestinian Authority. The projects reflect a realistic view of what is achievable and readily implementable in each sector, and attempt to narrow down the practically unlimited range of development needs in the West Bank and the Gaza Strip to those specific projects that will provide the most tangible and visible results to the Palestinian people.

These projects have focused on four basic areas: public administration, economic development, human development and environmental management.

**(b) Unliquidated obligations**

The amounts shown in schedule 5.2 represent the unliquidated obligations of executing agents.

**(c) Unspent allocations and unexpended resources**

The amounts shown in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	63 527	30 204	35 006	34 699
Sub-trust funds	9 316	3 745	4 052	1 823
<b>Total</b>	<b>72 843</b>	<b>33 949</b>	<b>39 058</b>	<b>36 522</b>

**(d) Other accounts receivable**

The balance shown in schedule 5.2 consists of recoverable advances paid with regard to the value-added tax.

**(e) Endowment Fund**

A contribution of \$3 million was received from the Government of Japan in 1998 for the establishment of the Endowment Fund. The objective of this Fund is to

strengthen the planning and managerial capacities of Palestinian institutions in order to promote sustainable socio-economic development.

That contribution has formed the principal of the Endowment Fund and has been invested separately for the Programme. It is included in the investment amount of \$18,737,000 (\$29,386,000 in 2000) reported in schedule 8.

Under the Endowment Fund mechanism and implementation arrangements, the principal amount will not be available for programming until such time as the Government of Japan and/or UNDP agrees to terminate the Fund. However, interest earned on the fund will be credited to the Programme and will become available for programming.

The Programme has established a sub-trust fund project (PAL/98/J07). Investment income generated from the Endowment Fund serves as the source of funding for activities undertaken through this project. The project is included in schedule 5.1. Throughout the life of the Endowment Fund, a number of Palestinian institutions and their personnel will benefit from training opportunities and support to be provided through the project.

#### **Note 28**

##### **Trust Fund for Rwanda**

#### **(a) Mandate and goals**

The UNDP Trust Fund for Rwanda was created in April 1995 to enhance UNDP programme activities in support of the Government of Rwanda's Programme of National Reconciliation and Socio-economic Rehabilitation and Recovery as presented at the Round Table Conference held in Geneva in January 1995. The purpose of this Fund is to provide assistance to interested Governments and organizations in the following areas:

- (i) Restoration of the administrative capacity of the State, including non-traditional development expenditures, such as salaries and judiciary expenses;
- (ii) Recovery of economic activity;
- (iii) Rehabilitation of social sectors;
- (iv) Resettlement and reintegration of refugees and displaced persons.

#### **(b) Unliquidated obligations**

The amounts shown in schedule 5.2 represent the unliquidated obligations of executing agents.

#### **(c) Unspent allocations and unexpended resources**

The amounts shown in schedule 5.2 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	25 080	23 778	7 063	19 958
Sub-trust funds	3 549	2 338	1 865	8 903
<b>Total</b>	<b>28 629</b>	<b>26 116</b>	<b>8 928</b>	<b>28 861</b>

Unspent allocations for six sub-trust funds exceeded their available resources in the amount of \$1,818,000. There are no contributions receivable for these sub-trust funds.

**(d) Expenditure**

The amount of \$91,442 shown in schedule 5.1 comprises agency support cost of \$53,758 and UNDP support cost of \$37,684. The latter amount is also included in the amount of \$272,000 shown in schedule 5.2.

**Note 29**

**Perez-Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries**

In accordance with the General Assembly's decision at its forty-first session, in 1996, \$5 million of the Trust Fund's resources is held in perpetuity. It was also decided that only interest earnings from the Fund's investments would be available for programming.

**Note 30**

**United Nations Capital Development Fund**

**(a) Mandate and goals**

The United Nations Capital Development Fund (UNCDF) is a multilateral donor organization under the administration of UNDP. It works to reduce poverty in least developed countries by strengthening local government and community institutions, enhancing the private sector, creating mechanisms for the provision of credit to the poor and swapping capital investments for the environmentally sound use of natural resources.

The General Assembly established UNCDF as an autonomous organization within the United Nations system by its resolution 2186 (XXI) of 13 December 1966. The Assembly further decided, by its resolution 2321 (XXII) of 15 December 1967, that the UNDP Administrator would administer the Fund and serve as its Managing Director, while the UNDP Governing Council would act as the Fund's Executive Board.

**(b) Cash**

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	2001	1999
Accumulating non-convertible currencies	505	471
<b>Total</b>	<b>505</b>	<b>471</b>

**(c) Loans to Governments**

The amount of \$933,059 in 2001 (\$2,667,059 in 1999) shown in schedule 7 represents the total outstanding loans made by the Fund to the Governments of Benin, Botswana, Burkina Faso, Ghana, Mali, Nepal and Senegal. No advances were made during the current biennium. The status of these loans is as follows (in thousands of United States dollars):

<i>Recipient country</i>	<i>Project number</i>	<i>Loan amount as at 1 January 2000</i>	<i>Repayments</i>	<i>Outstanding loan amount as at 31 December 2001</i>
Benin	RAF/94/CO2	200	-	200
Botswana	BOT/87/CO2	-	-	-
	BOT/87/CO5	1 343	1 343	-
	BOT/87/CO6	309	391	(82)
Burkina Faso	RAF/94/CO2	200	-	200
Ghana	RAF/94/CO2	200	-	200
Mali	RAF/94/CO2	200	-	200
Nepal	NEP/85/CO1	15	-	15
Senegal	RAF/94/CO2	200	-	200
<b>Total</b>		<b>2 667</b>	<b>1 734</b>	<b>933</b>

These loans are repayable over a period of 10 years. The amount due for 2001 and prior years is \$215,259 (\$215,259 in 2000).

**(d) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 7 consists of the following (in thousands of United States dollars):

	2001	1999
Executing agents	3 477	2 130
Biennial support budget and other	120	1 206
<b>Total</b>	<b>3 597</b>	<b>3 336</b>

**(e) Operational reserve**

At its twenty-sixth session, in 1979, the Governing Council approved the establishment of an operational reserve at the level of at least 20 per cent of project commitments and contingent liabilities for guarantees entered into by the Fund in respect of bank loans to Governments (excluding sub-trust fund and cost-sharing

arrangements). In line with that decision, the operational reserve originally established in 1979 was adjusted to \$38 million as at 31 December 2001, as shown in schedule 7.

**(f) Unspent allocations and future commitments**

The unspent allocations as at 31 December 2001 amounted to \$8,209,904 (\$8,643,563 in 1999). However, total commitments made under the partial funding system amounted to \$153,797,000 (\$236,381,000 in 1999).

The partial funding system was originally approved by the Governing Council in 1979. At its thirty-fourth session, in 1982, the Council reviewed the system and modified the formula for calculating the allowable ceiling of outstanding commitments to be the sum of liquid resources, exclusive of the operational reserve, plus five years of anticipated voluntary contributions.

The total commitments shown above consists of the following (in thousands of United States dollars):

	2001	1999
Regular resources	150 590	230 829
Cost-sharing	107	351
Sub-trust funds	3 100	5 201
<b>Total</b>	<b>153 797</b>	<b>236 381</b>

The commitments shown are well within the limit set under the partial funding system.

**Note 31**

**United Nations Revolving Fund for Natural Resources Exploration**

**(a) Mandate and goals**

The Revolving Fund was established in accordance with General Assembly resolution 3167 (XXVIII) of 17 December 1973 as a trust fund to be administered by UNDP.

Its mandate is to extend and intensify the activities of the United Nations system in the field of natural resources exploration in developing countries by sharing the risks involved. At the same time, it is to provide a means for mutual assistance and cooperation in this field.

As a member of the Sustainable Energy and Environment Division since July 1996, the Revolving Fund is currently expanding its position as a catalyst for the sustainable development of natural resources.

Under the concept of sustainable development, the Revolving Fund demonstrates the following features:

- (i) Replenishment contribution, which is a unique feature of the Revolving Fund. If an exploration project results in the discovery of a deposit of natural resources, the concerned Government would repay at a rate of 2 per cent of the



gross annual value of production (1 per cent for the least developed countries) for a period of 15 years, until a ceiling of 10 times total project costs at constant prices is attained;

(ii) Exploration of minerals focusing on deposits appropriate for small-scale mining among the socially and economically less stable developing countries, thereby filling a gap that exists where private mining companies are not willing to implement exploration in spite of high mineral potential;

(iii) Exploration of geothermal energy aiming at environmental friendly clean energy in developing countries for the purpose of reducing dependence on oil, which in many cases has to be imported and will cause environmental degradation;

(iv) Environmentally sound research and development activities in the area of mining-related pollution.

**(b) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 7 consists of the following (in thousands of United States dollars):

	<i>2001</i>	<i>1999</i>
Executing agents	3	-
Biennial support budget	8	62
<b>Total</b>	<b>11</b>	<b>62</b>

**(c) Unspent allocations and unexpended resources**

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	-	901	2 617	3 071
Sub-trust funds	-	18	40	33
<b>Total</b>	<b>-</b>	<b>919</b>	<b>2 657</b>	<b>3 104</b>

**Note 32****United Nations Fund for Science and Technology for Development****(a) Mission and goals**

The United Nations Fund for Science and Technology for Development was set up by the Vienna Conference in 1979 to deal more effectively with science and technology matters in a multilateral framework.

Its mission is to accelerate sustainable development by playing a special role within the United Nations system to promote the transfer of technology and to build endogenous capacity. It provides assistance in priority areas such as science and technology policy and capacity-building; technology innovation and entrepreneurship development; information technology and technology information; quality control and maintenance; and new and renewable energy.

**(b) Unspent allocations and unexpended resources**

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	-	-	408	315
Cost-sharing	-	-	30	27
Sub-trust funds	-	-	451	390
<b>Total</b>	<b>-</b>	<b>-</b>	<b>889</b>	<b>732</b>

**(c) Future of the Fund**

The Fund is in the process of concluding its activities.

**Note 33****United Nations Development Fund for Women****(a) Mandate and goals**

In its resolution 39/125 of 14 December 1984, the General Assembly established the United Nations Development Fund for Women (UNIFEM) to play an innovative and catalytic role in the promotion of women's empowerment and gender equality. More specifically, the Fund's mandate is:

- (i) To support innovative and experimental activities benefiting women, in line with national and regional priorities;
- (ii) To serve as a catalyst, with the goal of ensuring the appropriate involvement of women in mainstream development activities, as often as possible at the pre-investment stage;
- (iii) To play an innovative and catalytic role in relation to the United Nations overall system of development cooperation.

**(b) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 7 consists of the following (in thousands of United States dollars):

	2001	1999
Executing agents	1 989	1 114
Biennial support budget	72	497
<b>Total</b>	<b>2 061</b>	<b>1 611</b>

**(c) Partial funding system and operational reserve**

In accordance with a 1995 decision of the Executive Board, UNIFEM has been operating under the full funding system since 1 January 1995. The Executive Board temporarily suspended the requirements of the operational reserve and granted UNIFEM the use of the UNDP overdraft facility during the period from 1995 to 1997 up to a maximum drawdown of \$4.5 million to cover its prior commitments. No drawdown from the overdraft facility was made.

At its third regular session, in September 1996, the Executive Board agreed to the re-establishment of the operational reserve at the initial level of \$3.0 million (decision 96/43). On 17 January 1997, the Executive Board approved a modified partial funding modality to determine programme approval levels and the associated operational reserve balance.

Under the partial funding modality, the maximum approved level for programming over a three-year period should be the net of a conservative estimate of income realization for the next three years minus administrative costs for that same period. A very conservative estimate of income to be realized for the first year would be equal to the estimated income for that year, calculated on the basis of the pledging conference results and direct consultation with donors. The estimate for the second year would be equal to 50 per cent of the estimated income of the first year, while the estimate for the third year would be equal to 25 per cent of the estimated income of the first year (i.e., 50 per cent of the estimate for the previous year). The administrative costs would be by default equal to three times the current-year costs.

The operational reserve would be set at the annual average expenditure over the programming period, that is, one third of the maximum programme approval level times the estimated delivery rate. In accordance with the modified partial funding modality, the operational reserve was increased to \$7.4 million as at 31 December 2001.

**(d) Unspent allocations and unexpended resources**

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	22 478	8 323	11 074	8 624
Cost-sharing	5 362	3 929	4 508	3 360
Sub-trust funds	4 283	7 293	5 434	4 867
<b>Total</b>	<b>32 123</b>	<b>19 545</b>	<b>21 016</b>	<b>16 851</b>

Allocations exceeding cost-sharing amounting to \$854,000 were issued on the basis of contributions receivable from Governments in the amount of \$1,524,000. This amount is included in the contributions receivable of \$10,573,000 shown in note 35. Contributions receivable shown in note 35 do not include pledges for future years amounting to \$11,750,000.

### **Note 34**

#### **United Nations Volunteers programme**

##### **(a) Mandate and goals**

Set up by the General Assembly in 1970 under the general aegis of UNDP, the United Nations Volunteers programme strives:

- (i) To directly promote volunteer contributions to development by helping to better define and make known volunteer roles in development, by recruiting and fielding United Nations Volunteers and by stimulating the establishment of local volunteer and youth schemes;
- (ii) To provide a global facility within the United Nations system, that allows the United Nations Volunteers to serve people through Governments, United Nations agencies, international organizations, community-based organizations and non-governmental organizations by direct placement, by helping to establish networks, and by providing information and channels for contact.

In so doing, the United Nations Volunteers programme demonstrates the following features:

- (i) A special kind of contribution, noted for its spirit of solidarity and partnership, to a wide range of technical cooperation activities;
- (ii) Effective support to humanitarian aid programmes;
- (iii) Assistance to the United Nations peace-making and peace-building activities;
- (iv) Targeted support to community-based participatory development, especially among low-income groups in poverty situations;
- (v) The ability to mobilize volunteer human resources from all over the world, including from developing countries themselves;
- (vi) The willingness to adjust its policies and procedures to local conditions and needs;

(vii) The advantage of building on the institutional presence and development involvement of UNDP and the United Nations system in virtually all developing countries;

(viii) The ability to provide a flexible response, including the use of mixed teams of international and national volunteers;

(ix) The proactive promotion of volunteer effort in areas of strategic relevance, such as urban development, environmental management and preventive/curative development.

**(b) Biennial support budget: core activities**

The United Nations Volunteers biennial support budget of \$26,622,019 (\$26,959,391 in 1998-1999) is included in the UNDP regular resources biennial budget and is detailed in schedule 3.

**(c) Recovery of external costs**

At its thirty-ninth session, in 1992, the Governing Council, revised the guidelines for the use of the Special Voluntary Fund and the procedures for recovering external costs. It was decided that, except in situations where special financing was available, the external costs of volunteers would be charged fully to project budgets on the basis of a pro forma cost. Any difference between pro forma costs and actual costs would be absorbed by the Special Voluntary Fund.

During the year, external costs totalling \$6,021,860 (\$6,072,437 in 1998-1999) were recovered and credited as income to the Fund. This amount is shown as part of other income of \$6,001,011 (\$6,245,113 in 1998-1999) in schedule 7.

**(d) Other accounts receivable and deferred charges**

The amount of \$14,577,206 (\$5,481,477 in 1999) shown in schedule 7 includes the balance of amounts due from the United Nations of \$6,381,841 (\$3,337,884 in 1999) for costs plus 10 per cent overhead in respect of Volunteers attached to agency-executed project activities and \$4,503,854 (\$0 in 1999) for costs of insurance and sundry charges in respect of Volunteers attached to nationally executed projects.

**(e) Unliquidated obligations**

The balance of unliquidated obligations shown in schedule 7 consists of the following (in thousands of United States dollars):

	2001	1999
Reimbursable support activities	27	174
Special Voluntary Fund activities	61	29
Sub-trust fund activities	28	6
Fully funded arrangements	-	6
<b>Total</b>	<b>116</b>	<b>215</b>

**(f) Special Voluntary Fund**

At its thirty-ninth session, in 1992, the Governing Council decided that the income accruing to the Special Voluntary Fund from voluntary contributions and interest income would be utilized to meet expenditures for pilot and experimental projects, briefing of United Nations Volunteers specialists and the training of domestic development services country specialists and field workers, special recruitment campaigns and other projects of a similar nature. Prior to this decision, 85 per cent of the income accruing to the Special Voluntary Fund was used to meet the external costs of Volunteers. Project budgets were charged an assessed amount to cover external costs that were not met by the Special Voluntary Fund.

**(g) Unspent allocations and unexpended resources**

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	<i>Unspent allocations</i>		<i>Unexpended resources</i>	
	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>
Regular resources	12 347	11 630	24 899	26 504
Cost-sharing	1 847	-	1 846	740
Sub-trust funds	13 882	11 061	15 696	15 628
Fully funded arrangements	6 013	4 430	7 355	4 431
United Nations joint venture	-	-	(6 558)	(1 303)
<b>Total</b>	<b>34 089</b>	<b>27 121</b>	<b>43 238</b>	<b>46 000</b>

Of the unspent regular resources allocations, \$1,024,900 (\$1,353,600 in 1999) represents estimated commitments in respect of repatriation travel and resettlement allowances for serving Volunteers as at 31 December 2001.

**(h) Contribution receivable**

The amount shown in schedule 7 includes the following (in thousands of United States dollars):

	<i>2001</i>
Trust fund arrangements	290
Fully funded arrangements	398
United Nations joint venture	6 556
<b>Total</b>	<b>7 244</b>

**Note 35****Contribution due for Governments and other contributors for funds and trust funds administered by UNDP as at 31 December 2001**

(Thousands of United States dollars)

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contribu- tions due
	1997 and prior years	1998	1999	2000	2001	Total	2000 and prior years	2001	Total	Total	2000 and prior years	2001	Total	
Trust funds														
Trust Fund to Combat Desertification and Drought	-	-	19	9	27	55	-	-	-	55	415	-	415	470
Trust Fund for the Global Environment Facility	-	-	-	-	-	-	5 929	-	5 929	5 929	-	11 338	11 338	17 267
Capacity 21 Trust Fund	20	-	-	-	-	20	299	-	299	319	31	-	31	350
UNDP Energy Account	-	-	-	-	-	-	630	266	896	896	-	-	-	896
Government of Germany Trust Fund for the UNDP/World Bank Energy Sector Management Assistance Programme	48	1	-	-	-	49	-	-	-	49	-	-	-	49
UNDP Trust Fund in Support of the Activities of the World Commission on Forests and Sustainable Development	-	74	-	-	-	74	-	-	-	74	-	-	-	74
UNDP Trust Fund for the World Summit on Social Development	262	-	-	-	-	262	-	-	-	262	-	-	-	262
UNDP/EEC Trust Fund for Sustainable Energy as a Tool for Development for African, Caribbean and Pacific Countries	-	-	63	-	-	63	-	-	-	63	-	-	-	63
UNDP Trust Fund for Angola	-	-	-	-	-	-	-	-	-	-	2 158	-	2 158	2 158
UNDP Trust Fund for Rwanda	-	-	-	1 781	-	1 781	-	-	-	1 781	-	-	-	1 781
UNDP Trust Fund to Support the Peace Process in North Mali	4	-	-	-	-	4	-	-	-	4	-	-	-	4

	<i>Voluntary contributions</i>						<i>Cost-sharing contributions</i>			<i>Contributions to sub-trust funds</i>				<i>Total contributions due</i>
	<i>1997 and prior years</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>Total</i>	<i>2000 and prior years</i>	<i>2001</i>	<i>Total</i>	<i>Total</i>	<i>2000 and prior years</i>	<i>2001</i>	<i>Total</i>	
UNDP Trust Fund for the United Nations Educational and Training Programme for Southern Africa	2	-	4	2	-	8	-	-	-	8	-	-	-	8
EEC Trust Fund for the Africa 2000 Network Programme: grants in Burkina Faso, Cameroon and Uganda	-	125	-	-	-	125	-	-	-	125	-	-	-	125
UNDP/Novib/Group of Resource Persons for Awareness Creation for Environment and Sustainable Development in Asia	18	-	-	-	-	18	-	-	-	18	-	-	-	18
UNDP/EEC Trust Fund Agreement for Multi-Donor Partner Support to the Mekong River Commission for Key Officer Posts and Capacity-Building	-	120	-	-	-	120	-	-	-	120	-	-	-	120
Trust Fund for the Aral Sea Basin Programme	97	-	-	-	-	97	-	-	-	97	-	-	-	97
UNDP/EEC Trust Fund for the Pilot Programme Brazil Technical Assistance Project	26	-	-	-	-	26	-	-	-	26	-	-	-	26
EEC Trust Fund for "Reserva de la Biosfera — Bañados del Este en Uruguay"	-	-	-	181	-	181	-	-	-	181	-	-	-	181
UNDP Fund for the Programme of Assistance to the Palestinian People	-	495	3 346	-	-	3 841	-	-	-	3 841	-	-	-	3 841
UNDP/EEC Trust Fund for the population and housing census in the Syrian Arab Republic	-	-	183	-	-	183	-	-	-	183	-	-	-	183
UNDP/EC ministerial programme on poverty and environment	-	-	-	68	-	68	-	-	-	68	-	-	-	68



	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1997 and prior years	1998	1999	2000	2001	Total	2000 and prior years	2001	Total	Total	2000 and prior years	2001	Total	
EEC Trust Fund for Forest Management to Support Sustainable Livelihoods in Cameroon, Guyana and Malawi	-	-	-	598	-	598	-	-	-	598	-	-	-	598
EEC Trust Fund for Support to the Parliamentary and Presidential Elections in Suriname	-	-	-	-	245	245	-	-	-	245	-	-	-	245
EEC Trust Fund for Croatia: Programme for the Return of Displaced Persons and Refugees to Eastern Slavonia and Banovina	-	-	-	349	-	349	-	-	-	349	-	-	-	349
EEC (ECHO) Trust Fund for Strengthening of coping capacities of populations affected by the Maramara earthquake in Turkey	-	-	-	-	25	25	-	-	-	25	-	-	-	25
EEC (ECHO) Trust Fund Agreement for comprehensive shelter and sanitation for the earthquake-affected in Turkey	-	-	-	-	27	27	-	-	-	27	-	-	-	27
EEC Trust Fund for the Integrated Return Programme for the Central Bosnia Canton	-	-	-	-	642	642	-	-	-	642	-	-	-	642
EEC Trust Fund for Support to Observation of the Election Process in Côte d'Ivoire	-	-	-	-	307	307	-	-	-	307	-	-	-	307
EEC Trust Fund for Support to Social Infrastructure Projects — rehabilitation of 3.5 km roadway from Port de Paix to Jean Rabel, Haiti	-	-	-	897	-	897	-	-	-	897	-	-	-	897
EEC Trust Fund for the South Caucasus Anti-Drug Programme	-	-	-	178	-	178	-	-	-	178	-	-	-	178

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1997 and prior years	1998	1999	2000	2001	Total	2000 and prior years	2001	Total	Total	2000 and prior years	2001	Total	
EEC Trust Fund for Mediterranean Urban Waste Management Programme	-	-	-	-	314	314	-	-	-	314	-	-	-	314
EEC (ECHO) Trust Fund for Security Operation for Operation Lifeline Sudan, Northern Sector	-	-	-	-	25	25	-	-	-	25	-	-	-	25
UNDP/SIDA Trust Fund for Assistance to UNDP-Specific Activities	-	-	-	-	18 961	18 961	-	-	-	18 961	-	-	-	18 961
EEC Trust Fund for Support to Election Observation in the United Republic of Tanzania	-	-	-	93	-	93	-	-	-	93	-	-	-	93
EEC (ECHO) Trust Fund for Emergency Assistance to Drought-affected Farmers in Armenia	-	-	-	-	36	36	-	-	-	36	-	-	-	36
EEC (ECHO)/Jamaica Trust Fund for Community Disaster Management Strengthening Programme	-	-	-	-	45	45	-	-	-	45	-	-	-	45
EEC Trust Fund for Support to the Electoral Process in Chad	-	-	-	-	174	174	-	-	-	174	-	-	-	174
EEC Trust Fund for Emergency Mine Action in Mozambique	-	-	-	-	810	810	-	-	-	810	-	-	-	810
EEC Trust Fund for "Millènaire pour l'Afrique"	-	-	-	-	35	35	-	-	-	35	-	-	-	35
EEC Trust Fund for China Training Programme on Village Governance	-	-	-	-	544	544	-	-	-	544	-	-	-	544
EEC Trust Fund for Temporary Shelter for the Poor and Vulnerable Groups in Gujarat, India	-	-	-	-	137	137	-	-	-	137	-	-	-	137

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contribu- tions due
	1997 and prior years	1998	1999	2000	2001	Total	2000 and prior years	2001	Total	Total	2000 and prior years	2001	Total	
EEC Trust Fund for Support to the Electoral Process in Comoros	-	-	-	-	137	137	-	-	-	137	-	-	-	137
<b>Total of trust funds</b>	<b>477</b>	<b>815</b>	<b>3 615</b>	<b>4 156</b>	<b>22 491</b>	<b>31 554</b>	<b>6 858</b>	<b>266</b>	<b>7 124</b>	<b>38 678</b>	<b>2 604</b>	<b>11 338</b>	<b>13 942</b>	<b>52 620</b>
<b>Funds</b>														
United Nations Capital Development Fund	-	-	185	10 594	3 175	13 954	-	-	-	13 954	-	-	-	13 954
United Nations Fund for Science and Technology for Development	-	-	19	-	-	19	-	-	-	19	-	-	-	19
United Nations Development Fund for Women	-	2 699	2 439	23	373	5 534	2 736	2 303	5 039	10 573	1 027	-	1 027	11 600
United Nations Volunteers programme	-	-	-	-	6 954	6 954	-	-	-	6 954	290	-	290	7 244
<b>Total of funds</b>	<b>-</b>	<b>2 699</b>	<b>2 643</b>	<b>10 617</b>	<b>10 502</b>	<b>26 461</b>	<b>2 736</b>	<b>2 303</b>	<b>5 039</b>	<b>31 500</b>	<b>1 317</b>	<b>-</b>	<b>1 317</b>	<b>32 817</b>
<b>Grand total</b>	<b>477</b>	<b>3 514</b>	<b>6 258</b>	<b>14 773</b>	<b>32 993</b>	<b>58 015</b>	<b>9 594</b>	<b>2 569</b>	<b>12 163</b>	<b>70 178</b>	<b>3 921</b>	<b>11 338</b>	<b>15 259</b>	<b>85 437</b>

The accompanying notes are an integral part of the financial statements.