



United Nations

United Nations Development Programme

Financial report and audited financial statements

**for the biennium ended
31 December 2003 and**

Report of the Board of Auditors

General Assembly

Official Records

Fifty-ninth Session

Supplement No. 5A (A/59/5/Add.1)

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United Nations • New York, 2004

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 and certification

30 April 2004

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 2003, 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 charged 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

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations Development Programme for the biennium 2002-2003 ended 31 December 2003, which were submitted by the Administrator. These statements have been examined by 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, including an audit opinion thereon.

(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 2003

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 2003 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, statements as submitted for audit or unaudited statements were provided by the following executing agents:

- 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
- Food and Agriculture Organization of the United Nations
- 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 (UN-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
World Tourism 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 2001. Changes in accounting policies, if any, are disclosed appropriately in note 2.

Presentation of accounts

5. Following the recommendation by the Administrative Committee on Coordination (now the United Nations System Chief Executives Board for Coordination) on the common inter-organizational accounting standards and harmonized presentation of financial statements, UNDP has fully adopted the recommended format for the biennium ended 31 December 2003.

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 (UNICEF) and the United Nations Population Fund (UNFPA). 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)).

7. In the biennium 2002-2003, UNDP mobilized contributions of US\$ 6.1 billion overall, of which 23.5 per cent related to regular resources activities, 43.6 to cost-sharing, 23.8 per cent to trust funds, 6.1 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 \$6 billion, out of which 81.9 per cent (\$4.9 billion) was spent in programme/project activities and support costs paid to other United Nations agents, 15 per cent (\$894 million) for the biennial support budget and 2.3 per cent (\$134.4 million) on miscellaneous costs. Miscellaneous costs include a \$54 million provision for after-service health insurance, which is explained further in note 17 (c) to the financial statements. Income and expenditure for the biennium are summarized in table I.1 and figure I.1.

Table I.1

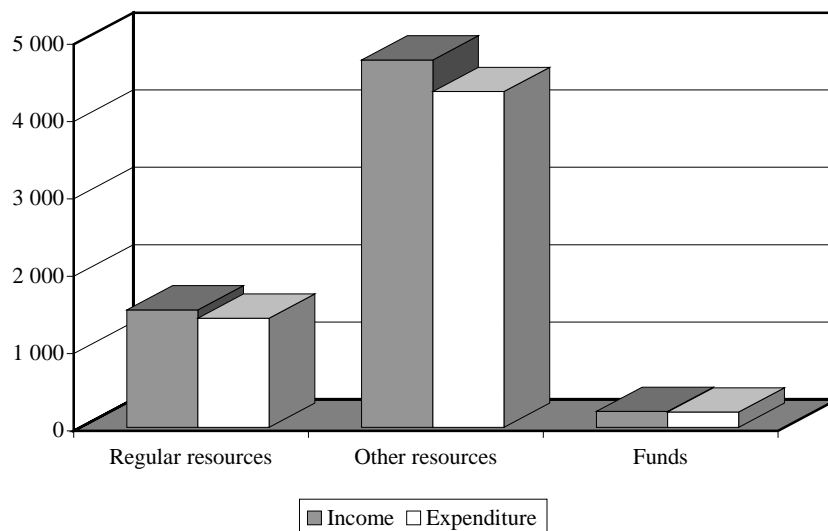
Combined income and expenditure for the biennium ended 31 December 2003

(In millions of United States dollars)

	<i>Regular resources</i>		<i>Other resources</i>		<i>Funds</i>		<i>Total^a</i>	
	<i>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Income								
Contributions, net	1 425.6	1 285.9	4 484.7	3 570.8	179.5	148.9	6 089.8	5 005.6
Interest income	34.1	(35.7)	57.7	174.4	4.4	14.7	96.2	153.4
Other income	57.1	64.4	205.7	138.7	20.9	21.0	283.7	224.1
Total income	1 516.8	1 314.6	4 748.1	3 883.9	204.8	184.6	6 469.7	5 383.1
Expenditure								
Programme (including programme support, implementing agents)	754.7	786.7	3 963.4	3 379.1	154.6	174.4	4 872.7	4 340.2
Biennial support budget	496.4	500.4	357.3	237.6	40.4	33.0	894.1	771.0
Support to resident coordinator	12.3	16.6	17.3	3.2	–	–	29.6	19.8
Development support services	7.8	2.3	–	–	–	–	7.8	2.3
UNDP Economist Programme	8.1	–	–	–	–	–	8.1	–
Other expenditure	131.9	99.7	5.2	5.3	0.4	1.2	137.5	106.2
Total expenditure	1 411.2	1 405.7	4 343.2	3 625.2	195.4	208.6	5 949.8	5 239.5
Excess (shortfall) of income over expenditure	105.6	(91.1)	404.9	258.7	9.4	(24.0)	519.9	143.6
Net excess (shortfall) of income over expenditure	105.6	(91.1)	404.9	258.7	9.4	(24.0)	519.9	143.6
Unexpended resources								
Opening balance	45.3	107.0	1 490.4	1 251.0	99.5	117.7	1 635.2	1 475.7
Transfers, refunds and savings	2.9	29.4	(52.1)	(19.3)	8.5	5.8	(40.7)	15.9
Closing balance	153.8	45.3	1 843.2	1 490.4	117.4	99.5	2 114.4	1 635.2

^a Aggregate totals only. Not consolidated.

Figure I.1
Summary of income and expenditure for the biennium ended 31 December 2003
 (Millions of United States dollars)



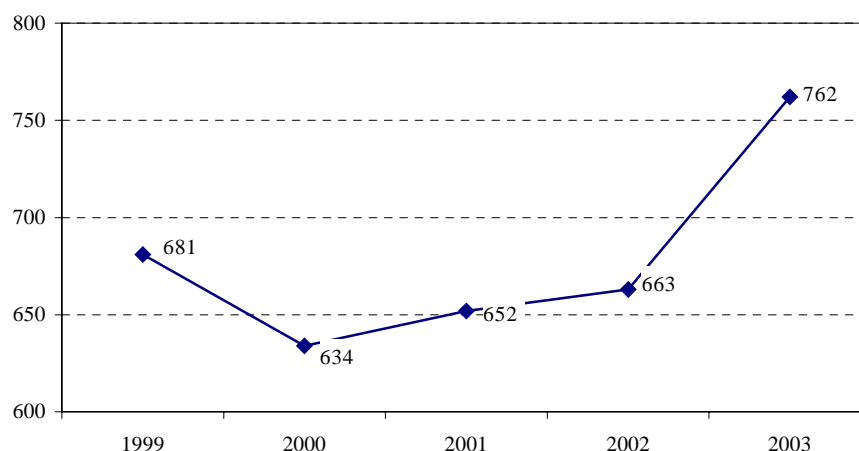
Regular resources

Income

9. Voluntary contributions increased by 10.9 per cent (\$139.7 million) in comparison to the previous biennium.

10. The average rate of return on investments was around 1.5 per cent (6 per cent in 2000-2001). Other income comprised mainly exchange gains and losses.

Figure I.2
Contributions for regular resources activities as at 31 December 2003



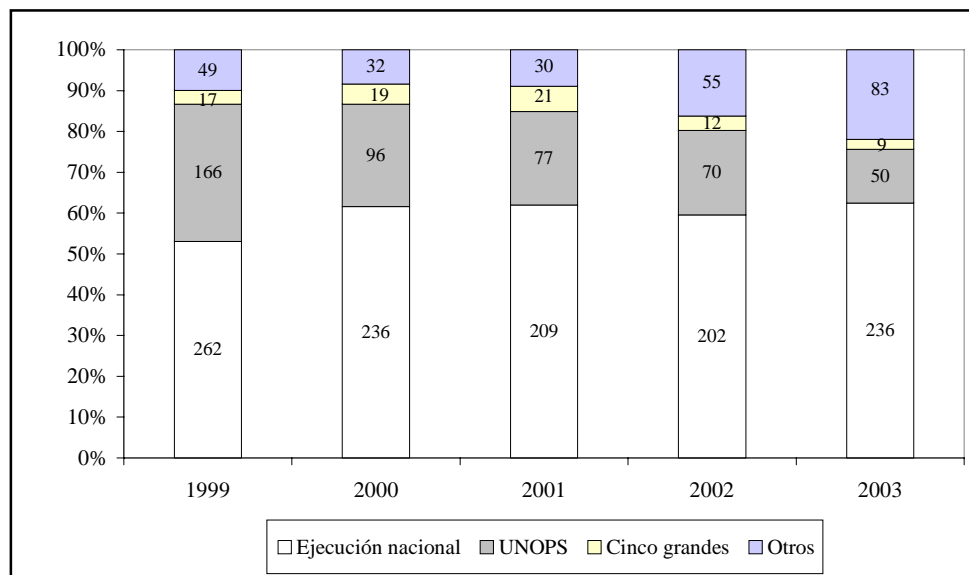
Expenditure

11. Programme expenditure (including programme support) declined by \$32 million from \$0.79 billion in 2000-2001 to \$0.76 billion in 2002-2003. National execution remained the leading modality for the execution of projects, in keeping with UNDP policy. In 2002-2003, recipient countries executed \$438 million or 58 per cent of programme expenditure for regular resources. This compared to \$445.3 million or 56.6 per cent of programme expenditure for regular resources for the biennium 2000-2001.

12. The United Nations system's share of programme expenditure, including support costs, declined marginally from \$165.7 million in 2000-2001 to \$159.3 million in 2002-2003.

13. Gross biennial support budget expenditure for the 2002-2003 biennium was \$551 million, representing a slight decrease in expenditure compared to \$553 million in 2000-2001. The net 2002-2003 biennial support budget expenditure was \$496 million, \$6 million below the approved 2002-2003 net budget, which represents overall savings of 1.2 per cent. By appropriation group, 59 per cent (56 per cent in 2000-2001), was spent on programme support activities, 21 per cent on management and administration (21 per cent in 2000-2001) and 20 per cent on support to operational activities of the United Nations system (23 per cent in 2000-2001). 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).

Figure I.3
Expenditure by execution modality as at 31 December 2003



Abbreviations: NEX, nationally executed expenditure; UNOPS, United Nations Office for Project Services; Big Five, United Nations Secretariat, the UNIDO, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization and the International Labour Organization.

Unexpended resources

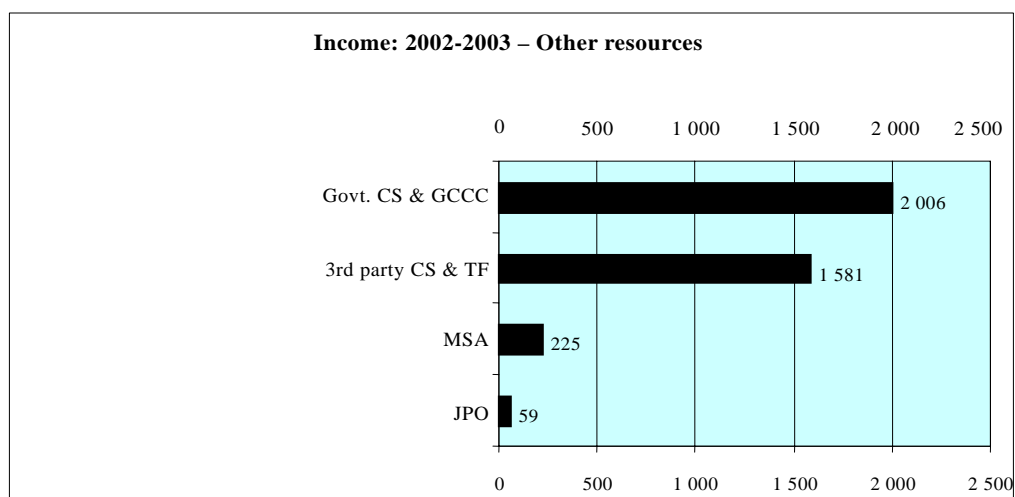
14. There was a significant increase in unexpended regular resources, to \$155 million as at 31 December 2003, about 2.6 months of total expenditure. This compares to \$45 million as at 31 December 2001, about 1 month of expenditure, in the previous biennium. Of the \$155 million in unexpended resources, \$9.6 million is set aside for funding of security measures and \$0.8 million for the transitional reserve for information and communications technology (ICT).

Other resources activities

Figure I.4

Income for other resources activities for the biennium ended 31 December 2003

(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.

15. Other resources income overall increased by 22.3 per cent. Contributions to trust funds increased by \$574.8 million (64.8 per cent). Cost-sharing contributions increased by \$277.5 million (11.7 per cent).

Table I.2

Other resources activities: statement of income and expenditure for the biennium ended 31 December 2003

(Millions of United States dollars)

	<i>UNDP cost-sharing</i>		<i>Government cash counterpart contributions</i>		<i>Trust funds established by UNDP</i>		<i>Management service agreements</i>		<i>Junior Professional Officers</i>		<i>Reserve for field accommodation</i>		<i>Reimbursable support services</i>		<i>Special activities</i>		<i>Eliminations</i>		<i>Total</i>	
	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>
Income																				
Contributions	2 652	2 375	–	9	1 462	887	225	230	59	52	–	–	–	–	88	18	–	–	4 485	3 571
Interest income	29	99	–	–	12	43	7	18	–	–	–	–	10	21	–	–	–	–	58	182
Other income	3	1	–	–	4	3	–	–	–	–	2	4	299	202	–	–	(103)	(80)	205	131
Total income	2 684	2 475		9	1 478	933	232	248	59	52	2	4	309	223	88	18	(103)	(80)	4 748	3 884
Expenditure																				
Programme	2 474	2 237	1	9	1 180	849	249	231	54	46	–	–	–	–	5	–	–	–	3 963	3 379
Programme support to resident coordinator	–	–	–	–	–	–	–	–	–	–	–	–	–	–	18	3	–	–	18	3
Biennial support budget: net	72	80	–	–	79	55	–	–	–	–	–	1	251	173	58	9	(103)	80	357	238
Other expenditure	2	–	–	–	2	4	–	–	–	–	1	1	–	–	–	–	–	–	5	5
Total expenditure	2 548	2 317	1	9	1 261	908	249	231	54	52	1	2	251	173	81	12	(103)	80	4 343	3 625
Excess (shortfall) of income over expenditure	136	158	(1)	–	217	25	(17)	17	5	–	1	2	58	50	7	6	–	–	405	259
Savings on obligations of prior biennium	–	–	–	–	–	–	–	–	–	–	–	–	2	3	2	–	–	–	4	3
Transfer (to)/from reserves	–	–	–	–	–	–	–	–	–	–	–	–	(3)	(11)	–	–	–	–	(4)	(11)
Refunds to donors and transfers (to)/from other funds: net	(16)	(10)	–	–	(31)	–	(9)	(6)	–	–	–	–	2	2	–	3	–	–	(52)	(11)
Fund balances, 1 January 2001	848	700	20	20	417	392	83	72	5	5	(4)	(6)	113	69	8	(1)	–	–	1 490	1 251
Fund balances, 31 December 2003	968	848	19	20	603	417	57	83	10	5	(3)	(4)	172	113	17	8	–	–	1 843	1 490

Cost-sharing

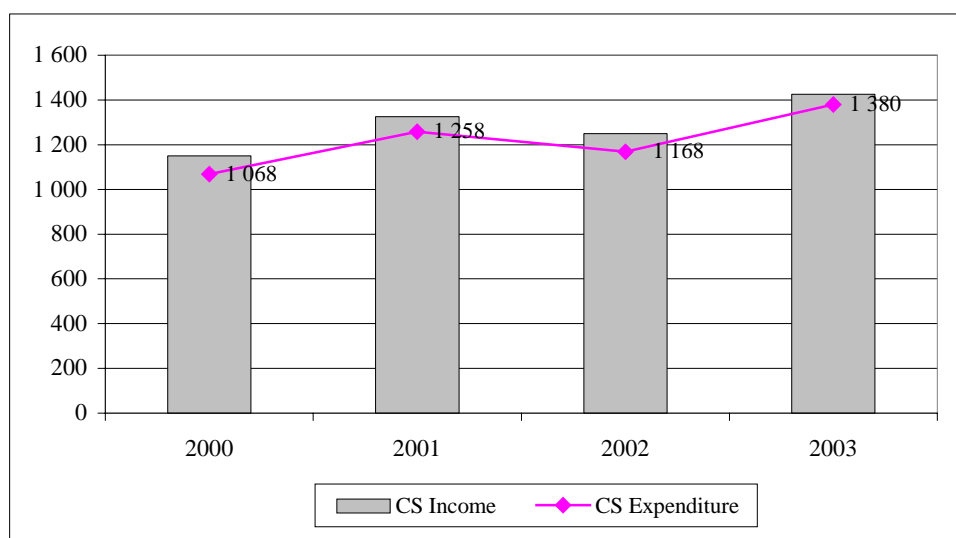
16. The cost-sharing funding modality remained the largest modality for UNDP. Of the total \$2.65 billion received in 2002-2003, \$119 million was attributable to third party cost-sharing (\$377 million in 2000-2001) and \$2.53 billion to recipient Governments (\$2 billion in 2000-2001).

17. Programme expenditure and support costs paid to implementing and executing agents in 2002-2003 increased \$237 million, to \$2.47 billion, compared to 2000-2001 (\$2.24 billion).

Figure I.5

Summary of cost-sharing income and expenditure as at 31 December 2003

(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 117 trust funds and 15 sub-trust funds were established during the biennium 2002-2003. Twenty trust funds and 19 sub-trust funds were closed during the biennium. As at 31 December 2003, there were a total of 315 trust funds (288 as at 31 December 2001) and 258 sub-trust funds (269 as at 31 December 2001). The environmental sector and countries/territories in post-conflict circumstances received the most resources under the trust funds category.

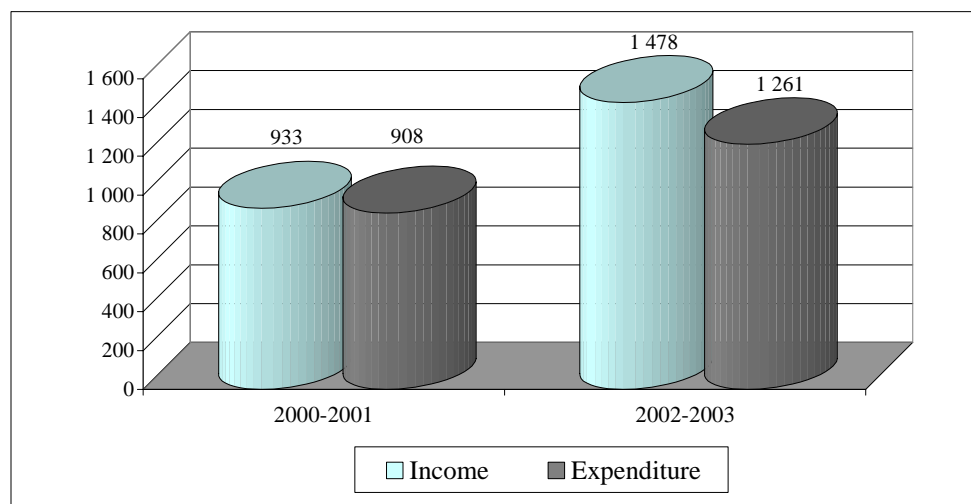
19. Under trust funds dealing with the environment, in 2002-2003 the Global Environment Facility (GEF), the Montreal Protocol, "Capacity 21" and the United Nations Office to Combat Desertification and Drought received \$438 million — 30 per cent of total trust funds contributions. GEF alone received \$376 million. Countries and territories in post-conflict circumstances, such as Iraq, Afghanistan, Rwanda, Angola, the Palestine territory, etc., were also an important sector for trust

fund activities. The UNDP Trust Fund for the Iraq programme received \$262 million during 2002-2003.

Figure I.6

Summary of trust fund income and expenditure as at 31 December 2003

(In 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 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 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 macro-economic frameworks and for building and broadening the knowledge base on drylands issues.

21. At the end of June 2001, the Office was relocated from New York to Nairobi as part of the Administrator's goals to bring services closer to programme countries. It 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 the Office 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 to countries through country offices.

22. UNDP recognizes that rural development and poverty alleviation in the rural drylands requires action on many fronts, including legislation, capacity strengthening, water management, gender issues, health provision and education.

There is a real challenge to ensure that policy and legislation favour people in the drylands and help to end their social and economic exclusion. At the same time, action is needed on the ground to help farmers and pastoralists increase their production of crops and livestock and begin to climb out of poverty. The Centre has developed the Integrated Drylands Development Programme, piloted in 16 countries in Africa and the Arab States, to help to meet these challenges.

23. The Centre has always focused on bringing important issues to the attention of the Conference of the Parties to the Convention to Combat Desertification. Recently the Centre played a central role in the establishment of the Global Drylands Imperative, an informal group of donor representatives, non-governmental organizations (NGOs) and individuals working in the field of desertification and drylands development. The Centre, on behalf of the group, has commissioned a series of "challenge papers" on important topics, which challenge conventional ideas relating to drylands development and seek new solutions to problems.

24. The Drylands Development Centre depends on voluntary contributions for its operating expenses. It is important to mention that the Centre has only received \$28,500 in voluntary contributions in 2003. While the total programme expenditure has increased marginally from \$5 million in 2000-2001 to \$5.1 million in 2002-2003, unexpended resources declined by 59 per cent from \$8.8 million to \$3.6 million.

Trust Fund for the Global Environment Facility

25. Four formal meetings of the GEF Council were held during the spring and fall of 2002-2003, during which the GEF corporate business plans and corporate budgets, as well as the individual work programme allocation targets and associated implementing agency fees for UNDP/GEF, were reviewed and approved by the Council for the fiscal years 2003 and 2004. In addition, four informal intersessional meetings of the Council were held in the summer and winter for the approval of work programme allocations and implementing agency fees. The GEF secretariat and UNDP/GEF also conducted a separate project implementation review exercise in 2002 and 2003 with respect to all GEF-funded full- and medium-sized projects that were under implementation.

26. During the 2002-2003 biennium, GEF's approved work programmes, corporate budgets and implementing agency fees totalled \$395.8 million, 8.9 per cent less than the 2000-2001 work programme (\$434.3 million). Total programme expenditure amounted to \$252.7 million in 2002-2003, compared to \$200.1 million in 2000-2001 (an increase of 26.3 per cent).

27. Income from replenishments received from the GEF trustee of the World Bank in 2002-2003 amounted to \$376 million (\$223 million in 2000-2001). In addition, GEF has received \$12 million in cost-sharing, sub-trust fund and other contributions (\$11 million in 2000-2001).

Multilateral Fund for the Implementation of the Montreal Protocol

28. 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.

29. To achieve this objective, UNDP's 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/national capacity-building;
- (e) Technology transfer investment projects.

30. Contributions received for 2002-2003 amounted to \$62 million (\$61 million in 2000-2001). Total programme expenditure amounted to \$51 million in 2002-2003 (\$83 million in 2000-2001).

“Capacity 21” Trust Fund

31. After a global evaluation of the pilot phase of Capacity 21 (1992-2003) by a team of independent consultants in 2001, it was recognized that, while Capacity 21 was successful, it did not reach enough countries or communities and needed to be expanded with a broader mandate. After intense consultation within UNDP senior management, Capacity 2015, the successor to Capacity 21, was developed. Capacity 2015 has a wider community-based approach, which is not limited to Agenda 21, but also develops synergies with other capacity-building initiatives, particularly poverty reduction strategies, multilateral environmental agreements and sustainable development strategies. The Capacity 21 Trust Fund remains the financial instrument for Capacity 2015.

32. Total programme expenditure declined by 14.6 per cent to \$13.2 million in 2002-2003 compared to \$15.5 million in 2000-2001.

UNDP Energy Account

33. 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 and other income of \$0.8 million in 2002-2003 (\$1.7 million in 2000-2001) against total expenditure of \$1.6 million (\$1.8 million in 2000-2001).

UNDP Fund for the Programme of Assistance to the Palestinian People

34. 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.

35. Total contributions of \$59 million was received in 2002-2003, compared with \$62 million in 2000-2001, a decline of 3.5 per cent. Programme expenditure in 2002-2003 amounted to \$70 million (\$61.7 million in 2000-2001) 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 its focus on the expansion of its advocacy role in the promotion of sustainable human development themes, including poverty elimination, sustainable livelihoods, gender in development and environmental management, as well as a number of infrastructure activities.

36. During 2002-2003, the Fund continued its activities to enhance governance at the local, municipal and central level of the Palestinian Authority, taking full advantage of the considerable local expertise available in the area.

UNDP Trust Fund for Rwanda

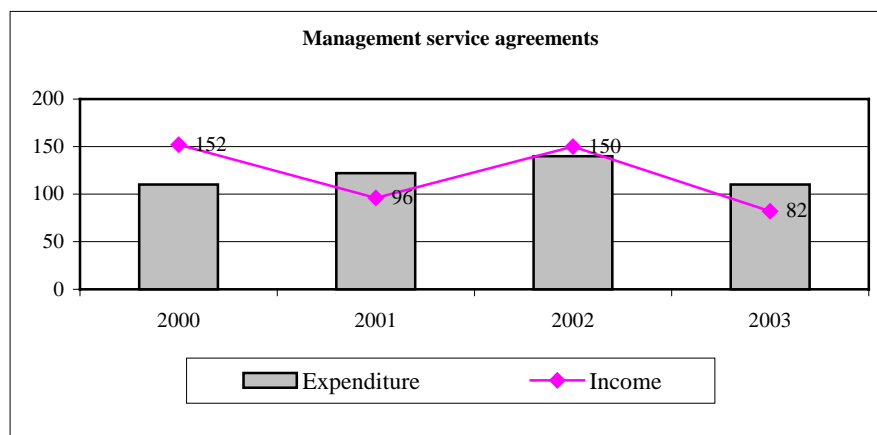
37. The UNDP Trust Fund for Rwanda was established in April 1995 to enhance programme activities in support of the Government of Rwanda's programme of national reconciliation, reintegration, socio-economic rehabilitation and recovery.

38. In 2002-2003, the UNDP Trust Fund for Rwanda mobilized \$3 million in contributions, compared to \$9 million in the 2000-2001 biennium. Programme expenditures in 2002-2003 were \$11 million compared to \$29 million in 2000-2001.

Management Service Agreements

39. Management service agreements signed by UNDP with various donors (detailed on schedule 6.1) are executed by the United Nations Office for Project Services on behalf of UNDP. During the biennium 32 new agreements were implemented, 119 agreements were financially completed and 54 were operationally completed. Total income declined 6.5 per cent in 2002-2003 to \$232 million compared to \$248 million in 2000-2001. Total expenditure increased by 7.9 per cent in 2002-2003 to \$249 million, from \$231 million in 2000-2001 (see figure I.7).

Figure I.7
**Summary of income and expenditure for management service agreements
 as at 31 December 2003**



Junior Professional Officers programme

40. UNDP currently has 266 Junior Professional Officers in active service under this programme, financed by 21 countries and one international organization. Of these Junior Professional Officers, 219 are in country offices and 47 in New York and at other headquarters locations. As at 31 December 2003, there were 289 Junior Professional Officers — 239 in country offices and 50 in New York and other headquarters locations.

41. UNDP received \$58 million in contributions for the programme in the biennium 2002-2003 compared to \$52 million in 2000-2001. Total expenditure decreased to \$52 million in 2002-2003 from \$56 million in 2000-2001.

Reserve for field accommodation

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

43. Total income in the 2002-2003 biennium for the reserve for field accommodation activities, which consists almost entirely of rental income, amounted to \$2.3 million, a drop of \$1.6 million from the \$3.9 million received in 2000-2001. The reserve for field accommodation activity recorded an overall surplus of \$1.2 million in 2002-2003 compared to a surplus of \$1.4 million in 2000-2001.

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, UNRFNRE and UNFSTD. Their financial results are detailed in schedules 7 to 7.3. UNRFNRE and UNFSTD were closed during the biennium.

United Nations Capital Development Fund

45. The overall goal of the United Nations Capital Development Fund is to help reduce poverty, first and foremost in the least developed countries, thereby contributing to the achievement of the Millennium Development Goals. In line with Executive Board decision 99/22, UNCDF activities are concentrated in two service lines: local governance; and micro-finance. Through its programmes, the Fund aims to build productive capacity self-reliance in poor communities by increasing their access to essential local infrastructure and services and by building inclusive financial sectors that serve low-income people.

46. In a follow-up to decision 99/22, in 2003, UNCDF carried out an independent evaluation of impact of the Fund's programmes and activities, on which it will report to the annual session of the Board in 2004. The independent evaluation found the Fund to be an effective organization that had successfully aligned its programmes and activities with its policies. It concluded that the Fund's operations contributed to significant results through both its microfinance and local governance programmes in poverty reduction, policy impact and replication of its projects by donors. UNCDF's areas of expertise were found to be very much in demand in the least developed countries and to respond to the Millennium Development Goals as well as to country needs. The independent evaluation also found that the UNCDF business model was flawed and recommended its urgent revision to ensure the future financial viability of the organization.

47. In the 2002-2003 biennium, voluntary contributions increased 2 per cent, from \$48 million to \$49 million. Programme expenditures in the biennium 2002-2003 were \$46 million compared to \$78 million in 2000-2001. At the end of the 2002-2003 biennium, UNCDF had a regular resources fund balance of \$32 million (over and above the \$22.6 million operational reserve) available to fund outstanding commitments of \$47 million.

United Nations Volunteers

48. For the United Nations Volunteers programme the biennium 2002-2003 was marked by continued dynamic growth, an evolution of the culture of partnership and networking and a strategic decision to reinforce the added value of volunteerism in all its operations, building on the momentum created by the International Year of Volunteers in 2001. The contribution of the United Nations Volunteers is articulated through the Millennium Development Goals and the UNDP multi-year funding framework.

49. With its mission of promoting volunteerism, including the mobilization of volunteers, UNV continued to build on its added value by stimulating national policy development on volunteerism, international advocacy and volunteer assignments.

50. The UNV programme, in terms of the number of volunteer assignments and individual volunteers involved, continued to grow in 2002 and 2003 with the financial equivalent of all activities in the broader United Nations system context surpassing \$100 million per year.

51. A total of 5,635 United Nations volunteers carried out 5,832 assignments in 2003. This reflects a 7 per cent increase in assignments over 2001 (the last year of the previous biennium), while the number of individual volunteers grew by 10 per cent.

52. During the biennium, United Nations volunteers worked in more than 150 countries and represented more than 160 nationalities. The majority of volunteers (72 per cent in 2003) were nationals of developing countries, nearly half serving outside their home countries. UNV thus continues to be a concrete expression of South-South cooperation.

53. In the 2002-2003 biennium, 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 to sub-trust funds. Full funding arrangements represent UNV assignments directly funded by donor Governments. United Nations joint ventures represent volunteers participating in United Nations peace operations. Total income in 2002-2003 was \$63 million, at about the same level as in the previous biennium (\$64 million).

54. Total programme expenditure in 2003 covered by direct contributions decreased slightly compared to 2002. The decrease under United Nations joint ventures (peacekeeping operations) of \$1.7 million is mainly attributable to adjustments of \$1.5 million recorded in 2002-2003 relating to prior bienniums.

55. During 2002-2003, a total of \$14.1 million was approved under the SVF for new pilot and experimental projects. Total expenditures during the period reached \$14.7 million, an increase of 22 per cent compared to the previous biennium. The balance as at 31 December 2003 was \$24 million, out of which \$19 million was fully committed.

United Nations Development Fund for Women

56. The strategy and business plan of the United Nations Development Fund for Women, which cover the four-year period from 2000-2003, aimed to expand the Fund's donor base and increase the amount of contributions to UNIFEM. During the biennium 2002-2003, UNIFEM continued to focus its efforts on its three thematic areas and to refine the principles of results-based management.

57. Total contributions for UNIFEM increased by \$14.1 million or 26 per cent to \$68.7 million in the biennium 2002-2003 from \$54.6 million in the 2000-2001 biennium. Voluntary contributions increased by \$2.1 million, cost-sharing by \$10.4 million and sub-trust funds by \$1.6 million.

58. Programme expenditure increased by \$14.4 million or 34.5 per cent to \$56.2 million in the 2002-2003 biennium from \$41.8 million in 2000-2001. Regular resources expenditure rose to \$35 million in 2002-2003 from \$28 million in 2000-2001, an increase of \$6.5 million or 23 per cent. Cost-sharing expenditure increased by \$8.5 million to \$14.7 million in 2002-2003, from \$6.2 million in 2000-2001.

Sub-trust fund expenditure increased by \$0.5 million, or 7 per cent, to \$6.9 million from \$6.4 million in 2000-2001.

59. Unexpended resources at 31 December 2003 were \$25.1 million, an increase of \$0.8 million from \$24.3 million on 31 December 2001. 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 \$8.1 million as at 31 December 2003, up from \$7.4 million at 31 December 2001.

United Nations Revolving Fund for Natural Resources Exploration

60. As noted at its third regular session in September 1999 (see DP/1999/42), the Executive Board endorsed the plans to phase out the activities of UNRFNRE by the end of 2000. The Fund was closed in 2003 after ensuring that all existing projects and contractual commitments had been accomplished in a responsible manner.

United Nations Fund for Science and Technology for Development

61. The United Nations Fund for Science and Technology for Development was closed in 2003 after ensuring that all existing projects and contractual commitments had been accomplished in a responsible manner.

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 also audited its financial statements for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) The Board was unable to obtain adequate assurance on the information on accuracy and completeness of non-expendable equipment as disclosed in note 3 (d) to the financial statements at a total of \$149.3 million;

(b) UNDP's end-of-service and post-retirement benefits liabilities of \$307.84 million were not fully funded, although UNDP did build up a reserve of \$108 million in this regard;

(c) The Board noted differences of \$24.1 million between the amounts reported by the executing agencies and the amounts recorded by UNDP;

(d) Although UNDP made significant efforts, further improvements are needed on the internal control measures and procedures for nationally executed expenditures in order to ensure that adequate assurance is obtained regarding the effective utilization of funds;

(e) UNDP implemented a new enterprise resource planning system in January 2004, with which the Board noted several control deficiencies, especially the lack of an independently validated internal control framework;

(f) Internal audits focused mainly on management and performance related issues and not on financial procedures and controls;

(g) UNDP's existing framework and structure did not cater to an integrated approach to risk management as required by best practices;

(h) Treasury policies and procedures documents did not contain procedures such as dealing and authorization limits for treasury personnel; setting and reviewing counterparty limits; and reconciliation procedures in line with best practices. Furthermore, the policies and procedures did not include management reporting policies and procedures;

(i) The last internal audit on Treasury was performed in 1985, although no report on that audit was issued;

(j) The Board noted weaknesses in the monitoring of the financial and physical/technical implementation of projects at country offices;

(k) Some 668 projects with a programme expenditure value totalling \$1.3 billion were operationally completed on or before 31 December 2002 but not closed within the prescribed period of 12 months in terms of UNDP Programming Manual;

(l) UNDP headquarters and country offices did not formally evaluate supplier performance in terms of chapter 19.2 of the Procurement Manual.

The Board made recommendations to: maintain accurate non-expendable records; review the funding mechanisms for end-of-service and post-retirement benefits; improve controls and procedures for nationally executed expenditure; initiate actions to ensure that an internal control framework is compiled, validated, approved and disseminated for the newly implemented enterprise resource planning system; update the current treasury policies and procedures; improve the measurement processes for project performance in order to monitor technical implementation in comparison to financial implementation; finalize all outstanding activities of operationally completed projects; and improve the procurement evaluation process. By July 2004, the Administration planned to implement a number of appropriate remedies.

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

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Development Programme (UNDP) for the period from 1 January 2002 to 31 December 2003, in accordance with the General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto (see ST/SGB/2003/7), the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. 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 ended 31 December 2003 had been incurred for the purposes approved by the governing bodies, whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNDP presented fairly its financial position at 31 December 2003 and the results of the operations for the biennium. The audit included a general review of the financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered necessary in order to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews primarily focused on the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNDP. The audit was carried out at UNDP headquarters and eight field offices (Argentina, Brazil, China, Colombia, Honduras, Mozambique, Nigeria and Panama).

4. The Board modified its audit report (chap. III, Audit opinion) to emphasize its concerns, summarized as follows:

(a) The Board was unable to obtain adequate assurance to verify the validity, accuracy and completeness of the figure for non-expendable equipment, valued at \$149.3 million in note 3 (d) to the financial statements;

(b) Although the Board noted improvements, the effectiveness of internal controls and procedures as well as the adequacy of the assurance obtained by UNDP that nationally executed expenditure funds provided had been properly used for the purpose intended could be further improved;

(c) UNDP implemented a new enterprise resource planning system, the "Atlas" system, in January 2004. The Board noted control deficiencies with the system, especially the lack of an independently validated internal control framework. The introduction of the system, which took place after the balance sheet date, is regarded as posing a significant risk to UNDP's operations. While this has not had an impact on the 2002-2003 financial statements, unless corrected, control deficiencies may cause errors in the 2004-2005 financial statements.

5. The General Assembly in paragraph 6 of its resolution 57/278 of 20 December 2002, requested the Secretary-General and the executive heads of the funds and

programmes of the United Nations to examine corporate governance structures, principles and accountability throughout the United Nations system and to make proposals on the future format and consideration of the reports of the Board of Auditors by the respective executive boards and the General Assembly. The Board noted that UNDP has not taken any specific action in this regard. In response, UNDP expressed its intention to take the matter forward by requesting the High-Level Committee on Management to address the resolution.

6. The Board continued its practice of reporting to UNDP the results of specific audits in management letters containing detailed observations and recommendations. This practice allowed for an ongoing dialogue with UNDP.

7. 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 and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

8. A summary of the Board's main recommendations is contained in paragraph 12. The detailed findings are reported in paragraphs 14 to 379.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999¹

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the measures taken by UNDP to implement the recommendations made in its report for the biennium ended 31 December 1999. There are no significant outstanding matters.

Biennium ended 31 December 2001²

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 biennium ended 31 December 2001.³ Details of action taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. Out of a total of 46 recommendations, 21 (47 per cent) were implemented, 24 (52 per cent) were under implementation and 1 (1 per cent) was not implemented.

11. The Board has reiterated, in paragraphs 26, 59, 70, 73, 77, 89, 97, 103, 107, 114, 236, 309 and 352 of the present report, previous recommendations that have not yet been implemented. The Board invites the Administration to assign specific responsibility and establish an achievable time frame to implement them.

¹ *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 5A* (A/55/5/Add.1).

² *Ibid.*, *Fifty-seventh Session, Supplement No. 5A* and corrigendum (A/57/5/Add.1 and Corr.1).

³ *Ibid.*, chap. II.

2. Main recommendations

12. The Board's main recommendations are that UNDP:

- (a) **Complete the write-off process of all non-expendable equipment records at country offices and effect the necessary adjustments to bring the value in line with the revised non-expendable policy (para. 33);**
- (b) **Implement measures to ensure that country offices comply with the financial regulations and rules and other directives in respect of inventory control (para. 40);**
- (c) **In conjunction with the administrations of the United Nations and other funds and programmes, review the funding mechanism and targets for liabilities for end-of-service and post-retirement benefits (para. 77);**
- (d) **In conjunction with other United Nations organizations, develop mechanisms to effectively control inter-agency transactions in an efficient manner and clear outstanding reconciling items (para. 86);**
- (e) **Quantify the financial effect of qualified audit opinions on nationally executed expenditure and evaluate such qualifications against the action plans for reasonableness (para. 114);**
- (f) **Revise its programme of internal audit work to include an appropriate level of coverage on financial procedures and controls at headquarters (para. 236);**
- (g) **Consider establishing a risk management framework, based on best practices, in the context of its review of governance structures as requested by the General Assembly in paragraph 6 of its resolution 57/278 (para. 252);**
- (h) **Update the current treasury policies and procedures to bring them into line with best practices, taking into account the restructuring process and the implementation of the Atlas system; and incorporate all management reporting policies and procedures into the treasury policy and procedures (para. 256);**
- (i) **Perform adequate internal audit reviews based on the outcome of a Treasury risk assessment and bearing in mind specialist areas (para. 290);**
- (j) **Provide guidance to country offices in its efforts to monitor the correlation between reported expenditures and the level of project implementation and improve its performance measurement process in this regard (para. 303);**
- (k) **Evaluate the causes for the delays in closing off projects and take appropriate action to rectify the situation (para. 306);**
- (l) **Evaluate supplier performance in terms of the guidance provided in the UNDP Procurement Manual (para. 312).**

13. The Board's other recommendations appear in paragraphs 36, 54, 57, 63, 111, 118, 122, 131, 133, 136, 141, 144, 147, 150, 157, 160, 164, 168, 173, 178, 180, 183, 185, 189, 193, 196, 199, 204, 210, 212, 216, 219, 223, 229, 240, 246, 260, 267, 274, 277, 279, 282, 285, 288, 297, 315, 320, 326, 328, 331, 333, 335, 340, 347, 358, 362, 371 and 379 of the present report.

B. Financial issues

1. Financial overview

14. UNDP's financial statements cover regular resources (un-earmarked), other resources (earmarked) and funds administered by UNDP (United Nations Volunteers, the United Nations Capital Development Fund, the United Nations Development Fund for Women (UNIFEM), the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Fund for Science and Technology for Development). The Board performed an analysis of UNDP's financial position as at 31 December 2003. The results of some key financial indicators are set in table 1 below.

Table 1
Ratios of key financial indicators

Description of ratio	Regular resources		Other resources		Funds administered by UNDP	
	2000/01	2002/03	2000/01	2002/03	2000/01	2002/03
Assets/liabilities ^a	1.12	1.15	5.04	7.02	8.26	11.38
Cash/liabilities ^b	0.99	1.04	0.69	1.11	5.36	7.44

^a A high indicator reflects a positive solvency position.

^b A high indicator reflects the extent of cash available to settle debts.

Regular resources

15. UNDP's income of \$1.517 billion from regular resources during the biennium 2002-2003 exceeded its expenditures of \$1.411 billion by \$106 million. This surplus of income over expenditures, together with other adjustments and transfers, increased the fund balances by \$109 million, from \$45 million to \$154 million. During the biennium 2000-2001, UNDP's regular resources expenditures exceeded its income by \$91 million.

16. This increase in fund balances was mainly due to an increase of \$134 million (10 per cent) in voluntary contributions, from \$1.306 billion in the biennium 2000-2001 to \$1.440 billion in the biennium 2002-2003. The regular resources expenditures for the biennium, however, only increased by \$5 million (0.4 per cent) from \$1.406 billion. The surplus income allowed UNDP to transfer \$4.45 million to reserves, unlike the situation during the biennium 2000-2001, when \$28.4 million was transferred from reserves.

Other resources

17. UNDP's income of \$4.748 billion from other resources in 2002-2003 exceeded its expenditures of \$4.343 billion by \$405 million. This surplus of income over expenditure, together with adjustments and transfers, increased the fund balance by \$353 million (24 per cent), from \$1.490 billion to \$1.843 billion. During 2000-2001, UNDP income from other resources exceeded its expenditures by \$259 million. The increase was mainly due to the increase in contributions to trust funds and to cost-sharing. During 2002-2003, contributions to trust funds increased by \$575 million from 2000-2001, to \$1.462 billion, while contributions to cost-sharing increased by \$277 million to \$2.652 billion.

18. While total other resources income increased by 22 per cent in 2002-2003 compared with the previous biennium, total expenditures increased by 20 per cent. UNDP transferred \$3.4 million of its surplus to reserves.

19. The Board was pleased to note that UNDP had again generated an increasing level of other resources income, which enabled it to further increase its programme delivery to achieve its business plan objectives.

Funds administered by the United Nations Development Programme

20. UNDP administers three active funds: the United Nations Volunteers, UNIFEM and the United Nations Capital Development Fund. Following a UNDP Executive Board decision during the biennium 2002-2003, UNDP closed two other inactive funds that it administered, namely, the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Fund for Science and Technology for Development. UNDP-administered funds manage their own resources and operate under procedures described in the UNDP Financial Regulations and Rules and in their respective operational guidelines. The Administrator reports on such funds to the Executive Board.

21. During the biennium 2002-2003, the total income for the funds administered by UNDP was \$204.8 million, which exceeded its total expenditure of \$195.3 million by \$9.5 million. In comparison, during the biennium 2000-2001, the total expenditures of the funds exceeded its total income by \$23.9 million. This surplus in income led to an increase of \$17.9 million in fund balances, compared to a decrease of \$18.2 million in fund balances in the biennium 2000-2001. Total income for funds administered by UNDP increased by \$20.1 million, from \$184.6 million in the biennium 2000-2001, while total expenditures decreased by \$13.3 million, from \$208.6 million in the prior biennium. The decrease of 7 per cent in expenditures was largely attributable to the decrease in expenditures by the United Nations Capital Development Fund.

United Nations Capital Development Fund

22. The Board recommended, in paragraph 23 of its previous report,² that UNDP monitor the financial position of the funds it administered to ensure that healthy fund balances are maintained. During the biennium 2000-2001, expenditures of the Development Fund totalled \$92 million, exceeding its total income of \$61 million by \$31 million. During the 2002-2003 biennium, the Fund's total income of \$69 million exceeded its total expenditures of \$62 million by \$7 million. This surplus income over expenditures, together with other adjustments and transfers (\$14.7 million), increased the fund balance by \$22 million (105 per cent), to \$43 million as at 31 December 2003.

23. The increase was mainly due to the 33 per cent (\$30 million) decrease in expenditures, resulting in the reduction of programme delivery. Voluntary contributions only increased marginally, by 2 per cent, from \$48 million in 2000-2001 to \$49 million in 2002-2003.

24. The Board also noted that two of the 12 current contributors to the Fund indicated that they would either discontinue or reduce their contributions for 2004. These contributors contributed \$15 million (31 per cent) of the total contributions during the biennium 2002-2003.

25. By May 2004, only \$8.8 million in voluntary contributions had been pledged to the Fund for 2004. No pledges had yet been received from six contributors who had contributed \$13.9 million during the biennium 2002-2003 (28 per cent of the total voluntary contributions).

26. UNDP agreed with the Board's reiterated recommendation to closely monitor the financial position of the United Nations Capital Development Fund to ensure that it maintains a healthy fund balance and further recommends that UNDP evaluate project implementation with a view to ensuring that programming objectives can be efficiently achieved with limited funding.

27. The United Nations Capital Development Fund informed the Board that it had taken a number of measures to ensure its financial integrity by prudently reducing programming levels with outstanding commitments against core resources, bringing the outstanding programme commitments against core resources to less than half of the level of the allowed outstanding commitments ceiling using the partial funding formula.

2. United Nations system accounting standards

28. The Board assessed the extent to which the financial statements of UNDP for the biennium ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards.

3. Non-expendable equipment

Headquarters non-expendable equipment

29. The Board reported, in paragraph 30 of its previous report,² that it was unable to obtain adequate assurance that the value of non-expendable equipment (\$25.1 million) was reasonable, as disclosed in the notes to the financial statements as at 31 December 2001. The Board had therefore recommended that UNDP review its headquarters non-expendable equipment inventory in a cost-effective manner in order to ensure that it provides a realistic valuation, in accordance with United Nations system accounting standards.

30. UNDP embarked on a revaluation exercise of all non-expendable equipment between November 2002 and January 2003. As part of this exercise, it conducted physical inventory verifications at headquarters. The inventory data (item description, make and location) was entered in the UNDP's Aperture system and corrections to previous data were made.

31. UNDP subsequently revalued all non-expendable equipment, which was mainly comprised of furniture and information technology equipment. It found that the values of desktop computers and air conditioners were overstated, as the prices had dropped drastically over the years, and noted that the number of air conditioners were undercounted. Furniture and information and technology equipment were revalued based on the average current prices of the equipment, while computer servers, which had the highest value of the equipment, were valued at their actual purchase price. The air conditioners were revalued to replacement cost.

Change in estimate

32. In 2003, UNDP only included non-expendable equipment with a cost of \$1,000 or more (previously \$500 or more) in inventory records. As a result, all items with a value of less than \$1,000 were to be removed from the inventory records since they would no longer be tracked and reported as inventory. However, this process was only completed at headquarters and not at all country offices. Therefore, the value of non-expendable equipment at country offices disclosed in note 3 (d) included items within the range of \$500 to \$1,000 as at 31 December 2003. The value of this overstatement resulting from the change in the threshold could not be determined by May 2004.

33. The Board recommends that UNDP complete the adjustment process of all non-expendable equipment records at country offices to bring the value in line with the revised non-expendable policy.

34. UNDP informed the Board that it would take action to ensure that country offices amend their inventory records to reflect only items with values of \$1,000 or more and to document the adjustments made, which it expects to be completed by October 2004.

Recording of non-expendable equipment

35. The Board noted that the inventory records were not continuously updated with purchases and disposals made during 2003. This was due to the independent operation of the inventory management system (Aperture) system and the procurement/general ledger (Integrated Management Information System) system. Following the Board's audit in May 2004, UNDP updated the inventory records on the Aperture system to include the 2003 movements.

36. UNDP agreed with the Board's recommendation that it update its inventory records on a regular basis to ensure that all additions and disposals are accounted for.

37. UNDP informed the Board that the newly implemented electronic resource planning system, the Atlas system, would address this weakness. All non-expendable equipment items acquired from January 2004 would be capitalized in the assets module of the Atlas system. Training and guidelines on the assets module was already provided to the country offices.

Country offices non-expendable equipment

38. The Board noted, in paragraph 34 of its previous report,² that UNDP was unable to provide the Board with an accurate value of non-expendable equipment of country offices as at 31 December 2001 because 56 of the 137 country offices had not submitted their annual inventory returns to headquarters. UNDP managed to obtain majority of the country office returns for the biennium 2002-2003, with the exception of 2 out of 142 country offices, which did not submit their annual inventory returns to headquarters by May 2004. The value of non-expendable equipment at the country offices was disclosed at \$129.2 million in note 3 (d) of the financial statements as at 31 December 2003.

39. Although there had been an improvement in the submission of the country offices inventory returns to headquarters, the validity, accuracy and

completeness of the returns submitted by the country offices were questionable owing to the weaknesses noted by the Board during its country office audits. The following are some of the weaknesses noted:

- (a) Resident representatives did not always certify the accuracy of the annual inventory reports submitted to headquarters; inventory lists were not always reviewed by senior officials;
- (b) Inventory records were not always continuously updated with purchases and disposals of non-expendable property items and were therefore incomplete;
- (c) The physical existence of non-expendable property items recorded in the inventory report could not always be verified because the location listed on the report was incorrect and some items did not have visible identification tags;
- (d) Inventory records were not always complete;
- (e) Obsolete inventory was reflected in the physical inventory report.

40. UNDP agreed with the Board's recommendation that it implement measures to ensure that country offices comply with the financial regulations and rules and other directives in regard to inventory control.

41. UNDP informed the Board that it would issue a directive to all country offices by mid-July 2004 on the issue of compliance with financial regulations and rules with respect to inventory control.

Conclusion

42. While the situation has improved, the Board remains concerned that the value of non-expendable equipment, which is disclosed at \$149.3 million in note 3 (d) to the financial statements as at 31 December 2003, may not be fairly stated. Accordingly, the Board has modified its audit report (chap. III, Audit opinion) to emphasize its concerns.

4. Presentation and disclosure of financial statements

43. The General Assembly, in its resolution 55/220 of 23 December 2000, requested the Secretary-General and executive heads of funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in the annexes to the statements. In line with the resolution, the Board has reviewed the general presentation and disclosure of UNDP's financial statements for the biennium 2002-2003.

44. The Board is of the view that the financial report and the financial statements should contain sufficient combined information to enable all users to have a good understanding of the operations and performance of the organization for the financial period concerned. Users should be able to obtain this understanding without having to put pieces of information together themselves.

45. Owing to the numerous reports required by the General Assembly and the Executive Board of UNDP, the Board is aware that, in some instances, the governance principles discussed below may be applied in documents issued to these governing bodies as part of UNDP's normal reporting process. These documents

include the annual financial review of UNDP, the annual report, the biennial budget document and the multi-year funding framework.

Financial reporting

46. In terms of governance principles and best practices, the following governance issues are normally reported on in a medium such as the financial report (chap. I) that precedes the financial statements:

- (a) Governance and other regulatory bodies;
- (b) Performance reporting and non-financial information;
- (c) Social accounting issues;
- (d) Risk management, continuity and internal control.

Governance and other regulatory bodies

47. In terms of its reporting structures, UNDP reports to the General Assembly through its Executive Board. However, the financial report of UNDP did not contain information about its Executive Board; Management Committee; internal code of ethics and conduct and enforcement thereof; or its communication policy.

Performance reporting and non-financial information

48. UNDP's financial report did not mention its performance in terms of its organizational objectives and mandate. While programme expenditures were presented in financial terms in schedule 2, non-financial information has been overlooked in the preparation of the current and prior reports. No mention was made of UNDP's key objectives or the alignment of the organization to the Millennium Development Goals. Such information, which is over and above the mandatory financial information disclosures, would be of value to stakeholders.

Social accounting issues

49. Social accounting issues could be useful and consideration should be given to the desirability of incorporating such information into UNDP's financial reports. Matters that could be addressed include:

- (a) Environmental reporting;
- (b) Employee and/or human resources reporting, including an analysis of the composition of staff and the skills of current staff compared to the skills needed and details on future staff requirements (such as the continuity plan/rotation policy);
- (c) Health and safety issues;
- (d) Social reporting.

Risk management, continuity and internal control

50. The constant identification of risks and continuous development of systems and controls to address those risks is critical to most organizations. As such, risk information disclosures are relevant to the needs of users of financial statements. Disclosures could deal with the measures in place to address financial risks, safeguard assets and financial records and ensure continuity in the event of a

disaster. No such disclosures were included in UNDP's current or prior period financial report.

51. UNDP's financial report provides a summary of the financial statements, although no key indicators/ratios were included, such as the current ratio (current assets to current liabilities) or current liabilities as a percentage of total liabilities.

52. In addition the financial report did not contain:

- (a) Details regarding the existence of a disaster management and recovery plan;
- (b) Internal measures to manage risks, an internal code of ethics and conduct and enforcement thereof among employees;
- (c) Details regarding the internal audit function;
- (d) Details of any oversight committee reviewing the work of internal audit;
- (e) Measures in place to safeguard the integrity of management and financial information.

53. The provision and disclosure of any such information would be subject, inter alia, to an examination of the benefits of providing information over the cost thereof and also whether such information meets the general qualitative characteristics of relevance, reliability, comparability and understandability, as stated in the United Nations system accounting standards.

54. UNDP agreed with the Board's recommendation that it consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNDP should revert to paragraph 6 of resolution 57/278 of 20 December 2002, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

55. UNDP informed the Board that this review would have to take into account the reporting needs of stakeholders who make use of the financial statements and the content and audience for other financial reports that UNDP prepares for its Executive Board and that it would consider these disclosures as part of the financial report (chap. I) to the financial statements for the biennium 2004-2005. UNDP further informed the Board that such a review should be spearheaded by the High-Level Committee on Management in order to ensure that it is consistent with efforts towards simplification and harmonization within the United Nations system and that it would take up the overall matter on governance at the meeting of the High-Level Committee in October 2004.

Financial statements

56. The Board noted the following aspects that could be improved by UNDP in its review of the presentation of the financial statements for the biennium ended 31 December 2003:

(a) In schedule 8, investments: UNDP disclosed the different types of securities held and the portion attributable to each fund/reserve. However, no indication was provided in the financial statements or financial report regarding the extent to which UNDP could maintain its operations with the current level of securities, totalling \$3.5 billion as at 31 December 2003. Furthermore, no disclosure was provided on the liquidity of the investments that are current or fixed. There was also no analysis drawn between the total cash and investments available and the cash resources that would be needed in future;

(b) While the closing value of investments (book and market values) was disclosed in note 9, no reconciliation was provided for the movement of these balances such as opening balances, purchases, disposals and closing balances. Information on movements had also not been disclosed for non-expendable equipment in note 3 (d);

(c) Schedule 7 discloses the funds established by the General Assembly and administered by UNDP. These funds do not form part of UNDP and, as such, are not included as part of statements I to IV. The Board is of the opinion that schedules are supposed to support statements I to IV and considers it inappropriate therefore to disclose these funds in the schedules.

57. UNDP agreed with the Board's recommendations that it: (a) consider reviewing schedule 8 as well as note 3 (d) and note 9 to the financial statements with a view to improving its disclosure and presentation; (b) consider preparing separate statements for funds administered by UNDP; and (c) disseminate improvements made to other United Nations organizations through inter-agency mechanisms such as the High-Level Committee on Management.

5. Bank and investments

58. The Board reported, in paragraph 45 of its previous report,² that the six payroll bank accounts in the name of UNDP had not been reconciled by UNDP on a monthly basis. UNDP payroll accounts for the biennium 2002-2003 were reconciled by the United Nations Secretariat and were reviewed by UNDP. The Board, however, noted long outstanding items in these reconciliations that have not been cleared by UNDP.

59. UNDP agreed with the Board's reiterated recommendation to expedite clearance of the outstanding reconciling items and effect the appropriate adjusting entries in a timely manner.

60. UNDP informed the Board that the United Nations Secretariat follows up and clears the reconciling items and that it would ensure that reconciliations are done on a timely basis and effect the adjusting entries accordingly.

6. Unidentified receipts

61. Unidentified receipts, as disclosed under accounts payable in the balance sheet and note 4 to the financial statements, increased by \$7 million, to \$17.1 million, at 31 December 2003. These receipts represented contributions and other amounts received in UNDP bank accounts, for which UNDP had not yet identified the source of the funds or the specific purpose thereof. The Board, in paragraph 49 of its previous report, expressed its concern about the increase in unidentified receipts and the corresponding delay in applying these amounts for the purposes intended by the

donors. The risk exists that income for the biennium 2002-2003 is understated in an amount of up to \$17.1 million as at 31 December 2003.

62. UNDP informed the Board that amounts recorded as unidentified receipts were items that could not be appropriately applied because the purpose of the deposits could not be determined. Such amounts included funds received on behalf of other United Nations agencies, which, until identified, cannot be classified as UNDP income or agency funds. The main reason for the increase in unidentified receipts was the closing of the accounts on 15 December 2003 due to the late implementation of Atlas.

63. The Board recommends that UNDP continue to improve its mechanism to identify contributions and clear such receipts in a timely manner.

64. UNDP informed the Board that it had selected a position at headquarters dedicated to the follow-up of these unidentified amounts. In addition, the recently implemented Atlas system supports the ability of country offices to apply income received directly into their own accounts rather than having it applied by headquarters after monthly batch processes are run.

7. Unliquidated obligations

65. Unliquidated obligations decreased by 52 per cent, to \$34 million, in respect of regular resources and by 51 per cent, to \$96 million, in respect of other resources. Unliquidated obligations increased by 34 per cent, to \$7.7 million, in respect of the funds administered by UNDP. Unliquidated obligations represented 2.4 per cent of total expenditure for regular resources, 2.2 per cent for other resources and 3.9 per cent for funds administered by UNDP. UNDP could not, however, provide the Board with an age analysis of these unliquidated obligations.

66. The Comptroller's Division provided all organizational units with a schedule detailing their unliquidated obligations. A total of 144 committing officers were required to certify the accuracy and completeness of the outstanding obligations. By May 2004, 20 (14 per cent) of the certifications were outstanding, representing less than \$2.5 million as at 31 December 2003.

67. For the certifications received, the Board noted instances where organizational units have indicated obligations that were no longer valid. UNDP did not, however, follow up on these differences and no adjustments were made to the financial records, although the amounts noted in the audit sample were not material, \$67,000 in total.

68. Weaknesses in respect of unliquidated obligations were also identified during the audit of the United Nations Capital Development Fund and during country office audits in Brazil, Colombia, Argentina and Honduras. In certain instances, country offices could not provide the Board with valid obligating documents for the unliquidated obligations created by them. The Board was, therefore, unable to determine the validity of these unliquidated obligations or to confirm whether any financial liability had occurred at the time that the obligations were created.

69. In other instances, country offices did not record all valid obligations at the time that the obligation was created (purchase order issued/contract concluded), but only recorded the expense when the obligation was paid. This was contradictory to UNDP accounting policies, which state that "all expenditure of UNDP is accounted

for on an accrual basis, except for that relating to staff entitlements and project components implemented by Government and non-governmental organizations (NGOs) and through direct execution, which are accounted for on the basis of cash disbursements only". Therefore, the risk exists that UNDP expenditures are understated, as they do not include all obligations raised.

70. The Board reiterates its previous recommendation that UNDP: (a) 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 (b) follow up on any differences in unliquidated obligations reported by organizational units and make the necessary adjustments to the financial records.

71. UNDP informed the Board that it would issue revised guidance to all staff to review unliquidated obligations on a regular basis and to close those that are no longer needed. To facilitate this, UNDP would continue to obtain written confirmations of unliquidated obligations reported by organizational units and make the necessary adjustments to the financial records.

8. Accounts receivable

72. UNDP's total accounts receivable and deferred charges for regular resources amounted to \$136 million as at 31 December 2003 (2001: \$152.7 million). The Board stated, in paragraph 58 of its previous report,² that UNDP could not provide the Board with a complete age analysis of its accounts receivable. By May 2004, UNDP could still not provide the Board with a complete ageing of its accounts receivable for the biennium 2002-2003.

73. UNDP agreed with the Board's reiterated recommendation to review regularly the complete ageing of accounts receivable with the view to collecting long-outstanding amounts.

74. UNDP informed the Board that the Atlas system would make it easier to regularly analyse the accounts receivable data, verify the ageing of outstanding items on a worldwide basis and follow up on long-outstanding items.

9. Liabilities for annual leave, end-of-service benefits and post-retirement benefits

75. The Board noted that the General Assembly had requested, in its resolution 58/249 of 23 December 2003, that the Secretary-General report to the Assembly on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure progress towards fully funding such liabilities. The Board noted that UNDP provided \$54 million for the biennium ended 31 December 2003 (\$54 million in 2000-2001) in respect of after-service health insurance. This was the second biennium that UNDP accrued for this liability. The accumulated accrual at the end of the biennium was therefore \$108 million, representing 41 per cent of the accrued after-service health insurance benefits liability. In note 17 (c) "Post-retirement benefits", UNDP disclosed that the value of the liability estimated on the basis of an actuarial valuation as at 31 December 2003. UNDP estimated that the after-service health insurance liability of \$263.17 million would be fully funded between 10 and 18 years.

76. In addition to the after-service health insurance benefits, in note 17 (d) UNDP also disclosed accrued annual leave of \$21.53 million and other termination benefits totalling \$22.84 million. UNDP's total reserves and fund balance of \$297.4 million from regular resources could cover the total unfunded liability of \$199.54 million shown in table 2 below.

Table 2

Liabilities for annual leave, end-of-service benefits and post-retirement benefits

(In millions of United States dollars)

<i>Description</i>	<i>2000-2001</i>	<i>2002-2003</i>
After-service health insurance net liability ^a	188.88	263.17
Accrued annual leave	21.95	21.53
Other termination benefits	22.64	22.84
Provision for after-service health insurance	(54.00)	(108.00)
Total unfunded portion	179.47	199.54

^a Present value of future benefits at 31 December 2003 is \$340.57 million.

77. UNDP agreed with the Board's reiterated recommendation, in conjunction with the administrations of the United Nations and other funds and programmes, to review the funding mechanism and targets for liabilities for end-of-service and post-retirement benefits.

78. UNDP informed the Board that it would continue to work together with the United Nations Population Fund (UNFPA) and the United Nations Office for Project Services (UNOPS) as well as with the High-Level Committee on Management finance network to formulate formal funding policies for after-service health insurance.

10. Write-off of losses of cash, receivables and property

79. During the biennium 2002-2003, UNDP informed the Board that it had written off a total of \$8.3 million (2000-2001: \$0.8 million). The main reason for the significant increase in write-offs was to the data clean-up process that took place for the preparation of the implementation of the Atlas system. Of the total write-offs, \$4,984,775 and \$264,037 related to receivables and cash write-offs, respectively, in terms of UNDP financial rule 126.16, while a further \$3,020,306 related to write-offs of other adjustments to the records in terms of financial rule 126.13. UNDP informed the Board that it had spent considerable time in trying to identify and investigate the amounts, some for as long as 18 months. It had decided, therefore, that the cost outweighed the benefit of trying to investigate these matters further.

11. Ex gratia payments

80. During the biennium 2002-2003, UNDP reported two ex gratia payments, totalling \$4,867 (2000-2001: \$16,640), in respect of an "old age" supplementary payment and a humanitarian payment with regard to its financial rule 126.17.

C. Management issues

1. Programme expenditure

81. Programme expenditure during the biennium 2002-2003 amounted to \$4.9 billion, compared to \$4.2 billion in the previous biennium. Of this amount, \$715.8 million was funded from regular resources, \$4 billion from other resources and \$146.9 million from funds administered by UNDP. Of the total amount of \$4.9 billion, nationally executed expenditure implemented by Governments amounted to \$2.9 billion and by non-governmental organizations to \$61 million; expenditures implemented by other United Nations agencies amounted to \$620 million; and directly executed expenditure amounted to \$1.3 billion.

82. The Board, in paragraphs 66 to 121 of its previous report,² extensively outlined UNDP's control over programme expenditure. The Board followed up on its previous recommendations, as reflected below. The United Nations Development Group's task force on simplification and harmonization on resource mobilization was researching better ways to manage programme expenditure. The Board's recommendations made below should be implemented taking into consideration any future proposals by the task force on resource mobilization.

Programme expenditure incurred by United Nations executing agencies

83. In schedule 2 of the financial statements, UNDP reported expenditure of \$315 million (\$486 million in 2000-2001) implemented by United Nations executing agencies on its behalf for the biennium 2002-2003, representing a decrease of 35 per cent compared with the previous biennium. The Board, in paragraph 69 of its previous report, recommended that UNDP intensify its efforts to clear the remaining long-outstanding differences with executing agencies and make the necessary adjustments to the records. The Board also recommended that UNDP follow up in a timely manner on any differences in the quarterly reconciliations and apply a consistent basis of comparison.

84. Outstanding advances to United Nations executing agencies had increased by some \$46 million, to \$159 million, as at 31 December 2003. By the end of April 2004, 6 of the 32 (13 of the 32 in 2000-2001) executing agencies had not provided UNDP with reconciliations of the expenditure incurred by them. For these six agencies, differences between the UNDP balance and the agencies' status of funds amounted to a net of \$6.4 million. For the reconciliations received, the Board noted differences of \$24.1 million (\$42.2 million in 2000-2001) between the amounts reported by the executing agencies and the amounts recorded by UNDP. These differences were partially attributable to timing, since the agencies, in many instances, had not accounted for these transactions in inter-office vouchers. **The Board is concerned that expenditure and advances may be misstated in the financial statements as it was not always possible to verify items with the supporting documentation.**

85. UNDP informed the Board that steps had been put in place to encourage agencies to provide the statements and reconciliation information required from them, which included establishing weekly meetings with the United Nations to maintain the momentum for clearing outstanding amounts. This has resulted in increasing the number of reconciliations received, up from 15 for 2002 to 26 for

2003. UNDP also expected the Atlas system to improve the data flow and reconciliations with agencies.

86. The Board recommends that UNDP, in conjunction with other United Nations organizations, develop mechanisms to effectively control inter-agency transactions in an efficient manner and clear outstanding reconciling items.

Programme expenditure incurred by Governments

Advances: operating funds provided to Governments

87. In paragraph 81 of its previous report,² the Board expressed concern regarding the level of advances to Governments that were outstanding for more than a year. During the biennium 2002-2003, UNDP reviewed all outstanding advances issued prior to 31 December 2000 as part of the data cleaning process for the implementation of the Atlas system. As a result of this process, long-outstanding advances of \$19.7 million were cleared. UNDP did not, however, gain assurances that the advances of \$7.6 million, outstanding for more than a year, had been utilized for the purpose intended.

88. UNDP informed the Board that this balance of advances did not contain any amounts dating back further than 2001. UNDP headquarters had also written to the resident representatives of each country office requesting them to take appropriate action on these advances. With the ongoing implementation of the Atlas system, UNDP anticipated significant improvement in the way individual nationally executed expenditure advances were tracked.

89. UNDP agreed with the Board's reiterated recommendation to intensify its efforts to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide information on amounts considered doubtful.

Appointment of auditors of nationally executed expenditure

90. The Board recommended, in paragraph 85 of its previous report,² that the details of the appointment of nationally executed expenditure auditors be included in UNDP monitoring tools and that such details be used to verify compliance with the UNDP Programming Manual. UNDP revised its Programming Manual in November 2003. It is no longer mandatory for designated institutions to appoint nationally executed expenditure project auditors, and such an appointment may also be done by UNDP. Owing to the change in the Programming Manual, UNDP did not see the value added by including the details of who had appointed the nationally executed expenditure auditors in its monitoring database.

Terms of reference and audit scope of auditors of nationally executed expenditure

91. The Board recommended, in paragraph 92 of its previous report,² that UNDP:

(a) Ensure that standard terms of reference are agreed upon between 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;

(b) Compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNDP Programming Manual.

92. UNDP's Office of Audit and Performance Review performed a review on the adequacy of the audit scope coverage as stated in audit reports of the nationally executed expenditure audits performed at 93 country offices during 2002. The result of this review indicated that the audit scope coverage was deficient for 5 (5 per cent) of the country offices and only partially satisfactory for 18 (19 per cent) of the country offices. The Office of Audit and Performance Review had subsequently implemented and issued a technical guideline "Specimen terms of reference for audits of nationally executed expenditure or NGO" covering aspects with regard to the audit scope, reporting and the follow-up of prior year recommendations to all country offices, which was effective from the middle of 2003.

93. The Board also noted that UNDP revised section 6.8 of the Programming Manual in November 2003 so that it provides clearer guidance to country offices in interpreting the nationally executed expenditure audit requirements. The web site of the Office of Audit and Performance Review also provides extensive guidance to country offices and outlines in detail the criteria that the Office would use to assess nationally executed expenditure audit exercises. The web site also included the revised section 6.8 of the Programming Manual. UNDP did not, therefore, consider the above-mentioned checklist to be necessary.

94. The Board recommended, in paragraph 94 of its previous report,² that UNDP include audit clauses in project agreements and that their implementation be monitored.

95. During 2003, the Board's review of nationally executed expenditure project agreements concluded that not all project agreements included an audit clause as required by UNDP's Programming Manual. Furthermore, project agreements were not reviewed by the Office of Audit and Performance Review to determine whether audit clauses were included in project agreements. The Office has since included procedures to test compliance with section 6.8 of the Programming Manual in its country office audit guide.

96. The Office of Audit and Performance Review informed the Board that, although no audit clauses were included in some of the project agreements, the Governments concerned did not refuse to have projects subjected to an audit. The Office also informed the Board that it considered this to be a low risk area since they had not noted any instances where implementing Governments were not fully aware of the audit requirements. The Board, however, considers that including a clause that projects would be audited or subject to audit would promote the understanding and acceptance by implementing partners of the requirements for nationally executed expenditure audit process.

97. UNDP agreed with the Board's reiterated recommendation to include audit clauses in all project agreements and that their implementation be monitored.

Plans for audit coverage of nationally executed expenditure

98. The Board recommend, in paragraph 97 of its previous report,² that UNDP devote special attention to those country offices that had not submitted plans for audit on time by requesting such offices to commence planning exercises well in advance of the prescribed deadline. The Board also recommended that UNDP

headquarters should intensify its follow-up action with respect to country offices that have defaulted in adhering to requirements.

99. The Office of Audit and Performance Review performed a review of the adequacy of the audit plan coverage for nationally executed expenditure audits at the required 120 country offices during 2002. The review indicated that the adequacy of audit plan coverage was deficient in the case of 7 (6 per cent) of the 120 country offices and was only partially satisfactory for 13 (11 per cent) of the country offices.

100. The Board further noted that a total of 29 (23 per cent) of the 126 country offices required to submit their audit plans for 2003 did not do so by the stipulated target date of 15 January 2004. **The Board was pleased to note, however, that by the end of April 2004, all the required audit plans had been received from the country offices and commended UNDP for this achievement.**

Country office follow-up action plans

101. The Board recommended, in paragraph 100 of its previous report,² that UNDP actively follow-up and investigate the reasons for the non-submission of country office action plans. An analysis of the action plan database maintained by the Office of Audit and Performance Review indicated that 40 (36 per cent) of the 111 country offices required to submit their follow-up action plans for 2001 did not do so. Furthermore 20 (28 per cent) of the 71 country office action plans submitted were regarded as inadequate due to the fact that either the follow-up letter or the cost of the audit had not been placed in the files. The Office sent out reminders in October 2003 and February 2004 to the country offices requesting them to provide the reasons for the non-submission of the country office follow-up action plans. However, as at 30 April 2004, the country offices had not yet responded to these reminders.

102. UNDP utilizes the comprehensive audit and recommendation database system to track the status of implementation of internal audit recommendations made in the audit reports of the Office of Audit and Performance Review. The Board considers that the functionality of this monitoring tool could also be extended to monitor the status of implementation of audit recommendations made by the nationally executed expenditure project auditors, enabling UNDP to centrally monitor the status of implementation of all recommendations made by the Office and the nationally executed expenditure project auditors.

103. UNDP agreed with the Board's reiterated recommendation to continue to devote special attention to those country offices that do not submit their follow-up action plans and obtain and evaluate the reasons for non-submission. The Board further recommended, and UNDP agreed, that it evaluate the feasibility of extending the comprehensive audit recommendation database system to include the monitoring of the status of implementation of audit recommendations made by the nationally executed expenditure project auditors.

104. The Office of Audit and Performance Review informed the Board that it would explore the possibility of extending the comprehensive audit recommendation database system to country offices and project staff to assist them with follow-up of the recommendations made by the nationally executed expenditure project auditors.

Audit coverage of nationally executed expenditure

105. The Board noted an improvement in the actual nationally executed expenditure audit coverage from 64 per cent for the biennium 2000-2001 to 70 per cent for the biennium 2002-2003. According to the database information provided by UNDP, an amount of approximately \$2.9 billion (excluding United Nations agency implemented projects) was incurred as nationally executed expenditure. UNDP headquarters planned to have approximately \$2.4 billion (83 per cent) of this expenditure subjected to nationally executed expenditure audits. UNDP succeeded in auditing approximately \$2.016 billion of nationally executed expenditure in the biennium 2002-2003. At the time of the audit, UNDP had managed to increase its coverage of the biennium 2000-2001 expenditures to a level of 88 per cent.

106. With regard to UNDP's nationally executed expenditure audit plan guidelines, all of its nationally executed expenditure projects with estimated expenditure of over \$100,000 and Global Environment Fund projects with estimated expenditure of over \$20,000 are subject to audit. The Board noted, however, that a number of projects, totalling \$24.7 million, were not included in the 2003 nationally executed expenditure audit plans and were not subjected to an audit, although they met the criteria as stated in UNDP's audit plan guidelines. The Office of Audit and Performance Review requested that country offices provide reasons for not auditing those nationally executed expenditure projects. At the time of our audit, responses had not yet been received from the country offices.

107. The Board reiterated its recommendation that UNDP carry out its planned audit coverage of nationally executed expenditure projects based on the criteria stated in its audit plan guidelines. UNDP agreed. The Board further recommends that UNDP continue to explore the reasons why certain nationally executed expenditure projects are not being audited by the country offices, in accordance with UNDP guidelines.

108. UNDP informed the Board that the follow-up with country offices is ongoing and that, as a result, country offices have included additional projects for audit and/or have provided reasons for excluding projects from audit.

Risk-based nationally executed expenditure database

109. The Board recommended, in paragraph 117 of its previous report,² that UNDP create a comprehensive database to facilitate implementation of a risk-based assessment model. The Board considered that this comprehensive database could be used by the Office of Audit and Performance Review as a tool for enhancing country office risk assessments. The Board further considered that the database could assist UNDP in implementing a risk-based assessment model, which may enable it to establish requirements for nationally executed expenditure audits based on risks rather than quantitative thresholds only.

110. UNDP informed the Board that it was still in the process of completing the comprehensive database to facilitate implementing a risk-based assessment model. The Board noted that UNDP was chairing the "resource transfer modality working group", which included representatives from the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA), the World Food Programme (WFP) and UNDP. The working group is to prepare guidelines on auditing towards the middle of 2004 and technical notes on risk assessment at the

end of 2004, in order to provide guidance to country offices on how to conduct risk assessments and select a project for annual audits. Once these guidelines are completed, UNDP will assess the implications for the risk-based assessment model.

111. UNDP agreed with the Board's recommendation that it intensify its efforts to complete the comprehensive database to facilitate the implementation of a risk-based assessment model.

Evaluation of nationally executed expenditure audit reports

112. The Board noted, in paragraph 104 of its previous report,² 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. This situation prevailed during the biennium 2002-2003. 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. Qualified audit opinions have an impact on UNDP's ability to obtain assurance as to the performance of the funds, that is to say, that funds have been used properly for the purpose intended.

113. UNDP informed the Board that there were certain nationally executed expenditure audit reports that indicated a limitation of scope, however, the impact of the limitation was not always quantified in the auditors' reports. This was partly due to the inconsistent audit reporting formats. UNDP further informed the Board that the technical guideline, "Specimen terms of reference for audits of nationally executed expenditure or non-governmental organizations", would be revised to clarify these requirements and address inconsistencies.

114. UNDP agreed with the Board's reiterated recommendation to: (a) quantify the financial effect of qualified audit opinions on nationally executed expenditure; and (b) evaluate such qualifications against the action plans for reasonableness.

Conclusion

115. The Board has noted significant efforts made by UNDP that have resulted in further improvements in audit coverage of nationally executed project expenditure; the issuance of technical guidelines on the terms of reference for audits of nationally executed expenditure; and the revision of the UNDP Programming Manual to provide clearer guidance on nationally executed expenditure audits. **However, internal controls measures and procedures in respect of nationally executed expenditure could be further improved to ensure that adequate assurance is obtained regarding the effective utilization of funds in respect of nationally executed expenditure.**

2. Information and communications technology

Information and communications technology strategy

116. An information and communications technology (ICT) strategy provides a road-map of the ICT required to support and enhance the organizational direction, outlining the resources required and the benefits that would be realized with the implementation of the plan. The ICT strategy should include:

- (a) Aims and objectives pertaining to ICT for all groups;
- (b) Extent to which business operations and ICT would be integrated;
- (c) Structure and standards of the ICT environment;
- (d) Purpose of the ICT environment;
- (e) Services the ICT environment will deliver;
- (f) Facilities used by ICT;
- (g) Resource requirements.

117. UNDP provided the Board with a revised ICT strategy document for the biennium 2004-2005. The Board's review highlighted the following:

- (a) Although the strategy was reviewed by the UNDP management practice network and the executive team, and subsequently presented to the senior management team, it was still in draft form and not yet approved;
- (b) The strategy only covered a two-year period;
- (c) The strategy did not mention potential constraints, with the exception of establishing an ICT budget that needs to be addressed for a successful implementation of the strategy;
- (d) A comprehensive strengths, weaknesses, opportunities and threats assessment and risk analysis was not included;
- (e) There was no mention of UNDP's disaster recovery and business continuity plans.

118. UNDP agreed with the Board's recommendation that it compile a comprehensive information and communications technology (ICT) strategy that addresses the short, medium and long-term objectives, risks and constraints.

119. UNDP informed the Board that it would ensure that in subsequent revisions of the 2004-2005 strategy and in future documents the above matters would be addressed. Risk issues would be included in the next release, scheduled for July 2004.

120. According to the ICT strategy document, UNDP estimated an increase in its ICT budget for the biennium 2004-2005, from an approved amount of \$37.6 million to a range of \$69 to \$79 million.

121. UNDP had not formally adopted the control objectives for information technology guidelines or frameworks such as ISO 9001. While the Board acknowledges that UNDP was in the process of fully implementing the Atlas system, these guidelines provide useful tools for the self-evaluation and control, inter alia, of quality standards and risk analysis.

122. UNDP agreed with the Board's recommendation that it consider the benefits of adopting international standards and best practices to be applied to its ICT environment.

123. UNDP informed the Board that it was considering appropriate international standards in the context of stabilizing aspects related to the implementation of the Atlas system.

Electronic resource planning system

Background

124. UNDP, in partnership with the United Nations Office of Project Services (UNOPS) and UNFPA, decided to implement the Atlas system, effective January 2004. This implementation stage, which started in January 2003, was meant to introduce new technology, streamline processes and introduce a changed environment for managing content throughout the organizations. This new system replaced home-grown “legacy” systems (for example, the Integrated Information System, the Project Management Information System, the field office accounting system for Windows (WINFOAS) and FIM), creating an integrated environment to make tools available to enhance UNDP’s ability to manage financial, project, human resources and information.

125. The Board considered the implementation of the Atlas system to be a significant event “after the balance-sheet date” and therefore performed a limited review in this regard. UNDP was the principal implementing partner. UNDP followed a “fast-track” methodology to implement the system, which necessitated planning and execution of the various phases to be done concurrently and rendered the project vulnerable to a high risk of error, omission and possible failure. The project risk increased as a result of the high number of legacy systems (25) and global sites (160) that consolidated and integrated with the introduction of Atlas.

126. UNDP introduced wave 1 of the Atlas system from 2 January 2004 at all country offices and headquarters units, with the exception of the Brazil country office. This was the largest system implementation project ever undertaken by UNDP in its 50 years of existence.

Selection and acquisition of the Atlas system software

127. UNDP appointed a consulting firm to assess the overall suitability of the Integrated Management Information System (IMIS). During the assessment, the consultant recommended a move to an enterprise resource planning strategy. UNDP also appointed another leading ICT group to perform an independent review of the assessment done by the consulting firm regarding the suitability of IMIS and the recommended direction to move to an enterprise resource planning strategy. This second group concurred with the proposal to implement such a strategy.

128. An invitation to tender was sent out by UNDP. The tenders submitted were evaluated based on the factors listed in the invitation to tender according to the Procurement Manual. UNDP considered various enterprise resource planning systems, taking various criteria into account, including cost, functionality and post-implementation support and services. The selection was narrowed down to three reputable systems.

129. UNDP followed a scoring methodology using which all the members of the core evaluation team scored components of the request for information and the vendor-scripted demonstrations for each of the above-mentioned systems. Based on an approved model, the Atlas system received the highest score and was selected as the preferred system.

Project management

130. The Board noted that the decision to adopt a new enterprise resource planning system was the direct result of a strategic refocus for UNDP and that it formed part of the approved 2002-2003 UNDP ICT strategy. Expected benefits and advantages were clearly identified and tabulated in an appropriate matrix or benefit log. The Board noted, however, that benefits and outcomes were not always defined at a quantifiable and measurable level. This was mainly due to a lack of benchmark or baseline information. UNDP informed the Board that the impact would be assessed through a centrally maintained benefits log, which would only be revised and updated after the Atlas system had been stabilized and the results of its implementation captured through UNDP's results-based management practices.

131. UNDP agreed with the Board's recommendation that it translate the benefits of the project into appropriate quantifiable and measurable targets to be measured and reported on at appropriate intervals.

132. UNDP had an approval from its Executive Board to incur ICT costs of \$47 million from regular resources (excluding extrabudgetary resources, which did not require Executive Board approval) for the biennium 2002-2003. It spent \$56.2 million for ICT, of which \$38.9 million was from regular resources; \$10.6 million from operational reserves and \$6.7 million from extrabudgetary resources. UNDP had budgeted \$25.3 million out of the \$47 million for the biennium 2002-2003 under the ICT regular resources budget for business process re-engineering and the development of the Atlas system. UNDP had incurred direct costs of \$24.5 million as at 31 December 2003. Training of staff on the use of the Atlas system cost the organization \$2.7 million. The total indirect cost relating to the implementation of the system was not readily available. The Board was, therefore, unable to determine the total cost of the implementation of the Atlas system to date.

133. UNDP agreed with the Board's recommendation that it continuously monitor the expenditures for the implementation of the Atlas system in order to remain within the allocated budget.

Project implementation

134. The Board noted that the project for the implementation of the Atlas system had been staffed with project managers with appropriate experience, contracted specifically by UNDP. The technical implementation phase of the project was contracted to an experienced systems integrator with appropriate product knowledge and experience. A well-defined and structured methodology with appropriate work plans and milestone monitoring had been used.

135. The Board noted that contingency planning had been done at the critical-events level (for example, first payroll run and first month end), as well as at the disaster level. There was no contingency plan, however, to cover for critical system failures after the implementation date. UNDP informed the Board that it recognized that the nature of its business and the geographic range of its operations would result in the inability of business units to access the Atlas system from time to time.

136. UNDP agreed with the Board's recommendation that it expand contingency measures to ensure that it has the ability to provide information system processing capabilities on a continuous basis.

137. UNDP informed the Board that the outsourcing company has provided a total disaster recovery guarantee, promising to repair the system within 24 hours of any malfunction, with a maximum loss of four hours of data. A procedure was in place to manage “off-line” payments that may be necessary on an emergency basis.

Infrastructure and connectivity

138. Infrastructure and connectivity relates to the stability of the system and the ease with which it can be accessed. The global operations of UNDP also require a stable and efficient communications infrastructure to provide optimal access to the Atlas system for its identified users. UNDP, which elected to outsource the establishment, hosting and maintenance of the entire infrastructure platform to established service providers, entered into a “hosting contract” and a service-level agreement to govern the relationship.

139. The Board noted that a contract manager had been assigned to oversee the “hosting contract” during the implementation phase, but that a contract manager was yet to be assigned for the “post-implementation” phase (after 2 January 2004). UNDP informed the Board that the Chief Information Office was temporarily managing the contract with the support of the enterprise resource planning manager and the Chief of the Chief Information Office until a suitable candidate was identified to take over this function. An appropriate manager would be delegated with this responsibility subsequent to the completion of the reorganization of the Office of Information Systems and Technology, which was expected to be completed in September 2004.

140. UNDP conducted a number of load, connectivity and bandwidth tests, on limited sites only, in order to determine the optimal bandwidth and acceptable response time for the system. UNDP informed the Board that 30 process monitors were being activated on a pilot basis and that its present plan was for the final monitors to be in place by July 2004.

141. UNDP agreed with the Board’s recommendation that it deploy appropriate monitoring tools to monitor the performance of the system.

Data cleaning and conversion

142. UNDP had developed a structured process for data cleaning and conversion. The Board noted:

(a) Subsequent key decisions relating to data cleaning and conversion processes were taken by UNDP, but the data conversion strategy was not updated to reflect these decisions. By May 2004, UNDP was still busy with the data cleaning and conversion processes. Furthermore, UNDP’s internal audit section did not verify the accuracy and validity of journals to be posted as a result of the data clean-up;

(b) The data conversion strategy for the storage and availability of data was provided for in enterprise performance management data warehouse implementation plan that was scheduled for the next phase. However, this implementation plan was still under review by May 2004.

143. UNDP informed the Board that the strategy was being reviewed and updated. Conversions would be done sequentially on the basis of data readiness and the

current plan for completion of most of the conversion was scheduled for end of July 2004.

144. UNDP agreed with the Board's recommendations that it: (a) update the data conversion strategy to reflect all decisions taken and communicate the various decisions appropriately; (b) finalize the implementation plan of the enterprise performance management data warehouse as soon as possible; and (c) task its internal audit section to verify the validity and accuracy of the journals to be posted as a result of the data clean-up process.

145. UNDP informed the Board that the finalization of the enterprise performance management plan was part of wave 2 which was to be carried out by UNDP and its partners. The plan would be set with reference to other priorities. UNDP further informed the Board that the internal audit section had verified the validity and accuracy of the data clean-up process.

Query tool

146. UNDP had developed a reporting strategy document to deal with the various types of reporting and report delivery options. The strategy also addressed options for reporting on technical infrastructure (for example, centralized versus decentralized). The Atlas system operates using a query tool with a powerful data extraction capacity, and its use may have impact on the performance of the system as well as data security. The Board noted, however, that the Atlas system reporting strategy did not make reference to a specific policy on the access and use of this query tool. UNDP indicated that it intended to restrict and manage access via application security, that only a selected number of users would be granted access to the tool, and that a consultant had been appointed to develop a policy on managing such access.

147. UNDP agreed with the Board's recommendation that it expedite the development and implementation of a policy on managing access to the query tool function of the Atlas system.

Atlas helpdesk

148. UNDP implemented a global helpdesk that was being managed with the Atlas customer relationship management module. By December 2003, Atlas service centres had been established in New York, Kuala Lumpur, Bratislava and Panama. Staff members of 8 out of the 24 service centres were newly appointed to the United Nations system.

149. The Board noted that the global service centres were handling, on average, 400 to 500 cases per week. A total of 8,640 cases had been logged since January 2004, of which 7,953 had been cleared. The Board further noted that an average of 50 to 60 per cent of the cases were currently being resolved within 24 hours of being logged. UNDP did not have minimum standard requirements against which to measure the response times. UNDP informed the Board that a team had been appointed to improve the work of the service centre.

150. UNDP agreed with the Board's recommendation that it establish minimum standard requirements against which to measure the response time to resolve problem cases.

151. UNDP informed the Board that a draft policy to this effect would be tested in the third quarter of 2004, with deployment planned by the fourth quarter of 2004.

Internal controls

152. The internal control framework relates to the extent to which the system adheres to the required control checks and balances, ensures data integrity and reliability and also safeguards the financial interests of UNDP. The implementing partners adopted an approach to leverage the best practice functionality in the Atlas system and, where possible, to adapt UNDP's business processes to the functionality of the system. This approach usually results in changes to the business process as well as changes to the internal control environment.

153. The Board performed a limited review of the internal controls operating within Atlas as at April 2004. This review included interviews with staff from the Comptroller's Office, various "super-users", the Office of Audit and Performance Review and the work improvement tools team.

Pre- and post-implementation review of internal control framework

154. An internal control framework is the basis for ensuring that adequate and appropriate controls are put in place to lower the overall risk of an organization. At the time of the Board's interim audit (October 2003), internal control frameworks were not under development. A consulting firm was appointed to perform the internal control framework review of the implementation of the Atlas system during October 2003 (pre-implementation review) and March 2004 (post-implementation review). The agreement for the reviews specified that they would be performed within a total of 100 hours (40 hours for the initial review, 40 hours for a post-live review and 20 hours as a reserve) at an estimated total cost of \$15,000.

155. The Board was concerned about the perceived independence and objectivity of the consulting firm for the post-implementation review since it was the same firm implementing the Atlas system at UNDP. The Board did note that the reviewer was from the Audit Division of the firm and not directly involved in the Atlas implementation activities. Furthermore, a staff member from the Office of Audit and Performance Review assisted the consultant.

156. The Office of Audit and Performance Review and the Office of Information Systems and Technology indicated that discussions were being held with other United Nations implementing partners on performing a comprehensive independent third party post-implementation review of the Atlas system. The Board considers the proper set-up and functioning of the internal controls within the system to be critical, especially during the initial implementation phase.

157. UNDP agreed with the Board's recommendation that it perform an independent comprehensive post-implementation evaluation review of the set-up and effectiveness of the built-in controls of the Atlas system as soon as possible.

Status of internal control framework

158. By April 2004, the internal control framework for the procurement, accounts payable and human resources modules of the Atlas system had not been updated,

although discussion papers were available. Internal control frameworks for other modules such as projects, treasury and the general ledger still had to be developed.

159. The Board considers that the absence of an approved overall internal control framework covering all modules of the system could pose a significant risk to UNDP. UNDP informed the Board that efforts were already under way to revise and update the internal control framework after taking into account the views of all stakeholders.

160. UNDP agreed with the Board's recommendation that it compile, approve and disseminate an overall internal control framework to all staff, covering all modules of the Atlas system as a matter of priority.

161. UNDP informed the Board that it had revised the internal control framework for accounts payable and would continue to review the overall internal control framework as part of an overall risk assessment of UNDP during the biennium 2004-2005.

Segregation of duties

162. Regulation 20.2 of the UNDP Financial Regulations and Rules requires that:

“There shall be a segregation of duties

(a) Between the staff who may incur obligations or commitments on behalf of UNDP and the staff who may verify the payment on behalf of UNDP;

(b) Between the staff who may verify that payments may be made on behalf of UNDP and the staff who may disburse resources on behalf of UNDP.”

163. Section 2.3 of the proposed internal control framework discussion paper indicates that one nominated senior manager in each country office would have the highest approval and requesting authority in case of emergency. The Board noted, however, that country offices allocated the role of senior manager on the Atlas system to more than one person at their respective offices. In the Atlas system, the person who is given the role of “senior manager” is free to create and approve vendors, purchase orders and payment vouchers. The same person is therefore allowed to initiate, process and approve payments for transactions. The Board further noted that at smaller country offices individuals at a level lower than senior manager were permitted to create and approve purchase orders as well as to create and approve payment vouchers using the system. **This method of working, under which there was a lack of segregation of duties, could lead to errors and fraudulent transactions, with the risk of potential losses for UNDP.**

164. UNDP agreed with the Board's recommendation that it institute adequate segregation of duties within the Atlas system in order to lower the risk of fraud and error.

General ledger module

165. The general ledger was not operational as of May 2004. UNDP could not, therefore, provide the Board with its latest trial balance (list of account balances) as of that date since the general ledger module was not activated and UNDP transactions were not posted to the general ledger. In the absence of aggregated

information, management was not able to ascertain the results of the overall operations of UNDP.

166. UNDP informed the Board that the initial failure of the general ledger module was due to an error in the formula for exchange rate conversion between the dollar ledger accounts and the euro ledger account, which was being incorrectly calculated. That error has been rectified. However the general ledger had not been activated, mainly because UNDP intended to first complete all the relevant interfaces as well as to load all of the opening balances.

167. All international staff at country offices and all headquarters staff were being paid through IMIS. As of May 2004, an interface between IMIS and the Atlas system had yet to be developed, although the release plan indicated that the IMIS payroll interface had been finalized but had to be tested by the users and that the target date for implementation was 1 May 2004.

168. UNDP agreed with the Board's recommendation that it intensify its effort to resolve the limitations on the general ledger module as a matter of priority.

169. UNDP informed the Board that, as of June 2004, the general ledger had been activated and would be fully populated and operational by July 2004.

Bank reconciliation

170. For the period from January to May 2004, UNDP had not performed any bank reconciliation for approximately 67 bank accounts managed at headquarters and only two of the country offices had prepared bank reconciliations. The reasons for not performing reconciliations between the bank statements and the accounts, at headquarters level, were as follows:

- (a) No postings were being made to the general ledger module;
- (b) The bank reconciliation feature in the Atlas system was not operational;
- (c) The fact that the Atlas system only provided for one consolidated bank account in the general ledger as opposed to separate bank accounts made it extremely difficult to match the reconciling items to the various bank statements.

171. UNDP was investigating changes to the Atlas system to allow separate bank reconciliations for each bank account. If these changes were not possible, another software package may have to be acquired, to be interfaced with the Atlas system, to enable UNDP to do separate bank reconciliations for each bank account.

172. There was limited monitoring of the bank accounts in relation to accounts payable and accounts receivable transactions at the country offices and headquarters. Since the implementation of the Atlas system, there were 160,426 payments (including UNFPA and UNOPS) in the accounts payable modules that were not reconciled to the bank accounts. In addition, there were 6,493 receipts in accounts receivable modules that were not reconciled with the bank accounts. UNDP also indicated that one reason for not doing reconciliations at the country office level was that sufficient training had not been provided.

173. UNDP agreed with the Board's recommendation that it intensify its efforts to resolve the limitations affecting the non-performance of the bank reconciliations to ensure proper monitoring controls over cash balances.

Accounts payable module

174. According to the UNDP Procurement Manual, purchase orders are required for all purchases of \$2,500 and more. The Atlas system does not have built-in controls to prevent/block all purchases of \$2,500 or higher without a purchase order. In addition, exception reports enabling management to identify transactions over \$2,500 without the required purchase orders are not available. The Board noted that UNDP had no compensating manual controls in place to prevent or detect this.

175. Section 2.5 of the proposed internal control framework discussion paper (draft 4) indicates that “If the amount of an invoice raised against a purchase order is greater than the amount of the order, but less than the permitted tolerance of (20 per cent or \$30,000, whichever is lower), the voucher will not require further authorization. If the amount is greater than the tolerance level, the voucher will need further approval.”

176. In observing transactions processing using the Atlas system, the Board noted however that, despite the provisions of the proposed internal control framework, even if the amount of the invoice was greater than the permitted tolerance level, further approval was not required and the system allowed the transaction to be processed. The absence of appropriate controls could result in unauthorized expenditure. UNDP had no compensating controls to prevent or detect this weakness.

177. UNDP informed the Board that since the Atlas system had only one kind of payment voucher it would be difficult to restrict such payments without significant customization. It further informed the Board that it would ensure that all staff with authority to approve payments are fully informed of this rule and would hold managers accountable for enforcing it.

178. The Board recommends that UNDP institute adequate controls to ensure compliance with its prescribed rules on the approval of payments.

179. It was possible for any person at UNDP who had been assigned the right to create/approve vendors to also change details on approved payment vouchers on the Atlas system before actual payments were made. Using the Atlas system, the editing of details on the “Remit to vendor” payment invoice page was possible subsequent to the voucher being approved for payment. This included changes such as the name of the vendor and the bank account details of the vendor. **The Board considers this to be a serious weakness, which could result in fraud and potential losses to UNDP.** UNDP did not have any controls in place to prevent such actions. In addition, exception reports, as a detective control to identify any changes being made to approved payment vouchers, were not available. UNDP informed the Board that it was aware of this weakness and had requested that the design of the system be changed to address this matter.

180. UNDP agreed with the Board’s recommendation that it take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after payment vouchers have been approved.

181. UNDP informed the Board that this change was planned for release in the third quarter of 2004.

182. The Board noted that for payments split between two budget holders it was only necessary for one of the budget holders to approve the payment. One budget

holder could also edit the allocation of the payment amounts without the approval of the other budget holder. This creates a risk of misallocation of expenditure as well as potential for unauthorized expenditure.

183. UNDP agreed with the Board's recommendation that it ensure that payments split between two or more budget holders are approved by both budget holders before payment takes place.

Decentralization of payment function at headquarters

184. Prior to the implementation of the Atlas system at UNDP, the Comptroller's office and the relevant budget holder approved all payments at headquarters. With the implementation of the new system, the approval of payments has been decentralized at the headquarters level to the various departments/sections, without any intervention/approval by the Comptroller's office. Budget holders are now individually responsible for the creation, approval and record-keeping of all the transactions of their individual departments. The Board was concerned that sufficient training had not been provided to the budget holders to ensure compliance with the UNDP Financial Regulations and Rules. Since not all departments/sections at headquarters have designated finance officers well versed in the financial regulations and rules of UNDP, there is an increased risk that payments may not always be made in accordance with the UNDP Financial Regulations and Rules.

185. UNDP agreed with the Board's recommendation that it provide additional training regarding the UNDP Financial Regulations and Rules to users responsible for the approval of purchase orders and payment vouchers.

186. UNDP informed the Board that training would be a continuous process, including headquarters-based budget holders.

187. In light of the above, the Board considers that the involvement of internal audit with respect to the monitoring of adherence to the UNDP Financial Regulations and Rules is important, especially during the initial implementation phases of the Atlas system.

188. The Office of Audit and Performance Review recruited an information technology audit specialist with knowledge of enterprise resource planning systems and was preparing the specifications for a series of reports that would be useful in highlighting potential control weaknesses once in place.

189. UNDP agreed with the Board's recommendation that it conduct regular internal audits to monitor adherence to the UNDP Financial Regulations and Rules and to assess internal controls, especially during the initial implementation phases of the Atlas system.

190. UNDP informed the Board that the Office of Audit and Performance Review has already commented extensively on the proposed reports to be produced from the Atlas system. Regarding the impact of the system on the audit and investigation functions, the Office planned to conduct internal training for staff in September 2004, focusing on extracting and analysing reports from the new system. By late September, the country office audit approach would be revised to incorporate a review of internal controls regarding the implementation of the Atlas system. The revised approach would be tested by November.

Reports from the Atlas system

191. The number of monitoring exception reports available from the Atlas system was limited. UNDP had established a timetable for the prioritization of the development of reports. However, five reports, which were planned to be developed and in operation, were not yet available by May 2004.

192. The Board considers the availability of timely reports from the Atlas system to be crucial to ensure the effectiveness of monitoring controls at UNDP. Exception/monitoring reports that could be used for internal audit purposes were not considered during the initial stages of development. It was only at a later stage that these types of reports were considered, resulting in the non-availability of such monitoring reports.

193. UNDP agreed with the Board's recommendation that it expedite its efforts to develop and put into operation all exception/monitoring reports.

Brazil country office

194. The UNDP country office in Brazil (a large office accounting for 14 per cent of programme expenditure) did not implement the Atlas system on the "go live" date and there was no indication as to when it would do so. The Brazil country office implemented a different enterprise resource planning system during June 2001 (as a pilot project for the implementation of enterprise resource planning at UNDP), at a cost of approximately \$1.5 million, and was not receptive to changing over to the Atlas system. The country office believed that the system would not be able to meet its needs. There was currently no interface between the Atlas system and the enterprise resource planning system being used at the Brazil office. As a result, no transactions of the Brazil office had been recorded in the Atlas system from the beginning of 2004. The Board considers that this will result in inefficiencies and additional costs, which could be avoided by UNDP.

195. UNDP informed the Board that a business decision was taken in the case of the Brazil country office to allow it to continue using the other enterprise resource planning system because of the extraordinary volume and the number of external projects being tracked and recorded on that system. In addition, a plan had been formulated to mitigate the short-term impact and facilitate the transition to the Atlas system and a feasibility study, to be completed by the third quarter of 2004, was also planned.

196. The Board recommends that UNDP take immediate steps to ensure that the Brazil country office implements the Atlas system in a cost-effective and efficient manner.

Audit trail

197. The audit trail functionality had not been activated on the Atlas system. This functionality would allow UNDP to track all transactions processed on the system and to isolate responsibility for specific transactions where fraud or errors are detected. This tool is especially relevant considering the shortcomings noted with respect to segregation of duties.

198. UNDP informed the Board that although the audit trail functionality was considered to be an important element of control, it needed to be activated

selectively since switching it on indiscriminately would impair the performance of the system. UNDP would carefully plan the activation of key control audit trails to balance the need for strong and effective controls with actual system performance.

199. The Board recommends that UNDP reconsider the activation of the audit trail function, especially as an interim measure, taking into account the benefits and effect it would have on the operations of the Atlas system.

200. UNDP informed the Board that implementation of the recommendation would be delayed, pending the outcome of the independent evaluation of UNDP's internal controls.

Firewall

201. According to UNDP's recommended standards for desktop and network environments and for connectivity, all country offices should have an appropriate firewall. The Board noted that the prescribed firewall security had been implemented at only 32 of the country offices. The Office of Information Systems and Technology indicated that two vendors have been appointed to install firewall security at the remaining country offices.

Required changes as per the release plan

202. UNDP provided the Board with a release plan reflecting planned changes to the Atlas system as at 23 April 2004. There were 166 planned changes to the system, of which 18 were marked as critical and 96 as high priority.

203. The release plan included the following shortcomings pertaining to the Atlas system: (a) the chart fields on approved accounts payable vouchers could be changed while the vouchers remained approved; (b) there was insufficient control over voucher approval as all purchase orders were pre-approved; (c) the "three-way matching rules" were not working properly: vouchers passed the three-way matching, even where no receipts had been entered; (d) users could un-post a receivable that already had a payment applied to it; and (e) there were inconsistencies between the subsidiary ledgers in the control ledger, with the effect was that it was possible to overspend budgeted amounts.

204. The Board recommends that UNDP allocate resources urgently to resolve the shortcomings identified with the Atlas system as soon as possible, especially those classified as critical.

205. UNDP informed the Board that the release plan was on schedule and that, since April 2004, shortcomings were being addressed in regular releases.

Conclusion

206. UNDP did not have an independently validated comprehensive internal control framework for the Atlas system that would adequately mitigate its control risk. This weakness is compounded by the numerous related deficiencies that the Board identified such as: inadequate segregation of duties; no operational general ledger; no automated bank reconciliation facility; inadequate controls to prevent payee details; limited monitoring reports; and limited installation of firewalls. While this has not had an impact on the 2002-2003 financial statements, the Board is concerned that if the deficiencies

pertaining to the introduction of this significant system after the balance-sheet date are not addressed expeditiously they may result in major operational difficulties for the organization.

3. Internal oversight

Management Review and Oversight Committee

207. The Board considered the role of the Management Review and Oversight Committee in the context of best governance principles and practices⁴ since the latter was established to function in line with the objectives of an Audit Committee. The Management Review and Oversight Committee was established to provide the UNDP Administrator with assurance that UNDP's accountability framework was operating effectively. This was especially relevant as more resources were moved from headquarters to country offices in response to the Administrator's strategy. The objective of the implementation of the framework was to achieve organizational and personal accountability. This framework included the following elements: establishing objectives; establishing policies; establishing ethical values; and monitoring internal and external environments.

208. The management Review and Oversight Committee was chaired by the UNDP Associate Administrator and included the Under-Secretary-General of the Office of Internal Oversight Services from the United Nations Secretariat as a permanent member. It also included the Director of the Office of Audit and Performance Review as an ex-officio member.

209. Under its terms of reference, the Committee was to meet formally at least two times a year. The Board, however, noted that in 2002, the Committee met only once and that the only topic on its agenda was a discussion of the repositioning exercise of the Office of Audit and Performance Review. The Committee did not meet in 2003.

210. UNDP agreed with the Board's recommendation that it ensure that the Management Review and Oversight Committee meet more frequently in order to carry out its oversight responsibilities effectively.

211. The Management Review and Oversight Committee was consistent with best practice in many respects, but not in the following areas:

- (a) Responsibilities did not cover evaluating and monitoring compliance with organizational practices and UNDP's code of ethics and business conduct;
- (b) The Committee was not made up of a majority of independent members and its membership was not published in the financial report of UNDP;
- (c) It did not meet separately and privately with management, the head of internal audit and the external auditors nor did it offer them the opportunity for such discussion;
- (d) It did not prepare a fraud prevention plan;
- (e) It was not chaired by an independent person;

⁴ See King Report on Corporate Governance 2002 (King II) (South Africa), Report on the Financial Aspects of Corporate Governance, 1992 (Cadbury report) (United Kingdom of Great Britain and Northern Ireland), and Sarbanes-Oxley Act, 2002 (United States of America).

(f) It did not formally provide assurance to the Executive Board that it had discharged its mandated responsibilities effectively.

212. The Board recommends that UNDP address the shortcomings identified between the Management Review and Oversight Committee and best practices for an audit committee function.

213. UNDP informed the Board that it agreed with the recommendation in principle and would consider all elements arising in this regard at the expected discussion of the High-Level Committee on Management in October 2004 and decide on the best solution.

Risk assessment and management

214. The assessment of risk is vital in determining audit focus areas and resource allocation. Risk reduction should be an organization-wide initiative. Risk assessments should be the starting point from which internal audit designs its audit programmes.

215. UNDP did not have a risk management function. The main objective of a risk management function is to review and assess the effectiveness of risk management and control processes. Owing to the nature of internal audit's activities and expertise, it often assists management in this activity by maintaining a risk database and facilitating the identification of the risks. The administrator or audit committee equivalent would normally be responsible for ensuring that the primary objective and purpose of the risk management function are adequately and effectively achieved. UNDP did not undertake an organization-wide risk assessment. Internal audit used its own risk assessment, broader in scope than just financial aspects, but with the objective of designing country office audit programmes.

216. UNDP agreed with the Board's recommendation that it: (a) evaluate establishing a risk management function responsible for implementing a risk management strategy at UNDP; and (b) conduct a comprehensive risk assessment exercise.

217. UNDP informed the Board that while it does assess risk, it agreed that it should be formalized. A key exercise in place is the Global Staff Survey, which helps evaluate "soft control" issues that touch on the moral climate and behaviour of staff in all offices. The data is then analysed by management and staff at both the office or unit level and the regional level. The Office of Audit and Performance Review also uses this data to assess risk as part of its audit planning.

218. The Executive Board of UNDP is responsible for the total process of risk management, while UNDP management has a significant role to play in risk management. The Board's review of risk management in terms of best practices at UNDP indicated areas for improvement such as:

- (a) Periodic evaluation of the effectiveness of the risk management process;
- (b) Establishing risk strategy policies in liaison with the Administrator and senior management;
- (c) Determining criteria for acceptable degrees of risk that UNDP may encounter in achieving its objectives;

- (d) Using generally recognized object-driven risk management/internal control frameworks and models;
- (e) Reviewing reports on the risk management process more frequently;
- (f) Assigning responsibilities for a risk management function.

219. UNDP agreed with the Board's recommendation that it establish mechanisms to manage risk in terms of best practices.

Internal audit function

220. The Board also performed a review of the internal audit function within UNDP's Office of Audit and Performance Review. Internal audit has a key role in an organization's risk identification and mitigation process. In August 2002, the Administrator requested a thorough review of the range of services provided by the Office and an assessment of whether it possessed staff with the necessary competencies.

Organizational structure

221. The review labelled a "repositioning exercise", was carried out by a team external to the Office of Audit and Performance Review. The team was led by the head of the Office of Development and Advisory Services and included the Director of the internal audit office at the United Nations Educational, Scientific and Cultural Organization (UNESCO). The review, which took place from September to November 2002, resulted in a revised list of services and the approval of a new organizational structure for OAPR, effective 1 January 2004.

222. UNDP held a job fair between December 2002 and March 2003, at which each staff member of the Office of Audit and Performance Review (with the exception of the Director) had to re-apply for newly created jobs. By May 2004, an 82 per cent staffing capacity had been achieved at the Office. There were 9 vacancies out of the 49 authorized posts. The post of the Director had been advertised and vacant since December 2003, although UNDP was in the process of filling the post. In addition to this capacity, UNDP also contracted out some of its internal audit reviews to private firms.

223. UNDP agreed with the Board's recommendation that it expedite filling vacancies within the Office of Audit and Performance Review.

224. UNDP informed the Board that recruitment for the Director of the Office of Audit and Performance Review was still in progress as at June 2004. Regarding the remaining nine vacancies, the recruitment of six programme specialists and one quality assurance officer was still in progress. Two investigation specialists had been recruited.

Internal audit coverage

225. The Board noted with concern that the restructuring had an impact on the coverage of audits of country office undertaken by internal audit for the biennium 2002-2003, as reflected in table 3 below.

Table 3
Number of audits undertaken per region per year

<i>Region</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Regional Bureau for Europe and the Commonwealth of Independent States	8	6	3
Regional Bureau for Africa	8	10	5
Regional Bureau for Arab States	7	0	1
Regional Bureau for Asia and the Pacific	12	11	1
Regional Bureau for Latin America and the Caribbean	6	8	5
Total	41	35	15

226. The Board noted that: (a) only a small number of audits were undertaken because of the impact of the repositioning exercise; (b) audit staff of the Office of Audit and Performance Review were still learning how to implement the new audit approach; (c) many of the audits were undertaken in the spirit of “piloting” the new approach; and (d) for country office audits, the scope was revised halfway through 2003, following consultation with the Evaluation Office and the Operation Support Group.

227. The Board’s review of UNDP’s internal audit function revealed the following:

(a) The terms of reference defining the purpose, authority and responsibility had been properly constituted;

(b) The audit approach and methodology followed at country offices generally complied with the standards of the Institute of Internal Auditors;

(c) The Office of Audit and Performance Review had developed a training and development programme to facilitate the continuous education/learning for the internal audit staff;

(d) The Management Review and Oversight Committee had not concurred with the appointment or assessment of the performance of the Director of Internal Audit;

(e) There was no evidence in the working papers that standards of independence were considered;

(f) Three-year rolling internal audit plans were not compiled;

(g) The annual internal audit plans were compiled, however, the audit committee equivalent (Management Review and Oversight Committee) did not approve them, bearing in mind the present composition of the Management Review and Oversight Committee.

228. Owing to the number of vacancies still waiting to be filled as a result of the restructuring process, the Board was not in a position to comment on the suitability of the staff with reference to qualifications, experience, skills and competencies.

229. UNDP agreed with the Board’s recommendation that it: (a) consider making the Management Review and Oversight Committee part of the panel responsible for the appointment and assessment of the head of the internal

audit department; (b) include evidence of considerations of independence in its working papers prior to the commencement of any audits; (c) ensure that internal audit compiles and implements a three-year strategic plan that addresses the risk management strategy; and (d) ensure that the Management Review and Oversight Committee approve all three-year and annual audit plans and significant amendments thereto before implementation.

230. This reduction in coverage meant that the Board was not confident of the reliability of internal audit work for the biennium 2002-2003. Conscientious implementation of the changes made, in terms of the new audit programme, qualifications of staff, quality control and capacity-building may, however, convince the Board of the reliability of internal audit work in future.

231. UNDP informed the Board that the Office of Audit and Performance Review would include evidence of considerations of independence in working papers and also prepare a three-year strategic plan addressing the risk management strategy for submission to the Management Review and Oversight Committee or the appropriate oversight group by September 2004. UNDP would comply with Institute of Internal Auditors standards, as appropriate, in this regard.

Internal oversight reports

232. The Board followed up on its recommendations made in paragraphs 170, 173 and 175 of its previous report that UNDP:

- (a) Revise its programme of work for internal audit to include an appropriate level of coverage of financial procedures and controls at headquarters;
- (b) Follow up on all outstanding recommendations with country offices;
- (c) Establish and enforce stricter time frames to improve and strengthen the process of reporting and follow-up.

Level of coverage on financial procedures and controls at headquarters

233. A total of seven audit reports relating to UNDP headquarters were issued by the Office of Audit and Performance Review during the biennium 2002-2003. These audits focused mainly on management and performance-related issues rather than financial procedures and controls.

234. The audit plan for 2002 confirmed that audits of financial procedures and controls at headquarters were not included. The Office of Audit and Performance Review informed the Board that no formal audit plan was developed for 2003 owing to the impact of the repositioning exercise.

235. UNDP informed the Board that the Office of Audit and Performance Review had been severely challenged over the past four to five years in responding to a number of urgent priorities and auditing certain headquarters units. The Office's next priority had been to audit financial procedures and controls at headquarters, but, before that could be done the decision was taken to initiate the repositioning exercise, which had led to the present situation with regard to long-standing vacant posts.

236. UNDP agreed with the Board's reiterated recommendation to revise its programme of internal audit work to include an appropriate level of coverage on financial procedures and controls at headquarters.

237. UNDP informed the Board that the Office of Audit and Performance Review would revise its audit plans to cover financial procedures and controls at headquarters by September 2004.

Follow-up to the outstanding recommendations of country offices

238. The Office of Audit and Performance Review compiled a tracking report, dated 21 April 2004 (from information obtained from the comprehensive audit and recommendation database system), on the implementation rate of recommendations made in the reports of the Office issued during 2001 and 2002. The Board was pleased to note that, according to the tracking report, approximately 2,236 of the 2,905 (77 per cent) recommendations made during the above period had been implemented. The Board noted, however, that there was a slow implementation rate (ranging from 0 to less than 50 per cent) of recommendations at certain country offices. The reasons for the slow implementation rate were not provided to UNDP headquarters.

239. UNDP informed the Board that the regional audit service centres of the Office of Audit and Performance Review were responsible for following up the implementation status of recommendations. The Office would consult with the regional audit service centres to determine the reasons for the slow implementation of recommendation at country offices.

240. UNDP agreed with the Board's recommendation that it document the reasons for the delay in implementing the recommendations of the Office of Audit and Performance Review.

241. UNDP informed the Board that, as of October 2004, the Office of Audit and Performance Review would document the reasons for delays in implementing its recommendations.

Reporting time frames

242. The Board reviewed the tracking documents provided by the Office of Audit and Performance Review to determine whether the Office complied with the four-week standard, as reported in paragraph 176 of its previous report, and whether there was an improvement in the average reporting period from the previous biennium. For assignments in 2002, the four-week standard for draft audit reports was only met for 25 of the 60 issued audit reports (42 per cent).

243. The combined tracking report for the 74 audit reports issued during the biennium 2002-2003 indicated that it took the Office of Audit and Performance Review, on average, 17 weeks to issue the final audit report after the field work had been completed. Of those reports, 11 (15 per cent) took 6 months or more to issue. Fourteen reports cover audits done in 2001. The reasons for the delays were not documented in the tracking report, although the Board noted that the timely receipt of management comments also had an impact on the issuance of final reports.

244. The Board reiterates that the risk of delayed reporting is that the conditions prevailing during the audit might have changed significantly and that, therefore, the

efforts and results obtained by the audit may be negated. In addition, any inefficiencies or uneconomical practices noted in the reports cannot be addressed or rectified until the reports are issued. The Office shared preliminary draft reports with management in order to mitigate these risks.

245. In 2002, the Director of the Office of Audit and Performance Review took steps to monitor this requirement and to hold chiefs of the respective audit centres accountable for non-compliance. As a result of the repositioning exercise, the Director's focus changed, and priority was given to the successful completion of the repositioning exercise.

246. UNDP agreed with the Board's recommendation that it: (a) determine a standard time frame for the timely issuance of reports; and (b) monitor compliance with these standards on a regular basis while documenting and following up the reasons for any significant delays.

4. Treasury

Background

247. The Treasury provides services to UNDP, UNFPA and UNOPS in the areas of cash management, investments and foreign exchange. Treasury was a function within UNDP's Office of Finance and Administration. The Treasury Division was divided into three functional areas, which are listed below:

(a) The Investment Unit, which is responsible for the domestic and foreign exchange desks;

(b) The Cash Management Unit, which is responsible for management and control of cash and funding procedures at country offices;

(c) The Treasury Operations and Support Section, which is responsible for the management of financial risks relating to treasury operations, including accounting, compliance, back office activities and ICT.

248. Treasury had a staff of 18, including two consultants. All staff had the appropriate experience. The Treasury Division was in the process of restructuring at the time of the Board's review in March 2004.

249. The Board performed a limited review of the Treasury function in order to:

(a) Obtain an understanding of the internal control environment and the specific risks associated with UNDP's Treasury Division;

(b) Compare the current conditions at UNDP with generally accepted best practices⁵ taking into account factors that influence the public sector;

(c) Evaluate the performance of key controls identified to ensure that they all operated effectively during the period under review.

Performance of investments

250. The Board had not specifically conducted a performance audit of the portfolio strategy and returns on investments. The Board used the generally accepted London

⁵ Best practices as determined by the International Group of Treasury Associations.

Interbank Offered Rate (LIBOR) as a performance measure as it was a useful tool to measure performance of short-term investments. The LIBOR rates used below were adjusted to reflect the average maturity of the UNDP funds for a particular year. A study on the use of alternate benchmarks had been completed by UNDP, and management was in the process of validating a more suitable benchmark. It should be noted that LIBOR as a benchmark alone would not be representative of UNDP's portfolio as a portion of the portfolio consists of bonds, as indicated in the table below. This is one of the reasons for UNDP's return being higher than the average LIBOR rate since bonds yielded a higher return in comparison to money market funds. Table 4 reflects the average investment portfolio amounts for the years 2001-2003 whereas table 5 represents the total investment portfolio amounts held at the end of each biennium.

Table 4
Analysis of investments

<i>Fund</i>	<i>Year</i>	<i>Average portfolio balance for the year</i>	<i>Income</i>	<i>Return</i>	<i>Average LIBOR</i>
		<i>(In thousands of United States dollars)</i>		<i>(Percentage)</i>	
UNDP	2001	1 514 625	72 434	4.78	3.76
UNDP	2002	1 695 440	49 553	2.92	2.15
UNDP	2003	1 862 347	40 172	2.16	1.36

Table 5
Holdings summary by security type

(In millions of United States dollars)

<i>Fund</i>	<i>Biennium</i>	<i>Total</i>	<i>Money market fund</i>		<i>Time deposit</i>		<i>Certificate of deposit/ commercial paper</i>		<i>Bond</i>	
			<i>Percentage</i>		<i>Percentage</i>		<i>Percentage</i>		<i>Percentage</i>	
UNDP	2001	1 576	253	16	730	46	0	0	593	38
UNDP	2003	1 882	117	6	594	32	195	10	976	52

Risk management framework

251. As discussed above (see summary), the Board found that the existing framework and structure at UNDP did not cater to an integrated approach to risk management, as required by best practices.

252. As reported above (see para. 216), UNDP agreed with the Board's recommendation that it consider establishing a risk management framework, based on best practices, in the context of its review of governance structures as requested by the General Assembly in paragraph 6 of its resolution 57/278.

Investment Committee

253. UNDP established an Investment Committee on 7 November 1996, with a mandate "to oversee liquidity management including the monitoring of compliance with investment guidelines, approve changes to guidelines and to monitor

performance against benchmarks". The Investment Committee met on a quarterly basis, and functioned in terms of its mandate.

Treasury policies and procedures

254. UNDP's Investment Committee and the Treasury issued various documents on treasury policies and procedures. The Board noted that these procedures were not in line with best practices in areas such as:

- (a) Authority limits of treasury personnel (dealing and authorization);
- (b) Identifying the authorized counterparties (financial institutions) of UNDP;
- (c) Procedures for performing regular credit risk assessments of counterparties, as well as the timing thereof;
- (d) Documented reconciliation procedures;
- (e) Formally documented and reviewed counterparty limits.

255. The Board further noted the following matters relating the UNDP treasury procedures: (a) not all treasury staff were aware of the existence of the procedures; (b) staff needed to be updated regularly, in particular in light of the restructuring process; (c) policies were not updated in respect of risk weighting for categories of instruments; and (d) there were no management reporting policies and procedures.

256. UNDP agreed with the Board's recommendation that it: (a) update the current treasury policies and procedures to bring them into line with best practices, taking into account the restructuring process and the implementation of the Atlas system; and (b) incorporate all management reporting policies and procedures into the treasury policy and procedures.

257. UNDP informed the Board that updated investment guidelines would be presented to the Investment Committee for consideration at its October 2004 meeting.

Treasury reporting and control

Management reporting

258. The Board noted that reporting on the management of the UNDP Treasury consisted of a summary report on daily holdings prepared for decision-making purposes by security type and by maturity profile, as well as monthly management and quarterly reports.

259. The Board noted, however, that the following reporting levels and information was absent at UNDP:

- (a) Daily reporting on (i) the daily utilization of counterparty limits; and (ii) details regarding UNDP's foreign exchange exposure;
- (b) Operational reporting such as: (i) an interest rate management action plan and interest rate forecasts with a brief economic review; and (ii) return on investments as a percentage per instrument measured against a suitable benchmark;

(c) Management (Investment Committee) reporting on a monthly cash flow forecast comparing actual figures with budgeted details to assist the Investment Committee/Executive Board in monitoring the liquidity of UNDP and in considering future investments and UNDP programme opportunities.

260. UNDP agreed with the Board's recommendation that its Investment Committee determine the management information required at the different levels of reporting and create the relevant reports.

261. UNDP informed the Board that eight reports have already been identified and were being produced and that additional reports would be developed in 2004, as required.

Liquidity risk management

262. Liquidity risk is the risk of not being able to meet commitments due to a shortage of cash. To avoid such an eventuality, short-term projected cash flows for each currency should be measured and monitored to anticipate future funding or investment requirements.

263. The Board noted that UNDP had approximately \$2.5 billion in funds under its management as at March 2004. This included other United Nations agencies and trust funds of approximately \$569.5 million for which there were draft service level agreements.

264. The Funding Unit, under the management of the Cash Manager at the UNDP Treasury, was charged with the responsibility of monitoring and managing the liquidity of country offices. The funding unit established imprest levels for each country office. The imprest levels were determined twice a year based on the most recent 12-monthly "Zero-Based Account" disbursement average. These imprest levels were communicated to each country office.

265. UNDP indicated that it had long recognized the shortcomings in liquidity management that existed due to the fact that country offices and headquarters operated on two separate financial systems. The Atlas system was expected to assist in improving the accuracy of information on cash utilization and working capital requirements.

266. UNDP had not implemented the following features in terms of best practices: (a) cash forecasts using existing information systems; (b) a three-month forward rolling cash forecast; and (c) the consolidated cash forecast was not distributed to executive management.

267. UNDP agreed with the Board's recommendation that it prepare, monitor and evaluate short-term projected cash flows for all country offices, in each currency, in an improved manner in order to anticipate future funding or investment requirements.

268. UNDP informed the Board that its Treasury would implement a cash position worksheet tool in 2004, which is embedded in the cash management module of the Atlas system to support the preparation, monitoring and evaluation of short-term projected cash flows for most offices in the currencies in which UNDP operates.

Credit/counterparty risk and foreign exchange risk management

269. The Board was pleased to note that UNDP had effective controls in the areas of credit/counterparty risk and foreign exchange risk management. Credit/counterparty risk is the risk that an organization would suffer a loss due to default by a counterparty. UNDP made use of banks with AA⁶ or better ratings for their short-term investment needs. Documented policies and procedures were in place for short-term investments. Formal credit ratings were utilized in the credit evaluation process. The Investment Committee approved the counterparty limits. The investment officer obtained the counterparty rating from a leading market information system before deals were concluded. Treasury subscribed to a leading credit rating agency. The investment officer submitted a report detailing the counterparties used with their credit ratings to the Investment Committee on a quarterly basis. Creditworthiness of external counterparties was adequately monitored on an ongoing basis.

270. Foreign exchange risk is the risk that adverse movements in foreign currency exchange rates would negatively affect the budget of the organization. UNDP has a foreign exchange risk management policy, which was approved by the Investment Committee. UNDP's policy was not to enter into any speculative foreign exchange deals. Procedures in respect of foreign exchange risk management appeared to be adequate at UNDP.

Operations*Segregation of duties*

271. A "front office" is usually responsible for initiating transactions within pre-authorized limits. The "back office" is usually responsible for authorizing and processing transactions. The Board's evaluation of the level of segregation of duties between the front and back offices of the Treasury Division revealed that there was adequate segregation of duties between the two offices at UNDP. There appeared to be sufficient monitoring controls and segregation of duties between the persons initiating, confirming, approving, settling and recording transactions.

Authorization

272. The Board noted that UNDP had assigned the responsibility for investing/foreign exchange trading to specified individuals within its Treasury. Formally approved levels of authority were in place. All deals were reviewed by the Treasurer and approved by the operations manager and deputy operations manager in the Atlas system. The Board also noted that authorization processes carried out in the previous system (the Millennium system) also appeared to have functioned as intended.

273. The Board noted, however, that UNDP did not periodically review delegated levels of authority. Owing to possible changes in circumstances of the organization as well as individuals, there is a risk that standing delegations of authority may no longer be suitable.

⁶ Rating given by a credit rating agency; AA represents a good investment grade.

274. UNDP agreed with the Board's recommendation that it periodically review the delegated levels of authority in the Treasury Division to reaffirm the appropriateness of such authorities.

Decision support

275. The Board noted that UNDP obtained sufficient information to make informed decisions to price and commit the organization to transactions prior to executing the transactions. UNDP confirmed core contributions at donor conferences held in April of each year. UNDP informed the Board that it had experienced difficulties in determining the exact timing of the receipt of the core contributions as this required the donors to submit contribution schedules that they would abide by. UNDP had tried to formalize a contribution schedule with all the contributors. Owing to the uncertainty as to when other contributions would be received, only core contributions were hedged. UNDP considered that it was not feasible to hedge uncertain foreign currency inflows as this may be seen as speculative, which was not permitted by UNDP policy.

Trade processing

276. UNDP did not perform the following additional verification procedures independently of the trading function: monitoring of credit and market risk limits; and circulating trade volumes and error statistics to management to aid the identification of process weakness. UNDP informed the Board that the implementation of the risk management module in the Atlas system would enhance the ability of the Treasury Division to monitor market and credit limit risk.

277. The Board recommends that UNDP perform additional trade verification procedures, such as monitoring of credit and market risk limits, independently of the trading function.

Settlement

278. UNDP settled trading activities either through the SWIFT system or the electronic funds transfer system. Consideration was not, however, given to the concept of a periodic review of the continued suitability of the individuals appointed as authorized signatories. In addition, the Board could not find any evidence to suggest that UNDP performed a review of computer security and communication controls on a regular basis.

279. UNDP agreed with the Board's recommendation that it regularly review computer security and communication controls.

280. UNDP informed the Board that the Treasury Division would confer internally with the Office of Information Systems and Technology in the second half of 2004 on methodology to be used for such reviews.

Limits

281. UNDP's counterparty limits were outlined in its short-term investment policy document. UNDP was only allowed to transact with counterparties with an AA rating or better. It was the role of the investment officer to ensure that not more than \$150 million in short-term investments was placed with the same counterparty. The Investment Committee determined and approved the counterparty limits. Best

practices indicates that, in order to further manage counterparty risk, more than one constraining factor should exist for dealing with counterparties. The Board noted, however, that UNDP applied only one constraining factor, as mentioned above.

282. The Board recommends that UNDP re-evaluate its policy in respect of the maximum exposure with any counterparty to include more than one constraining factor.

283. UNDP informed the Board that it would address this matter in the revised investment guidelines, to be completed and approved in 2004.

Valuations

284. There were no formal policies and procedures for the valuation of foreign exchange, bond positions and the accrual of interest. The UNDP Treasury informed the Board that it would liaise with the Comptroller's Division on the formulation of a policy and procedures statement for the revaluation of foreign exchange hedges. UNDP did not, however, include the monthly interest accruals in the monthly management reports.

285. The Board recommends that UNDP: (a) formally document and approve policies and procedures for the valuation of foreign exchange, bonds and interest accruals; and (b) include interest accruals in the monthly management reports.

286. UNDP informed the Board that the Treasury Division would liaise with the Comptroller's Division on the formulation of a policy and procedures statement for the valuation of foreign exchange hedges and bonds and interest accruals during the second half of 2004. Information on interest accruals would be included in monthly management reports to the extent that management finds such information useful.

Reconciliations

287. In relation to bank reconciliations, mentioned above under the section on ICT (paras. 116-206), UNDP had not performed reconciliations for checking transactions on the treasury module to the accounting records.

288. UNDP agreed with the Board's recommendation that it generate and review a report of reconciling items between the treasury module and the accounting records.

Internal audit coverage of the Treasury

289. The Board noted with concern that the last internal audit of the UNDP Treasury was performed in 1985, although no report was issued. Owing to the extent of programmed controls and the level of specialized knowledge needed to review treasury areas, annual independent reviews may be required in specialist areas, for example, information technology and new treasury products.

290. UNDP agreed with the Board's recommendation that it: (a) perform adequate internal audit reviews based on the outcome of a treasury risk assessment and bearing in mind specialist areas; (b) involve internal audit in assessing the overall adequacy of the information technology and risk management systems of the UNDP Treasury; and (c) require internal audit to report regularly to the Investment Committee on matters relating to the Treasury.

Legal documentation on treasury issues

291. The Board was pleased to note that UNDP had defined relationships with the custodians and the primary bankers and that mandates were in place with them. The Treasury Operations Section was responsible for legal documentation with its counterparties.

Business continuity in the Treasury

292. UNDP recognized that a new comprehensive UNDP plan for business continuity in the environment of the Atlas system, which would also cover the Treasury, needed to be developed.

5. Results-based management

293. UNDP followed a process whereby it first focused on the broader concepts of results-based management to establish a methodology to manage and report on the strategic use of both programme and support budget resources. The information in the multi-year funding framework for 2000-2003 formed the basis of strategic and financial planning. The framework consisted of a strategic results framework and an integrated resource framework. This was complemented by Administrator's plans 2000-2003 dealing with the change management process and documentation on the Millennium Development Goals.

294. However, the goals were not always in alignment in the aforementioned documents, which resulted in inconsistencies in the allocation of funds for similar or cross-cutting themes and goals. UNDP took these shortcomings into consideration when compiling the multi-year funding framework for the 2004-2007 period.

295. The Board was pleased to note the satisfactory progress made by UNDP in implementing results-based management.

Results-based budgeting

296. UNDP was addressing the implementation of results-based budgeting and resource allocation, which are elements of results-based management. The full implementation of results-based budgeting would assist UNDP in the allocation of resources and the alignment of financial resources (budgets) with outcomes and goals. UNDP did not, however, have a clear time frame for the implementation of results-based budgeting.

297. UNDP agreed with the Board's recommendation that it establish a clear time frame for implementation of results-based budgeting.

6. Project management

Financial expenditure versus technical implementation

298. The Advisory Committee on Administrative and Budgetary Questions, in its report on the financial reports and audited financial statements and reports of the Board of Auditors (A/55/487), encouraged United Nations organizations to continue to develop and improve performance measurement standards and requested the Board of Auditors to "pay particular attention to reported expenditures and their relationship to programme delivery". The Advisory Committee was particularly

concerned that reported expenditures did not always correlate appropriately with the level of programme implementation. The Board, therefore, reviewed the level of expenditures (financial implementation) in comparison to programme delivery (physical/technical implementation) for a sample of projects at UNDP offices in Brazil, Honduras, Argentina and Colombia.

299. The Board noted that the level of physical/technical implementation varied, sometimes significantly, between the different performance indicators within projects, which may indicate that linkages between the individual performance targets and the overall project objective were not appropriately designed. Unlike physical/technical implementation, financial implementation was not measured at a disaggregated level by performance indicators. Therefore, actual comparison of financial versus physical/technical implementation at the indicator level was difficult to determine. Furthermore, the performance indicators were not weighted, which meant that calculating an aggregate technical implementation rate to compare to the aggregate financial implementation rate was also not possible.

300. The Board also noted the following weaknesses in the monitoring of the financial and physical/technical implementation of projects at country offices: (a) the performance indicators and targets were not always stated in quantifiable or measurable terms; (b) the actual physical/technical accomplishments were not available for all projects (delays in the submission of progress reports); and (c) the actual technical accomplishments for some of the performance indicators/targets of the projects selected were already more than 100 per cent. While the accomplishments are commendable, this may indicate possible weaknesses in the initial target setting process and may lead to inadequate measurement of real performance.

301. The Board further noted projects that were in an advanced stage of technical completion, but with substantial fund balances remaining. This may indicate exceptional performance and/or the optimal use of resources. It may, however, also be as a result of the way in which the financial implementation rate was calculated. One reason for the remaining balances on project budgets was due to the devaluation of the local currency; another reason could be overbudgeting during the project design stage. Because financial implementation was in local currency but budget resources were recorded in United States dollars, the available amount increased gradually with the devaluation of the local currency. This may lead to inappropriate conclusions on project performance.

302. UNDP prioritized this issue in several ways, most notably through its overall goal of achieving results-based and measurable performance, the inclusion of a new budget format in the Atlas system and active participation in the United Nations Development Group's task force on simplification and harmonization.

303. UNDP agreed with the Board's recommendation that it provide guidance to country offices in its efforts to monitor the correlation between reported expenditures and the level of project implementation. UNDP also agreed with the Board's recommendation that it improve its performance measurement process to: (a) monitor technical implementation in comparison to financial implementation at the performance indicator level and/or using a weighted average aggregate technical implementation rate, based on a feasibility analysis; (b) ensure that all targets are realistic and stated in measurable terms

where possible; (c) receive progress reports in a timely manner; and (d) revise targets to take into consideration exchange rate fluctuations.

Operationally completed projects not financially completed

304. Some 668 projects, with a programme expenditure value totalling \$1.3 billion, were operationally completed on or before 31 December 2002. These projects were, however, not financially completed within the 12-month period prescribed in the UNDP Programming Manual, as indicated in table 6 below. The Board had also noted these delays during its country office audits, the length of which ranged from between 18 months to 8 years.

Table 6
Summary of projects that should have been financially completed

<i>Year projects operationally completed</i>	<i>Number of projects operationally completed, but not yet financially completed</i>	<i>Programme expenditure (in United States dollars)</i>
2002	83	73 117 855
2001	54	95 890 046
2000	60	954 471 195
Prior to 2000	471	214 104 337
Total	668	1 337 583 433

305. UNDP informed the Board that the Atlas system has a functionality that would allow headquarters to monitor the closure of operationally closed projects at country offices.

306. **UNDP agreed with the Board's recommendations that it: (a) evaluate the causes for the delays in completely closing projects and take appropriate action to rectify the situation; and (b) take immediate steps to finalize all outstanding activities of operationally completed projects in compliance with the UNDP Programming Manual.**

7. Procurement

Lead-time for contract letting

307. The Board followed-up on its recommendation, in paragraph 157 of its previous report,² that UNDP establish benchmarks for performance for contract letting and monitor performance against those standards. UNDP had not yet established benchmarks for performance for contract letting. The Board reviewed the impact of UNDP initiatives on the contract letting lead-time, but still noted delays in the process for a sample of contracts reviewed. For the sample tested, it took an average of 51 days from the time the request for proposals was made until the finalization of the contract.

308. UNDP informed the Board that the Office of Legal and Procurement Support was looking at a number of ways to reduce the time from the date of submission to date of decision by the Chief Procurement Officer. These actions included creating a paperless Advisory Committee on Procurement and establishing a regional Advisory

Committee on Procurement, which could be more responsive owing to lower caseload and the ability to work in the language of the country office. According to UNDP, this was expected to result in a one-week reduction in processing time due to the electronic review and approval of submissions.

309. UNDP agreed with the Board's reiterated recommendation to establish benchmarks for performance for contract letting and to monitor performance against those standards. The Board further recommends that UNDP continue to seek ways to streamline its contract letting process.

Monitoring of supplier performance

310. UNDP headquarters and country offices did not formally evaluate supplier performance in terms of chapter 19.2 of the Procurement Manual. The Board considers that evaluation of suppliers performance is important in order to develop and maintain a list of qualified, suitable vendors. Failure to do so may result in the continuation of contracts with unsatisfactory suppliers.

311. UNDP informed the Board that supplier performance had now been incorporated in the procurement training programmes conducted by the Inter-Agency Procurement Services Office and the Office of Legal and Procurement Support. UNDP further informed the Board that the Office of Legal and Procurement Support would issue reminders to all UNDP offices concerning supplier evaluations. In addition, the improvements to the United Nations common supplier database during 2004-2005 will provide the opportunity to record supplier evaluation at the source of information on suppliers. The Atlas system will also assist UNDP in evaluating the supplier performance.

312. UNDP agreed with the Board's recommendation that it evaluate supplier performance in terms of the guidance provided in the UNDP Procurement Manual.

8. Trust funds

Trust funds in deficit

313. The Board noted that 22 of the 349 (16 of 281 in 2000-2001) trust funds established by UNDP and disclosed in schedule 5 of UNDP's financial statements were in a deficit position as at 31 December 2003. The total deficit of these trust funds was \$2.7 million (\$2.7 million in 2000-2001). This is contrary to regulation 5.07 (b) of the UNDP Financial Regulations and Rules, which states that "Contributions shall be paid in advance of the allocation made for the implementation of planned UNDP programme activities."

314. UNDP informed the Board that it had been actively following up all such deficits with a view to eliminating or recovering the deficits and would continue to do so. UNDP further informed the Board that a large portion of the remaining deficits relates to trust funds funded by one major multilateral donor and that, as a policy, a percentage of the final payment was held back until the project activities were completed. UNDP manages this exposure at a macro level by ensuring that the overall position for that donor does not go into deficit. It also established a special reserve of \$2.5 million to absorb any exchange losses relating to this.

315. The Board encourages UNDP to follow up on all trust funds in deficit positions with a view to recovering the expenditures in excess of the funds received.

Inactive trust funds

316. The Board followed up on the recommendation in paragraph 140 of its previous report,² 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. The Board noted that for 21 of the 349 (130 out of 281 in 2000-2001) trust funds disclosed in schedule 5 of UNDP's financial statements, no contributions or expenditure was reported during the last two years or longer. However, the fund balances of 11 of the 21 (95 of the 130 in 2000-2001) trust funds were either refunded or transferred to other trust funds during the biennium, leaving 10 (35 in 2000-2001) inactive trust funds in UNDP's records as at 31 December 2003. The fund balances as at 31 December 2003 amounted to \$48,917.

317. UNDP informed the Board that it would continue to follow up inactive trust funds with the relevant fund managers. In cases where it was unclear what to do with the remaining funds, UNDP, after consultations with the donor, would 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.

318. The Board followed up on the recommendation in paragraph 144 of its previous report,² 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.

319. The Board noted that 6 of the 76 (20 of the 96 in 2000-2001) fully funded arrangements of the United Nations Volunteers programme listed in schedule 7.3 of its financial statements were still inactive as at 31 December 2003. No contributions or expenditures were reported for these fully funded arrangements during the last two years. The total remaining fund balances of inactive fully funded arrangements as at 31 December 2003 was \$37,000 (\$144,736 in 2000-2001). The United Nations Volunteers programme informed the Board that in the case of the remaining six fully funded arrangements it has sent out letters and reminders to the various donors requesting instructions on their preferred course of action.

320. The Board encourages UNDP and the United Nations Volunteers programme to continue with the efforts to follow up on all inactive fully funded arrangements with a view to finalizing all outstanding activities and to comply with the specific closure requirements included in the donor agreements.

9. Human resources management

Special service agreement

321. At 31 December 2003, UNDP headquarters made use of 347 special service agreements (SSAs), compared to 187 as at 31 December 2002. UNDP could not, however, provide the Board with the number of SSAs used by country offices during the biennium 2002-2003, the total cost of which amounted to \$16.1 million.

Review committees for special service agreements

322. UNDP headquarters did not have a review committee for SSAs as required by UNDP/ADM/95/63 on guidelines for the use of special service agreements. Failure to establish such a committee may result in non-compliance with the SSA guidelines in respect of the selection process, level of fees and duration or extension of these agreements. The non-functioning of review committees was also noted during country office audits in Colombia, Brazil and Honduras.

Duration of special service agreement contracts

323. According to the SSA guidelines, individuals may be contracted for one or a series of contracts for a period no longer than 11 consecutive months of service. In cases where the service of an individual may be needed beyond the 11 months duration, there should be a mandatory four-months break in service.

324. The Board, however, noted instances where SSAs had been contracted for periods longer than 11 consecutive months or where their contracts had been extended without the mandatory four-months break in service. Non-compliance with the guidelines in respect of the duration of SSA contracts was also noted during country office audits in Colombia, Brazil and China.

325. UNDP informed the Board that a review of the SSAs guidelines would take place in the second half of 2004, including the establishment of an SSA review committee, at both the local and headquarters levels.

326. UNDP agreed with the Board's recommendation that it: (a) expedite its revision of the special service agreement guidelines; and (b) adhere to the special service agreement guidelines in respect of the duration of contracts.

Performance evaluations

327. According to the same guidelines, performance evaluations should be carried out during the period of service and at the conclusion of the contract to ensure that contractual obligations had been fully met. If performance is not measured regularly, it may lead to an unsatisfactory performance going undetected. The Board noted instances where performance evaluations for SSAs were not completed either at headquarters or country offices.

328. UNDP agreed with the Board's recommendation that it review the performance of staff on special service agreements during the period of service in order to: (a) effectively monitor the progress of SSAs; and (b) identify weaknesses in performance at an early stage so that the appropriate action can be taken.

Appointments of limited duration

329. As at 31 December 2003, there were 254 individuals on appointments of limited duration (ALDs) employed by UNDP headquarters (308 as at 31 December 2001). UNDP could not, however, provide the Board with the number of staff on ALDs employed at country offices during the biennium 2002-2003. The total cost of ALDs for the biennium 2002-2003 amounted to \$21.5 million.

Review of appointments of limited duration

330. UNDP headquarters could not provide the Board with the minutes of certain ad hoc panel meetings in respect of the hiring of staff on ALDs. Minutes of the panel meetings are important to ensure that there was transparency in the selection and hiring process. This was also noted during country office audits in Colombia, Brazil and China.

331. UNDP agreed with the Board's recommendation that it consistently and fully document the minutes of all ad hoc panel meetings on ALDs. Furthermore, the Board recommends that UNDP include in the file of the selected candidate minutes of the related ad hoc panel meetings.

Performance evaluations

332. The Board noted that although performance evaluations were performed for staff serving on ALDs, these evaluations were only performed and discussed subsequent to the extension of the contracts. In addition, performance assessments were not always signed by the staff hired on ALDs and their respective supervisors, giving a proof that the assessment results were discussed and agreed upon.

333. UNDP agreed with the Board's recommendation that to undertake timely performance assessments for appointments of limited duration in order to: (a) effectively monitor their progress; and (b) identify weaknesses in performance at an early stage so that appropriate action can be taken.

Nature of activities

334. The guidelines on appointments of limited duration (UNDP/ADM/00/27, sect. B, para. 1) state that, "the activities will not be ones which are known, on the basis of past experience and/or current plans, to have a regular and continuing role for the office. The activities, as set out in the terms of reference, must clearly be ones that can be deemed to be of limited duration." The Board noted, however, that the activities of some individuals serving on appointments of limited duration were of a nature that had a regular and continuing role for UNDP. The Board, therefore, considered that, in view of the guidelines, these individuals should not be serving on appointments of limited duration.

335. UNDP agreed with the Board's recommendation that it consider converting the contractual status of individuals presently serving on appointments of limited duration whose activities are classified as being of a permanent nature to the appropriate type of contract in terms of UNDP employment directives.

336. UNDP informed the Board that the guidelines were being updated and the above recommendations would be taken into account and clearly reflected therein.

10. Training

337. The Board reviewed staff training activities of UNDP. The review was a diagnostic overview of training activities managed within the organization and the procedures and processes used in this regard.

Restructuring of the Learning Resources Centre

338. On the recommendation of a consultant in 2002, UNDP outsourced the administrative services for its Learning Resources Centre to a vendor in February 2003. However, the contract, amounting to \$350,000, was terminated, with effect from 26 September 2003, because UNDP decided that the services provided did not meet the requirements and did not provide value-for-money spent. An amount of \$137,598 had been paid to the contractor by that time. UNDP did not incur any penalties for terminating the contract.

339. UNDP informed the Board that the outsourcing was based on various incorrect assumptions. The UNDP goal for 2004 is to simplify and integrate online needs both to reduce costs and to improve usability. Since the termination of the agreement, internal resources had been deployed to provide the services that would have been provided by the contractors in a more cost-effective manner.

340. UNDP agreed with the Board's recommendation that it follow a more rigorous process in future to ensure that value-for-money is obtained when consultants are appointed.

Training developments

341. During its interim audit in October 2002, the Board noted that staff training was not done in a manner that optimized returns. UNDP informed the Board that it was considering a broader mix of learning strategies, in what was generally termed a "blended learning" approach, including e-learning, classroom learning and various distance learning initiatives. It had, on a pilot basis, tracked broad metrics for e-learning and had observed an increase of 2.6 hours per registered online individual in 2002, bringing the average to 15.6 hours per registered individual in 2003. However, it had not yet formally adopted a standard set of metrics for all services from which it would track year-to-year performance. UNDP included possible target metrics in the learning resources business plan 2004 (business plan), which was issued in January 2004.

342. The Board also noted that existing learning plans were being evaluated. Programme designs had been changed, where necessary, resulting in an improvement in client feedback. A revised learning strategy had also been developed. UNDP informed the Board that global staff surveys would be conducted annually, as was the current practice. The learning business plan also indicated the strategic initiatives required to ensure that UNDP's learning strategy was aligned with the key corporate goals for biennium 2004-2005.

Learning management system

343. The Board also noted, during its interim audit, that the evaluation of learning could be improved. According to UNDP, the implementation of a learning management system would allow for an industry standard evaluation model (the Kirkpatrick model to evaluate online professional development programmes). The Kirkpatrick model included the following levels: reaction level (client satisfaction); learning level (knowledge acquisition); behaviour level (transfer and application of learning to the job); and results level (changes in business results).

344. UNDP also indicated that the Learning Resources Centre had established a working group to focus on the effective utilization of the role of the learning

manager. A standard terms of reference had also been developed for learning managers and efforts were being made to integrate the role of the learning manager/knowledge manager to ensure effective utilization of the role.

345. The Board also noted, during its interim audit, that UNDP's learning strategy was not aligned to its objectives. A learning study was commissioned by the UNDP Office of Human Resources to evaluate the existing learning plans. The learning study was completed in the first quarter of 2003 and presented to the Learning Advisory Board, established in May 2003. All existing induction programmes for junior programme officers, national programme officers and leader development programme candidates were reviewed and the programme designs changed, with the result that client feedback ratings have improved by 10 to 25 per cent. The Learning Advisory Board has prepared a revised learning strategy. Training sessions for learning managers were held in the second quarter of 2003 to teach new learning managers at country offices the techniques for developing "whole office learning plans".

346. With regard to the evaluation of "whole office learning plans", UNDP informed the Board that the ability of the Office of Human Resources/Learning Resources Centre to audit and summarize the plans was severely limited since all plans were text-based documents, which did not lend themselves to easy aggregation and analysis. The implementation of a learning management system would allow such activities to be developed in a database format that would automatically generate regional and enterprise views.

347. UNDP agreed with the Board's recommendation that it continue with its efforts to implement a learning management system in order to properly benchmark and evaluate the impact of initiatives taken.

11. Shared services

Country office level

348. By May 2004, UNDP had signed corporate level agreements (memorandums of understanding) with all concerned United Nations agencies, with the exception of the World Food Programme (WFP). According to UNDP's new policy on cost recovery at the programme country level, the locally agreed service agreements remain in force for agencies that have not signed a corporate level agreement with UNDP. UNDP informed the Board that it would continue to follow up with WFP. The new policy, entitled "Universal Price List", on cost recovery from United Nations agencies for services at the programme country level was issued on 2 June 2003. This new policy took effect retrospectively, as at 1 January 2003.

Headquarters service-level agreements

349. The Board followed up the recommendation in paragraph 127 of its previous report,² that the service-level agreements for services provided by UNDP to UNFPA and UNOPS be finalized and implemented as a matter of priority.

350. The Board noted, as of May 2004, that headquarters service-level agreements had still not been concluded with UNFPA and UNOPS. UNDP had only drafted service-level agreements for the Office of Finance and Administration and the Office of Information Systems and Technology. UNDP informed the Board that

delays had been experienced in the finalization of these agreements owing to the implementation of the Atlas system. No service-level agreements for services rendered by the Office of Human Resources or the Office of Audit and Performance Review existed. The Board further noted that a cost recovery policy or price list was not in place.

351. UNDP informed the Board that a consultant would be appointed, commencing work in June 2004, to review the cost structures of the headquarters units that provide services in the environment of the Atlas system. This would enable UNDP to establish the price list approach for headquarters along the lines currently used at the country office level. After the full implementation of the Atlas system, it would be possible to establish a more accurate norm for cost recovery calculations. UNDP would also, at that time, work on the completion of the service-level agreements. This entire exercise was targeted for completion by the third quarter of 2004.

352. UNDP agreed with the Board's reiterated recommendation to finalize and implement the service-level agreements for services provided by UNDP to UNFPA and UNOPS as a matter of priority.

12. Environmental issues

Environmental strategy

353. The Board followed up on its finding in paragraph 177 of its previous report,² that UNDP did not have an environmental management strategy, but that it intended to submit one to its Executive Board for approval in 2002.

354. UNDP finalized an environmental mainstreaming strategy; completed a pilot project to apply strategic environmental assessment to country development assistance; and developed tools for carrying out integrated strategic assessments.

Retrofitting of the FF building in New York

355. The Board noted that UNDP made progress in one of the major areas addressed in its green office initiative, namely "energy efficiency and building management". UNDP signed a contract for the retrofitting of offices in the "FF building" on 4 September 2001, as mentioned in paragraph 180 of the Board's previous report.² This comprehensive energy efficient retrofit addressed the upgrade of air conditioning and lighting equipment with control systems as well as managerial and maintenance issues. The contract was structured as a performance contract based on stipulated savings. This entailed that the contractor would finance the initial cost of the project and that UNDP would repay it out of the projected cost-savings from energy consumption.

356. Based on the comprehensive energy audit conducted by the company that was awarded the contract, UNDP expected to save some \$900,000 in operating and energy consumption costs over the period of the contract. The total amount of repayments was set at \$721,340, payable in eight instalments, leaving a net positive cash benefit to UNDP of \$170,674 over the nine-year period of the contract.

357. UNDP's Advisory Committee on Procurement, in its review of the proposal to retrofit the FF building, emphasized the need to measure and monitor the savings every year. UNDP could, however, only provide the Board with a calculation of savings of \$63,463 in electricity consumption for the period from January to

July 2002. It could not provide the Board with savings from August 2002 onwards and indicated that this was due to the major renovation work that was ongoing in the building during the biennium 2002-2003. The contractor could not, therefore, undertake a realistic energy audit. UNDP indicated that cost-saving calculations would be done mid-2004, when all necessary construction final clearances documentation had been received.

358. UNDP agreed with the Board's recommendation that it continuously monitor the savings derived from the retrofitting of the FF building to evaluate if the project generates the expected savings.

"Green" procurement

359. UNDP's green procurement policy, which was included in chapter 18 of the UNDP Procurement Manual, states that "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". Chapter 18.2 of UNDP's Procurement Manual further states, "Before finalizing the requirements of goods and/or services, the environmental concerns must be reviewed such as energy consumption, toxicity, ozone depletion, radiation and the use of recycled materials."

360. UNDP headquarters and country offices had not, however, performed any formal evaluations before procuring goods and/or services. Non-performance of these evaluations may result in the procurement of goods and/or services that have harmful effects on human health and the environment.

361. UNDP informed the Board that it would be collaborating with the inter-agency forums to reap best practices on environmentally responsible procurement and update its procurement manual/training in this respect by the fourth quarter of 2004.

362. UNDP agreed with the Board's recommendation that it implement procedures to review environmental concerns during the procurement process, using the guidance provided in the UNDP Procurement Manual.

13. Reserve for field accommodation

363. In its report on the financial report and audited financial statements of UNDP for the biennium ended 31 December 1995 (A/51/5/Add.1), the Board reported that UNDP had received only \$3.65 million of \$12.2 million then estimated by the organization as due from participating agencies in settlement of their share of expenses for construction projects of the United Nations system common premises. UNDP was responsible for managing those projects. The common premises referred to above relate to construction projects in Cape Verde, Comoros, Guinea Bissau, Sao Tome and Zambia, which included office premises and housing units for United Nations staff.

364. In 1996, UNDP began an investigation into the management of the reserve for field accommodation. Over 40 individuals were interviewed or asked to complete questionnaires on matters concerning the reserve.

365. As of May 2004, two staff members had been dismissed and 16 others had been subjected to disciplinary or managerial accountability actions. The matter has also been referred to the Office of Internal Oversight Services, which was

investigating the actions of contractors and staff with a view to prosecution in respect of apparent “irregularities in contracting”.

366. UNDP proposed to resolve the issue by agreeing to absorb \$6.8 million of the total overexpenditure of \$10.2 million in recognition of its responsibility for managing these construction projects and its failure to provide the necessary oversight. UNDP developed a proposal to limit its reimbursement requests to partner organizations, based on signed construction contracts plus 25 per cent. The additional percentage was based on a number of change orders initiated or sanctioned by the partners in the Joint Consultative Group on Policy as well as an estimate as to what could be considered to be reasonably expected cost overruns in construction projects of such size and scope in those locations.

367. UNDP informed the Board that WFP had indicated that it was willing to reimburse UNDP on the basis of the proposal. However, as at April 2004, no payments had been received from WFP. The Board noted that, on 10 December 2003, UNFPA had paid an amount of \$421,861 to reimburse UNDP in accordance with the proposal.

368. UNDP further informed the Board that although repeated attempts had been made to reach a similar understanding with UNICEF, it had been unsuccessful. While UNICEF had agreed that some amount was due, it indicated that there was no agreement as to the formula or the basis for accountability upon which the apportionment of charges could be based.

369. On 25 April 2003, UNDP referred this matter to the Office of Legal Affairs of the United Nations Secretariat for intervention. However, at the time of the Board’s final audit, UNDP had not yet received any response to its letter. UNDP’s financial statements reflected a “Reserve for field accommodation” of \$9.1 million under both assets and liabilities as at 31 December 2003.

370. UNDP indicated that several follow-up meetings had been held with the Office of Legal Affairs to determine how to move the case forward and that it would also follow up to ensure that the request by UNDP in April 2003 is addressed.

371. The Board recommends that UNDP expedite its follow-up of the outstanding response with the Office of Legal Affairs of the United Nations Secretariat and intensify its efforts to finalize the outstanding reimbursement.

372. UNDP informed the Board that it would continue to follow up with the Office of Legal Affairs in order to bring the matter of the outstanding reimbursement from UNICEF to a conclusion.

14. Cases of fraud and presumptive fraud

373. During the biennium 2002-2003, UNDP reported 20 cases of fraud or presumptive fraud, of which 13 cases involved losses amounting to \$512,175. An amount of \$146,153 had been recovered by the end of the biennium. UNDP was still in the process of recovering the balance, which related to 4 cases. In actions taken with regard to the 20 cases reported, 10 staff members were dismissed, 4 staff members were referred to disciplinary hearings and 1 staff member resigned. UNDP had not yet determined the financial loss in one of the alleged cases.

374. The details of the 13 cases, which involved financial losses were as follows:

(a) Four cases of medical insurance plan fraud in Brazil, Colombia, Botswana and Viet Nam, totalling \$29,463. With the exception of the Brazil case (\$19,091), full financial recovery of the other amounts had been made. Staff members in question were dismissed in Botswana and Colombia; in Viet Nam the disciplinary process was still ongoing. The staff member in Brazil subsequently resigned;

(b) Two cases of misappropriation of funds through the fraudulent encashment of stolen cheques in Zambia (\$16,620) and Yemen (\$112,500). Full recoveries of the amounts were made and the staff members in question were dismissed;

(c) Misappropriation of funds through the fraudulent encashment of a stolen cheque (\$2,320) and diverting the delivery of UNDP equipment (\$17,500) by a staff member in the Congo. The staff member concerned was dismissed and the stolen cheque amount was recovered. Recovery of the equipment was however ongoing;

(d) Misappropriation of an estimated \$176,550 in funds by a staff member involved in accepting kickbacks from amounts paid by UNDP for a contract in Kenya. The amount was yet to be recovered as the case was still being pursued at the local level courts for criminal and civil charges. The staff member was dismissed;

(e) Two cases of misappropriation of funds through the manipulation of the accounting system in Brazil (\$4,627) and Papua New Guinea (\$2,034). Full financial recovery had however been made and staff members were dismissed;

(f) Misappropriation scheme involving the alteration of amounts due on UNDP salary cheques (\$120,000) and UNDP being presented as guarantor of a personal loan (\$30,000). No financial recovery had been made in this case as it was detected after the staff member had left the employment of UNDP. UNDP was, however, currently negotiating with the bank regarding liability and recovery;

(g) Rental subsidy fraud by a staff member in Senegal amounting to \$2,881. This case was still to be heard by the Disciplinary Committee and no financial recovery has been made as yet;

(h) Procurement irregularities and destruction to UNDP property in Costa Rica for which financial loss was yet to be determined. Procurement irregularities could not, however, be measured for financial loss.

375. UNDP informed the Board that controls had been implemented to prevent recurrences of such cases and that, where possible, action had been taken against the individual staff members.

Fraud prevention strategy

376. The Board followed up the recommendation in paragraph 192 of its previous report,² that UNDP develop a fraud prevention plan. In the internal audit and oversight report of the Administrator for the year ended 31 December 2002, it was stated that key measures have been taken by UNDP to strengthen its internal justice system. Disciplinary procedures have been revised and updated, setting out the rights and obligations of staff and the administration in the investigation and conducting of disciplinary cases.

377. UNDP, in conjunction with UNFPA and UNOPS, compiled a fraud prevention strategy, which included training staff on principles of fraud awareness by 2005, publishing a handbook on fraud prevention by 2005 and establishing a fraud hotline (no target date specified). The Board noted that the strategy was pending approval as of May 2004.

378. UNDP, also in conjunction with UNFPA and UNOPS, compiled a fraud policy statement, which was pending approval. UNDP indicated that it expected to finalize and issue the statement to staff by mid-2004.

379. UNDP agreed with the Board's recommendation that, in conjunction with UNFPA and UNOPS, it intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.

D. Acknowledgement

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

(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

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Annex

**Summary of the status of implementation of recommendations
of the Board of Auditors in its report for the biennium ended
31 December 2001^a**

<i>Topic</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Total</i>	<i>Reference to inclusion in current report</i>
Financial overview	para. 16	para. 23		2	paras. 22-27
United Nations system accounting standards	para. 29			1	–
Non-expendable equipment		para. 35 para. 136		2	paras. 29-42
Bank and investment reconciliations	para. 38 para. 40 para. 46 para. 48	para. 44		5	paras. 58-60
Unidentified receipts		para. 51		1	paras. 61-64
Unliquidated obligations	para. 56	para. 54		2	paras. 65-71
Accounts receivable		para. 60		1	paras. 72-74
End-of-service benefits		para. 62		1	paras. 75-78
Programme expenditure	para. 85 para. 87 para. 92 para. 103 para. 109 para. 111 para. 114 para. 120	para. 69 para. 83 para. 94 para. 97 para. 100 para. 117	para. 105	15	paras. 83-86 paras. 87-89 paras. 94-97 paras. 98-100 paras. 101-104 paras. 109-111
Shared services	para. 129 para. 132	para. 127		3	paras. 349-352
Trust funds		para. 140 para. 144 para. 147		3	paras. 316-320 paras. 313-315
Investments	para. 154			1	–
Procurement	para. 164 para. 166	para. 157 para. 159		4	paras. 307-309 paras. 310-312
Internal oversight reports		para. 170 para. 173 para. 175		3	paras. 233-237 paras. 238-241 paras. 242-246
Information and communications technology	para. 188			1	–
Cases of fraud and presumptive fraud		para. 192		1	paras. 376-379
Total					
Number	21	24	1	46	
Percentage	47	52	1	100	

^a Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5A and corrigendum (A/57/5/Add.1 and Corr.1).

Chapter III

Audit opinion

We have audited the accompanying financial statements of the United Nations Development Programme, comprising of statements number I to IV, schedules 1 to 8, and the supporting notes for the biennium ended 31 December 2003. 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 and in conformity with international standards on auditing. 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 the examining, on a test basis, and where 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, the financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the stated accounting policies of the United Nations Development Programme as set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Without qualifying our audit opinion expressed above, we draw attention to our findings on the following matters:

(a) Adequate assurance could not be obtained to verify the validity, accuracy and completeness of non-expendable equipment of \$149.3 million as disclosed in note 3 (d) to the financial statements;

(b) Although we noted improvements, the effectiveness of internal controls and procedures could be further improved, as could the adequacy of the assurance obtained by UNDP that funds provided for nationally executed expenditure funds had been properly used for the purposes intended;

(c) UNDP implemented a new enterprise resource planning system in January 2004. We were concerned about the control deficiencies and especially the lack of an independently validated internal control framework. This event after the balance sheet date is regarded as a significant risk to UNDP's operations.

Furthermore, in our opinion, the transactions of the United Nations Development Programme, which have come to our notice or which we have tested as part of our audit, have, in all significant respects, been in accordance with the Financial Regulations and Rules and legislative authority.

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

(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

9 July 2004

Note: The Board of Auditors has signed only the original English version of the audit opinion.

Chapter IV

Financial statements for the biennium ended 31 December 2003

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
GCCC	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 2002 to 31 December 2003. 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 the 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) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If these fundamental accounting assumptions are not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies 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.

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 offices 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.

Currency exchange

Contributions in currencies other than United States dollars

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

Transactions in currencies other than United States dollars

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

Currency risk

UNDP uses natural hedges and derivative financial instruments, primarily options and forward foreign exchange contracts, to hedge currency risk on voluntary contributions. In using such instruments, the organization’s objective is to protect the United States dollar equivalent of pledged voluntary contributions at the budget rate set at the beginning of each year, taking into account the relative lack of predictability of the amount and timing of actual receipts.

In cases where the hedged pledge amount is received before the maturity of the derivative financial instrument, management may close the derivative contract before maturity on a case-by-case basis based on an assessment of the underlying economic case.

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 13 and 14 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 \$1,000 or more per unit). 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, a management estimate based on average cost or replacement 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 these 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 2003 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 system accounting standards, the market value is disclosed if it is different from the carrying amount.

Marketable securities

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

Credit risk

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

Liquidity risk

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

Note 3

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 2003 are as follows (in thousands of United States dollars):

1999 and prior years	6 938
2000	147
2001	257
2002	-
2003	2 987
Total	10 329

Cost-sharing and government cash counterpart contributions

At 31 December 2003, \$687,907,158 was receivable for cost-sharing 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 2002-2003 are estimated at \$20.7 million (\$19.1 million in the biennium 2000-2001). These estimates are based on the market value, if available, or the best estimates 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> uses 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 personnel on a full-time basis. This in-kind contribution was valued at \$406,414 for the biennium.

(d) Inventory

In line with the accounting policy stated above, inventory held at UNDP headquarters and at UNDP country offices as at 31 December 2003 was valued at \$20.1 million (\$25.1 million in 2001) and \$129.2 million (\$71.5 million in 2001), 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 2003, \$17,115,950 (\$10,116,450 in 2001) in unidentified receipts were held as accounts payable. This amount is included in 12 (b).

Note 5
Income received for the biennial support budget

Regular resources

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 \$5,401,000 (\$9,117,000 in 2001), which was transferred from voluntary contributions in respect of such linkage, is included in the transfer to biennial support budget from voluntary contributions as follows (in millions of United States dollars):

	2003	2001
Transfer of contributions with regard to Government local office contributions (accounting linkage)	5 401	9 117
Reimbursement of tax charges	9 286	10 946
Total	14 687	20 063

Income received for the biennial support budget shown in schedule 3 consists of:

	2003	2001
Government local office contributions received	35 633	28 559
Transfer from contributions — Government local office contributions	5 401	9 117
Reimbursement of tax charges	9 286	10 946
Total host Government contributions	50 320	48 622
United Nations Volunteers income	4 123	2 657
Other income	166	929
Total	54 609	52 208

Note 6
Interest income

Regular resources

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

	2003	2001
Interest from investments	101 276	129 807
Interest on construction loans	-	5
Interest transferred to:		
Cost-sharing	(28 628)	(99 254)
Trust funds	(7 760)	(22 960)
Management service agreements	(6 688)	(21 812)
Reimbursable support services and special activities	(10 555)	(21 458)
Transfer for other purposes (see below and note 12 (b))	(13 500)	-
Total	34 145	(35 672)

Beginning in 2000-2001, interest earned on inter-fund balances was distributed to trust funds and cost-sharing resources in the year itself. In prior years, 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 in 2000-2001 reflected a deficit of \$35.672 million. Had the change in the timing of distribution of interest from regular resources not been made, interest income for 2000-2001 would have increased to \$6,789,000.

As in prior years, UNDP distributes interest accrued on total investments on the basis of a formula utilizing the average three-month euro-dollar interest rate. During the biennium, the actual return on the total portfolio exceeded the average three-month euro-dollar interest rate. UNDP management has set aside \$13.5 million of this exceptional surplus in other liabilities pending determination of its utilization.

Note 7
Other resources: other income and expenditure

Other income of \$301,677,000 as shown on statement I.1 and reported under reimbursable support services and miscellaneous activities are broken down as follows (in thousands of United States dollars):

	2003
Country office administration costs (formerly BL 158)	64 818
Contributions	47 900
Income from trust funds	54 156
Income in respect of support services by UNDP	57 954
Other miscellaneous income	56 082
IAPSO procurement fees	10 181
Reimbursement for services provided	10 586
Total	301 677

Note 8**Cash: regular resources**

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

	2003	2001
Cash in headquarters bank accounts	-	23 474
Cash at country offices	(91 509)	(16 534)
Transfer from regular resource investments	112 576	12 660
Subtotal	21 067	19 600
Less: provision for depreciation of accumulating		
Total	-	-

The cash balance at country offices takes into account the uncleared checks of \$181,900,504 (\$225,718,613 in 2001). There is an automatic replenishment from the headquarters current and investment accounts once these checks are cashed.

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

Note 9**Investments**

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
United States Government and agency obligations	93 515	95 431	95 826
Non-United States sovereign obligations	272 772	280 720	283 054
Supranational organizations	167 480	171 307	173 473
Obligations of commercial banks	415 468	428 535	432 991
Total	949 235	975 993	985 344

Note 10**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):

	<i>2003</i>	<i>2001</i>
Bi-communal development programme	18 032	5 000
Voters registration in Afghanistan	14 000	-
Post Conflict Fund (PCF) Mine Action Trust Fund	10 000	-
Afghanistan management service agreement	8 000	-
Support to the development of a new constitution in Afghanistan	5 000	-
Programme of assistance to the communities	4 360	-
National area-based development programme — capacity development	4 000	-
Disaster Risk Management Programme	1 500	-
Capacity-Development and Community Works: Ministry of Martyrs and the Disabled	1 000	-
National area-based development programme	1 000	-
Support for the return, resettlement and reintegration of internally displaced persons	865	-
War-torn societies trust fund	805	-
Enhancement of the security liaison officer network	767	955
Disaster Management Centre	730	480
Rehabilitation, reconstruction and development in Tajikistan	700	507
Promoting private sector development	560	-
Support to the fifth International Conference of New or Restored Democracies	500	-
UNDP thematic trust fund on energy for sustainable development	400	-
Community development and participation through the cultural centre (chitalishte) system	396	-
Emergency project in response to the damage caused by Hurricane Eline	312	1 000
Support for the Afghan Independent Human Rights Commission	250	-

	2003	2001
Preparation, training and dissemination of a "best practice" manual	199	500
Early warning system in Bulgaria, phase III	154	-
Support for land registry	148	-
Support to the secretariat of the Somalia aid coordination body	100	50
Comprehensive approach to disaster management in the Caribbean	100	-
Extrabudgetary activities in Kenya	100	-
Others	89	(14)
Youth employment support		2 000
Reinforcement of national management capacity		545
Strengthening of civil society, phase II		300
Support to the new approach to assist internally displaced persons		300
Somalia civil protection programme		250
Total	74 067	11 873

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 11

Earmarking for administrative and operational services

The Executive Board, in its decision 98/19, approved the elimination of a separate earmarking for administrative and operational services. In line with that decision, beginning in 2002, formerly presented as a separate line on income statements as programme support implementation, is now combined with programme expenditure. The amounts reported in 2003 as programme support represent regular resources, cost-sharing, support for policy and programme development and support for technical services. Prior biennium comparatives have not been restated. Had such restatement been done, programme support costs under core activities would have decreased by \$28,835,000 and programme expenditures would have increased by the same amount.

Note 12

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):

	2003	2001
Accounts receivable	47 042	41 188
Current account with agencies	36 041	45 414
Miscellaneous deferred charges	5 073	5 578
Other account receivables	73	1 040
Subtotal	88 229	93 220
Less: provision to reduce the book value of accounts receivable	-	305
Total	88 229	92 915
This total is reported as follows:		
Regular resources, statement II.1	48 675	52 256
Cost-sharing, statement II.2	39 554	40 659
Total	88 229	92 915

(b) Accounts payable

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

	2003	2001
Accounts payable	92 147	67 305
Payment assignment	1 245	6 781
Deferred payables	6 829	4 112
Clearing account	992	(2 867)
Cash received and awaiting clarification	17 116	10 116
Other liabilities (see note 6)	13 500	-
Total	131 829	85 447
This total is reported as follows:		
Regular resources, statement II.1	89 791	55 528
Cost-sharing, statement II.2	42 038	29 919
Total	131 829	85 447

Note 13**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 \$3 million shown in schedule 6 is derived mainly from the operations of housing rental and office premises.

As at 31 December 2003, the excess of total expenditure over the authorized level of reserve under reserve for field accommodation activities is \$21,701,000 (\$22,557,000 in 2001).

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 \$608,250 (\$780,030 in 2001) 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 14

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 the 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 15

Reserves for special initiatives

The Executive Board, at its first regular session in 2000, 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.

In addition, at its first regular session in 2002, it approved the establishment of a special reserve for separations relating to the United Nations Office for Project Services amounting to \$1.5 million.

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 2002</i>	<i>Additions during the biennium</i>	<i>Payments during the biennium</i>	<i>Balance as at 31 December 2003</i>
Reserve for separations	-	1 500	(743)	757
Reserve for United Nations House programme	3 250	-	(1 032)	2 218
Transitional reserve on information and communications technology	-	10 608	(10 608)	-
Funding for security measures	-	1 949	(1 949)	-
Total	3 250	14 057	(14 332)	2 975

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

Note 16

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 communications technology. Of this amount, \$10.6 million has been spent. In addition, the Executive Board, at its second regular session in 2003, approved the setting aside of \$11.5 million as funding for security measures. Of this amount, \$1.9 million has been spent.

The above amounts have been transferred to reserves for special initiatives and are disclosed in Note 15. As a result, unexpended resources comprise the following (in thousands of United States dollars):

	<i>2003</i>	<i>2001</i>
Transitional reserve for information and communications technology	792	11 400
Funding for security measures	9 551	-
Unencumbered resources	135 035	22 898
Unexpended resources	145 378	34 298

(b) Reimbursable support services resources

As a prudent measure, during the biennium, UNDP management has 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 2003</i>	
Special reserve fund	2 500
Unencumbered resources — reimbursable support services	169 251
Unexpended resources	171 751

Note 17**Unspent allocations and future commitments****(a) Unspent allocations**

Unspent allocations issued against UNDP resources for programme expenditure (excluding national execution) as at 31 December 2003 amount to approximately \$57 million (\$208 million in 2001), against which forward commitments reported by executing agencies are approximately \$1.5 million (\$6 million in 2001).

(b) Leasehold commitments

Future leasehold commitments against regular resources as at 31 December 2003 amount to \$33.6 million (\$49.4 million in 2001) for headquarters and \$29.9 million (\$29.8 million in 2001) for country offices. The figures for the country offices include long-term leases signed for the following period:

<i>Country office</i>	<i>Lease end date</i>
Democratic Republic of Korea	31 December 2086
Ethiopia	4 October 2099
Jordan	1 January 2080
Maldives	31 March 2093

(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 to carry out an actuarial valuation of post-retirement health insurance benefits as at 31 December 2003. 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: 6 per cent

Medical inflation rate: Health-care trend rates of 12.5 per cent in 2004 decreasing by 0.5 per cent a year to an ultimate rate of 5 per cent in 2014 and later for medical plans in the United States of America and trend rates of 8.25 per cent for other medical plans decreasing by 0.5 per cent a year to an ultimate rate of 4.5 per cent in 2012 and later

Dental inflation rate: 5 per cent

On the basis of that study, the actuary estimated that the liability as at 31 December 2003 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 31 December 2003</i>	<i>Accrued liability as at 31 December 2003</i>
Gross liability	421 994	327 114
Offset from retiree contribution	81 426	63 935
Net liabilities	340 568	263 179

The present value of future benefits figures shown above is the discounted value of all benefits, less retiree contributions, to be paid in the future to all current retirees and active employees expected to retire in the 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, 31 December 2003. Benefits of active staff members are considered to be fully accrued on the date on which they become fully eligible for benefits.

UNDP made an accounting accrual of \$54 million for the biennium ended 31 December 2001. This amount is over and above disbursements by UNDP for after-service health insurance, which are included as part of biennial support budget expenditure. Because of the unique nature of these items, UNDP accounted for the accrual as part of other expenditure rather than as a charge to the biennial support budget. The cumulative amount accrued as of 31 December 2003 is \$108 million.

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.

(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 2003 are estimated at \$21.53 million (\$21.95 million in 2001).

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 2003, to be \$18.2 million (\$17.9 million in 2001) in respect of repatriation grants and \$4.64 million (\$4.74 million in 2001) 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 \$50,230 were made during the current biennium.

Note 18

Unliquidated obligations

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

	2003	2001
Executing agents	38 403	91 091
Biennial support budget	21 312	37 844
Reimbursable support services, reserve for accommodation and special activities	8 214	6 826
Total	67 929	135 761
Regular resources	34 037	70 801
Cost-sharing	25 678	58 134
Reimbursable support services	7 004	4 857
Reserve for field accommodation	15	21
Special activities	1 195	1 948
Total	67 929	135 761

Note 19**Outstanding commitments of the reserve for field accommodation**

Unpaid invoices and commitments to contractors and subcontractors against the reserve for field accommodation totalled approximately \$140,925 as at 31 December 2003 (2001: \$1.5 million). These invoices are not accrued in the current year.

Note 20**Inter-Agency Procurement Services Office****(a) Accounts payable**

The amount of \$46,131,018 (\$26,873,710 in 2001) shown in schedule 6.4 represents advances received relating to direct procurement.

(b) Biennial support budget

The core support budget of \$1,071,126 (\$3,106,899 in 2001) 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 \$10.9 million (\$7.8 million in 2001), as shown in schedule 6.4.

(e) Miscellaneous income

The miscellaneous income figure of \$1,413,460 as shown on schedule 6.6 includes income from procurement orders prior to 2001 of \$847,489.

Note 21
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 2003, total expenditure incurred with regard to these activities amounted to \$29,582,000. This expenditure is presented in the financial statements as follows (in thousands of United States dollars):

	2003	2001
Regular resources, statement I.1	12 310	16 626
Special activities, schedule 6.5	17 272	3 239
Subtotal: other resources	17 272	3 239
Total	29 582	19 865

(b) Other activities

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

Note 22
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 as at 31 December 2003 is shown in schedule 7 for funds and statement II.2 for trust funds.

Note 23
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 the provisions of Agenda 21 related to combating drought and desertification and land resource

management, and to share its experience in this 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 this 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, while retaining its familiar acronym.

In response to the Executive Board's call for greater functional integration of the Office into UNDP, the Administrator in 1994 brought it together with several other environment-related units in the new Sustainable Energy and Environment Division. Today, UNSO 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, UNSO, inter alia:

(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 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 these 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 2002	(1 597)	7 699	6 102
Income received	1	947	948
Expenditure incurred	(1 011)	(2 362)	(3 373)
Transfers to/from other funds	139	131	270
Refunds to donors	-	(342)	(342)
Unexpended resources as at 31 December 2003	(2 468)	6 073	3 605

(c) Unliquidated obligations

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

	<i>2003</i>	<i>2001</i>
Executing agents	4	43
Biennial support budget	-	46
Total	4	89

(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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	10 455	11 581	(1 058)	3 186
Cost-sharing	2 979	2 683	2 771	3 235
Sub-trust funds	4 201	4 845	1 845	2335
Management service agreements	-	-	-	11
Reimbursable support services	-	-	47	-
Total	17 635	19 109	3 605	8 767

Note 24

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 that are country-driven and based on national priorities designed to support sustainable development and shall maintain sufficient flexibility to respond to changing circumstances in order to achieve its purposes.”

UNDP will play the primary role in ensuring the development and management of capacity-building 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 intercountry 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 consist of the following (in thousands of United States dollars):

	2003	2001
Executing agents	9 567	15 926
Biennial support budget	(173)	406
Total	9 394	16 332

(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>	
	<i>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	588 255	328 680	91 730	14 014
Cost-sharing	34 280	34 254	18 394	13 844
Sub-trust funds	12 153	-	2 631	2 343
Management service agreements	-	-	576	(23)
Total	634 688	362 934	113 331	30 178

The unspent allocations for regular resources include \$45,960,909 for the small grants programme. Allocations exceeding regular resources in the amount of \$509,204,435 were issued on the basis of letters of commitments from the World Bank as trustee of the GEF Trust Fund confirming allocations of \$1,469,097,673 to UNDP. The amounts receivable under this mechanism are not included in the contributions receivable shown under note 36. Funds are remitted by the trustee as required by UNDP/GEF. As at December 2003, a total of \$1,020,859,130 has been received.

Note 25**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 these ozone-depleting substances; developing countries have a grace period. A multilateral fund was established under the Montreal Protocol to assist developing countries in eliminating these substances; it is funded by developed countries (since they had contributed the most to the ozone layer depletion problem). From 1991 to 2000 the Fund approved \$1.19 billion in projects to phase out the consumption of more than 142,000 ODP¹ tons and the production of about 39,000 ODP tons. An additional \$540 million has been approved for the three-year period 1997-1999.

UNDP is one of four implementing agencies under the Multilateral Fund (with UNEP, the United Nations Industrial Development Organization and the World

¹ An ODP ton is 1 metric ton multiplied by the ozone-depleting potential of a substance.

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 of America in implementing certain bilateral programmes under the Multilateral Fund.

(b) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	15 700	16 153	16 243
Non-United States sovereign obligations	7 865	8 054	8 082
Supranational organizations	6 875	7 078	7 073
Total	30 440	31 285	31 398

The carrying value of investments for the Trust Fund is disclosed in schedule 8 of these financial statements. The actual market value of investments of 31 December 2003 was lower by \$17,759,000 at \$31,398,000.

(c) Unliquidated obligations

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

	<i>2003</i>	<i>2001</i>
Executing agents	2 573	17 742
Biennial support budget	-	80
Total	2 573	17 822

(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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources and cost-sharing	140 381	77 709	78 644	71 477
Sub-trust funds	2 214	12 425	477	(1 487)
Total	142 595	90 134	79 121	69 990

Note 26
Capacity 21 Trust Fund

(a) Mandate and goals

The Capacity 21 Trust Fund was established by the Administrator in 1993, subsequent to a decision of the Governing Council, as an initiative to help countries to implement Agenda 21. Agenda 21 is the agenda for actions agreed to at the 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) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	2 000	1 997	2 030
Supranational organizations	2 000	2 043	2 038
Total	4 000	4 040	4 068

(c) Unliquidated obligations

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

	<i>2003</i>	<i>2001</i>
Executing agents	709	1 654
Biennial support budget	-	30
Total	709	1 684

(d) 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>	
	<i>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	10 663	13 840	16 576	30 263
Cost-sharing	-	684	15	107
Sub-trust funds	1 366	815	329	242
Total	12 029	15 339	16 920	30 612

Note 27**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 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):

	2003	2001
Executing agents	3	7
Biennial support budget	-	7
Total	3	14

(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>	
	2003	2001	2003	2001
Regular resources and cost-sharing	1 784	3 281	1 664	2 785
Sub-trust funds	-	-	-	-
Total	1 784	3 281	1 664	2 785

Note 28

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) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	2 000	2 110	2 134
Total	2 000	2 110	2 134

(c) Unliquidated obligations

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

(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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	59 279	63 527	17 894	35 006
Sub-trust funds	2 614	9 316	11 189	4 052
Total	61 893	72 843	29 083	39 058

(e) Other accounts receivable

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

(f) 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 Endowment 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 \$12,638,481 (\$18,737,000 in 2001) 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 Endowment Fund. However, interest earned on the Fund will be credited to the Programme and 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 29

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 at Geneva in January 1995. The purpose of the Fund is to provide assistance to interested Governments and organizations in the following areas:

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

(b) Unliquidated obligations

The amounts shown in schedule 5.2 represent 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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	14 686	25 080	166	7 063
Sub-trust funds	8 037	3 549	803	1 865
Total	22 723	28 629	969	8 928

Unspent allocations for regular resources and sub-trust funds exceeded their available resources in the amount of \$14,520,000 and \$7,234,000 respectively. There are no contributions receivable for this trust fund.

Note 30**Perez-Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries****(a) Mandate and goals**

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.

(b) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	2 000	2 118	2 144
Non-United States sovereign obligations	1 000	1 034	1 054
Supranational organizations	2 000	2 070	2 104
United States Government and agency obligations	440	437	434
Total	5 440	5 659	5 736

Note 31**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):

	2003	2001
Accumulating non-convertible currencies	480	505
Total	480	505

(c) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	10 360	10 651	10 775
Supranational organizations	2 000	2 041	2 038
Total	12 360	12 692	12 813

(d) Loans to Governments

The amount of \$105,236 in 2003 (\$933,059 in 2001) 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 2002</i>	<i>Repayments</i>	<i>Outstanding loan amount as at 31 December 2003</i>
Benin	RAF/94/CO2	200	201	(1)
Botswana	BOT/87/CO2	-		-
	BOT/87/CO5	-		-
	BOT/87/CO6	(82)	-	(82)
Burkina Faso	RAF/94/CO2	200	243	(43)
Ghana	RAF/94/CO2	200	-	200
Mali	RAF/94/CO2	200	-	200
Nepal	NEP/85/CO1	15	-	15
Senegal	RAF/94/CO2	200	384	(184)
Total		933	828	105

These loans are repayable over a period of 10 years. The amount due for 2003 and prior years is \$105,236 (\$215,259 in 2001).

(e) Unliquidated obligations

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

	2003	2001
Executing agents	692	3 477
Biennial support budget and others	413	120
Total	1 105	3 597

(f) Expenditure

During the biennium, UNCDF expenditure includes \$1,212,911 in programme expenditures actually disbursed in previous bienniums. Prior biennium comparatives have not been restated. Had such restatement been done, programme expenditure for this biennium would have decreased by \$1.2 million and regular resources brought forward would have decreased by the same amount.

(g) 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 this decision, the operational reserve originally established in 1979 was adjusted to \$22,600,000 as at 31 December 2003, as shown in schedule 7.

(h) Unspent allocations and future commitments

The unspent allocations as at 31 December 2003 amounted to \$55,659,014 (\$8,209,904 in 2001). However, total commitments made under the partial funding system amounted to \$98,744,455 (\$153,797,000 in 2001).

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):

	2003	2001
Regular resources	74 420	150 590
Cost-sharing	9 071	107
Sub-trust funds	15 253	3 100
Total	98 744	153 797

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

Note 32

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 the United Nations Development Programme (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 the sustainable development, the Revolving Fund demonstrates the following features:

(a) 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;

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

(c) 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;

(d) 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):

	2003	2001
Executing agents	-	3
Biennial support budget	-	8
Total	-	11

(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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	-	-	-	2 617
Sub-trust funds	-	-	-	40
Total	-	-	-	2 657

(d) Future of the Fund

The Fund concluded its activities in 2003.

Note 33**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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	-	-	-	408
Cost-sharing	-	-	-	30
Sub-trust funds	-	-	-	451
Total	-	-	-	889

(c) Future of the Fund

The Fund concluded its activities in 2003.

Note 34
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:

(a) To support innovative and experimental activities benefiting women, in line with national and regional priorities;

(b) 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;

(c) To play an innovative and catalytic role in relation to the United Nations overall system of development cooperation.

(b) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	7 520	7 721	7 783
Non-United States sovereign obligations	2 925	3 046	3 057
Supranational organizations	2 000	2 034	2 038
Total	12 445	12 801	12 878

(c) Unliquidated obligations

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

	<i>2003</i>	<i>2001</i>
Executing agents	5 923	1 989
Biennial support budget	60	72
Total	5 983	2 061

(d) 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 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 \$8.1 million as at 31 December 2003.

(e) 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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	15 908	22 478	7 665	11 074
Cost-sharing	8 198	5 362	7 888	4 508
Sub-trust funds	4 331	4 283	5 972	5 434
Total	28 437	32 123	21 525	21 016

Contributions receivable of \$4,854,000 are shown in note 36. This amount does not include pledges for future years amounting to \$16,809,000.

Note 35

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:

(a) 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;

(b) To provide a global facility, under the United Nations system, that allows 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:

- (a) A special kind of contribution, noted for its spirit of solidarity and partnership, to a wide range of technical cooperation activities;
- (b) Effective support to humanitarian aid programmes;
- (c) Assistance to the United Nations peace-making and peace-building activities;
- (d) Targeted support to community-based participatory development, especially among low-income groups in poverty situations;
- (e) The ability to mobilize volunteer human resources from all over the world, including from developing countries themselves;
- (f) The willingness to adjust its policies and procedures to local conditions and needs;
- (g) The advantage of building on the institutional presence and development involvement of UNDP and the United Nations system in virtually all developing countries;
- (h) The ability to provide a flexible response, including the use of mixed teams of international and national volunteers;
- (i) 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 programme biennial support budget of \$28.7 million (\$26.6 million in 2001) 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 biennium, external costs totalling \$3,673,865 (\$6,021,860 in 2001) were recovered and credited to the Fund. This amount is shown as part of other income of \$3,680,973 (\$6,001,011 in 2001) in schedule 7.

(d) Investments

The carrying value of investments is disclosed in schedule 8. The amounts are broken down as follows (in thousands of United States dollars):

<i>Class</i>	<i>Par value</i>	<i>Carrying value</i>	<i>Market value</i>
Obligations of commercial banks	8 000	8 181	8 312
Non-United States sovereign obligations	2 000	2 048	2 059
Total	10 000	10 229	10 371

(e) Other accounts receivable and deferred charges

The amount of \$15,953,448 (\$14,577,206 in 2001) shown in schedule 7 includes the balance of amounts due from the United Nations of \$4,599,798 (\$6,381,841 in 2001) for costs plus 10 per cent overhead in respect of Volunteers attached to agency-executed project activities and \$4,980,916 (\$4,503,854 in 2001) for costs of insurance and sundry charges in respect of volunteers attached to nationally executed projects and \$932,574 (\$646,300 in 2001) for volunteers attached to UNDP managed special arrangements.

(f) Unliquidated obligations

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

	<i>2003</i>	<i>2001</i>
Reimbursable support activities	-	27
Special Voluntary Fund activities	651	61
Sub-trust fund activities	-	28
Total	651	116

(g) 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.

(h) 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>2003</i>	<i>2001</i>	<i>2003</i>	<i>2001</i>
Regular resources	12 002	12 347	24 009	24 899
Cost-sharing	3 315	1 847	2 918	1 846
Sub-trust funds	8 204	13 882	12 433	15 696
Fully funded arrangements	7 055	6 013	5 963	7 355
United Nations joint ventures	-	-	(3 667)	(6 558)
Total	30 576	34 089	41 656	43 238

Of the unspent allocations of regular resources, \$665,000 (\$1,024,900 in 2001) represents estimated commitments in respect of repatriation travel and resettlement allowances for serving Volunteers as at 31 December 2003.

(i) **Contribution receivable**

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

	<i>2003</i>
Trust fund arrangements	785 222
Fully funded arrangements	779 566
United Nations joint ventures	3 536 621
Total	5 101 409

Note 36**Contribution due for Governments and other contributors for funds and trust funds administered by UNDP as at 31 December 2003^a**

(Thousands of United States dollars)

	<i>Voluntary contributions</i>						<i>Cost-sharing contributions</i>			<i>Contributions to sub-trust funds</i>				<i>Total contributions due</i>
	<i>1999 and prior years</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Total</i>	<i>2002 and prior years</i>	<i>2003</i>	<i>Total</i>	<i>Total</i>	<i>2002 and prior years</i>	<i>2003</i>	<i>Total</i>	
Trust funds														
UNDP: Trust Fund in Support of the Activities of the World Commission on Forests and Sustainable Development	100	-	-	-	-	100	-	-	-	100	-	-	-	100
UNDP: Trust Fund for the World Summit on Social Development	260	-	1	1	-	262	-	-	-	262	-	-	-	262
UNDP: Trust Fund for the United Nations Educational and Training Programme for Southern Africa	6	2	-	-	-	8	-	-	-	8	-	-	-	8
EEC: Trust Fund for the Africa 2000 Network Programme: grants in Burkina Faso, Cameroon and Uganda	15	-	-	-	-	15	-	-	-	15	-	-	-	15
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	68	-	-	-	-	68	-	-	-	68	-	-	-	68
UNDP/EEC: Trust Fund for "Pilot Programme Brazil Technical Assistance Project"	42	-	-	-	-	42	-	-	-	42	-	-	-	42
EEC: Trust Fund for "Reserva de la Biosfera-Bañados del Este en Uruguay"	-	-	-	-	253	253	-	-	-	253	-	-	-	253
UNDP/EC: Ministerial fund on poverty and the environment	-	-	-	-	95	95	-	-	-	95	-	-	-	95

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Forest Management to Support Sustainable Livelihoods in Cameroon, Guyana and Malawi	-	-	-	-	359	359	-	-	-	359	-	-	-	359
EEC: Trust Fund to support the Parliamentary and Presidential Elections in Suriname	-	-	-	-	333	333	-	-	-	333	-	-	-	333
EEC: Trust Fund for the development of a basic mining information system	-	-	-	-	736	736	-	-	-	736	-	-	-	736
EEC: Trust Fund for the Croatia Programme for the Return of Displaced Persons and Refugees to Eastern Slavonia and Banovina	-	-	-	-	220	220	-	-	-	220	-	-	-	220
EEC (ECHO): Trust Fund for strengthening the coping capacities of populations affected by the Marmara earthquake in Turkey	-	-	-	-	35	35	-	-	-	35	-	-	-	35
EEC (ECHO): Trust Fund Agreement for Comprehensive Shelter and Sanitation in the Earthquake affected areas of Turkey	-	-	-	-	38	38	-	-	-	38	-	-	-	38
EEC: Trust Fund for Integrated Return Programme for Central Bosnia	-	-	-	-	18	18	-	-	-	18	-	-	-	18
EEC: Trust Fund for Support to Observation of the Election Process in Côte d'Ivoire	-	-	-	-	360	360	-	-	-	360	-	-	-	360

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Support to Social Infrastructure project — Rehabilitation of 3.5 kilometres of roadway from Port-de-Paix to Jean Rabel, Haiti	-	-	-	-	113	113	-	-	-	113	-	-	-	113
EEC: Trust Fund for the South Caucasus Anti-Drug Programme	-	-	-	-	92	92	-	-	-	92	-	-	-	92
EEC: Trust Fund for Mediterranean Urban Waste Management Programme	-	-	-	-	220	220	-	-	-	220	-	-	-	220
EEC (ECHO): Trust Fund for Security Operation for OLS Northern Sector in the Sudan	-	-	-	-	12	12	-	-	-	12	-	-	-	12
UNDP/Swedish International Development Agency: Trust Fund for Assistance to UNDP-specific Activities	-	-	-	-	42 793	42 793	-	-	-	42 793	-	-	-	42 793
EEC: Trust Fund for Support to Election Observation in the United Republic of Tanzania	-	-	-	-	83	83	-	-	-	83	-	-	-	83
EEC (ECHO): Jamaica Trust Fund for the Community Disaster Management Strengthening Programme	-	-	-	-	30	30	-	-	-	30	-	-	-	30
EEC: Trust Fund for Support to Electoral Process in Chad	-	-	-	-	243	243	-	-	-	243	-	-	-	243
EEC: Trust Fund for Emergency Mine Action in Mozambique	-	-	-	-	243	243	-	-	-	243	-	-	-	243
EEC: Trust Fund for the achievement of the Millennium Development Goals in Africa	-	-	-	-	50	50	-	-	-	50	-	-	-	50

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Training Programme on Village Governance, China	-	-	-	-	399	399	-	-	-	399	-	-	-	399
EEC: Trust Fund for Temporary Shelter for the Poor and Vulnerable Groups in Gujarat, India	-	-	-	-	17	17	-	-	-	17	-	-	-	17
EEC: Trust Fund for Support to the Electoral Process in the Comoros	-	-	-	-	497	497	-	-	-	497	-	-	-	497
Iraq/EEC (ECHO): Trust Fund for Rehabilitation of Water Treatment Plant, Water Pumping and Sewage Pumping Stations in Baghdad	-	-	-	-	73	73	-	-	-	73	-	-	-	73
EEC: Trust Fund for the Rehabilitation in old Nicosia, Omariye and Selimye areas, Cyprus	-	-	-	-	1 623	1 623	-	-	-	1 623	-	-	-	1 623
EEC: Trust Fund for Support to the Election Observation Mission to Bangladesh on Parliamentary Elections	-	-	-	-	219	219	-	-	-	219	-	-	-	219
EEC: Trust Fund for Support to the Constituent Elections in East Timor	-	-	-	-	250	250	-	-	-	250	-	-	-	250
EEC: Trust Fund for Local Economic Rehabilitation in the war-affected and other disadvantaged regions in Croatia	-	-	-	-	292	292	-	-	-	292	-	-	-	292
EEC: Trust Fund for Rapid Employment Programme in southern Serbia	-	-	-	-	499	499	-	-	-	499	-	-	-	499

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Southern Caucasus Anti-Drug Programme-Phase II (SCAD II)	-	-	-	-	75	75	-	-	-	75	-	-	-	75
EEC: Trust Fund for Strengthening Border Management on the Belarussian-Ukrainian Border	-	-	-	-	223	223	-	-	-	223	-	-	-	223
EEC: Trust Fund for Partnership for the Future-Phase II, Rehabilitation of the Phaneromeni and Samanbahce areas, Cyprus	-	-	-	-	2 247	2 247	-	-	-	2 247	-	-	-	2 247
EEC: Trust Fund — Appui à la rehabilitation de l'institution des Bashingantahe pour la reconciliation à Burundi	-	-	-	-	599	599	-	-	-	599	-	-	-	599
EEC: Trust Fund for Azerbaijan Landmine Impact Survey	-	-	-	-	400	400	-	-	-	400	-	-	-	400
EEC: Trust Fund for Somalia Landmine Impact Survey	-	-	-	-	562	562	-	-	-	562	-	-	-	562
EEC: Trust Fund for Integrated Framework for Trade-related Technical Assistance to Least Developed Countries	-	-	-	-	50	50	-	-	-	50	-	-	-	50
EEC: Trust Fund for Eritrea Landmine Impact Survey	-	-	-	-	350	350	-	-	-	350	-	-	-	350
EEC: Trust Fund, "Reinsertion des jeunes déplacés et ex-combattants et remassage des armes légères	-	-	-	-	94	94	-	-	-	94	-	-	-	94
EEC: Trust Fund, Election Observation Mission to the Presidential Elections in East Timor	-	-	-	-	127	127	-	-	-	127	-	-	-	127

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for National Drug Information Network in Central Asia	-	-	-	-	660	660	-	-	-	660	-	-	-	660
UNDP: East Timor Special Fund for former Indonesian Government Employees	-	-	-	-	-	-	-	-	-	-	-	1 000	1 000	1 000
EEC: Trust Fund for Small- and Medium-Sized Enterprise Development in the GAP Region, Turkey	-	-	-	-	1 878	1 878	-	-	-	1 878	-	-	-	1 878
EEC: Trust Fund for Integrated Return Programme for Central Bosnia (Phase IV)	-	-	-	-	280	280	-	-	-	280	-	-	-	280
EEC: Trust Fund for the project Small Arms and Light Weapons Control in Albania	-	-	-	-	27	27	-	-	-	27	-	-	-	27
EEC (ECHO): Trust Fund for Emergency Rehabilitation or Rural Water Supply in the Khatlon and Sughd Regions of Tajikistan	-	-	-	-	212	212	-	-	-	212	-	-	-	212
EEC: Trust Fund for Recovery and Employment Afghanistan Programme	-	-	-	-	499	499	-	-	-	499	-	-	-	499
EEC: Trust Fund for Capacity-Building through the establishment of ICT Training centres	-	-	-	-	35	35	-	-	-	35	-	-	-	35
UNDP Millennium Trust Fund	-	-	-	-	434	434	-	-	-	434	1	1 257	1 258	1 692
EEC: Croatia Trust Fund for Income Generation and small- and medium-sized enterprise Support — Quick Impact Facility	-	-	-	-	1 781	1 781	-	-	-	1 781	-	-	-	1 781

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Combating Trafficking in Women in Belarus	-	-	-	-	472	472	-	-	-	472	-	-	-	472
EEC: Trust Fund for the Election Support Project, Nigeria, 2003	-	-	-	-	1 261	1 261	-	-	-	1 261	-	-	-	1 261
EEC: Connection of standby generators for primary health care centres for the elderly, Mosul, Iraq	-	-	-	-	24	24	-	-	-	24	-	-	-	24
EEC: Trust Fund for Enhancement of the Permanent Environmental Awareness Unit at the Ministry of Environment, Lebanon	-	-	-	-	187	187	-	-	-	187	-	-	-	187
ECHO: Iraq Trust Fund for Humanitarian Rehabilitation of Water and Sanitation Facilities in Baghdad	-	-	-	-	437	437	-	-	-	437	-	-	-	437
EEC: Trust Fund for Partnership for Governance Reform in Indonesia	-	-	-	-	14 719	14 719	-	-	-	14 719	-	-	-	14 719
EEC: Trust Fund for Partnership for the Future-Small Project Funds in Cyprus	-	-	-	-	748	748	-	-	-	748	-	-	-	748
EEC: Trust Fund for "Rehabilitation des pistes rurales suivant la methode a haute intensité de main d'oeuvre en République du Congo"	-	-	-	-	786	786	-	-	-	786	-	-	-	786
EEC: Trust Fund for Poverty and Environment Initiative — Phase II	-	-	-	-	988	988	-	-	-	988	-	-	-	988
EEC: Trust Fund for Business Support Project, Cyprus, 2002	-	-	-	-	918	918	-	-	-	918	-	-	-	918

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Afghanistan Landmine Impact Survey	-	-	-	-	863	863	-	-	-	863	-	-	-	863
Partnership for the Future-Rehabilitation of Old Nicosia, Phase III	-	-	-	-	562	562	-	-	-	562	-	-	-	562
Service Delivery and Resettlement: Options for Development Planning	-	-	-	-	218	218	-	-	-	218	-	-	-	218
Electoral Support Project for the Supreme Commission for Elections and Referendums in Yemen	-	-	-	-	28	28	-	-	-	28	-	-	-	28
EEC: Trust Fund for Support to Capacity-Building for Information Management in Afghanistan	-	-	-	-	747	747	-	-	-	747	-	-	-	747
EEC: Project I, Caspian Centre for Water Level Fluctuations, and Project II, Caspian Environment Programme	-	-	-	-	17	17	-	-	-	17	-	-	-	17
EEC: Trust Fund for South Caucasus Anti-Drug Programme (SCAD III)	-	-	-	-	250	250	-	-	-	250	-	-	-	250
EEC/EDF: Somalia Proposed Feasibility Study on Financial Services	-	-	-	-	124	124	-	-	-	124	-	-	-	124
EEC: Trust Fund for Enhancing Good Governance through Support to SACB Secretariat	-	-	-	-	236	236	-	-	-	236	-	-	-	236
EEC: Trust Fund for Support to RRU Relief Information and Verification Activities in Zimbabwe	-	-	-	-	66	66	-	-	-	66	-	-	-	66

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for the Return of Refugees and Displaced Persons through an increased involvement of domestic authorities in Bosnia and Herzegovina	-	-	-	-	549	549	-	-	-	549	-	-	-	549
EEC: Trust Fund Stability Pact/UNDP Regional Clearing House on Small Arms and Light Weapons — South-eastern Europe	-	-	-	-	50	50	-	-	-	50	-	-	-	50
EEC: Trust Fund for Drug Control, Multisectoral Assistance and Institution Building in the Ukraine, the Republic of Moldova and Belarus (BUMAD I)	-	-	-	-	922	922	-	-	-	922	-	-	-	922
EEC: Lebanon LIFE Third Countries — Technical Assistance to reinforce Governance in Environmental Tasks	-	-	-	-	319	319	-	-	-	319	-	-	-	319
EEC: Djibouti, “Projet pour la reinsertion des deplaces et endommages dans les zones affectees par le conflit”	-	-	-	-	1 549	1 549	-	-	-	1 549	-	-	-	1 549
EEC: Mozambique Trust Fund for Landmine Technical Survey: Inhambane and Maputo Provinces	-	-	-	-	300	300	-	-	-	300	-	-	-	300
EEC: Ethiopia Trust Fund for Sustained Good Governance through capacity-building of National Parliament	-	-	-	-	447	447	-	-	-	447	-	-	-	447

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Support to an Expanded National Mine Action Coordination Capacity in Angola	-	-	-	-	1 149	1 149	-	-	-	1 149	-	-	-	1 149
EEC: Trust Fund for Ethiopia Landmine Impact Survey	-	-	-	-	250	250	-	-	-	250	-	-	-	250
EEC: Trust Fund for Support to Disarmament, Demobilization and Reintegration Action in the Pool Region, Congo-Brazzaville	-	-	-	-	182	182	-	-	-	182	-	-	-	182
EEC: Trust Fund for Support to Nigeria Election Observation Mission	-	-	-	-	742	742	-	-	-	742	-	-	-	742
EEC: Trust Fund for Border Management Programme for Central Asia — Programme Development Mission	-	-	-	-	43	43	-	-	-	43	-	-	-	43
EEC: Trust Fund for Mine Action Capacity-Building and Landmine Impact Survey in Somalia	-	-	-	-	268	268	-	-	-	268	-	-	-	268
EEC: Trust Fund to Support the Legal Advisory Unit in the Office of the United Nations Resident Coordinator in Zimbabwe	-	-	-	-	104	104	-	-	-	104	-	-	-	104
EEC: Trust Fund for Support to the Caribbean Regional Assistance Centre	-	-	-	-	944	944	-	-	-	944	-	-	-	944
ECHO Trust Fund for Enhanced United Nations Security Operations in Support of Humanitarian Aid Efforts in the Sudan	-	-	-	-	197	197	-	-	-	197	-	-	-	197

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Afghanistan Trust Fund for the Establishment of the National Livelihood-based Food Security and Nutritional Surveillance System	-	-	-	-	111	111	-	-	-	111	-	-	-	111
EEC: Trust Fund for Border Management Programme for Central Asia — Phase I, Management Training	-	-	-	-	166	166	-	-	-	166	-	-	-	166
EEC: Trust Fund for rehabilitation of Hammams in Selected Cities of Afghanistan through Recovery and Employment Programme	-	-	-	-	499	499	-	-	-	499	-	-	-	499
EEC: Trust Fund for Law and Order for Afghanistan (LOFTA-I)	-	-	-	-	3 246	3 246	-	-	-	3 246	-	-	-	3 246
EEC: Trust Fund for Albania Mine Action Programme (AMAP) Technical Survey Project	-	-	-	-	846	846	-	-	-	846	-	-	-	846
EEC: Trust Fund for Radar Early Warning in the Caribbean	-	-	-	-	186	186	-	-	-	186	-	-	-	186
EEC: Trust Fund for the Rehabilitation of Sanitation Services in Baghdad	-	-	-	-	1 099	1 099	-	-	-	1 099	-	-	-	1 099
EEC: Trust Fund for Support to the Prison Reform in Haiti	-	-	-	-	1 102	1 102	-	-	-	1 102	-	-	-	1 102
EEC: Trust Fund to Support the Municipal Improvement and Revival Programme for Serbia and Montenegro	-	-	-	-	4 360	4 360	-	-	-	4 360	-	-	-	4 360
EEC: Trust Fund to Support Poverty Reduction and Strategy Papers — Serbia and Montenegro	-	-	-	-	4 674	4 674	-	-	-	4 674	-	-	-	4 674

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
EEC: Trust Fund for Emergency Rehabilitation of Rural Water Supply Systems in Khatlon and Sughd regions of Tajikistan	-	-	-	-	112	112	-	-	-	112	-	-	-	112
EEC: Trust Fund for Support to Coordination and Management Planning through the Office of the United Nations Resident Coordinator and Humanitarian Coordinator in the Sudan	-	-	-	-	249	249	-	-	-	249	-	-	-	249
EEC: Trust Fund for Water and Sanitation, Guatemala	-	-	-	-	2 600	2 600	-	-	-	2 600	-	-	-	2 600
EEC: Trust Fund for Support to Humanitarian Aid Action to enhance Staff Safety and Security in the North Caucasus, Russian Federation	-	-	-	-	62	62	-	-	-	62	-	-	-	62
EEC: Trust Fund for Support to Development Posts for the Government of East Timor	-	-	-	-	1 373	1 373	-	-	-	1 373	-	-	-	1 373
EEC: Rwanda Trust Fund for the 2003 Electoral Assistance Programme	-	-	-	-	484	484	-	-	-	484	-	-	-	484
EEC: Trust Fund for the Prevention of the Diversion of Chemical Precursors for the Scope of Drug Manufacturing in the Andean Region	-	-	-	-	993	993	-	-	-	993	-	-	-	993
UNDP: Thematic Trust Fund for Crisis Prevention and Recovery	-	-	-	-	-	-	-	-	-	-	-	909	909	909
Total of trust funds	611	2	1	1	114 556	115 171	-	-	-	115 171	1	3 166	3 167	118 338

	Voluntary contributions						Cost-sharing contributions			Contributions to sub-trust funds				Total contributions due
	1999 and prior years	2000	2001	2002	2003	Total	2002 and prior years	2003	Total	Total	2002 and prior years	2003	Total	
Funds														
United Nations Development Fund for Women	-	-	-	-	1 804	1 804	1	2 730	2 731	4 535	-	319	319	4 854
United Nations Volunteers programme	-	-	-	-	5 101	5 101	-	-	-	5 101	-	-	-	5 101
Total of funds	-	-	-	-	6 905	6 905	1	2 730	2 731	9 636	-	319	319	9 955
Grand total	611	2	1	1	121 461	122 076	1	2 730	2 731	124 807	1	3 485	3 486	128 293

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