



United Nations

**Fund of the United Nations
Environment 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. 5F (A/57/5/Add.6)**

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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.

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Letters of transmittal

31 March 2002

I have the honour to transmit the financial report and accounts of the United Nations Environment Programme, including associated trust funds and other related accounts for the biennium ended 31 December 2001, which I hereby approve.

The financial statements of the United Nations Environment Programme for the biennium ending 31 December 2001 have been prepared in accordance with financial rule 111.4 of the United Nations and financial rule 213.3 of the United Nations Environment Programme.

A summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarifications on the financial activities undertaken by the organization during the period covered by these statements for which the Secretary-General has administrative responsibility.

Copies of these statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(Signed) Klaus **Töpfer**
Executive Director
United Nations Environment Programme

The Chairman of the Board of Auditors
United Nations
New York, NY 10017

27 June 2002

I have the honour to transmit to you the financial statements of the Fund of the United Nations Environment Programme for the biennium ended 31 December 2001, which were submitted by the Executive Director. 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

Introduction

1. The Executive Director has the honour to submit herewith the financial report, together with the accounts, of the Fund of the United Nations Environment Programme (UNEP), including associated trust funds, and of the related accounts for the biennium ended 31 December 2001. The accounts consist of 12 statements supported by 6 schedules and notes to the financial statements. These accounts were transmitted to the Board of Auditors on 31 March 2002.

2. The financial period of the organization consists of two consecutive calendar years, the first one being an even year. The interim accounts for the first year of the biennium 2000-2001 were made available to the Governing Council at its twenty-first session. The Board of Auditors conducted an interim audit on these accounts and did not report to the Advisory Committee on Administrative and Budgetary Questions any situations that should be brought to the attention of Member States.

3. Comparative figures for the biennium 1998-1999, as appropriate, have been reflected in the financial statements. The length of the financial report has been kept to the minimum in accordance with United Nations guidelines.

4. The financial statements and schedules, as well as the notes thereon, are an integral part of the financial report.

Levels of appropriations, allocations/allotments, expenditures and commitments

5. The Governing Council, in its decision 20/31 of 4 February 1999, approved an appropriation of Fund resources in 2000-2001 of \$100 million for Fund programme activities, \$5 million for Fund programme reserve activities and \$14.23 million for the management and administrative support costs budget.

6. Total appropriations, allocations/allotments and expenditures for the biennium ended 31 December 2001 were as follows (in United States dollars):

	<i>Appropriations</i>	<i>Allocations/ allotments issued</i>	<i>Expenditures</i>	<i>Unexpended appropriations</i>	<i>Unexpended allocations/ allotments</i>
Fund programme activities	100 000 000	90 000 000	89 567 971	10 432 029	432 029
Fund programme reserve activities	5 000 000	5 000 000	4 829 192	170 808	170 808
Management and administrative support costs	14 234 300	12 502 500	11 936 493	2 297 807	566 007
Total	119 234 300	107 502 500	106 333 656	12 900 644	1 168 844

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the Fund of the United Nations Environment Programme (UNEP) at the Nairobi headquarters and the Geneva and Mexico City Regional Offices of UNEP. The Board has also audited the financial statements of the Fund of UNEP for the period from 1 January 2000 to 31 December 2001.

The Board's main findings are as follows:

(a) The declining reserves and fund balance and the current balance of the financial reserve of the Environment Fund may not sustain the requirement of the \$8 million construction loan;

(b) Investment valued at \$2.3 million was reported separately in the financial statements instead of as part of the cash pool, since the Trust Fund for the Convention on International Trade in Endangered Species of Wild Fauna and Flora deals directly with the United Nations Treasury for its investments, raising the issue of harmonizing investment procedures and reporting;

(c) Bank transfer transactions valued at \$2.23 million appearing as reconciling items remained unrecorded as at 31 December 2001;

(d) The biennium end balance of financial reserve is only \$10 million, or 50 per cent below the authorized level;

(e) Data errors on completion dates and actual reported expenditures in the Project Management System (PMS) due to Integrated Management Information System (IMIS)/PMS interfacing problems may affect the reliability of the information in PMS-generated reports;

(f) There is a need to continually assess the efficiency and effectiveness of the terms of agreement and explore ways to optimize the accounting and financial services provided to the UNEP Regional Office for Latin America and the Caribbean by the Economic Commission for Latin America and the Caribbean (ECLAC), with a view to deciding that the agreement is based on cost-effectiveness and efficiency in the future.

The Board made recommendations to improve investment procedures, update the recording of bank reconciling items, ensure agreement of databases and assess the efficiency and effectiveness of administrative arrangements with ECLAC.

A list of the Board's recommendations is included in paragraph 12 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the Fund of the United Nations Environment Programme (UNEP) for the period from 1 January 2000 to 31 December 2001, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article XIV of the Financial Rules of UNEP. The audit has been conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto, and with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing 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 period from 1 January 2000 to 31 December 2001 had been incurred for the purposes approved by the General Assembly; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNEP 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 the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at UNEP headquarters at Nairobi and the UNEP Regional Offices for Europe and for Latin America and the Caribbean at Geneva and Mexico City, respectively.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews included the efficiency of the internal financial controls, programme management and, in general, the administration and management of UNEP.

5. The functions relating to human resources management and other staff-related services, finance operations, general support services, including contracts and procurement, and information facilities were transferred to the United Nations Office at Nairobi with effect from 1 January 1996.

6. The Board continued its practice of reporting the results of specific audits to the Administration of UNEP through management letters containing detailed observations and recommendations. The practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

1. Previous recommendations not fully implemented

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board noted that there had been only one recommendation outstanding prior to the biennium 1996-1997. The Board had recommended in the bienniums 1990-1991 and 1994-1995 that UNEP ensure timely closure of completed projects. The Board further comments on that matter in paragraphs 42 to 44 of the present report.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to

implement the recommendations made in its report for the biennium ended 31 December 1999. Details of the action taken and the comments of the Board are set out in the annex to the present report.

9. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving 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 with 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.

The Board noted that UNEP had generally complied with those requirements.

10. A summary of main recommendations is contained in paragraph 12. The detailed findings of the audit are reported in paragraphs 14 to 55.

11. 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 report were communicated to the Administration, which has confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to its queries. The report covers the audit of both financial and management issues.

2. Main recommendations

12. The Board's main recommendations are that the Administration:

(a) **Verify the status of the investments made by the Convention on International Trade in Endangered Species of Wild Fauna and Flora in the cash pool, including the delegation of authority, with a view to harmonizing UNEP's procedures in managing and reporting investments (para. 21);**

(b) **Resolve all reconciling items identified during the preparation of monthly bank reconciliation statements and make the necessary adjustments in the books of accounts (para. 25);**

(c) **Ensure that the databases of the Project Management System and the Integrated Management Information System remain in agreement until the interface between the two systems is completed (para. 36);**

(d) **Continuously assess the efficiency and effectiveness of the implementation of the terms of agreement and explore ways to optimize the accounting and financial services provided by the Economic Commission for Latin America and the Caribbean with a view to basing the agreement on cost-effectiveness and efficiency in the future (para. 53).**

13. The Board's other recommendations are presented in paragraphs 38, 41, 44, 48 and 50.

B. Financial issues

1. Financial overview

14. The financial statements of UNEP cover the major funds — the Environment Fund, general trust funds, the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer, Technical Cooperation Trust Funds and other trust funds. **In terms of results of operations for the biennium 2000-2001, the Environment Fund reported a total income of \$95.1 million against expenditures of \$106.33 million, showing a net shortfall of \$11.23 million (12 per cent), as compared with a net excess of income over expenditures of \$14.59 million in the biennium 1998-1999.** Voluntary contributions decreased from \$96.3 million in 1998-1999 to \$84.74 million (12 per cent) in the biennium 2000-2001. The advances to implementing partners under the Environment Fund decreased from \$7.40 million in 1998-1999 to \$2.41 million (67.43 per cent) in 2000-2001. On the other hand, the advances from implementing partners that the Environment Fund handles increased from \$9.88 million in 1998-1999 to \$10.89 million in 2000-2001.

15. The General Fund showed a net excess of income over expenditure of \$24.48 million for the biennium 2000-2001, compared with \$9.76 million for 1998-1999. This was mainly brought about by the increase of 35 per cent in voluntary contributions, from \$69.31 million in 1998-1999 to \$93.95 million in 2000-2001. The increase of expenditures was \$13.34 million (21 per cent) over the recorded expenditures of \$62.75 million in 1998-1999.

16. **The Multilateral Fund reported a shortfall of income relative to expenditures of \$32.24 million, compared with an excess of income over expenditures of \$102.95 million in the biennium 1998-1999.** The total income of \$321.21 million in 2000-2001 represented a decrease of \$1.83 million, attributable to the decrease in voluntary contributions from \$296.09 million to \$277.72 million. At the same time, advances to implementing partners showed a decrease of 33 per cent, from \$322.83 million in 1998-1999 to \$217.07 million in 2000-2001.

17. The total income reported in biennium 2000-2001 under the Technical Cooperation Trust Funds increased to \$109.93 million, from \$59.25 million in the previous biennium, as a result of the increase in voluntary contributions, recorded at \$105.22 million, a gain of 89.21 per cent over the \$55.61 million of the previous biennium. The reported income sufficiently covered the expenditures, leaving an excess of income over expenditures of \$41.46 million.

2. United Nations system accounting standards

18. The Board assessed the extent to which the financial statements of UNEP for the biennium 2000-2001 conform with the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards.

3. Financial statements

Investments in the cash pool

19. The Board noted that the financial statements of the general trust funds, specifically the Trust Fund for the Convention on International Trade in Endangered

Species of Wild Fauna and Flora (CITES), included an amount of \$3.9 million as a separate investment account instead of as part of the cash and term deposits. This is inconsistent with the disclosure of other similar assets. The investment by CITES is outside of the UNEP investment pool, and CITES deals directly with the United Nations Headquarters Treasury for its United States-dollar investments, while CITES handles the Swiss-franc portion by itself.

20. UNEP could not confirm to the Board whether or not CITES has been delegated separate authority to deal directly with the United Nations Treasury for cash pool investments as required in common principles and policies for investments.

21. The Board recommended that the Administration verify the status of the investments made by CITES in the cash pool, including the delegation of authority, with a view to harmonizing UNEP's procedures for managing and reporting on investments, and the Administration agreed to do so.

22. The Administration expressed its appreciation of the need for a common investment policy and its intention to hold further discussions with CITES on this matter.

Bank reconciliation

23. The Board verified the bank reconciliation statements as at 31 December 2001 and noted some credit transactions in March, May, June and October 2001, valued at \$2.29 million, that remained unrecorded as at 31 December 2001. The Administration informed the Board that the credits related to transfers between different UNEP bank accounts. UNEP had incorrectly assumed that the originating documents would record the credits as well as the debits in the bank account ledgers. Further review by the Board revealed that of this amount, \$2.23 million related to the United Nations Fund for the Montreal Protocol. The Board also noted reconciling items resulting from accounting entry errors in cash transfers amounting to \$0.1 million.

24. The Board expressed concern that allowing these reconciling items, including those antedating the conversion to IMIS on 17 July 2001 and involving some \$0.05 million, to remain unresolved for such a long time could result in their accumulation and could make verification difficult.

25. The Board recommended that the Administration promptly resolve all reconciling items identified during the preparation of monthly bank reconciliation statements and make the necessary recording and/or adjustment in the books of accounts, and the Administration agreed to do so.

4. Write-off of losses of cash, accounts receivable and property

26. During the biennium ended 31 December 2001, UNEP wrote off receivables totalling \$1.07 million on the basis of the approval of the Executive Director. The write-offs represented receivables from staff and non-staff valued at \$0.4 and \$0.07 million, respectively, and \$0.6 million in unidentified receivables.

27. The Board commends the Administration for its initiative to establish the collectability of, and to recover, some \$0.96 million in receivables previously identified as doubtful debts.

5. Ex gratia payments

28. The Administration informed the Board that no ex gratia payments had been made during the biennium 2000-2001.

C. Management issues

1. Financial reserve

29. Rule 209.2 of the Financial Rules of the Environment Fund provides that the purpose of the financial reserve is to guarantee the financial liquidity and integrity of the Fund, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the Governing Council. The level of financial reserve is determined from time to time by the Governing Council. In paragraph 14 of decision 20/31, the Council authorized the Executive Director to further increase the level of financial reserve from \$10 million to \$20 million as and when carry-over resources over and above those needed to implement the approved programme become available.

30. As at 31 December 2001, reserves and fund balances amounted to \$14.77 million, compared with \$20.27 million as at the end of the biennium 1998-1999. The balance of financial reserve appearing in the financial statements is only \$10 million, or 50 per cent of the level of financial reserve authorized by the Governing Council.

31. In February 2001, the Governing Council authorized the Executive Director to approve an advance of up to \$8 million from the Environment Fund financial reserve to the United Nations Secretariat on a loan basis towards the construction of additional office accommodation, subject to and without prejudice to the final approval of the construction by the Advisory Committee on Administrative and Budgetary Questions and, as appropriate, other competent authorities, in accordance with United Nations rules and procedures. In December 2001 the Advisory Committee approved the Secretary-General's request to enter into commitments in an amount not exceeding \$1.4 million to finance the costs associated with the first phase of the project against the \$8 million loan from the UNEP Environment Fund authorized by the UNEP Governing Council. As at April 2002, the agreement between United Nations Headquarters and UNEP on the construction loan of \$8 million had not been signed.

32. The Board is concerned that the declining reserves and fund balance and the current balance of the financial reserve may not sustain the requirement of the \$8 million construction loan. The financial reserve will be down to \$2 million when the loan agreement is signed, and the reserves and fund balances of \$16 million will not cover a quarter of the biennial expenditure of the Environment Fund at the present level of spending.

2. Programme management

33. The Administration has been using the Project Management System (PMS) as the main project information, reporting and management tool for more than 20 years. With the implementation of IMIS in July 2001, PMS now generates reports using information retrieved from IMIS databases.

34. PMS allows the generation of a compendium of projects showing information relating to their financial and physical status. At least 65 projects with a total cost of

\$80.92 million as at 31 December 2001 were not completed within the original and/or revised duration. The Administration explained that projects remain open for reasons such as substantial unliquidated obligations and delayed disposal of equipment.

35. The Board noted that the total expenditures appearing in the compendium for 20 projects valued at \$20.38 million did not reconcile with the recorded expenditures in the books of accounts, showing a difference of \$0.96 million. The Administration explained that the discrepancy in expenditures was due to some technical problems during the transfer of expenditure data into the new system. Another reason provided was that only the 2001 ongoing project commitments and expenditures and the 2000 unliquidated obligations were transferred. Also, in 16 cases, due to “crosswalking” problems, the correct completion dates from IMIS were not reflected in PMS. As at April 2002, the systems were in parallel, the intention of the Administration being to “crosswalk” gradually all available PMS data into IMIS.

36. The Board recommends that the Administration ensure that the databases of the two systems remain in agreement until the interface between the Project Management System and the Integrated Management Information System is complete. The Board also recommends that the Administration close completed projects on a timely basis.

3. Approval of projects

37. The Board reviewed projects started in the year 2000 and noted that of the 68 projects, 4 had started before the approval of the project documents, 11 had started before the acceptance of the project documents and 6 had started before both approval and acceptance. The Administration explained that the gap between starting date and the date of approval or final signature was due mainly to the length of time needed to get a project signed by the implementing organization.

38. In April 2001, the Board recommended, and the Administration agreed, that projects should be approved before they are started. The Board also recommended that UNEP establish a reasonable lead time for the review and approval of project documents.

39. Following that recommendation, as at April 2002, the Administration commented that its Project Approval Group was already paying particular attention to the proposed starting date of each proposed project to prevent projects from starting before they were formally approved, and that a memorandum had been sent in September 2001 to alert all concerned that the average lead time required for approval of a project, once drafted and submitted for review, was four weeks. The Administration ensured that in all instances cash advances were not paid to implementing agencies before a project was formally approved.

40. However, despite the actions taken by the Administration, the Board noted that there were still cases of late signature of projects caused by a lengthy approval process in implementing organizations. An examination of three sample projects with a total cost of \$1.42 million revealed that the approval of the implementing agencies took two to four months from the date the project documents had been sent to them for approval.

41. The Board recommends that the Administration ensure that projects are first approved before they are started and that it establish a reasonable lead time for the review and approval of project documents.

4. Closure of inactive projects

42. As at 31 March 2002, UNEP had 100 inactive but unclosed projects, a decrease from a total of 254 as at 31 December 1999. These projects had been inactive for up to 15 years but had not been closed due to the non-submission of project reports as required by the UNEP Project Formulation, Approval, Monitoring and Evaluation Manual. The reports that remained outstanding included 11 audited financial reports, 42 evaluation fact sheets for external projects, 33 final reports for internal projects and 18 inventories of non-expendable equipment.

43. Out of \$18.68 million for projects to be covered by 78 audit certificates, 67 certificates valued at \$16.95 million had been received as at 31 March 2002. UNEP commented that it would continue to make concerted efforts to obtain the remaining 11 audit certificates.

44. The Board recommends that the Administration continue reviewing the causes for the non-submission of the required reports to facilitate the closure of inactive projects.

5. Environmental issues

45. The Board reviewed UNEP's environmental policy and noted that UNEP prepares policy documents as part of its mandate as the leading United Nations organization on environment. UNEP consults with other United Nations agencies, the United Nations System Chief Executives Board (formerly the Administrative Committee on Coordination) subcommittees, the Environmental Management Group and the Ecosystem Conservation Group. However, UNEP commented that most United Nations agencies have established an environmental focal point in their institutions to develop their own environmental policies.

46. According to the Administration, activities that involve environmental issues entail financial and technical resources. The Administration reported that it had used \$0.2 million in financial resources for the biennium 2000-2001.

47. The Administration further commented that, while the mandate relating to environment has been given to UNEP, it can neither dictate to nor impose on other United Nations agencies environmental policies and management systems, considering that each of those agencies has its own governing body to give direction.

48. The Board recommends that the Executive Director of UNEP take the initiative in bringing to the attention of the United Nations System Chief Executives Board the possibility of developing a framework to implement environmental policies in the United Nations system.

6. Administrative arrangement with the United Nations Office at Geneva

49. The Board's review of the UNEP Regional Office for Europe showed that the United Nations Office at Geneva (UNOG) provides that Regional Office with administrative, financial and information technology support services. In practice, UNOG's overhead cost is planned at 5 per cent of the total project budget of the Regional Office. For 2000, UNOG charged the Regional Office about \$0.4 million for administrative and financial services and an estimate of \$0.2 million for information technology costs. The total amount of \$0.6 million represented 4.25 per cent of the total Regional Office for Europe project budget. As at April 2002, the

memorandum of agreement between the Regional Office and UNOG for support services was under negotiation.

50. The Board recommends that the Administration speed up the process of finalizing the agreement with the United Nations Office at Geneva for administrative, financial and information technology services.

7. Regional office financial monitoring and reporting

51. During the Board's review of the inter-agency agreement between the UNEP Regional Office for Latin America and the Caribbean and the Economic Commission for Latin America and the Caribbean (ECLAC), the Regional Office informed the Board that the financial processing system was time-consuming and was adversely affecting the delivery of services. For example, payment requests and vouchers prepared at the Regional Office were retyped at ECLAC. Also, in a number of cases, clarifications and special requests for authorization had to be forwarded to UNEP headquarters at Nairobi due to differences in the interpretation of the rules between ECLAC and the Regional Office. The Board also noted that some reports were submitted by ECLAC up to 38 days after the required submission dates.

52. The Regional Office informed the Board that it had been meeting periodically with the administrative and financial officers of ECLAC to address delays in the provision of reports, to clear financial statements and to check on the status of payments. The Regional Office has been working closely with ECLAC consultants to review and streamline the formats of the reports. It plans to discuss the operational problems with ECLAC when the agreement is reviewed.

53. The Board recommends that the Administration continuously assess the efficiency and effectiveness of the implementation of the terms of agreement and explore ways to optimize the accounting and financial services provided by the Economic Commission for Latin America and the Caribbean, with a view to basing the agreement on cost-effectiveness and efficiency in the future.

8. Cases of fraud and presumptive fraud

54. The Administration informed the Board that a case of fraud or presumptive fraud had been reported during the biennium 2000-2001. In November 2000, the Treasury of the United Nations Office at Nairobi issued a UNEP cheque payable to Nairobi Hospital in the amount of 0.19 million Kenya shillings (approximately \$2,000). The authentication performed by the Kenya Commercial Bank and the United Nations Office at Nairobi Treasury revealed that the name of the payee on the cheque had been fraudulently changed to the name of another individual; thus, the check was not honoured.

55. The case was referred to the Office of Internal Oversight Services (OIOS) on 17 January 2001. OIOS has not confirmed the actions taken. In February 2001, to avoid the recurrence of such an incident, the United Nations Office at Nairobi Treasury Section established a new payment procedure whereby payments are effected only through bank transfer.

D. Acknowledgement

56. The Board wishes to express its appreciation for the cooperation and assistance extended to the Auditors by the Executive Director, his officers and members of their staff.

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

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

(Signed) François **Logerot**
First President, Court of Accounts, 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^a

1. The Board has followed up on the actions taken by the Administration to implement the Board's recommendations made in its report for the biennium ended 31 December 1999. Table A.1 summarizes the implementation of all the previous recommendations, and table A.2 details those recommendations under implementation that require further comments from the Board.

2. Of the five audit recommendations contained in the report of the Board of Auditors on the accounts of the United Nations Environment Programme for the biennium ended 31 December 1999, two (40 per cent) were fully implemented and three (60 per cent) were under implementation.

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>
A. Financial issues				
United Nations accounting standards				
Disclosure of accounts receivable and accounts payable	para. 15			
Subtotal				
Number	1	0	0	1
Percentage	100	0	0	100
B. Management issues				
Programme management				
Expenditure control	para. 20			
Inactive projects		para. 25		
Human resources management				
Selection of consultants, roster of consultants		para. 28		
Terms of reference of consultants		para. 32		
Subtotal				
Number	1	3	0	4
Percentage	25	75	0	100
Total				
Number	2	3	0	5
Percentage	40	60	0	100

^a Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5F (A/55/5/Add.6), chap. II.

Table A.2

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

<i>Component/area of concern</i>	<i>Recommendation</i>	<i>Specific management action as at 31 March 2002</i>	<i>Comments of the Board</i>
Programme management Inactive projects, para. 25	Review all inactive projects and take steps to obtain the required documents to make possible the timely closure of all completed projects. Determine the causes of the factors that have prevented the timely closure of projects.	UNEP management and the United Nations Office at Nairobi took steps to obtain the required documents in order to close completed projects. These measures resulted in the closure of 274 projects in 2000-2001. The number of inactive projects as at the end of 2001 amounted to 106, compared with 247 at the end of 1999.	Under implementation. Addressed in paragraphs 42 to 44 of the present report.
Human resources management Roster of consultants, para. 28	Provide the United Nations Office at Nairobi with information needed to maintain a central roster of consultants, which should be used as basis for their selection.	A working group made up of UNEP and Human Resources Management Section representatives has been established. Discussions to develop a format are ongoing. However, a roster of qualified candidates not selected for vacancies has been established.	Under implementation. The Board will keep this under review in future audits.
Terms of reference of consultants, para. 32	Ensure that the terms of reference of consultants include performance indicators by which to assess results.	A working group made up of UN-Habitat, UNEP and United Nations Office at Nairobi representatives proposed standard terms of reference. The recommendations of the report of the working group have not been adopted.	Under implementation. The Board will keep this under review in future audits.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to XII of the United Nations Environment Programme; schedules 1.1 to 1.4, 3.1 and 4.1; and the supporting notes for the biennium from 1 January 2000 to 31 December 2001. These financial statements are the responsibility of the Executive Director of the United Nations Environment Programme at Nairobi. Our responsibility is to express an opinion on these 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 Board of Auditors to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Executive Director, as well as an evaluation of 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 material respects, the financial position at 31 December 2001 and the results of operations and cash flows for the period then ended, in accordance with the organization's stated accounting policies, set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the United Nations Environment Programme, which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations 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 financial statements of the United Nations Environment Programme.

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

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

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

27 June 2002

Chapter IV

Certification of the financial statements

31 March 2002

I certify that the appended financial statements of the United Nations Environment Programme, including the statements of the associated trust funds and other related accounts, numbered I to XII, are correct.

(Signed) Klaus **Töpfer**

Executive Director

United Nations Environment Programme

Chapter V
Financial statements for the biennium ended 31 December 2001

Schedule 1.2	Schedule 1.3	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1
Schedule 1.3	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	
Schedule 1.3	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	
Schedule 1.3	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	Schedule 3.1	Junior Professional Officers Programme
Junior Professional Officers Programme			Junior Professional Officers Programme			Junior Professional Officers Programme

Notes to the financial statements

Note 1

The United Nations Environment Programme and its objectives

On 15 December 1972, the General Assembly adopted resolution 2997 (XXVII), which created the United Nations Environment Programme (UNEP), comprising a Governing Council, a Secretariat, an Environment Fund and a Coordination Board. The primary objectives of UNEP are as follows:

- (a) To promote international cooperation in the field of the environment and to recommend policies to that end;
- (b) To provide general policy guidance for environmental programmes within the United Nations system;
- (c) To keep under review the world environmental situation in order to ensure that emerging environmental problems of wide international significance receive consideration;
- (d) To promote the acquisition, assessment and exchange of environmental knowledge and information and to provide technical advice on the formulation and implementation of environmental programmes within the United Nations system;
- (e) To review the impact of national and international environmental policies on developing countries as well as the problem of additional costs of implementation in developing countries and to ensure the compatibility of environmental programmes and projects with the plans and priorities of those countries;
- (f) To advise intergovernmental bodies of the United Nations system on the formulation and implementation of environmental programmes;
- (g) To secure the effective cooperation of contributions from relevant scientific and other professional communities;
- (h) To finance, wholly or partly, new environmental initiatives undertaken within and outside the United Nations system so as to fulfil the policy-guidance role of UNEP;
- (i) To finance programmes of general interest, such as monitoring, assessment, data-collecting systems, improvement of environmental quality management, environmental research, information exchange and dissemination, public education and training, environmental institutions, and technological development suited to economic growth compatible with environmental safeguards;
- (j) To coordinate environmental programmes within the United Nations system, review their implementation and assess their effectiveness;
- (k) To report on the cooperation and coordination among all bodies concerned in the implementation of environmental programmes.

Note 2

Summary of significant accounting policies

- (a) The accounts of UNEP are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules

formulated by the Secretary-General as required under the Regulations, specific decisions of the Governing Council of UNEP and administrative instructions. They also take fully into account the United Nations system accounting standards, as adopted by the Administrative Committee on Coordination (ACC) (now called the United Nations System Chief Executives Board for Coordination). The Organization follows international accounting standards on the disclosure of accounting policies, as modified and adopted by ACC as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is 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 should be an integral part of the financial statements. The policies should normally be disclosed in one place;
- (v) Financial statements should show comparative figures for the corresponding preceding financial period;
- (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified;
- (b) The Organization's accounts are maintained on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature;
- (c) The financial period of the Organization is a biennium consisting of two consecutive calendar years for all funds;
- (d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting;
- (e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of transaction at rates of exchange established by the Under-Secretary-General for Management. In respect of such currencies, the financial statements prepared at such intervals as may be prescribed by the Controller under delegation of authority from the Under-Secretary-General for Management shall reflect the cash, investments, unpaid pledges, and current accounts receivable and payable in currencies other than the United States dollar translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the valuation resulting from the application of the Organization's rates of exchange for the last month of the financial period, the difference will be quantified in a footnote;

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services;

(g) The results of the Organization's operations presented in statements I and II are shown in summary by general type of activity as well as on a consolidated basis for funds other than those that are reported on separately. Their presentation on a consolidated basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds;

(h) The regular budget of the United Nations meets part of the costs of the secretariat of the United Nations Environment Programme, established under resolution 2997 (XXVII). Details of that expenditure may be found in the financial report and audited financial statements of the United Nations. They are not considered further in this report;

(i) Income:

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Pledges to the Environment Fund remaining unpaid after four years are written off with the approval of the Governing Council. Pledges to trust funds that involve the share of a party or parties for a budget convention that has been approved by the Governments are written off with the approval of the relevant conference of parties. Finally, pledges to trust funds that are purely voluntary are written off with the approval of the Executive Director of UNEP;

(ii) Income received under inter-organization arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered includes reimbursements for salaries of staff members and other costs that are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts and investment income earned on investments in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income;

(vi) Miscellaneous income includes refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified, uncashed cheques one year from their date of issuance, interest from counterpart contributions to the Environment Fund and other sundry income;

(vii) Income for future financial periods is not credited to the current financial period and is recorded as deferred income, as referred to in item I (ii) below;

(j) Expenditure:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in item 1 (iv) below;

(k) Assets:

(i) Cash and term deposits comprise funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Investments include term deposits in the cash pool. Short-term investments are stated at cost or market value, whichever is lower;

(iii) The United Nations Headquarters cash pool comprises participating funds' share of the cash and term deposits, short-term investments and accrual of investment income, all of which are managed in the pool. The investments in the pool are similar in nature and are accounted for as stated in item (k) (ii) above. Income earned on the investments of the cash pool and the costs associated with the operation of these investments are allocated to participating funds. Each participating fund's share in the cash pool is reported separately, in its own statement;

(iv) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period and that will be charged as expenditure in a subsequent period. These expenditure items include commitments approved for future financial periods in accordance with financial rule 110.6. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations in respect of which long lead times are required for delivery;

(v) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proof of entitlement is produced, at which time the budgetary accounts are charged and the advances settled;

(vi) Maintenance and repairs of assets are charged against the appropriate budgetary accounts. Furniture, equipment and other non-expendable property are not included in the assets of the organization. Acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is recorded in memorandum accounts, and is disclosed in note 7 below;

(l) Liabilities, reserves and fund balances:

(i) Operating and other types of reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Deferred income includes pledged contributions for future periods and other income received but not yet earned;

(iii) Commitments of the organization relating to prior, current, and future financial periods are shown as unliquidated obligations. Current period obligations related to special accounts remain valid for 12 months following the end of the biennium to which they relate. Obligations for most technical cooperation activities remain valid for 12 months after the end of each calendar year;

(m) Financial reserve. As stated in rule 209.2 of the Financial Rules of the Environment Fund, the purpose of the financial reserve is to guarantee the financial liquidity and integrity of the Fund, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the Governing Council. The level of financial reserve is determined from time to time by the Governing Council, and the Council, in its decision 20/31, paragraph 14, authorized the Executive Director to further increase the level of the financial reserve to \$20 million as and when carry-over resources over and above those needed to implement the programme approved become available;

(n) Operational reserve. With regard to the special account for programme support costs, an operational reserve is required to be held to protect against unforeseen shortfalls in delivery, inflation and currency adjustments or to liquidate legal obligations in case of abrupt terminations of activities financed from extrabudgetary resources;

(o) Revolving Fund. The Governing Council, by its decision 11/(III) of 22 March 1974, established a Revolving Fund (Information) to finance the production of materials in support of national programmes of public information and education in the environment field. The Council further decided that the income from the sale or rental of information materials the production of which was financed from the Revolving Fund (Information) shall be credited to that Fund. Any cumulative surplus in excess of \$200,000 is transferred to the Environment Fund;

(p) Project expenditures with respect to UNEP projects undertaken by cooperating agencies and supporting organizations are recorded in the UNEP accounts on the basis of actual expenditure of funds reported by them to UNEP. Expenditures include the unliquidated obligations of cooperating agencies. The unspent balances of the remittances held by agencies and organizations are recorded as advances in the UNEP accounts;

(q) Contingencies. No provision is made in the Environment Fund for end-of-service benefits, including accrued annual leave, and for post-retirement benefits. However, provision to meet contingent liabilities for compensation payments under appendix D to the Staff Rules of the United Nations for the personnel financed from trust funds and the Environment Fund has been made and is calculated on the basis of 1 per cent of the net base pay;

(r) Trust funds. UNEP follows the general provisions of the Secretary-General's bulletin on the establishment and management of trust funds (ST/SGB/188) and its supporting administrative instructions (ST/AI/285 and ST/AI/286), although, as indicated in paragraph 3 of ST/SGB/188, that bulletin does not apply to funds such as the Fund of the United Nations Environment Programme, which are subject to the administrative authority of their executive heads;

(s) At the eleventh meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol, it was decided that promissory notes constituted committable resources and that the deposit of a promissory note would be considered to be payment of a country's contribution to the Multilateral Fund. Consequently, promissory notes received from member countries have been reflected accordingly in the accounts of the Fund;

(t) The United Nations Environment Programme is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Organization to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. As at the date of the current financial statement, the Assembly has not invoked that provision.

Note 3

Financial reporting by agencies and supporting organizations

All agencies and organizations, except 12, engaged in the implementation of projects funded by UNEP and/or its associated trust funds reported their expenditures as at 31 December 2001.

Note 4

Cash flow summary

Statement II is based on the indirect method of cash flow statements covered by international accounting standard 7.

Note 5

Environment Fund (statement I)

(a) Accounts receivable. The following comparison of the accounts receivable appears in statement I as at 31 December 2001 and 1999 (in United States dollars):

	2001	1999
Voluntary pledges receivable	2 038 174	504 154
Governments	258 555	-
Staff members	3 417 288	3 297 522
Vendors	645 408	6 237 169
Specialized agencies	19 325	-
Other United Nations agencies	3 037 416	-
Other	138 243	1 464 187
Provision for doubtful debts	-	(1 695 714)
Total	9 554 409	9 807 318

(b) Deferred charges. The totals below provide a comparison of the amounts shown in statement I as deferred charges, as at 31 December 2001 and 1999 (in United States dollars):

	2001	1999
Education grant advances	516 222	746 474
Commitments against future years	17 787	182 264
Advance to finance self-liquidating activities	-	59 798
Other	24 179	211 924
Total	558 188	1 200 460

(c) Accounts payable. The following comparison of the accounts payable appears in statement I as at 31 December 2001 and 1999 (in United States dollars):

	2001	1999
Governments	368 207	-
Staff members	447 578	784 801
Vendors	1 332 057	1 734 188
Specialized agencies	41 267	-
Other United Nations agencies	5 379 056	-
Others	101 386	1 690 015
Total	7 669 551	4 209 004

Note 6

Inter-fund balances

Inter-fund balances reflect transactions between the Environment Fund, trust funds, other special accounts, the United Nations General Fund and other United Nations funds that are normally settled periodically. The agreed liability to the United Nations General Fund was settled as at 30 June 2001. The following table provides a breakdown of the inter-fund balances (in United States dollars):

	2001	1999
<i>Inter-fund balances receivable</i>		
Environment Fund (statement I)	11 379 531	-
General trust funds (statement III)	4 341 362	1 165 876
Technical Cooperation Trust Funds (statement V)	3 522 909	658 824
Junior Professional Officers Programme (statement VI)	1 010 635	41 501
Special account for programme support (statement VIII)	2 510 042	-
Counterpart contributions (statement IX)	1 622 515	-
Non-convertible currency counterpart contributions — Mediterranean (statement X)	548 183	409 819
Non-convertible currency counterpart contributions — Caribbean (statement XI)	73 624	34 159

	2001	1999
Revolving Fund (Information) (statement XII)	171 699	199 723
Subtotal	25 180 500	2 509 902
<i>Inter-fund balances payable</i>		
Environment Fund (statement I)	-	25 647 767
General trust funds (statement III)	14 566 611	7 590 780
Multilateral Fund (statement IV)	273 685	569 011
Technical Cooperation Trust Funds (statement V)	13 220 554	4 142 166
Junior Professional Officers Programme (statement VI)	341 216	548 642
Sasakawa Environment Prize (statement VII)	80 478	33 026
Special account for programme support (statement VIII)	-	1 014 818
Counterpart contributions (statement IX)	194 776	4 055 875
Subtotal	28 677 320	43 602 085
Net inter-fund payable	3 496 820	41 092 183
Inter-fund payables are due to:		
The United Nations Office at Nairobi	1 276 427	31 800
UN-Habitat	2 060 449	-
United Nations General Fund	159 943	41 060 383
Total	3 496 820	41 092 183

Note 7**Non-expendable property**

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Organization but is charged against current appropriations when acquired. The following table shows the value of non-expendable property (in United States dollars):

	2001	1999
UNEP headquarters	9 178 747	8 197 927
UNEP regional and outposted offices	3 529 026	1 627 650
UNEP projects	1 370 237	604 531
Total	14 078 010	10 430 108

Note 8**Reserves and fund balances**

The cumulative surplus account of the United Nations Environment Programme represents savings in the liquidation of obligations for prior periods, contributions from Member States and other designated income.

Note 9**Write-off of receivables and provision for doubtful debts**

In accordance with the Financial Rules, and after full investigation, further uncollectable receivables amounting to \$1,074,835 have been written off against the provision established in 1999. In each case it was determined, in the light of facts known at the time that (a) responsibility for the loss could not be fixed and attached to any United Nations official, (b) every effort had been made to collect the amount, and (c) further collection efforts would be fruitless. The remaining provision of \$961,310 was released to the prior year adjustments account.
