



United Nations

**Fund of the United Nations
Environment 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. 5F (A/59/5/Add.6)**

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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

31 March 2004

I have the honour to transmit the financial report and accounts of the United Nations Environment Programme, including associated trust funds and other related accounts for the biennium ended 31 December 2003, which I hereby approve.

The financial statements of the United Nations Environment Programme for the biennium ended 31 December 2003 have been prepared in accordance with financial rule 106.10 of the United Nations and financial rule 213.3 of the United Nations Environment Programme.

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

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

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

The Chairman of the Board of Auditors
United Nations
New York

9 July 2004

I have the honour to transmit to you the financial statements of the Fund of the United Nations Environment Programme for the biennium ended 31 December 2003, which were submitted by the Executive Director. 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

Introduction

1. The Executive Director has the honour to submit herewith the financial report, together with the accounts, of the Fund of the United Nations Environment Programme (UNEP) including associated trust funds, and the related accounts for the biennium ended 31 December 2003. The accounts consist of 14 statements supported by 6 schedules and notes to the financial statements. These accounts were transmitted to the Board of Auditors on 31 March 2004.

2. As prescribed by financial regulation 1.2 of the United Nations, the financial period of the Organization consists of two consecutive calendar years, the first one being an even year. The interim accounts for the first year, ended 31 December 2002, of the biennium 2002-2003 were made available to the Governing Council at its twenty-second session. The Board of Auditors conducted an interim audit on these accounts and did not report to the Advisory Committee on Administrative and Budgetary Questions any situations which should be brought to the attention of Member States.

3. Comparative figures for the biennium 2000-2001 as appropriate, have been reflected in the financial statements. The length of the financial report has been kept to the minimum, in accordance with United Nations guidelines.

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

Levels of appropriations, allocations/allotments, expenditures and commitments

5. The Governing Council, in its decision 21/31 of 9 February 2001, approved appropriations for the Environment Fund for the biennium 2002-2003 of \$100 million for the programme of work, \$5 million for the programme reserve and \$14.88 million for the support budget.

6. Total appropriations, allocations/allotments and expenditures for the biennium ended 31 December 2003 were as follows (in thousands of United States dollars):

	<i>Appropriations for 2002-2003</i>	<i>Allocations issued for 2002-2003</i>	<i>Expenditures for 2002-2003</i>	<i>Unexpended appropriations for 2002-2003</i>	<i>Unexpended allocations for 2002-2003</i>
Environment Fund programme of work	100 000	100 000	96 787	3 213	3 213
Environment Fund programme reserve	5 000	5 000	2 922	2 078	2 078
Environment Fund support budget	14 876	11 904	10 256	4 620	1 648
Total	119 876	116 904	109 965	9 911	6 939

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the Fund of the United Nations Environment Programme (UNEP) at the headquarters in Nairobi and its six regional offices. The Board has also audited the financial statements of the Fund of UNEP for the period from 1 January 2002 to 31 December 2003.

The Board's main findings are as follows:

(a) Unliquidated obligations in the amount of \$1.08 million pertaining to the biennium ended 31 December 2001 were still outstanding as at 31 December 2003;

(b) Travel advances granted during the years 2001 and 2002 in an aggregate amount of \$227,226 remained unliquidated as at 31 December 2003;

(c) Some \$56.04 million of advances to implementing partners remained unliquidated as at 31 December 2003, despite completion or near completion of projects financed;

(d) Non-expendable property which had been approved by the local Property Survey Board was not disclosed in the notes to the financial statements as "pending write-off".

The Board made recommendations to establish and review obligations in accordance with the United Nations regulations; recover outstanding advances paid to staff members and "other persons"; enforce the terms of agreement in respect of the timely liquidation of the advances to implementing agencies; and disclose in the notes to the financial statements the amount of non-expendable property "pending write-off".

A list of the Board's recommendations is provided in paragraph 9 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Environment Programme (UNEP) for the period from 1 January 2002 to 31 December 2003, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article XIV of the Financial Rules of UNEP. The audit has been conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, 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 period from 1 January 2002 to 31 December 2003 had been incurred for the purposes approved by the General Assembly; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNEP presented fairly the financial position as at 31 December 2003 and the results of its operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under United Nations financial regulation 7.5. The reviews included the efficiency of the internal financial controls, programme management and, in general, the administration and management of UNEP. The audit was carried out at UNEP headquarters in Nairobi and at the six regional offices, for Europe, Asia and the Pacific, Latin America and the Caribbean, West Asia, Africa and North America.

4. The Board continued its practice of reporting the results of specific audits to the Administration through management letters containing observations and recommendations. The practice allowed an ongoing dialogue with the Administration.

5. The present report covers matters which, 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.

6. A summary of the Board's main recommendations is provided in paragraph 9 below. The detailed findings and recommendations are reported in paragraphs 11 to 75.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999¹

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999. The Board noted that of the five recommendations, four (80 per cent) were fully implemented. The remaining recommendation (20 per cent), which was under implementation, pertained to inactive projects which were still open as at 31 December 1999.² The same recommendation was reiterated in the report of the Board for the biennium 2000-2001.³ As at 31 December 2003 however, only 54 of the 106 inactive projects as at 31 December 2001 remained open.

Biennium ended 31 December 2001⁴

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001. Details of the 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 eight recommendations, five (63 per cent) were implemented and three (37 per cent) were under implementation.

2. Main recommendations

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

(a) **Establish and review obligations in accordance with financial rules 105.7 and 105.9 and the United Nations system accounting standards (para. 23 below);**

(b) **Recover through payroll deductions, advances pertaining to staff members and take immediate action to account properly for advances paid to "other persons" (para. 36 below);**

(c) **Enforce the terms of agreement in respect of the timely liquidation of advances to implementing agencies (para. 39 below); and**

(d) **Disclose in the notes to the financial statements the amount of non-expendable property "pending write-offs" (para. 42 below).**

10. The Board's other recommendations are presented in paragraphs 46, 48, 51, 55, 60, 62, 68, 70, and 74.

¹ See *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5F* (A/55/5/Add.6), chap. II.

² *Ibid.*, para. 25.

³ *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5F* (A/57/5/Add.6), chap. II, para. 44.

⁴ See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5F* (A/57/5/Add.6), chap. II.

B. Financial issues

1. Financial overview

11. The financial statements of UNEP cover the major funds — the Environment Fund, general trust funds, the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer, Technical Cooperation Trust Funds and other trust funds. Table 1 below shows the key financial figures for the bienniums 2000-2001 and 2002-2003.

Table 1

Key financial figures of the funds of the United Nations Environment Programme (all funds summary) for the bienniums 2000-2001 and 2002-2003

(Thousands of United States dollars)

	<i>Environment Fund</i>		<i>General trust funds</i>		<i>Technical Cooperation Trust Funds</i>		<i>Junior Professional Officers</i>		<i>Special Account for Programme Support Costs</i>		<i>Earmarked contributions</i>		<i>Other</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>
Total income	95 097	98 787	100 568	93 169	109 926	170 138	5 189	4 846	14 262	19 244	25 425	53 460	1 745	1 803
Total expenditures	106 334	109 966	76 090	101 765	68 468	116 664	5 079	5 287	16 378	16 676	18 661	39 209	1 487	2 026
Total assets	57 815	40 532	114 095	96 858	92 831	152 588	4 059	3 322	4 219	6 902	20 023	38 246	2 619	2 134
Total liabilities	33 049	23 833	27 388	22 432	25 348	36 213	554	539	560	1 351	4 204	7 621	254	178
Reserves and fund balances	24 766	16 699	86 707	74 426	67 483	116 375	3 505	2 783	3 659	5 551	15 819	30 625	2 365	1 956
<i>Major accounts</i>														
Voluntary contributions	84 742	95 868	93 950	87 024	105 219	164 776	4 866	4 583	-	-	24 752	53 037	1 391	1 501
Staff and other personnel costs	49 054	63 309	34 157	47 441	21 928	37 887	4 432	4 601	14 260	15 685	4 448	8 818	137	342
Cash and term deposits	33 916	7 335	83 211	70 331	72 258	117 122	3 015	3 317	1 702	6 881	14 431	30 720	1 789	1 698
Voluntary pledges receivable	2 038	537	21 148	18 039	-	491	-	-	-	-	916	2 739	-	-
Inter-fund receivable	11 380	21 291	4 341	221	3 523	137	1 011	3	2 510	-	1 622	1 857	793	433
Inter-fund payable	-	-	14 567	7 421	13 221	23 510	341	264	-	107	195	463	80	41
Reserve for obligations	13 620	9 603	8 276	11 142	9 473	8 446	196	197	452	983	3 482	4 685	155	123
Cumulative surplus	14 766	6 699	86 707	74 426	67 483	116 375	3 505	2 783	1 659	3 551	15 819	30 625	860	413

12. In terms of the results of operations for the biennium 2002-2003, the Environment Fund reported a total income of \$98.79 million against expenditures of \$109.97 million, showing a net shortfall of \$11.18 million (11 per cent), as compared with a net shortfall of income over expenditures of \$11.23 million in the

biennium 2000-2001. Voluntary contributions increased from \$84.74 million in the biennium 2000-2001 to \$95.87 million (13 per cent) in the biennium 2002-2003.

13. The general trust funds showed a shortfall of income relative to expenditure of \$8.59 million for the biennium 2002-2003, compared to a net excess of \$24.48 million for 2000-2001. This was brought about by the decrease in total income from \$100.57 million in 2000-2001 to \$93.17 million in 2002-2003 (7.37 per cent) and an increase in expenditures of \$25.67 million (34 per cent) over the 2000-2001 expenditures of \$76.09 million.

14. The total income reported in the biennium 2002-2003 under the Technical Cooperation Trust Funds increased to \$170.14 million, from \$109.92 million in the previous biennium. This included a significant increase of \$59.5 million (56.6 per cent) in voluntary contributions, from \$105.2 million in the biennium 2000-2001 to \$164.8 million in the current biennium. For both bienniums, the reported income sufficiently covered the expenditures; and for the biennium 2002-2003, the reported excess of income over expenditures amounted to \$53.47 million.

15. The Multilateral Fund (table 2) reported a net excess of income over expenditures of \$16.15 million for the biennium 2002-2003, compared with a net shortfall of income relative to expenditures of \$32.24 million for the biennium 2000-2001. Voluntary contributions increased by \$6.1 million, from \$277.7 million in 2000-2001 to \$283.8 million in 2002-2003 (2.2 per cent). Advances to implementing partners showed a decrease of 11 per cent, from \$217.07 million in 2000-2001 to \$193.00 million in 2002-2003.

Table 2

**Key financial figures of the United Nations Environment Programme
(Multilateral Fund) for the bienniums 2000-2001 and 2002-2003**

(Thousands of United States dollars)

	2000-2001	2002-2003
Total income	321 212	314 569
Total expenditures	353 454	298 414
Total assets	548 710	564 515
Total liabilities	2 372	1 825
Reserves and fund balances	546 337	562 689
Major accounts		
Voluntary contributions	277 720	283 822
Staff and other personnel costs	3 849	5 064
Cash and term deposits	96 205	73 537
Voluntary pledges receivable	139 764	163 567
Inter-fund receivable	-	7 277
Inter-fund payable	274	-
Reserve for obligations	170	354
Cumulative surplus	546 337	562 689

Programme support cost

16. The Board reviewed the programme support income from the Multilateral Fund to determine whether the rate charged was adequate to recover the administrative and technical costs in carrying out projects/activities under the Fund. UNEP is both an implementing agency and a treasurer of the Multilateral Fund.

17. The Administration informed the Board that, since 1991, UNEP had been performing the function of treasurer on a pro bono basis. Over the past 12 years, the treasury functions had become more complex. As the Multilateral Fund became larger, the Administration introduced a contribution mechanism employing innovative and sophisticated financial instruments and methods. These factors had contributed to the workload of UNEP/the United Nations Office at Nairobi well beyond the normal operations of a United Nations trust fund. UNEP had had to deploy additional human resources in order to fulfil its role as treasurer. The total resources of the Multilateral Fund were 64 per cent more than the combined amount of all other funds being managed by UNEP. The Administration informed the Board that, starting in September 2003, it had been paid \$301,000 annually for one year of treasury services, following a request of the Executive Director to the Chairman of the Executive Committee of the Multilateral Fund. Further, the Administration informed the Board that, in April 2004, the fee for services had been increased to \$500,000 annually for a period of five years.

18. Most projects allocated to UNEP in its capacity as an implementing agency were of low value (up to \$50,000 per project) and rather labour intensive. The overhead costs of UNEP tended to be comparatively high and in most instances exceeded the standard United Nations programme support charge of 13 per cent. The costs of providing administrative services for these small projects were proportionately much higher than those incurred on a large project. The programme support cost approved by the Executive Committee amounted to \$428,116, or 8 per cent of total project cost of \$5,351,450. The Administration informed the Board that the programme support cost would be considered by the Executive Committee at its 43rd meeting in July 2004.

2. United Nations system accounting standards

19. The Board assessed the extent to which the financial statements of UNEP for the biennium 2002-2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards except that: (a) unliquidated obligations aggregating to \$1.08 million pertaining to the biennium ended 31 December 2001 still remained on the books as at 31 December 2003 (paras. 20-21); (b) Multilateral Fund expenditures of \$20.3 million incurred in respect of the period 1991-2001 were reported in the current biennium, instead of as prior-period adjustments (paras. 25-26); (c) fund transfers from the Multilateral Fund aggregating to \$4 million were recorded in the Technical Cooperation Trust Fund as income in the current biennium, instead of as prior-period adjustments (paras. 27-28); and (d) voluntary pledges receivable amounting to \$86.3 million were long outstanding (paras. 30-32).

Unliquidated obligations

20. Unliquidated obligations aggregating to \$1.08 million pertaining to the biennium ended 31 December 2001 still remained on the books as at 31 December

2003. Of this amount, a total of \$565,258 was earmarked for various projects for which no charges had been made since the obligations were established.

21. The Administration informed the Board that it was making progress in closing unliquidated obligations relating to prior financial periods.

22. The Board noted that UNEP had raised obligations in 2003 totalling \$212,708, although the corresponding purchase orders were only approved in 2004. The Board was concerned that inappropriate obligating documents were raised simply to reserve funds at year-end.

23. The Administration agreed with the Board's recommendation that it establish and review obligations in accordance with financial rules 105.7 and 105.9 and the United Nations system accounting standards.

Prior-period adjustments

24. United Nations Financial Rule 106.3 provides that "unless otherwise directed by the Under-Secretary-General for Management or by the particular terms governing the operations of a trust fund or a special account, all financial transactions shall be recorded in the accounts on an accrual basis in compliance with the United Nations system accounting standards".

25. An amount of \$20.03 million, out of the total of \$290.17 million incurred in expenditures for the biennium 2002-2003, under the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer was related to adjustment made in respect of the period 1991-2001. The adjustment was a result of reconciliation of the records maintained by UNEP and the Fund's secretariat. UNEP recorded this adjustment as expenditure relating to the current biennium instead of reflecting it as prior period adjustment.

26. The adjustment was explained in a footnote to the financial statements of the Multilateral Fund which states that "for easy monitoring of the expenditures reported by the major implementing agencies, the Treasurer adopted the practice of recording any changes reported by these agencies against previous period(s) expenditures, as part of the current period transactions".

27. UNEP made an adjustment, as at 31 December 2002, in the revenue account under the Technical Cooperation Trust Fund for "UNEP implementation of the Multilateral Fund activities" (Fund IML) amounting to \$1.8 million. The adjustment pertained to the fund transfer from the Multilateral Fund to Fund IML, approved by the Executive Committee during its 23rd meeting, that should have been taken up in 1998. The Administration informed the Board that this amount was erroneously posted in the books of the Trust Fund for the Montreal Protocol on Substances that Deplete the Ozone Layer (Fund MPL). The adjustment made, however, was credited to the income account in 2002, instead of being recorded as prior-period adjustment.

28. Similarly, a fund transfer from the Multilateral Fund to Fund IML, amounting to \$2.2 million, approved by the Executive Committee in 2001 was recorded as income in 2002, instead of prior-period adjustment.

29. The Administration informed the Board that there had been no change in the way these expenditures relating to previous years had been recorded in the past. **The Administration agreed, however, to seek approval of this practice from the Executive Committee.**

Voluntary pledges receivable

30. Voluntary pledges amounting to \$86.3 million and \$.04 million from convention and non-convention sources, respectively, were long outstanding. They included a pledge receivable pertaining to the Multilateral Fund of \$73.07 million which had been outstanding for more than five years.

31. Paragraph 33 of the United Nations system accounting standards provides, among other things, that “in the interest of prudent financial management, provision may be made as appropriate where the collection of the income so recognized is considered doubtful. In specific cases, where the pledge is deemed uncollectible, write-off action will be required.”

32. The Administration informed the Board that the amount of \$86.3 million pertained to pledges for trust funds which involved the share of a party or parties for a budget convention that had been approved by Governments. That amount would be written off with the approval of the Conference of Parties concerned. Long-outstanding non-convention pledges of \$.04 million would be forwarded to the Executive Director for write-off. The Administration informed the Board that it had already taken action on the matter.

Travel

33. Travel advances granted during the years 2001 and 2002 in an aggregate amount of \$227,226 remained unliquidated as at 31 December 2003. Similarly, travel advances granted in 2003 totalling \$168,976 remained unliquidated as at 31 December 2003, although the travel had been completed for periods ranging from one month to five months.

34. Section 11.1 of administrative instruction ST/AI/2000/20 of 22 December 2000 provides that staff members shall, within two calendar weeks after completion of travel, submit a completed travel reimbursement claim. The Board, however, noted that UNEP, in line with a Memorandum by the Chief of the Division of Administrative Services of the United Nations Office at Nairobi, had permitted an extension of up to 60 days in order to give staff members additional time to complete their travel claims. Failure to account for the advance within the extended period would result in recovery without prior notice.

35. As at 25 March 2004, travel advances amounting to \$140,046 had been outstanding for more than 20 months. Of this amount, \$57,238 (41 per cent) pertained to staff members, while \$82,208 pertained to “other persons”. The Board is concerned about the recoverability of advances due from “other persons”, since their assignment with the United Nations is temporary in nature.

36. The Administration agreed with the Board’s recommendation that it recover, through payroll deductions, advances pertaining to staff members and that it take immediate action to account properly for advances paid to “other persons”.

Advances to implementing agencies

37. Under the terms of agreement, UNEP grants advances to implementing agencies. The same agreement provides that implementing agencies should report their expenditures to UNEP quarterly, and annually by 31 January.

38. The Board noted that, as at 31 December 2003, some \$56.04 million of these advances remained unliquidated, despite completion or near completion of the projects financed. For instance, out of the advances amounting to \$17.02 million made in September 2001 to the United Nations Development Programme (UNDP) from the Multilateral Fund, only \$6.11 million had been liquidated. Another advance was granted to UNDP in January 2002 in the amount of \$12.49 million, but, as at 31 December 2003, no liquidation had been made. Similarly, as at the date of audit, the World Bank had not liquidated advances amounting to \$22.79 million made to it in April 2002.

39. The Administration agreed with the Board's recommendation that it enforce the terms of agreement in respect of the timely liquidation of the advances to implementing agencies.

3. Presentation and disclosure of financial statements

40. In accordance with paragraph 12 of General Assembly resolution 55/220 A, the Board of Auditors, in conjunction with the Secretary-General and the executive heads of the funds and programmes of the United Nations, continued to evaluate what financial information should be presented in annexes to the statements in accordance with the United Nations system accounting standards.

41. The notes to the 2002-2003 financial statements did not include disclosure on non-expendable property "pending write-offs", amounting to \$1.2 million, which had been approved by the Local Property Survey Board for disposal.

42. The Administration agreed with the Board's recommendation that it disclose in the notes to the financial statements the amount of non-expendable property "pending write-off". The Administration informed the Board that it would take steps to ensure that non-expendable property was correctly categorized in future financial statements.

4. Financial management and control

43. The UNEP Regional Office for Europe rents its office premises at the International Environment House in Geneva from a local landlord. The arrangement is covered by a rental contract dated 3 July 1998, which has been amended over the past three years.

44. The Regional Office for Europe represented the other UNEP agencies and offices occupying the premises. The landlord expressed its wish to have one contracting party in the building management negotiations.

45. The rent was agreed at \$332,044 annually, payable at the rate of \$82,770 every quarter. The proportionate share for the UNEP Regional Office for Europe for the first and second quarters of 2002 was only \$31,309. However, the amount obligated for the period was \$121,000, to accommodate the proportionate rent of the other offices.

46. The Administration agreed with the Board's recommendation that it promptly allocate and recover the charges in respect of rents paid by the UNEP Regional Office for Europe on behalf of the other offices. The Administration informed the Board that it had already requested the other office in the building to obligate annually the necessary funds for rental charges.

47. At the UNEP Regional Office for West Asia, disbursement vouchers were not prepared and approved in respect of petty cash expenses. This was not in keeping with the established guidelines on the use of the petty cash fund, which require that all payments must be supported by disbursement vouchers duly signed by the appropriate certifying officer and must be supported by available receipts.

48. The Administration informed the Board that it has already established a mechanism to comply with the established guidelines on the maintenance of the petty cash fund.

49. United Nations financial rule 105.4 provides that “all commitments, obligations, and expenditures require at least two authorizing signatures, in either conventional or electronic form. All commitments, obligations, and expenditures must first be signed (‘certified’) by duly designated certifying officers (rule 105.5). Following certification, duly designated approving officers (rule 105.6) must then sign to ‘approve’ the establishment of obligations and the recording of expenditures in the accounts and the processing of payments”.

50. In the UNEP Regional Office for North America, the Regional Director both certifies and approves the financial transaction, although authority was only granted to the Director to sign as certifying officer. In these circumstances, there is inadequate segregation of duties, since the same person performs the functions of both certifying and approving officer.

51. The Administration agreed with the Board’s recommendation and has confirmed (i) the delegation of authority to the Regional Director of the UNEP Regional Office for North America to sign as approving officer and for the Deputy Regional Director to sign as alternate approving officer; and (ii) the appointment of the Administrative Assistant as the certifying officer for the Regional Office for North America.

5. Write-off of receivables

52. The Administration reported the write-off of accounts receivable amounting to \$4,698.62 for the biennium 2002-2003.

6. Ex gratia payments

53. The Administration informed the Board that no ex gratia payments were made during the biennium 2002-2003.

C. Management issues

1. Integrated Accounting and Budgeting System

54. At the UNEP Regional Office for Latin America and the Caribbean, the Integrated Accounting and Budgeting System allowed different levels of access for each individual. Nevertheless, all personnel in the Administration Division could access all the system menu/modules. This has created the risk of data manipulation.

55. The Administration agreed with the Board’s recommendation that it formulate and enforce guidelines to enhance security with regard to access to the Integrated Accounting and Budgeting System, in order to maintain data integrity.

2. Results-based budgeting

56. The concept of results-based budgeting is aimed at strengthening the existing programme planning, budgeting, and evaluation framework and processes of United Nations agencies.

57. Results-based budgeting requires that, in the implementation of the programme/mandates of every United Nations agency, the objectives, expected accomplishment, indicators of achievement, external factors and outputs be clearly defined. The expected results should be specific and measurable, attainable and realistic, time-based and related to the objectives.

58. The work plan of the UNEP Regional Office for North America contained expected accomplishments which did not correspond to the objectives of that regional office; most of the activities were not time-bound; and performance indicators were not defined.

59. The Administration informed the Board that some of the staff of the Regional Office for North America had undertaken training on results-based budgeting. However, the nature of the core mandate of the regional office had often made it difficult for them to translate all activities into precise, measurable outputs.

60. The Administration agreed with the Board's recommendation that it fully integrate the requirements of results-based budgeting in the preparation of future work plans.

3. Non-expendable property

61. At UNEP headquarters, the summary statement of inventory showed a closing value of \$10,211,513 as at 31 December 2003. This did not reconcile with the physical inventory report, which reflected a closing value of \$974,157, resulting in a discrepancy of \$9,237,356. The discrepancy was due to the lack of financial value of most of the items in the inventory report.

62. The Administration agreed with the Board's recommendation that it update the property and inventory control records, with emphasis on the financial value of each item, and reconcile these records with the summary statement of inventory.

4. Consultancy services

63. During its interim audits conducted in the biennium 2002-2003, the Board raised certain issues with the Administration in respect of consultancy services.

64. At the Regional Office for Europe, there were six consultancy contracts in which time frames to accomplish each task, including output and delivery dates, were not clearly defined, contrary to administrative instruction (ST/AI/1999/7), which states that the terms of reference shall include tangible and measurable outputs of the work assignment, realistic delivery dates and details as to how work must be delivered.

65. In three contracts reviewed, the instalment payments were not supported with progress accomplishment reports on the work assignment, as required. Without the progress accomplishment reports, there was no basis to confirm that work performed by the consultant was commensurate with the amount paid.

66. All consultants covered by the Board's review were rated "excellent", despite delays in the delivery of outputs in two cases. The Administration explained that it rated the quality of the final output and not the process to produce the output. The Administration agreed, however, that delays should have been taken into account in the evaluation of the consultants' performance.

67. During the biennium 2002-2003, UNEP headquarters signed 27 contracts after the effective date. Also in 17 instances the contracts were not signed by either contracting party. This was contrary to paragraph 15 of administrative instruction ST/AI/296 and paragraph 14 of administrative instruction ST/AI/295, both dated 19 November 1982, which provide that no individual may commence work as a consultant/individual contractor until the contract or agreement has been duly approved and signed on behalf of both the United Nations and the individual in question. The Board was concerned that payments were made to consultants without the required approval or evidence that the consultants had agreed to the terms of the contract.

68. The Administration agreed with the Board's recommendation that it (i) establish delivery dates on consultancy contracts; (ii) require consultants to submit progress reports and proof of accomplishments on completed phases as the basis for determining the amount to be paid; and (iii) ensure that both parties sign contracts prior to the effective dates.

Contribution from donor countries

69. An amount of \$970,126 was earmarked for the Nairobi River Basin project, phase II, of the UNEP Regional Office for Africa. The costing of the project took into consideration a pledge of \$200,000 from a donor, despite the absence of a written commitment. This was not consistent with the condition approved by the UNEP Governing Council that estimates of future resources should take into account contributions formally pledged, or paid by supporting organizations and non-government sources. In view of the insufficiency of funds, some of the programmed deliverables were not realized.

70. The Administration agreed with the Board's recommendation that it ensure that firm commitments from interested contributors are obtained before a project is started.

5. Staff training

71. The Board reviewed the staff training at UNEP and was pleased to note that the Administration had taken steps to develop a policy, which would be reviewed by the Training Steering Committee by June 2004.

6. Information and communication technology

72. Because of the broad range and geographical breadth of its activities, the UNEP Regional Office for Asia and the Pacific recognized that it had to develop its information and communication technology (ICT) plans and projects within the common framework to meet its specific needs. The Regional Office relies on the Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations Office at Nairobi for information and communication technology support.

73. The UNEP Regional Office for Asia and the Pacific had no internal information and communication technology group to ensure that its office strategies were aligned with its overall business requirements. Also, it had no policy on the acquisition and maintenance of information technology hardware. Out of 42 personal computers, one third was declared obsolete and was already with the Property Unit for disposal.

74. **The Board recommends that the Administration develop and implement: (i) an information and communication technology strategic policy; and (ii) policies on the acquisition and maintenance of information and communication technology.** The Administration informed the Board that the recommendation would be implemented in the context of the Office of Internal Oversight Services (OIOS) audit report on UNEP information technology management.

7. Cases of fraud and presumptive fraud

75. The Administration reported that no fraud or presumptive fraud had been committed during the biennium.

D. Acknowledgement

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

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

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

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

9 July 2004

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

Annex**Summary of status of implementation of recommendations for the biennium 2000-2001^a**

<i>Topic</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Total</i>
Investment in the cash pool	para. 21			1
Bank reconciliation	para. 25			1
Programme management	para. 36			1
Approval of projects	para. 41			1
Closure of inactive projects		para. 44		1
Environment issues		para. 48		1
Administrative arrangement with the United Nations Office at Geneva		para. 50		1
Regional office financial monitoring and reporting	para. 53			1
Total				
Number	5	3	0	8
Percentage	63	37	0	100

^a See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5F* (A/57/5/Add.6), chap. II.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to XIV of the United Nations Environment Programme; schedules 3.1, 4.1 to 4.3, 5.1 and 6.1; and the supporting notes for the biennium from 1 January 2002 to 31 December 2003. These financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended, in accordance with the United Nations Environment Programme stated accounting policies, set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Furthermore, in our opinion, the transactions of the United Nations Environment Programme that have come to our notice or that we have tested as part of our audit have been, in all significant respects, in accordance with the Financial Regulations 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 financial statements of the United Nations Environment Programme.

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

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

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

9 July 2004

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

Chapter IV

Certification of the financial statements

31 March 2004

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

(Signed) Klaus **Töpfer**

Executive Director

United Nations Environment Programme

Chapter V

Financial statements for the biennium ended 31 December 2003

Notes to the financial statements

Note 1

The United Nations Environment Programme and its objectives

(a) The United Nations Environment Programme (UNEP) was established by the General Assembly by its resolution 2997 (XXVII) of 15 December 1972, with the Governing Council as its policy-making organ and a secretariat to serve as a focal point for environmental action and coordination within the United Nations system.

(b) The mandate of UNEP has been confirmed through various legislative measures, both by the General Assembly and the Governing Council of UNEP. UNEP also provides the secretariats to several global and regional conventions that have been established in areas related to UNEP programme activities.

(c) The activities for which UNEP is responsible fall within the framework of programme 10, Environment, of the revised medium-term plan for the period 2002-2005.^a The overall objective of programme 10 is to provide leadership and encourage partnership in caring for the environment by inspiring, informing and enabling nations and peoples to improve their quality of life without compromising that of future generations. The main elements of the strategy for achieving the overall objective include: (a) filling the information and knowledge gap on critical environmental issues through more comprehensive assessments; (b) identifying and further developing the use of appropriate integrated policy measures in tackling the root causes of major environmental concerns; and (c) mobilizing action for better integration of international action to improve the environment, particularly in relation to regional and multilateral agreements, as well as United Nations system-wide collaborative arrangements.

Note 2

Summary of significant accounting policies

(a) The accounts of UNEP are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the Regulations, administrative instructions issued by the Under-Secretary-General for Management or the Controller and specific decisions of the Governing Council of UNEP. They also take fully into account the United Nations system accounting standards, as adopted by the Administrative Committee on Coordination (ACC) (now the United Nations System Chief Executives Board for Coordination). The Organization follows International Accounting Standard 1 on the disclosure of accounting policies, as modified and adopted by ACC, as shown below:

(i) Going concern, consistency, and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

^a *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 6 (A/57/6/Rev.1).*

- (ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;
 - (iii) Financial statements should include clear and concise disclosure of all significant accounting policies which have been used;
 - (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;
 - (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;
 - (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.
- (b) The Organization's accounts are maintained on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.
- (c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds.
- (d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.
- (e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of transactions, at rates of exchange established by the Under-Secretary-General for Management. In respect of such currencies, the financial statements, prepared at such intervals as may be prescribed by the Controller under delegation of authority from the Under-Secretary-General for Management, shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be presented quantifying the difference.
- (f) The Organization's financial statements are prepared on the historical cost basis of accounting, and are not adjusted to reflect the effects of changing prices for goods and services.
- (g) The Organization's financial statements are prepared in accordance with the ongoing recommendations of the Working Party on Accounting Standards to the United Nations System Chief Executives Board for Coordination.
- (h) The results of the Organization's operations presented in statements I, II and III are shown in summary by general type of activity, as well as on a consolidated basis for funds other than those that are reported on separately. Their presentation on a consolidated basis does not imply that the various separate funds

can be intermingled in any way, since, normally, resources may not be utilized between funds.

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

(j) Income:

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

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

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

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

(v) Interest income includes all interest earned on deposits in various bank accounts and investment income earned on marketable securities and other negotiable instruments in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds;

(vi) Miscellaneous income includes refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified, uncashed cheques one year from their date of issuance, interest from counterpart contributions to the Environment Fund and other sundry income. Income for future financial periods is recorded as deferred income in the current financial period, as referred to in item (m) (ii) below.

(k) Expenditure:

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

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

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

(l) Assets:

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

(ii) Investments include marketable securities and other negotiable instruments in the cash pool. Cost is defined as the nominal value plus/minus any unamortized premium/discount. Short-term investments, stated at the lower of cost or market value, are disclosed in schedule 3;

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

(iv) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

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

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

(m) Liabilities, reserves and fund balances:

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

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

(iii) Commitments of the Organization relating to prior, current, and future financial periods are shown as unliquidated obligations. Current-period

obligations relating to special accounts remain valid for 12 months following the end of the biennium to which they relate. Obligations for most technical cooperation activities remain valid for 12 months after the end of each calendar year.

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

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

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

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

(r) Contingencies. Provision to meet contingent liabilities for compensation payments under appendix D to the Staff Rules of the United Nations for the personnel financed from trust funds and the Environment Fund has been made and is calculated on the basis of 1 per cent of the net base salary. Furthermore, since July 2002, provision, calculated at 8 per cent of net base salary, is made in the Environment Fund and trust funds for end-of-service benefits.

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

(t) At the eleventh meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol, it was decided that promissory notes constituted committable resources and that the deposit of a

promissory note would be considered to be payment of a country's contribution to the Multilateral Fund. Consequently, promissory notes received from member countries have been reflected accordingly in the accounts of the Multilateral Fund.

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

Note 3

Financial reporting by agencies and supporting organizations

All agencies and organizations, except 13, engaged in the implementation of projects funded by UNEP and/or its associated trust funds reported their expenditures as at 31 December 2003.

Note 4

The cash flow summary

Statement III is based on the indirect method of cash flow statements covered by International Accounting Standard 7.

Note 5

Environment Fund (statement IV)

(a) Accounts receivable. The totals below provide a comparison of the amounts shown in statement IV as other accounts receivable, as at 31 December 2003 and 2001 (in United States dollars):

	2003	2001
Governments	310 415	258 555
Staff members	1 094 224	3 417 288
Vendors	196 631	645 408
Specialized agencies	10 035	19 325
Other United Nations agencies	7 718 515	3 037 416
Other	204 068	138 243
Total	9 533 888	7 516 235

(b) Accounts payable. The totals below provide a comparison of the amounts shown in statement IV as accounts payable, as at 31 December 2003 and 2001 (in United States dollars):

	2003	2001
Governments	84 335	368 207
Staff members	1 046 300	447 578
Vendors	255 191	1 332 057
Specialized agencies	-	41 267
Other United Nations agencies	11 073 070	5 379 056
Other	33 273	101 386
Total	12 492 169	7 669 551

(c) Deferred charges. The totals below provide a comparison of the amounts shown in statement IV as deferred charges, as at 31 December 2003 and 2001 (in United States dollars):

	2003	2001
Education grant advances	338 506	516 222
Commitments against future years	285 611	17 787
Other	63 235	24 179
Total	687 352	558 188

Note 6**Inter-fund balances**

Inter-fund balances reflect transactions between the Environment Fund, trust funds, other special accounts, the United Nations General Fund and other United Nations funds which are normally settled periodically. The following table is a breakdown of the inter-fund balances (in United States dollars):

	2003	2001
<i>Inter-fund balances receivable</i>		
Environment Fund (statement IV)	21 291 368	11 379 531
General Trust Funds (statement V)	220 772	4 341 362
Technical Cooperation Trust Funds (statement VII)	136 916	3 522 909
Junior Professional Officers Programme (statement VIII)	3 452	1 010 635
Sasakawa Environment Prize (statement IX)	86	-
Special account for programme support costs (statement X)	-	2 510 042
Earmarked contributions (statement XI)	1 856 527	1 622 515
Non-convertible currency counterpart contributions — Mediterranean (statement XII)	216 305	548 183
Non-convertible currency counterpart contributions — Caribbean (statement XIII)	-	73 624
Revolving Fund (Information) (statement XIV)	216 977	171 699
Subtotal	23 942 403	25 180 500
<i>Inter-fund balances payable</i>		
General trust funds (statement V)	7 420 816	14 566 611
Technical Cooperation Trust Funds (statement VII)	23 510 252	13 220 554
Junior Professional Officers Programme (statement VIII)	264 324	341 216
Sasakawa Environment Prize (statement IX)	-	80 478
Special account for programme support (statement X)	106 717	-
Earmarked Contributions (statement XI)	463 333	194 776
Non-convertible currency counterpart contributions — Caribbean (statement XIII)	41 064	-
	31 806 506	28 403 635
Net inter-fund payable	(7 864 103)	(3 223 135)
<i>The net inter-fund payable is due to/from</i>		
Multilateral Fund (statement VI)	(7 276 955)	273 685
United Nations Office at Nairobi	(743 508)	(1 276 427)
UN-Habitat	2 856 198	(2 060 449)
United Nations General Fund	(2 699 837)	(159 944)
	(7 864 103)	(3 223 135)

Note 7**Non-expendable property**

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

	<i>UNEP headquarters</i>	<i>UNEP projects</i>	<i>UNEP regional and outposted offices</i>	<i>Total 2003</i>	<i>Total 2001</i>
Opening balance	9 178 747	1 370 237	3 529 026	14 078 010	11 245 993
Additions	1 032 767	422 187	433 871	1 888 825	2 940 348
Disposals	-	(196 966)	(194)	(197 160)	(108 331)
Adjustments	-	86 607	-	86 607	-
Ending balance	10 211 514	1 682 065	3 962 703	15 856 282	14 078 010

Note 8**Reserves and fund balances**

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

(b) The excess/(shortfall) of income over expenditure in the Trust Fund for the Montreal Protocol on Substances that Deplete the Ozone Layer amounting to \$1,833,204 is covered by a drawdown from the fund balance to cover part of the approved programme budget, in accordance with decision XI/21, paragraphs 5 and 6, decision XIII/30, paragraph 5, and decision XIV/41, paragraphs 6 and 7, of the Meetings of the Parties to the Montreal Protocol.

Note 9**Prior-period adjustments**

The totals below provide a comparison of the amounts shown in statement IV as prior-period adjustments, as at 31 December 2003 and 2001:

	<i>2003</i>	<i>2001</i>
Adjustment to prior-period pledges	(94 565)	(429 269)
Write-off	1 709	1 658
Prior-period charges	378 202	406 013
Others	157 454	21 989
	442 799	390