United Nations

United Nations Development Programme

Financial report and audited financial statements

for the biennium ended 31 December 1999 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-fifth session
Supplement No. 5A (A/55/5/Add.1)

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United Nations • New York, 2000

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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[21 September 2000]

Contents

Abbreviations

AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AsDB	Asian Development Bank
CEC	Commission of the European Communities
DEVNET	Development Network
EBRD	European Bank for Reconstruction and Development
ECA	Economic Commission for Africa
ECE	Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Commission
EIMS	Executive Information Management System
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
FAO	Food and Agriculture Organization of the United Nations
FIM	Financial Information Management
GEF	Global Environment Facility
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
IAPSO	Inter-Agency Procurement
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IMIS	Integrated Management Information System
IMO	International Maritime Organization
IOM	International Organization for Migration
ITC	International Trade Centre

ITU	International Telecommunication Union
JPO	Junior Professional Officer
NEX	Government, as Executing Agent
NGO	Non-Governmental Organization
OECD	Organisation for Economic Cooperation and Development
OIOS	Office of Internal Oversight Services
PAPP	Programme of Assistance to the Palestinian People
PFMS	Project Financial Management System
SICA	Spanish International Cooperation Agency
UNCDF	United Nations Capital Development Fund
UNCHS	United Nations Centre of Human Settlements (Habitat)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNFSTD	United Nations Fund for Science and Technology for Development
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
UNITAR	United Nations Institute for Training and Research
UNOPS	United Nations Office for Project Services
UNRFNRE	United Nations Revolving Fund for Natural Resources Exploration
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
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Tourism Organization

Letters of transmittal and certification

5 July 2000

Sir,

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 1999, 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.

The Chairman of the Board of Auditors
United Nations
New York

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.

Accept, Sir, the assurances of our highest consideration.

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

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

28 July 2000

Sir,

I have the honour to transmit to you the financial statements of the United Nations Development Programme for the biennium 1998-1999 ended 31 December 1999, which were submitted by the Administrator. These statements have been examined and include the audit opinion of the Board of Auditors.

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

Accept, Sir, the assurances of my highest consideration.

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General of the United Kingdom of Great Britain and Northern Ireland 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 1999

1. The Administrator has the honour to submit his financial report for the biennium ended 31 December 1999, together with the audited financial statements of the United Nations Development Programme (UNDP) for the biennium ended 31 December 1999 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. At the date of preparation of the present financial statements, the status of information received from the executing agents was as follows:

(a) Audited statements were provided by the following executing agents:

International Monetary Fund (IMF)

World Meteorological Organization (WMO)

World Tourism Organization (WTO)

(b) Statements as submitted for audit or unaudited statements were provided by the following executing agents:

African Development Bank (AfDB)

Asian Development Bank (AsDB)

Department of Economic and Social Affairs (DESA)

Economic Commission for Africa (ECA)

Economic Commission for Europe (ECE)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic and Social Commission for Western Asia (ESCWA)

International Atomic Energy Agency (IAEA)

International Bank for Reconstruction and Development (World Bank) (IBRD)

International Civil Aviation Organization (ICAO)

International Finance Corporation (IFC)

International Labour Organization (ILO)

International Maritime Organization (IMO)

International Organization for Migration (IOM)

International Telecommunication Union (ITU)

International Trade Centre (UNCTAD/WTO) (ITC)

United Nations Centre for Human Settlements (Habitat) (UNCHS)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

United Nations Industrial Development Organization (UNIDO)

United Nations Institute for Training and Research (UNITAR)

Universal Postal Union (UPU)

World Health Organization (WHO)

World Intellectual Property Organization (WIPO)

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 31 December 1997 financial statements. Changes in accounting policies, if any, properly are disclosed in the aforementioned note 2.

Presentation of accounts

5. Following the recommendation by the Administrative Committee on Coordination on the common interorganization accounting standards and harmonized presentation of financial statements, UNDP has fully adopted the recommended format for the biennium ended 31 December 1999.

6. In addition, the Executive Board, in its decision 97/6, harmonized the budget presentation for UNDP, UNICEF and 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 and Technology for Development (UNFSTD)). UNDP adopted this decision beginning in 1996-1997 in order to facilitate the Board’s review of the biennium financial results.

Table 1
Combined income and expenditure for the biennium ended 31 December
(Millions of United States dollars)

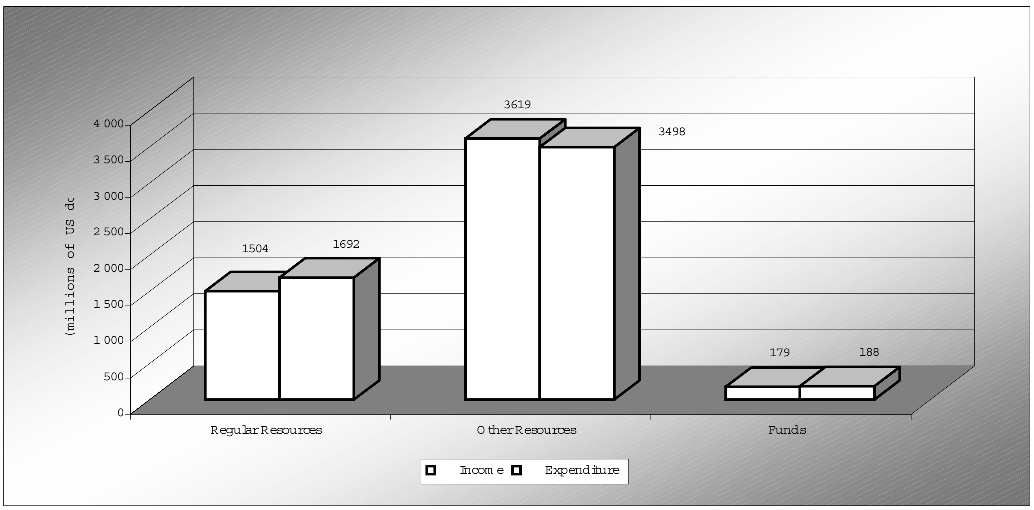
	Regular resources		*Other resources*		*Funds*		*Total*[a]	
	1999	*1997*	*1999*	*1997*	*1999*	*1997*	*1999*	*1997*
Income								
Contributions, net	1 42	1 60	3 41	2 67	148.5	143.2	4 98	4 42
Interest income	68.3	87.1	127.1	95.1	20.8	19.5	216.2	201.7
Other income, net	9.0	2.2	84.2	61.2	17.3	25.6	110.5	89.0
Total income	**1 50**	**1 69**	**3 62**	**2 83**	**186.6**	**188.3**	**5 31**	**4 71**
Expenditure								
Programme	1 07	1 19	3 27	2 30	159.8	133.7	4 51	3 62
Programme support — implementing agents	89.9	113.0	57.5	46.3	6.2	5.1	153.6	164.4
Biennial support budget	493.1	485.6	169.6	131.9	28.7	34.4	691.4	651.9
Support to Resident Coordinator	21.0	6.7	0.7	4.2	-	-	21.7	10.9
UNDP sectoral support	0.5	11.1	-	-	-	-	0.5	11.1
Other expenditure	10.0	47.4	3.3	15.0	0.6	0.7	13.9	63.1
Total expenditure	**1 69**	**1 85**	**3 50**	**2 50**	**195.3**	**173.9**	**5 39**	**4 52**
Excess (shortfall) of income over expenditure	**(187.9)**	**(157.0)**	**115.1**	**330.6**	**(8.7)**	**14.4**	**(81.5)**	**188.0**
Net excess (shortfall) of income over expenditure	**(187.9)**	**(157.0)**	**115.1**	**330.6**	**(8.7)**	**14.4**	**(81.5)**	**188.0**
Unexpended resources:								
Opening balance	285.0	438.9	1 19	886.7	130.8	124.7	1 61	1 45
Transfers, refunds and savings	9.9	3.1	(63.2)	(18.2)	(4.4)	(8.3)	(57.7)	(23.4)
Closing balance	107.0	285.0	1 25	1 19	117.7	130.8	1 47	1 61

[a] Aggregate totals only. Not consolidated.

7. UNDP completed the biennium 1998-1999 with overall mobilization of $5.0 billion in contributions, of which 28.6 per cent pertained to its regular resource activities, 49.2 per cent to cost-sharing activities, 12.5 per cent to specific trust fund activities, 6.7 per cent to reimbursable support services and miscellaneous activities and 3.0 per cent collected through its administered funds established by the General Assembly.

8. The total expenditure amounted to $5.4 billion, of which 83.7 per cent ($4.5 billion) was spent in programme/project activities, 2.9 per cent ($153.6 million) in support costs paid to other United Nations agencies, 0.6 per cent on miscellaneous costs and 12.8 per cent ($691.4 million) for the biennial support budget.

Figure 1
Summary of income and expenditure for the biennium ended 31 December 1999
(Millions of United States dollars)



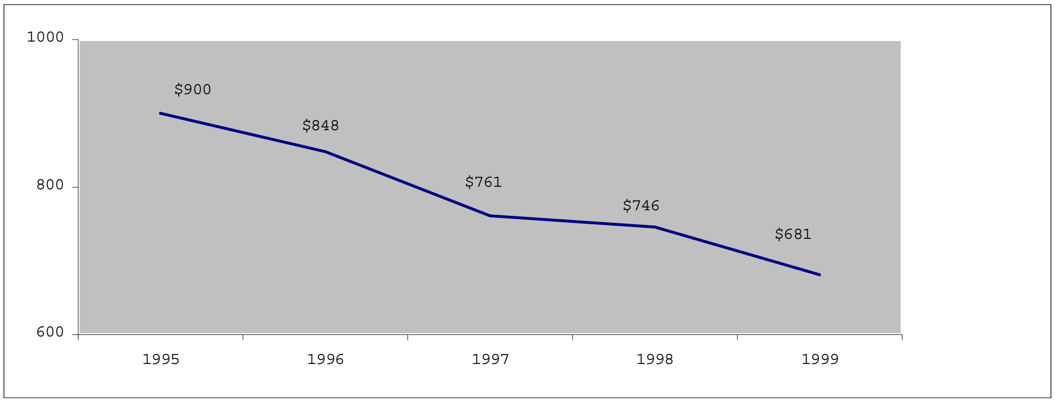
Regular resources

Income

9. Voluntary contributions declined by 11.3 per cent ($182 million) in comparison with the previous biennium.

10. The average rate of return on investments was around 5 per cent. Other income mainly comprised exchange gains and losses.

Figure 2
Contributions for regular resource activities for the 12 months ended 31 December
(Millions of United States dollars)



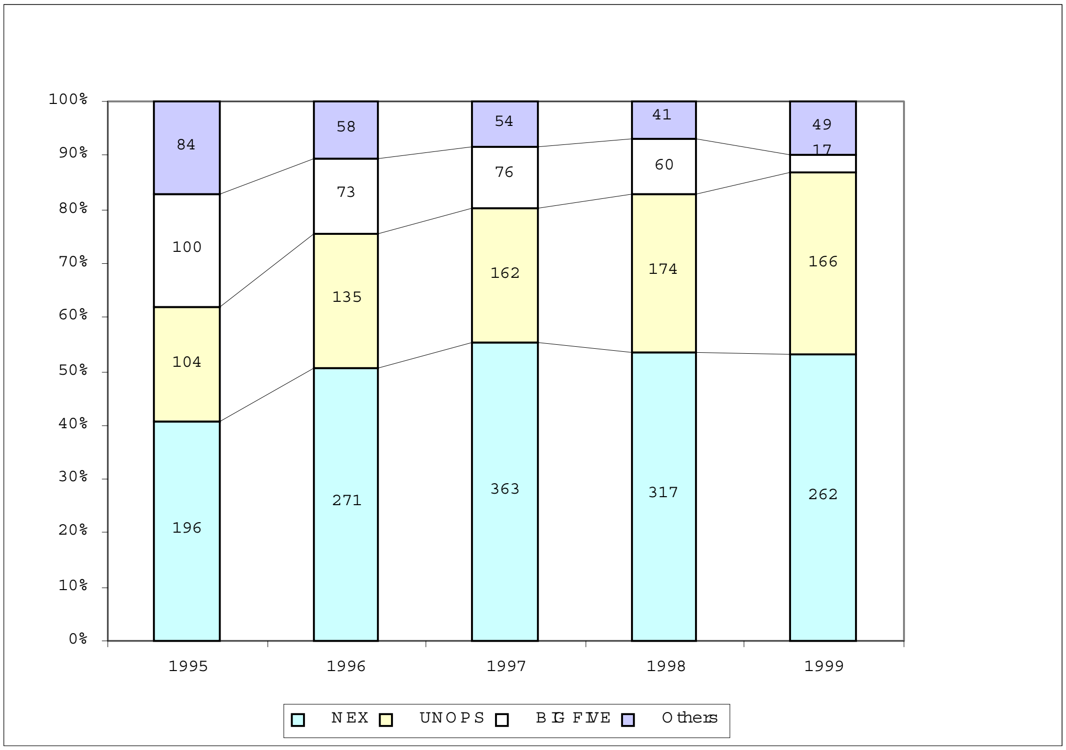
Expenditure

11. Programme expenditure (including programme support) declined by $100 million from $1.3 billion in 1996-1997 to $1.2 billion in 1998-1999. This was consistent with the reduction overall in contributions to regular resources. National execution remained the leading modality for project execution, in keeping with UNDP policy. In 1998-1999, recipient countries executed $579.3 million or 53.8 per cent of programme expenditure for regular resources. This compared to $634 million, or 53.2 per cent of programme expenditure, for regular resources for the biennium 1996-1997.

12. There was a 36 per cent decrease in the United Nations systems' share of programme expenditure, from $260.3 million in 1996-1997 to $166.5 million in 1998-1999. The marked decline in the share of projects executed by the "Big 5" (the United Nations Secretariat, UNIDO, FAO, UNESCO and ILO) was primarily because of a transfer of expenditure from regular resources, incurred by UNDP as part of its activities under the United Nations Iraq oil-for-food programme, to a designated trust fund under other resources.

13. The support budget expenditure for 1999 was higher than that for 1998, representing to a large extent the normal trend of higher expenditures in the second year of the biennium. In reviewing the biennium 1998-1999, the gross support budget expenditure of $544.5 million represented a marginal 2.8 per cent increase over expenditure of $529.8 million in 1996-1997. The net 1998-1999 biennial support budget expenditure was $493.1 million, $25 million below the approved 1998-1999 net budget, which represents overall savings of 5 per cent. By appropriation group, 55 per cent (57 per cent in 1996-1997) was spent on programme support activities, 23 per cent on management and administration (21 per cent in 1996-1997) and 22 per cent on support to operational activities of the United Nations system (22 per cent in 1996-1997). In total, 66 per cent of expenditures were related to country offices with the remaining 34 per cent attributed to headquarters locations, including the United Nations Volunteers (UNV) and the Inter-Agency Procurement Services.

Figure 3
Expenditure by execution modality for the 12 months ended 31 December
(Millions of United States dollars)



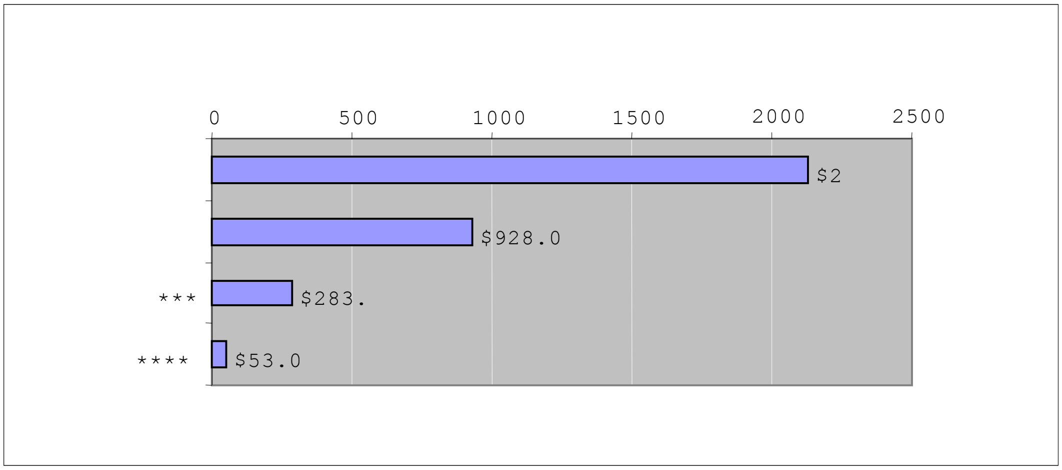
Unexpended resources

14. The decrease in voluntary contributions accompanied by a smaller decrease in programme/project delivery resulted in a decrease in unexpended regular resources to $107 million as at 31 December 1999, about one and a half months of total expenditure. This compares to $285 million, about four months of expenditure, in the previous biennium.

15. The most notable increase in other resource activities was in cost-sharing, which increased by 41 per cent, to $2.5 billion, during the biennium. Trust fund income increased by 4.6 per cent, to $654 million.

Other resources activities

Figure 4
Income for other resource activities for the biennium ended 31 December 1999
(Millions of United States dollars)



* Government cost-sharing and government cash counterpart contributions.
** Third-party cost-sharing and trust funds.
*** Management service agreements.
**** Junior Professional Officers.

Cost-sharing

16. This funding modality continued to gain in importance, with a total contribution increase of $709.9 million (40.8 per cent) over the biennium 1996-1997. Of the total $2,451.7 million received in 1998-1999, $326.4 million was attributable to third-party cost-sharing ($187 million in 1996-1997) and $2,125.3 million to recipient Governments ($1,464 million in 1996-1997).

17. Programme expenditure and support costs paid to the United Nations and other implementing agencies of $2,297.8 million in the biennium 1998-1999 represents an increase of $761 million over the comparative amount of $1,537.4 million in the biennium 1996-1997. The biennial support budget of $76.6 million comprises charges for services provided by UNDP to cost-sharing activities.

Table 2

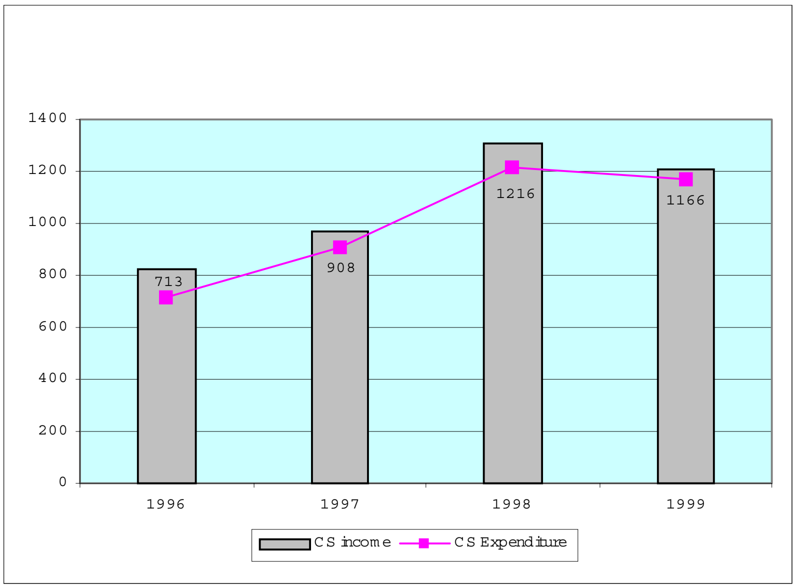
Other resources activities: Statement of income and expenditure for the biennium ended 31 December

(Millions of United States dollars)

	UNDP cost-sharing		*Government cash counterpart contributions*		*Trust funds established by UNDP*		*Management service agreements*		*Junior Professional Officers*		*Reserve for field accommo-dation*		*Reimbursa-ble support services*		*Special activities*		*Eliminations*		*Total*	
	1999-1998	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*
Income																				
Contributions	2 452	1 742	11	18	604	541	283	315	53	54	-	-	-	-	8	4	-	-	3 411	2 674
Interest income	49	33	-	-	50	44	17	13	-	-	-	-	11	6	-	-	-	-	127	96
Other income	-	-	-	-	-	1	-	-	-	-	6	8	164	132	-	-	(87)	(80)	83	61
Total income	**2 501**	**1 775**	**11**	**18**	**654**	**586**	**300**	**328**	**53**	**54**	**6**	**8**	**175**	**138**	**8**	**4**	**(87)**	**(80)**	**3 621**	**2 831**
Expenditure																				
Programme	2 270	1 517	7	13	642	406	306	320	50	47	-	-	-	-	-	-	-	-	3 275	2 303
Programme support: implementing agents	27	21	-	-	23	20	-	-	6	6	-	-	-	-	-	-	-	-	56	47
Programme support to Resident Coordinator	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	4	-	-	1	4
Biennial support budget, net	77	71	-	-	33	29	-	-	-	-	3	4	134	106	9	2	(87)	(80)	169	132
Other expenditure	-	-	-	-	3	-	-	-	-	-	-	15	-	-	-	-	-	-	3	15
Total expenditure	**2 374**	**1 609**	**7**	**13**	**701**	**455**	**306**	**320**	**56**	**53**	**3**	**19**	**134**	**106**	**10**	**6**	**(87)**	**(80)**	**3 504**	**2 501**
Excess (shortfall) of income over expenditure	**127**	**166**	**4**	**5**	**(47)**	**131**	**(6)**	**8**	**(3)**	**1**	**3**	**(11)**	**41**	**32**	**(2)**	**(2)**	**-**	**-**	**117**	**330**
Savings on obligations of prior biennium	-	-	-	-	-	-	-	-	-	-	-	-	1	1	-	-	-	-	1	1
Transfers (to)/from reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	UNDP cost-sharing		*Government cash counterpart contributions*		*Trust funds established by UNDP*		*Management service agreements*		*Junior Professional Officers*		*Reserve for field accommo-dation*		*Reimbursa-ble support services*		*Special activities*		*Eliminations*		*Total*	
	1999-1998	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*	*1999-1998*	*1996-1997*
Refunds to donors and transfers (to)/from other funds: net	-	-	-	-	(5)	(21)	(4)	(1)	-	-	(3)	-	(54)	-	-	3	-	-	(66)	(19)
Fund balances, 1 January 1998	573	407	16	11	444	334	82	75	8	7	(6)	5	81	48	1	-	-	-	1 199	887
Fund balances, 31 December 1999	**700**	**573**	**20**	**16**	**392**	**444**	**72**	**82**	**5**	**8**	**(6)**	**(6)**	**69**	**81**	**(1)**	**1**	**-**	**-**	**1 251**	**1 199**

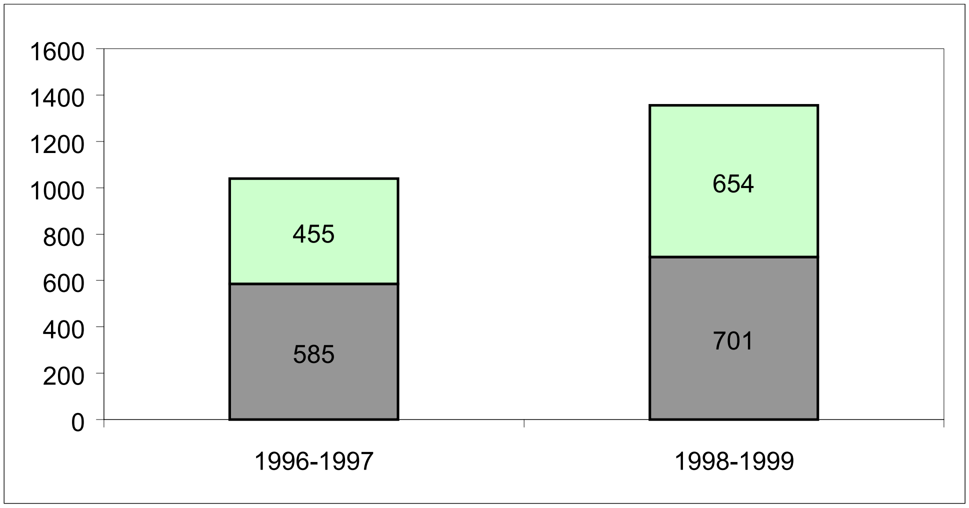
Figure 5
Summary of cost-sharing income and expenditure for the 12 months ended 31 December
(Millions of United States dollars)



Trust funds established by the United Nations Development Programme

18. The detailed financial results of the trust funds are set out in schedules 5 to 5.3. A total of 72 trust funds and 70 sub-trust funds were established during the biennium 1998-1999 whereas 7 trust funds and 1 sub-trust fund were closed. The environmental sector is capturing most of the trust funds' resource mobilization. In 1998-1999, the Trust Fund for the Global Environment Facility (GEF), the Multilateral Fund for the Montreal Protocol, the "Capacity 21" Trust Fund and the Trust Fund to Combat Desertification and Drought (UNSO) captured $228.8 million of contributions; this amounts to 37.9 per cent of the total trust fund contributions of $603.8 million. Countries/Territories in special situations, such as Rwanda, Angola and Palestine, etc., are the second most important sector in trust fund activities.

Figure 6
Summary of trust funds income and expenditure for the biennium ended 31 December
(Millions of United States dollars)



Trust Fund to Combat Desertification and Drought

19. During the biennium, UNSO continued to provide technical support and catalytic funding to some 45 countries in Africa, Latin America and the Caribbean, Asia, countries members of the Commonwealth of Independent States and the Arab States in their efforts to develop national action programmes and to 22 countries in Africa, Latin America and the Caribbean and Asia for the establishment of national desertification funds, in the context of the implementation of the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa. In a similar way, UNSO has worked with the Permanent Inter-State Committee for Drought Control in the Sahel (CILLS), the Southern African Development Community (SADC), the Intergovernmental Authority on Development (IGAD), the Arab Maghreb Union (AMU) and the Gran Chaco, Central America and Puna regions to develop subregional action programmes in their communities. UNSO also continues to backstop a portfolio of down-stream projects covering various activities relevant for combating desertification and drought.

20. Total programme expenditure declined from $10.7 million in 1996-1997 to $9.9 million in 1998-1999. The resources mobilized declined by 68.1 per cent, from $13.8 million to $4.4 million.

Trust Fund for the Global Environment Facility

21. The GEF Council held four formal meetings during 1998-1999. In addition, the GEF Council held four informal inter-sessional meetings, during which it reviewed and approved the GEF corporate business plans and corporate administrative budgets, as well as the individual work programme allocation targets for UNDP/GEF for the fiscal years 1999 and 2000. The GEF secretariat also conducted

a separate project implementation review exercise in 1998 and 1999 with respect to all full-sized projects funded by GEF.

22. During the biennium 1998-1999, the approved work programmes and administrative budgets of GEF amounted to a total of $362.0 million, 50 per cent more than the 1996-1997 work programme ($226.5 million). Total programme expenditure amounted to $134.9 million in 1998-1999, compared with $106.6 million in 1996-1997 (an increase of 26.6 per cent).

23. Income from replenishments received from the GEF Trustee of the World Bank in 1998-1999 amounted to $130.0 million ($110.0 million in 1996-1997). In addition, GEF received $9.9 million in cost-sharing, sub-trust fund projects and other contributions ($1.7 million in 1996-1997).

Multilateral Fund for the Implementation of the Montreal Protocol

24. 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 (UNEP), UNIDO and the World Bank.

25. To achieve this objective, UNDP activities include:

(a) Formulation of national country programmes for the Montreal Protocol;

(b) Technical training and demonstration projects;

(c) Institutional strengthening/national capacity-building;

(d) Technology transfer investment projects.

26. Contributions received for 1998-1999 amounted to $77.5 million ($67.2 million in 1996-1997). Total programme expenditure amounted to $70.2 million in 1998-1999 ($61.2 million in 1996-1997).

"Capacity 21" Trust Fund

27. "Capacity 21" is now in its seventh year of operation, has programmes in developing countries in all regions of the world, and has begun monitoring progress, distilling results and lessons and creating a body of knowledge that will be of material benefit to other countries. The total resources mobilized in 1998-1999 were $6.9 million ($18.8 million in 1996-1997), a decrease of 63.3 per cent over 1996-1997. During the biennium, total programme expenditure amounted to $16.1 million ($14.9 million in 1996-1997), an increase of 8 per cent.

Energy Account

28. Energy Account activities, which are fully financed from extrabudgetary resources, focus on Financing Energy Services for Small-Scale Energy Users (FINESSE), 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 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 SADC region of Africa have been completed and follow-up will soon be initiated in partnership with the African Development Bank. The Energy Account received contributions of $1.8 million in 1998-1999 ($2.2 million in 1996-1997), against total expenditure of $2.2 million ($4.5 million in 1996-1997).

Fund for the Programme of Assistance to the Palestinian People

29. 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 the capacity-building programmes through the utilization of joint implementation structures, ensuring the long-term viability and local accountability of the Palestinian counterparts.

30. Total income received amounted to $68.8 million in 1998-1999, compared with $83.1 million in 1996-1997, a decline of 17.2 per cent. These resources were mobilized through contributions to the main trust fund and the establishment of new sub-trust funds. Programme expenditure in 1998-1999 amounted to $66.4 million ($72.6 million in 1996-1997), making UNDP one of the three largest implementers of donor-funded projects in the occupied Palestinian territory. Pursuant to the strategies and initiatives identified in its programme framework (1996-1998) the Fund, during the biennium, continued to increase its focus on the expansion of its advocacy role in the promotion of sustainable human development themes such as poverty elimination, sustainable livelihoods, gender in development and environmental management, as well as a number of infrastructure activities.

31. During 1998-1999, the Fund continued the activities launched in the prior biennium to enhance governance at the local, municipal and central levels of the Palestinian Authority, taking full advantage of the considerable local expertise available in the area.

Trust Fund for Rwanda

32. The UNDP Trust Fund for Rwanda was established 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.

33. In February 1997, direct execution by UNDP was approved for the Trust Fund. The rationale for authorizing the UNDP Rwanda country office to apply direct execution was the result of a commitment made to the international community and to the Government of Rwanda to establish a UNDP managed system that could respond to the crisis quickly and effectively.

34. Projects in Rwanda directly executed by UNDP cover sectors that are critical in the country context, such as the reintegration and re-installation of returnees,

governance, justice and social development. Most projects are of short duration and quick impact.

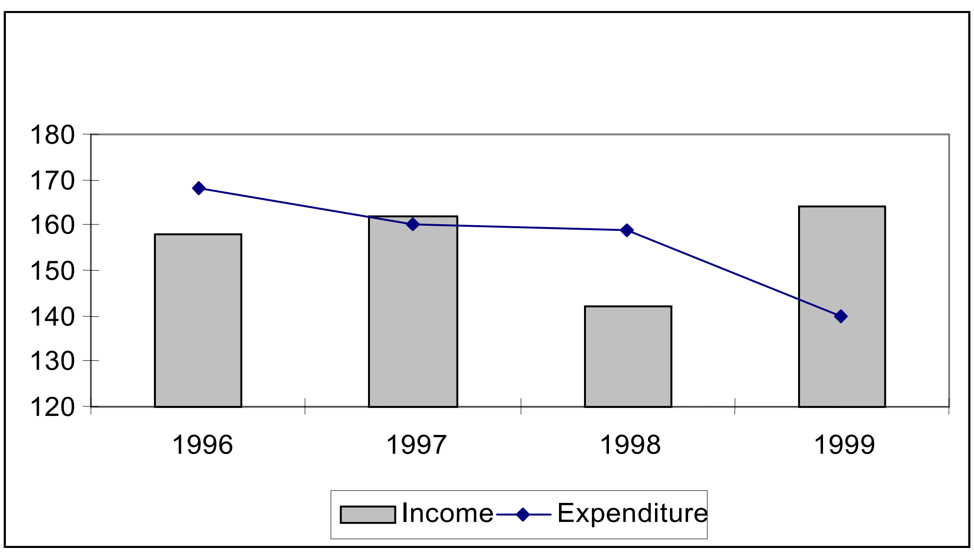
35. At 31 December 1999, the Trust Fund had 13 projects directly executed by UNDP. Total approved budgets for the directly executed projects were $39 million, representing approximately 36 per cent of total approved budgets. Specialized agencies of the United Nations system executed 16 per cent of approved budgets while national execution represented 48 per cent. All 10 directly executed projects are fully subcontracted to implementing partners (international and local non-governmental organizations).

36. In 1998-1999, the UNDP Trust Fund for Rwanda mobilized $32.2 million in contributions, compared with $55.4 million in the biennium 1996-1997. Programme expenditure of $47.1 million was incurred in 1998-1999, compared with $29.2 million in 1996-1997. Unexpended resources at 31 December 1999 were $28.9 million, of which $26.1 million had been committed to project activities.

Management service agreements

37. Management service agreements signed by UNDP with various donors (detailed in schedule 6.1) are executed by the United Nations Office for Project Services on behalf of UNDP. During the biennium 26 new agreements were implemented, 12 agreements were financially completed and 32 were operationally completed. Total income declined by 8.5 per cent in 1998-1999, to $299.6 million, compared with $327.5 million in 1996-1997. Total expenditure declined by 4.4 per cent in 1998-1999 to $306.0 million, from $319.8 million in 1996-1997.

Figure 7
Summary of income and expenditure for management service agreements for the 12 months ended 31 December
(Millions of United States dollars)



Junior Professional Officers programme

38. UNDP currently has 337 Junior Professional Officers (JPOs) in active service under this programme, financed by 19 countries.

39. UNDP received $53 million in contributions for the JPO programme in the biennium 1998-1999, compared with $54.5 million in 1996-1997. Total expenditure increased to $56.5 million in 1998-1999 from $53.1 million in 1996-1997.

Reserve for Field Accommodation

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

41. Total income in the biennium 1998-1999 for Reserve for Field Accommodation activities, which consists almost entirely of rental income, amounted to $5.5 million, a drop of $2.8 million from the $8.3 million recorded in the biennium 1996-1997. The Reserve for Field Accommodation recorded an overall surplus of $2.5 million in 1998-1999, compared with a deficit of $10.7 million in 1996-1997.

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

42. 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. UNCDF, UNV and UNIFEM remain the most active of the funds. In both 1998-1999 and 1996-1997, their programme delivery represented 99 per cent of all fund activities. The combined income of the three funds likewise constituted 98.7 per cent of all income of the funds in the biennium under review compared with 98.8 per cent in 1996-1997.

United Nations Capital Development Fund

43. The main goal of UNCDF is to help reduce poverty through local development programmes and microfinance operations. The Fund defines its particular approach as investing with the poor. This approach aims to build the productive capacity and self-reliance of poor communities by increasing their access to essential local infrastructure and services and by strengthening their influence over economic and social investments that directly affect their lives and livelihoods.

44. The Fund's priorities during the biennium 1998-1999 were to complete an in-depth review of its instruments and approaches and to publish its new policies on local governance and microfinance. During the biennium, the Fund was evaluated by its donors and the positive conclusions were endorsed by the Executive Board in September 1999. The Fund also realigned programmes and projects to its new policies, concentrated on reducing administrative costs and emphasized the importance of replication by attracting other donors and Governments to its pilot programmes.

45. Core contributions were $57.9 million, with $30.5 million in 1998 and $27.4 million in 1999. The decrease from 1998 is attributable to adverse exchange

rates as well as one donor withdrawing from providing core funding. Nevertheless the number of donors increased from 13 in 1998 to 17 in 1999. Eleven projects were approved in 1998 for $36.3 million and 13 projects were approved in 1999 for $56.3 million. While the 1998 targets were not reached owing to emergency situations in some of the Fund's programme countries, the 1999 targets were surpassed as project approvals from 1998 were brought forward into 1999. Project expenditures (including programme support costs) for 1998 and 1999 were $43.7 million and $44.1 million, respectively. Project expenditures were very close to targets in both years.

United Nations Volunteers

46. UNV achieved sharp growth in the number of volunteers in its programmes during the biennium 1998-1999. In 1998, there were 3,643 serving volunteers in 4,047 assignments. In 1999, the number increased to 4,383 serving volunteers in 4,755 assignments.

47. The large increase was a result of large-scale involvement in East Timor before, during and after the popular consultation, and in elections in Indonesia. Africa continued to be the region where the Programme is most active and where most volunteers carry out their assignments.

48. The volunteers work in a variety of roles as international UNV specialists, national UNVs, UNV fieldworkers and United Nations International Short-Term Advisory Resources short-term advisers for business and industry. During the biennium, they represented 141 nationalities and served in 148 countries. This demonstrates the universality of the UNV programme, encompassing all regions of the world and providing a channel for the exchange of appropriate skills within and among regions.

49. Besides the traditional sources of funding such as voluntary contributions, cost-sharing and sub-trust funds, appearing for the first time in the income category in the biennium 1998-1999 are fully funded arrangements and United Nations joint ventures. Fully funded arrangements represent volunteer assignments directly funded by donor Governments that support UNV programme activities within UNDP projects and the United Nations system. United Nations joint ventures represent United Nations Volunteers participating in United Nations peace operations.

50. Of note in the biennium 1998-1999 was the increase in funding for the cost-sharing, fully funded and United Nations joint ventures modalities, and a slight reduction in direct contributions to voluntary activities and sub-trust funds. The reduction in contributions for voluntary activities was mainly a result of adverse movements in exchange rates. Total income in 1998-1999 was $55.6 million, a reduction of $6.9 million from $62.5 million in the previous biennium.

51. There were notable increases in programme expenditure in the biennium 1998-1999 for all categories when compared with the previous biennium, except for sub-trust funds, which showed only a marginal increase. Total programme expenditure recorded for the biennium 1998-1999 was $43.7 million, an increase of $11.1 million (34 per cent) over the $32.6 million recorded in 1996-1997. The overall increase in programme expenditure reflects a conscious effort by management to programme available resources.

United Nations Development Fund for Women

52. The UNIFEM strategy and business plan, which covered the three-year period from 1997 to 1999, aimed to expand the Fund's donor base and increase the amount of contributions flowing into UNIFEM. During the current biennium, UNIFEM continued to focus its efforts on its three thematic areas and to refine the principles of results-based management.

53. Total contributions for UNIFEM increased by $9.9 million, or 28.6 per cent, to $44.5 million in the biennium 1998-1999 from $34.6 million in 1996-1997. The increases were recorded in voluntary contributions ($7.3 million) and sub-trust funds ($5.0 million), compensated by a decline in cost-sharing of $2.4 million. The reduced funding for cost-sharing was a result of certain donors not following through on earlier pledges.

54. Programme expenditure increased by $7.2 million (33.7 per cent) to $28.5 million in 1998-1999 from $21.3 million in 1996-1997. Regular resources expenditure rose to $20.3 million in 1998-1999 from $14.3 million in 1996-1997, an increase of $6 million, or 42.3 per cent. Sub-trust fund expenditure increased by $2.6 million to $4.3 million in 1998-1999, a jump of 75 per cent from $1.7 million in 1996-1997. By contrast, cost-sharing expenditure declined in 1998-1999 by $1.5 million, to $3.9 million from $5.4 million in 1996-1997.

55. Unexpended resources at 31 December 1999 were $19.1 million, an increase of $6.8 million from $12.3 million at 31 December 1997. The level of the operational reserve was reviewed in accordance with Executive Board decision 97/4, and the reserve was increased to $6.7 million at 31 December 1999 ($3.5 million at 31 December 1997).

United Nations Revolving Fund for Natural Resources Exploration

56. Voluntary contributions to UNRFNRE increased by $0.2 million to $1.7 million in 1998-1999 ($1.5 million in 1996-1997). Total expenditure increased by $0.4 million to $2.2 million in 1998-1999, from $1.8 million in 1996-1997. Unexpended resources at 31 December 1999 were $3.1 million.

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

United Nations Fund for Science and Technology for Development

58. At 31 December 1999, the total unexpended resources of UNFSTD were $0.74 million, of which $0.67 million has been allocated to projects. UNDP has appointed an interim fund manager to oversee the closure of the Fund.

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

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Development Programme (UNDP). The Board has audited the financial statements for the biennium ended 31 December 1999 and conducted management audits covering change management, procurement, the green office policy, project management in country offices and the internal audit function of the Office of Audit and Performance Review.

The Board's main findings are as follows:

Financial issues

(a) UNDP reported expenditure of $2.653 billion on nationally executed projects for the biennium 1998-1999, an increase of 27 per cent over the corresponding figure for the previous biennium. In addition, it reported national execution expenditure of $226 million on projects funded from the trust funds and other funds established by UNDP. The Board had insufficient audit assurance for some $723 million of this expenditure and has accordingly restricted the scope of its opinion;

(b) Total expenditure from regular resources in 1998-1999 of $1.692 billion exceeded its total income of $1.504 billion by $188 million. Total income from other resources in 1998-1999 of $3.621 billion exceeded its total expenditure of $3.506 billion by $115 million;

(c) Although UNDP planned for the Integrated Management Information System to be implemented on 1 January 1999, it was delayed until 1 April 1999. UNDP was able to start entering the majority of its expenditure data onto the system only as from September 1999. Such delays led to weaknesses in financial control during 1999;

(d) As at 20 July 2000, UNDP had not completed the reconciliation of its main contribution bank account. Unadjusted items included disbursements of $5,269,711 that were shown in the accounting records but not in the bank statement and $5,828,766 of disbursements that were shown in the bank statements but not in the accounting records. Accordingly, the Board has restricted the scope of its opinion in this regard;

Change management

(e) The Board was unable to determine the full cost of the UNDP 2001 initiative. While non-core expenditure of $5 million could be attributed directly to UNDP 2001 activities, UNDP did not record the value of core costs used for the initiative;

Procurement

(f) UNDP headquarters had not established a database of possible suppliers to assist it in letting contracts for goods and services. In addition, UNDP did not evaluate the performance of contractors on a systematic basis;

(g) In the case of 12 major headquarters contracts involving a total amount of over $4.7 million, UNDP took an average of 195 days between the date it issued invitations to tender or requests for proposals and the date it signed a contract;

Green office policy

(h) UNDP had not yet established an environmental management strategy for its internal operations;

Project management in country offices

(i) In country offices, many of the projects reviewed were not carried out within the time frame originally set out in the project document. In 10 cases (39 per cent) there were delays in starting the project, which generally ranged from one to nine months, but in one project the delay was four years;

(j) For projects funded from other resources, the standard practice of UNDP is that it does not incur expenditure before receiving funding. However, for projects funded by one major donor, the donor's practice is to pay a portion of the funding in arrears once the project has been delivered. These approaches are mutually incompatible, and in accepting such funding, UNDP in effect accepted the donor's financial mechanisms;

(k) Country offices varied in the depth and timeliness of their monitoring and evaluation of projects, and many projects did not have quantified performance indicators or targets that would allow country offices to conduct effective monitoring;

Internal audit

(l) During 1998-1999 the total cost of the Office of Audit and Performance Review was some $6 million, excluding the cost of international staff. This amount included $2.3 million paid to contractors for audit work in three regions, $1.1 million in travel costs and $1.2 million for consultants and short-term assistance;

(m) The Office does not maintain standing data on the organization's systems of control. It considers that, in the constantly changing environment within which UNDP operates, there is a risk that such standing information would become obsolete within a short time. Furthermore, the Office did not have an over-arching audit manual setting out internal audit standards as recommended by the Institute of Internal Auditors;

(n) The Office contracted out its audits of country offices in the Africa, Asia and the Pacific, Arab States and Latin America and the Caribbean regions to four private audit firms. Although it required the audit contractors to conduct thorough reviews of their own working papers and to coordinate and control the quality of their services, the Board noted instances of poor-quality audit work from the contractors.

The Board made recommendations to strengthen accountability, improve the cost monitoring and management of major projects, improve procurement procedures, strengthen implementation of green office policies, increase the training of internal audit staff and establish better internal audit documentation and guidance.

A list of the Board's main recommendations is included in paragraph 10 of the report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Development Programme (UNDP) for the period from 1 January 1998 to 31 December 1999. The audit was conducted in accordance with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance that 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 1998 to 31 December 1999 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNDP presented fairly the financial position as at 31 December 1999. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered it necessary to form an opinion on the financial statements.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations and Rules of the United Nations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNDP. In 1998-1999, the Board examined project management, procurement, change management and environmental office management.

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

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

6. A summary of the Board's recommendations is contained in paragraph 10 below. Detailed findings are in paragraphs 12 to 204.

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

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

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

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

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

1. Previous recommendations not fully implemented

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by UNDP to implement the recommendations made in its reports for the bienniums ended 31 December 1995 and earlier and confirms that there are no outstanding matters.

9. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNDP to implement the recommendations made in its report for the period ended 31 December 1997. Details of the action taken and the comments of the Board are set out in annex I to the present report.

2. Main recommendations of the present report

10. The Board recommends that UNDP:

(a) Ensure that it regularly follows up on all outstanding audit reports and concentrate its efforts on those countries where it has the greatest levels of national execution (para. 22);

(b) Complete the reconciliation of the main contributions account and make the necessary adjustments to its financial records (para. 37);

(c) In projects such as UNDP 2001, prioritize activities and devise measurable indicators and milestones to allow systematic monitoring of progress (para. 55);

(d) At the planning stage of future projects such as UNDP 2001, cost all the proposed activities and estimate the total cost of the initiative (para. 59);

(e) In future projects such as UNDP 2001, require project managers to collect and report all available costs, and require central programme managers to include such information in their regular status reports (para. 61);

(f) Set a clear timetable for the completion of tasks outstanding from UNDP 2001 (para. 70);

(g) Require all country offices to investigate the possibilities of agreeing common service contracts with other United Nations organizations as a method of offering potential cash savings and administrative efficiencies (para. 75);

(h) Remind line units of the need to confirm receipt of goods and services promptly (para. 88);

(i) Establish a database of potential suppliers (para. 92);

(j) Develop a more formal system for monitoring supplier performance (para. 94);

(k) Undertake a cost-benefit analysis to assess the savings likely to accrue from the development of a green procurement policy (para. 123);

(l) Follow up on the recommendations made in the 1998 report on energy use and environmental impacts with respect to the FF and DC-1 Buildings (para. 128);

(m) Improve its monitoring of paper use across divisions, set a target for a reduction in paper use and set standards for printer and copier use, for example, ensuring that all machines default to double-sided printing (para. 135);

(n) At country offices, ensure that executing agencies provide quarterly reports on the progress of projects and take prompt corrective action when projects fall behind schedule (para. 140);

(o) Use the financial information management shadow budgeting facility to implement a more realistic planning system and to control the timing of project delivery (para. 143);

(p) Ensure that all project documents and revisions contain information on the overall project budget, broken down by sub-heading and phased in over the life of the project, and the overall project budget broken down by objective or sub-objective (para. 145);

(q) Prepare project plans only on the basis of committed funding (para. 147);

(r) Ensure that all projects contain quantified and measurable performance indicators or targets and measure the progress of a project against those criteria, and ensure that country offices carry out regular monitoring and evaluation in line with UNDP guidelines (para. 153);

(s) Require the Office of Audit and Performance Review to ensure that each member of the staff receives sufficient training to ensure that the organization retains its technical competency (para. 166);

(t) Require the Office of Audit and Performance Review to follow up on the control self-assessment workshop reports and, where applicable, use this information to inform its risk assessments and audit planning (para. 178);

(u) Require the Office of Audit and Performance Review to document key systems and controls and keep the information on file permanently to facilitate subsequent audits (para. 189);

(v) Require the Office of Audit and Performance Review to develop an internal audit manual that provides a framework for its future operations (para. 191).

11. The Board’s other recommendations are shown in paragraphs 41, 42, 64, 67, 72, 79, 97, 102, 106, 117, 118, 125, 131, 149, 162, 171, 174, 177, 181, 184, 186, 194, 199 and 203.

B. Financial issues

1. United Nations accounting standards

12. The Board assessed the extent to which the UNDP financial statements for the biennium ended 31 December 1999 conform to the United Nations accounting standards. The review indicated that the presentation of the financial statements is generally consistent with the standards.

2. Programme expenditure incurred by Governments and executing agencies

13. The financial statements include details of expenditure incurred on behalf of UNDP by executing agencies and Governments. This financial information is based on annual expenditure statements certified and submitted to UNDP each year. For each nationally executed project, UNDP prepares a combined delivery report that shows all of the expenditure incurred during the year. It sends this report to the respective Governments for certification by their independent auditors, whose audit reports are sent to UNDP.

14. United Nations agencies are required to provide a financial statement for every project that they undertake on behalf of UNDP. These statements are supported by audit reports or letters of reliance from the agencies' own external auditors. The audit reports and letters of reliance are intended to provide confirmation that the UNDP funds were accurately reported and properly expended.

15. The Board relies on the work of other external auditors, as evidenced by the audit reports and letters of reliance, to gain adequate assurance that the funds advanced to executing agencies and Governments and reported in the UNDP financial statements have been properly expended on UNDP and UNDP trust fund projects. In 1998-1999, United Nations executing agencies and Governments expended $3.568 billion under these arrangements.

Audit reports from executing agencies

16. UNDP reported that United Nations executing agencies incurred expenditure of $668 million on its behalf during 1998-1999. The Board noted differences between the expenditures reported by the agencies and the amounts disclosed in the UNDP financial statements.

17. During 1998 and before, UNDP provided executing agencies with quarterly operating fund statements. Owing to reporting problems associated with the implementation of the Integrated Management Information System (IMIS), UNDP did not provide agencies with the statements during 1999 and was unable to provide year-end statements until 24 February 2000. These statements were not complete owing to the late entry of data onto IMIS, and UNDP did not issue complete and accurate versions until 12 April 2000. The 30 agencies are required to provide UNDP with a reconciliation of this statement to their own status of funds, on which their auditors report.

18. As at 7 July 2000, because of the late issuance of the operating fund statements, 10 executing agencies had been unable to provide reconciliations of some $20 million to UNDP. As a result, the Board had insufficient audit evidence to express an opinion on these expenditures. For the 20 reconciliations received, the agencies had reconciled to the incomplete operating fund statement sent on

24 February 2000. As a result, the Board noted differences of $64 million between the amounts reported by executing agencies and the amounts recorded by UNDP. UNDP did not undertake a full analysis of these differences.

Audit reports from Governments

19. For 1998-1999, UNDP country offices, in consultation with government coordinating authorities, were responsible for drawing up annual audit plans to ensure sufficient audit coverage within each country. The Office of Audit and Performance Review was responsible for coordinating and consolidating the individual country office audit plans and reviewing the results of the audits.

20. In schedule 2 of the financial statements, UNDP reported expenditure of $2.653 billion on nationally executed projects for the biennium 1998-1999, an increase of 27 per cent over the corresponding figure for the previous biennium. In addition, it reported national execution expenditure of $226 million on projects funded from the Trust Funds and other funds established by UNDP.

21. As at 26 June 2000, UNDP had received 1,278 audit reports for 1998 and 901 for 1999. After reviewing the reports, the Board had sufficient assurance to support expenditure of $2.156 billion of the nationally executed expenditure for the biennium. For the remainder, representing some $723 million, for which UNDP had received no audit reports, the Board had insufficient audit assurance and has accordingly restricted the scope of its opinion to exclude this expenditure. While this represents an increase of $203 million in absolute terms compared with 1996-1997, when the Board reported that UNDP had not received audit reports in respect of $520 million of national execution expenditure, the Board notes that the proportion of national execution expenditure covered by audit reports increased from 73 per cent in 1996-1997 to 75 per cent in 1998-1999.

22. The Board noted that during 1998-1999 UNDP did not receive any audit reports for projects in 63 countries, including five countries with expenditure totalling $261 million on nationally executed projects in the biennium 1998-1999. **The Board recommends that UNDP ensure that it regularly follows up on all outstanding audit reports and that it concentrate its efforts on those countries where it has the greatest levels of national execution.**

23. Regarding the $520 million of national execution expenditure for which UNDP had not received any audit reports in 1996-1997, the Board assessed the extent to which UNDP had subsequently received these outstanding audit reports. The Board found that UNDP had since received reports for a further $100 million of national execution expenditure.

3. Financial position

Regular resources

24. As shown in the overview statement, total UNDP expenditure from regular resources in 1998-1999 of $1.692 billion exceeded its total income of $1.504 billion by $188 million. This excess of expenditure over income, together with other adjustments and transfers, reduced the UNDP fund balance by $178 million, from $285 million to $107 million. In 1996-1997, regular resources expenditure had exceeded its income by $157 million.

25. While expenditure decreased from $1.855 billion in 1996-1997 to $1.692 billion in 1998-1999, the primary reason for these deficits is the continuing reduction in voluntary contributions from member Governments away from regular resources. Contributions fell from $1.609 billion in 1996-1997 to $1.427 billion in 1998-1999. Governments increasingly chose to support UNDP activities through contributions to trust funds or cost-sharing arrangements. UNDP has identified the need to raise regular resources as a major challenge for the future, and considers that its increasing emphasis on delivering and demonstrating the results of its work should increase the amount of voluntary contributions to regular resources.

26. The Board noted that the remaining regular resources balance of $107 million in the fund at 31 December 1999 was sufficient only to cover approximately one and a half months' total expenditure. The Board is concerned that if UNDP expenditure continues to exceed income by the same level as in 1998-1999, the fund balance will be insufficient to maintain current levels of expenditure.

27. The Board trusts that UNDP will continue to monitor its financial position to ensure that it maintains a healthy fund balance for its regular resources.

Other resources

28. As shown in the overview statement, total UNDP income from other resources in 1998-1999 of $3.621 billion exceeded its total expenditure of $3.506 billion by $115 million. This excess of income over expenditure, together with other adjustments and transfers, increased the fund balance by $52 million, from $1.199 billion to $1.251 billion. In 1996-1997, other resources income had exceeded its expenditure by $331 million.

29. During 1998-1999, Governments continued to increase their contributions towards cost-sharing arrangements and trust funds. Contributions to cost sharing grew by $710 million to $2.452 billion and contributions to trust funds grew by $63 million to $604 million.

30. Total other resources expenditure also rose as contributions increased. However, while total other resources income rose by 28 per cent in 1998-1999 compared with the previous biennium, total expenditure rose by 40 per cent. UNDP used $54 million of the excess of income over expenditure to establish an operational reserve to reduce its vulnerability to short-term cash-flow problems.

31. The Board was pleased to note that UNDP had generated an increasing level of other resources income, enabling it to further increase its programme expenditure.

4. Integrated Management Information System

32. With effect from 1 January 1999, UNDP replaced its non-year-2000-compliant accounting system with IMIS. In its letter to UNDP of 30 November 1998, the Board voiced its concerns over the risks attached to the implementation of a new system and recommended that UNDP seek to minimize them by running IMIS and the existing system in parallel for a period of time. However, UNDP was unable to do so because of lack of resources. UNDP faced many difficulties in introducing IMIS, and these problems reduced its ability to effectively manage and control its operations during 1999. In particular, the Board noted that:

(a) There were difficulties in building links between IMIS and the various subsystems. As a result, UNDP could not enter financial data onto IMIS, which created a backlog of information, particularly relating to inter-office vouchers and expenditure reports from Governments. Although UNDP planned to implement IMIS on 1 January 1999, it was delayed until April 1999. UNDP was able to start entering the majority of its expenditure data onto the system only as from September 1999;

(b) Throughout 1999, UNDP was unable to perform regular or timely bank reconciliations or conduct reviews of its suspense accounts. Such reconciliations and reviews are a fundamental financial control, and their absence increases the risk of financial loss to UNDP;

(c) The information backlog and problems with designing an interrogation package prevented UNDP from producing timely or accurate reports for internal management, funding bodies and other United Nations organizations;

(d) Similarly, the problems prevented UNDP from presenting its financial statements for the biennium 1998-1999 to the Board by 30 April 2000, as required by the Financial Regulations. In fact, UNDP formally transmitted to the Board full financial statements only on 14 July 2000, although it provided advance copies in draft form on 26 June 2000. These problems substantially delayed the Board's audit of the UNDP financial statements.

33. These problems weakened the financial control systems and reporting abilities of UNDP during 1999. The Board recognizes that many of the problems related to the introduction of IMIS. Indeed, the Board noted that compared with the previous accounting system, IMIS potentially offered UNDP many advantages in terms of gathering, presenting and reporting financial information.

34. The Board considers that the Programme's difficulty in implementing IMIS provides UNDP with clear lessons on the future introduction of new information technology systems.

5. Presentation of financial statements

35. The problems in implementing IMIS referred to above led to an error in statement II.1 of the financial statements. This statement discloses a balance owed by the United Nations Population Fund of $33,872,000. This overstates the amount owed by $15 million, and correspondingly understates the value of the cash held by UNDP.

36. As disclosed in note 2 (i), UNDP has also made several changes in accounting policies during the biennium 1998-1999, which led to the restatement of some comparative figures.

6. Bank reconciliations

37. At the time the financial statements were signed, UNDP had not completed the reconciliation of its main contributions bank account. As at 20 July 2000, there were 2,763 outstanding items that UNDP still needed to adjust. Those items included disbursements totalling $5,269,711 shown in the UNDP accounting records but not in the bank statements and disbursements totalling $5,828,766 shown in the bank statements but not in the UNDP accounting records. The Board is concerned that,

some seven months after the end of the biennium these amounts had not been brought to account. Because of the uncertainty of these unadjusted amounts, the Board has limited the scope of its audit opinion. **The Board recommends that UNDP complete the reconciliation of the main contributions account and make the necessary adjustments to its financial records.**

7. Non-expendable property

38. Paragraph 49 of the United Nations accounting standards requires United Nations organizations to disclose the inventory value of non-expendable equipment, furniture and motor vehicles and the method of valuation, in a note to the financial statements. UNDP financial rule 124.01 requires the organization to maintain property records and conduct physical inventories to ensure adequate control of such property.

39. UNDP has operated a country office inventory system since 1993 and introduced a computerized headquarters inventory system in 1995. The value of non-expendable inventory at 31 December 1999, as disclosed in note 2 (g) to the financial statements, was $18.3 million for headquarters and $73.8 million for country offices. Note 2 (g) specifies that this valuation was made on a full-cost basis.

40. The Board considers that UNDP did not always base these values on accurate or complete information. For example, UNDP was unable to provide the Board with an accurate breakdown of the $73.8 million of country office non-expendable equipment by country office. It derived the $18.3 million valuation of headquarters non-expendable equipment by applying standard costs to the results of a physical inventory performed during the biennium. These standard costs were not indicative of the actual cost or value of the assets. The Board also noted that UNDP had not replaced the headquarters inventory system, despite having provided assurances to the Board to that effect as a result of the audit of the biennium 1996-1997.

41. **The Board recommends that UNDP require resident representatives to certify the accuracy of the annual country office inventory returns and monitor returns to ensure that all are received. The Board also recommends that UNDP review the headquarters inventory and ensure that it provides realistic valuations of all equipment. The Board further recommends that UNDP intensify its effort to develop a suitable inventory control system.**

8. Inactive projects

42. In its report on the UNDP financial statements for the biennium 1996-1997,[1] the Board expressed concern about the level of advances to Governments (some $11.6 million) that were outstanding for more than a year. During 1998-1999, UNDP reviewed many of these advances and wrote off $4.1 million. It has identified a further $4.7 million that requires further investigation. **The Board recommends that UNDP complete this review during 2000 and write off all necessary amounts.**

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

9. Reserve for field accommodation

43. In its reports on the UNDP financial statements for the bienniums 1994-1995[2] and 1996-1997,[1] the Board expressed concern about the management of the reserve for field accommodation. In 1996 UNDP identified a number of balances on the statement of assets and liabilities that were not sufficiently represented by physical assets or, in the case of loans and rehabilitations, were unlikely to be recovered. Accordingly, UNDP established a provision of $14.1 million for these potential losses, against which it wrote off $2.6 million in 1996-1997.

44. In 1998-1999, UNDP wrote off a further $309,000 against this provision. This related to long-outstanding amounts that former staff members owed to UNDP under the household appliance rental scheme. Under this scheme, UNDP had provided staff in the field with household equipment for which the staff member paid rent to the organization. The remaining provision at 31 December 1999 was $11.2 million.

10. Unidentified receipts

45. UNDP reported $19.6 million in unidentified receipts as at 31 December 1999. For 1994-1995 and 1996-1997, the corresponding amounts were $7.1 million and $13.4 million respectively. These receipts represented contributions and other amounts received in UNDP bank accounts, where UNDP had not yet identified the source of the funds or what they represented. The Board is concerned about the increase in these unidentified receipts and the corresponding delay in applying these amounts to the purposes intended by the donors.

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

46. During the biennium 1998-1999, UNDP informed the Board that it wrote off $4,737,564 of cash and receivables. Of that amount, $4,118,581 related to long-outstanding accounts receivable balances with Governments that UNDP had deemed were not recoverable. Another $309,485 related to the household appliance rental scheme, which the Board comments on in the present report. The remaining 10 cases, valued at approximately $309,498, concerned write-offs at individual country offices.

47. UNDP also informed the Board that it had written off country office non-expendable property totalling $3,513,174, valued at the purchase price, during the biennium 1998-1999. It also wrote off non-expendable property at headquarters totalling $526,386 in 1998, but owing to problems with the system, it did not inform the Board of the value written off at headquarters in 1999.

12. Ex gratia payments

48. UNDP reported two ex gratia payments totalling $5,640 during 1998-1999.

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[2] Ibid., *Fifty-first Session, Supplement No. 5A* (A/51/5/Add.1), chap. II.

C. Management issues

1. Change management

Background

49. The main objective of the 2001 change management process was to align UNDP internal capacities in order to deliver the four priority areas established by the Executive Board in 1994: the elimination of poverty, the creation of employment and sustainable livelihoods, the advancement of women and the regeneration of the environment. UNDP launched the change management initiative in 1997 against a background of changes in the external environment, principally the reduction in core resources provided to the organization by Governments. It produced a change management implementation plan in May 1997, and updated it in September 1997. The UNDP approach to implementing change management was further refined and updated in 1998 and 1999 as part of its annual strategic planning process. UNDP aimed to implement the change management initiative by December 1999.

50. The change of Administrator, in July 1999, led UNDP to formally close the UNDP 2001 initiative and to establish a transition team charged with assessing how change could be further developed. As part of the closing procedures, UNDP commissioned an independent assessment of the UNDP 2001 initiative, which was completed in October 1999.

51. The Board examined the change management planning process as part of its report on the biennium 1996-1997, and followed up on implementation issues at headquarters and in country offices as part of its current review.

Implementation of change management

Implementation documents

52. Both the May and September 1997 implementation documents had three broad objectives:

(a) To empower country offices in order to provide quick, responsive development services;

(b) To enhance the quality and impact of programmes and services;

(c) To create a more coherent, accountable and cost-effective organization.

In April 1998, these were further refined into six broad objectives: support to country offices; organizational learning; re-engineering and restructuring; resource mobilization; accountability; and support to United Nations reform.

53. Each plan listed activities relating to the broad objectives, but neither plan indicated the relative importance of different activities nor any hierarchy of objectives. The plans did not therefore distinguish between the key activities that UNDP had to undertake in order to successfully complete the initiative and those that were more supplementary in nature.

54. Fifty of the activities listed in the implementation documents were not supported by a measurable target, and in three cases the description of the activity itself was too vague to allow proper measurement. For example the first activity

recorded in the May document was “staff deployed to field in three phases”. There was no indication of how many staff would be redeployed when the three phases were due to take place, costs associated with moving the staff or what measurable targets would be used to monitor the activity.

55. **The Board recommends that, in projects such as UNDP 2001, UNDP prioritize activities and devise measurable indicators and milestones to allow systematic monitoring of progress.**

Costs and resources

56. The May 1997 implementation plan included costs for only those activities that UNDP could not fund from the regular biennial budget. It classified additional costs into two categories: those that could be met from a trust fund supported by a donor Government, totalling $2.5 million, and those that would require funds to be raised, totalling $6.6 million. In total, this amounted to an estimated additional cost of $9.1 million for the change management initiative.

57. In the updated September plan, UNDP provided cost estimates for seven activities that it had not costed in the earlier plan. UNDP also estimated the cost of implementing UNDP 2001 at $18.1 million, an increase of $9 million over the estimate produced in May 1997. The increase was due mainly to an extra $4 million for the career transition scheme, aimed at the voluntary separation of staff, and a further $3.3 million for the establishment of the subregional resource facilities. The updated plan identified various potential sources of funding for UNDP 2001, including the core biennial budget, the non-core trust fund and funds that had yet to be mobilized.

58. The May 1997 implementation plan did not identify the budgeted amount from the core resources that UNDP needed to implement the change programme. However, the September 1997 implementation plan costed some activities to be funded from the core biennial budget, which totalled $9.8 million. The same plan identified a further six activities as bearing a cost, but did not estimate the amounts involved. This meant that many tasks were assigned to line managers without a specific budget for implementation.

59. **The Board recommends that, at the planning stage of future projects such as UNDP 2001, UNDP cost all the proposed activities and estimate the total cost of the initiative.**

60. The Board reviewed 10 UNDP 2001 change activities and found that, in general, the responsible managers held information on the costs of their change management tasks but that they passed this information to central programme managers on an ad hoc and inconsistent basis. The central programme managers for UNDP 2001 did not undertake a systematic analysis to evaluate the resources used in the initiative as a whole.

61. **The Board recommends that, in future projects such as UNDP 2001, project managers collect and report all available costs and that central programme managers include such information in regular status reports.**

62. Between 1995 and 1999, one Government provided UNDP with a total of $8.6 million to improve internal administrative procedures and managerial methods. UNDP initially earmarked $1.8 million of this money to fund activities under UNDP

2001 (see annex II). By November 1999, the trust fund had contributed $2.5 million to UNDP 2001.

63. To help obtain further funds, UNDP set up another trust fund in October 1998 specifically for UNDP 2001 activities. As at December 1999, the fund's target had increased from $6.6 million in May 1997 to $10.1 million. This was intended to cover the five change management activities listed below:

(a) Enhancing country office competencies. The budget for this activity was $4 million, but this did not relate to any particular figure in either implementation document. By December 1999 the fund had raised $660,000 for this activity and was still seeking further funds;

(b) Enhancing UNDP capacity to respond to crisis countries. The budget for this activity was $1.8 million. This compared to an initial estimate of $600,000 in the September 1997 implementation plan. The activity was not costed in the May 1997 plan. As at December 1999 the fund had mobilized $330,000 in support of this project;

(c) Efficiency in administration and finance. The budget for this was $1 million, but this did not relate to any particular figure in either the May or September implementation plan. At December 1999, UNDP had not raised any funds for this activity;

(d) Country office information management. The budget for this activity was $1.9 million against which the fund had raised $1.5 million. The budget did not relate to any particular figure in either the May or September plan;

(e) Executive development. The budget for this activity was $1.4 million. This related to a proposed budget in the implementation plans of $4 million. As at December 1999, the fund had not mobilized any money for this activity.

Activities (c) and (d) above were not included in either implementation plan, and the other three did not have original cost estimates. By December 1999 the fund had obtained approximately $2.5 million, leaving $7.6 million still to be found. No funds had been raised at all for two of the five projects.

64. **The Board recommends that UNDP clarify the status of ongoing UNDP 2001 activities, given that it has formally closed UNDP 2001, and, if appropriate, establish detailed budgets needed to fulfil them.**

65. The Board was unable to determine the full cost of the UNDP 2001 initiative. While non-core expenditure of $5 million could be attributed directly to UNDP 2001 activities, UNDP did not record the value of core costs used for the initiative. With the UNDP 2001 Trust Fund still seeking $7.6 million, the total estimate of non-core resources required for the full initiative was $12.6 million. The Board considers that this amount underestimates the actual cost of the programme, as UNDP had not identified the amount of the core budget used to support and develop it.

Accountability and monitoring

66. Although the implementation plans allocated responsibility for each activity to a unit, UNDP did not nominate individual officers to be responsible for specific activities. In 28 cases the plans identified two or three units as being responsible for

the same activity. The Board considers that this led to unclear lines of accountability.

67. UNDP submitted progress reports on UNDP 2001 to the Executive Board and prepared six monthly status reports on the programme. Those reports recounted progress on 53 activities grouped under the six broad objectives used from April 1998. They contained no information on the costs of UNDP 2001 activities and included only 19 measurable targets out of the total of 53 activities. For example, one activity was directed at reversing the 60:40 ratio of time spent on administrative and programme work in country offices, while another set a deadline of five days for responding to queries raised at headquarters. UNDP did not, however, systematically measure performance against targets as part of the monitoring process. UNDP prepared the final such report in August 1999. **The Board recommends that, in a project such as UNDP 2001, UNDP identify individuals responsible for implementation and monitor targets periodically in order to identify problems as early as possible and take any necessary remedial action.**

68. The Board noted good monitoring and reporting practices in one area it examined: the establishment of the subregional resource facilities and the "global hub". The framework document clearly sets out the staffing requirements and the budget that would be needed to set up the subregional resource facility system, giving a baseline against which the organization could raise resources and monitor expenditure. Management reported on the use of resources every six months and analysed costs between various elements, such as staff costs and travel and subsistence. They also set internal targets in five areas of the project in order to monitor the development of the system. The Board welcomes these examples of good practice.

Results achieved under UNDP 2001

69. The Board reviewed a number of activities that were included in the implementation plans of May and September 1997. In particular, the Board reviewed the initiative against five key milestones detailed in the May plan. The findings are detailed below:

(a) Establish up to 17 subregional resource facilities and a global hub in the Policy Bureau. UNDP had fully established six subregional resource facilities by December 1999 and partially established another three. It had also established the global hub. UNDP believes that the optimal number of subregional resource facilities is now between 10 and 12. The budget for implementation of the facilities totalled approximately $6.5 million (90 per cent from the core budget);

(b) Put in place competency statements covering unit mandates, functions and job descriptions. As at December 1999, UNDP had completed competency definitions for resident representatives, deputy resident representatives and operational managers, but the exercise was not extended to any other country office staff or to headquarters posts. UNDP did not produce a budget for this activity or any expenditure reports;

(c) Simplify programme and finance manuals. UNDP updated the Programme Manual and formally issued it in March 1999. It presented a new set of financial regulations and rules to the Executive Board in January 2000, and these became effective as from April 2000. The new Finance Manual was issued on 15 June 2000;

(d) Develop and implement management and programme performance indicators and improve oversight by regional bureaux. As at December 1999, UNDP was still reviewing the draft country office performance indicators, but was ready to release the new balanced scorecard system after it had approved the indicators;

(e) Complete the redeployment of staff to country offices and subregional resource facilities. Although not specified in the implementation documents of May and September 1997, UNDP set a target to redeploy 25 per cent of all staff and posts from headquarters to the field. This target was not met, and the new Administrator restated it as a continuing aim in the business plans for 2000 to 2003, presented to the Executive Board in January 2000. In March 2000, UNDP drew up plans, detailing a 26 per cent reduction in headquarters staff and analysing where units would make changes.

70. **The Board recommends that UNDP set a clear timetable for the completion of tasks outstanding from UNDP 2001.**

Change management in country offices

Interaction with other United Nations organizations

71. One of the major aims of the change management process was to encourage closer work within the United Nations system at both the strategic and operational levels. UNDP 2001 introduced the concept of United Nations organizations in individual countries developing common country assessments and United Nations development assistance frameworks, as well as moving towards harmonizing their programme cycles. These initiatives are intended to coordinate activities among United Nations agencies, the Government concerned and other agencies. At a strategic level, the Board found that country offices generally made efforts to develop good relations with other United Nations organizations and within the country at large. Table 1 summarizes the progress made in 11 country offices visited by the Board.

Table 1
Progress on interaction with United Nations organizations

Common country assessments	Nine of the 11 country offices were in the process of completing common country assessments. Only two had still to begin work.
United Nations development assistance framework	Five of the 11 country offices were in the process of completing United Nations development assistance frameworks, with 6 still to begin work.
Programme cycle harmonization	One country had already achieved programme harmonization and six other countries had established dates for completion of harmonization. In the remaining countries, war conditions or the shortage of programme resources made harmonization less achievable.

72. The Board found weaknesses in preparing timetables for future actions necessary to complete common country assessments or United Nations development assistance frameworks and in providing resources to ensure that plans were viable. **The Board recommended, and the country offices agreed, that offices should improve timetable arrangements.**

73. The Board found that 8 of the 11 country offices shared premises with some of the other United Nations agencies operating in the country. An additional country office was planning to move into shared premises, and a similar proposal was under discussion in another country office. Only one country office had no physical or virtual ties with other United Nations agencies. Two of the offices that already shared premises with some United Nations agencies were also undertaking activities to create a computerized virtual office to establish closer ties with other agencies.

74. Three country offices had joined with other United Nations agencies and developed common contracts for services, such as travel and security, allowing them to take advantage of economies of scale and administrative efficiencies. One country office in particular had developed a sophisticated programme for setting up common service contracts (box 1). Four other offices had started to identify potential areas for common services.

Box 1

Development of common services

One country office established a United Nations reform project in July 1997 to move forward the process of change management. The project initially concentrated on administrative structures. An inter-agency operations group was set up and finalized common service agreements in areas including travel, hotels and events, insurance and medical services. The project prioritized actions that it could take immediately and adopted a lead agency principle, assigning the agency with the best knowledge and experience to conduct the relevant operational activities. The project identified savings against existing contracts in percentage terms, although the country office did not go on to monitor the actual financial savings achieved.

75. The Board notes that UNDP, through the United Nations Development Group, is in the process of developing guidance and standards on common services agreements. **The Board recommends that all country offices investigate the possibilities of agreeing common service contracts with other United Nations organizations as a method of offering potential cash savings and administrative efficiencies.**

Office organization and staffing matters

76. The Board noted that five of the eleven offices visited had undertaken some reorganization in response to the change management initiative. The depth of change varied between offices, from minor reorganization to a full team-based matrix approach. The most radical changes of this type introduced in a country office are described below (box 2).

Box 2

Matrix-based office restructuring

The country office moved away from a traditional UNDP programme/operational hierarchy towards team-based working. It established seven groups in key thematic areas such as administrative reform and decentralization, productive employment and support to the United Nations system. The teams were made up of both operational and programme staff, with individuals serving on several teams. Each team had an elected leader, and no one could lead more than one team. The aim of the reorganization was to maximize the sharing of skills and experience and build a unity of purpose within the office. Operational staff continued to provide back-up in key areas such as budgetary oversight and control systems for routine financial and administrative transactions.

77. All of the country offices visited by the Board felt that the change management programme had increased the level of responsibility and authority delegated to them by headquarters. They all cited the empowerment of staff as an important facet of the change management process. All offices had arrangements for regular meetings between staff and senior management, and at least four held such meetings weekly. Eight offices also used annual retreats as a way to promote staff involvement in the development of office policy. Most offices were reducing their reliance on international staff and seeking to give greater responsibility to National Officers.

78. All the offices expressed a commitment to the change management target of allowing 5 per cent of time for staff training. However, with one exception, offices generally did not monitor achievement of the target. Most offices were still at an early stage in the process of drawing up job descriptions for all posts, establishing relevant staff competencies and identifying the training needs flowing from this process. Offices generally had staff training plans in place, although these still had to be fully developed in two offices.

79. **The Board recommends that all country offices complete job descriptions and competency statements for all posts and that they use them to develop appropriate training plans for staff.**

Liaison with external parties

80. UNDP sought to use the change management approach to make itself a more client-centred and service-focused organization. It emphasized the need to look outwards and to foster strong relations with external parties, such as recipient Governments, donors, other international organizations, civil society and the media. It also emphasized the role and importance of advocacy.

81. In addition to their adoption of common country assessments and United Nations development assistance frameworks, individual country offices have sought to reach out in a variety of ways to influence the communities in which they are based. Particular examples of good practice which the Board noted include:

(a) A country office that emphasized the importance of fast and efficient delivery of services by streamlining administrative and operational procedures and delegating substantial decision-making authority to project staff;

(b) A country office which had utilized funds earned from project administration to bring leading international economics and institutional development experts to the country to lead seminars, debates and workshops involving national political and academic figures;

(c) Three country offices that had developed detailed country-specific guidance for nationally executed projects in conjunction with their counterpart government ministries.

The Board welcomes these examples of good practice.

2. Procurement

82. Procurement within UNDP is decentralized to line units and country offices, although the Inter-Agency Procurement Services Office (IAPSO) provides a specialized service for procuring some items, particularly vehicles, for UNDP and other United Nations bodies. IAPSO also provides a source of procurement expertise

and advice for UNDP. The Board examined procurement at headquarters, at IAPSO and in the country offices visited.

83. The main areas reviewed by the Board were:

(a) Compliance with UNDP rules and regulations;

(b) The timeliness and efficiency of contract-letting procedures;

(c) The role of the Advisory Committee on Procurement.

84. In July 1999, UNDP instituted a revised procurement framework based on increased limits of delegated authority and including measures intended to sharpen accountability. In January 2000, the Executive Board approved revised financial regulations and rules for UNDP that came into force in April 2000 and included changes in procurement procedures.

Headquarters procurement

85. The value of administrative procurement activities undertaken by UNDP headquarters in New York was $10.5 million in 1998 and $11.7 million in 1999. Table 2 indicates the breakdown of expenditure. In practice, although procurement is decentralized, two Headquarters units — the Administrative Services Division and the Technical Services Division — took the lead role in negotiating most major contracts.

Table 2
Headquarters procurement expenditure

	1998	*1999*
	(Millions of United States dollars)	
Services	8.1	8.3
Office supplies	0.9	0.9
Furniture and equipment	1.5	2.5
Total	**10.5**	**11.7**

Compliance with UNDP rules and regulations

86. At headquarters the Board reviewed 10 large-scale umbrella contracts for the provision of goods and services such as cleaning, archives and computer hardware. The Board also examined 20 small-scale purchase orders initiated by units throughout headquarters. The Board found that UNDP generally complied with the key requirements in its procurement regulations.

87. However, in its examination of the sample of small-scale purchase orders, the Board was unable to confirm whether all goods and services had been delivered on a timely basis. In six cases no delivery notes were on record and in two others the date of delivery was not recorded. This prevented UNDP from properly monitoring the performance of suppliers to ensure that they made deliveries within contractually agreed deadlines. The Board had noted a similar weakness in its review of procurement in the biennium 1992-1993.

88. **The Board recommends that UNDP remind line units of the need to confirm receipt of goods and services promptly.**

89. The Board also examined a contract for the provision of office supplies, with a total estimated value of some $3.6 million over a three-year period, which was processed as a common services contract between several United Nations agencies in New York, led by the Procurement Division of the United Nations Secretariat. The process posed challenges for the five United Nations bodies involved (UNDP, the United Nations Secretariat, the United Nations Office for Project Services, the United Nations Children's Fund and the United Nations Population Fund). The agencies prepared comprehensive documentation on requests for proposals and designed evaluation procedures, which took all parties' needs into account and exemplified United Nations best procurement practices. However, there was constant slippage in the letting process. UNDP originally expected the contract to become operational in May 1998, then December 1998, January 1999 and February 1999. The contract was not finally signed until November 1999, although UNDP began to purchase office supplies from the company in early July 1999.

Timeliness and efficiency of contract letting

90. The Board considered the timeliness and efficiency of the contracting process by examining the identification and evaluation of suppliers and the time taken to complete the contract-letting process.

Identification and evaluation of suppliers

91. UNDP headquarters had not established a database of possible suppliers to assist it in letting contracts for goods and services. Procurement staff consulted existing contractors and other United Nations agencies based in New York to develop tender lists, but the Board noted occasions on which UNDP had difficulties in generating sufficient supplier interest. Procurement staff failed to obtain enough qualifying bids for 2 of the 10 major umbrella contracts examined by the Board, and, as a result, the Advisory Committee on Procurement rejected the original recommendations of suppliers to be selected and ordered that second tendering exercises be carried out. The Board had noted a similar lack of a supplier roster in its 1992-1993 review.

92. **The Board recommends that UNDP establish a database of potential suppliers.**

93. The Board found that UNDP did not evaluate the performance of contractors on a systematic basis. Only 2 of the 10 umbrella contracts examined by the Board included service targets relating to minimum delivery or response times, and even in those cases performance was not reviewed regularly. UNDP did not carry out any comprehensive monitoring or recording of performance in areas such as contractors' compliance with price agreements, timeliness of delivery, accuracy and reliability of deliveries or number of complaints received.

94. **The Board recommends that UNDP develop a more formal system for monitoring supplier performance.**

95. The Board noted several instances of good practice in the monitoring of performance. For example, on one contract UNDP and the contractor met every two to three weeks to review services and resolve any problems. UNDP also required

some suppliers to provide information on their level of performance by submitting periodic reports for review, covering matters such as usage by organization and department and timeliness of delivery. The Board welcomes these examples of good practice.

Contract letting

96. The Board found that in 12 major headquarters contracts involving a total amount of over $4.7 million, UNDP took an average of 195 days between the date it issued invitations to tender or requests for proposals and the date it signed a contract. The maximum elapsed time was 341 days and the minimum was 29 days. The Board’s analysis did not include the time taken to undertake preliminary work such as identifying potential suppliers or drawing up terms of reference, as firm dates were not available for those processes.

97. **The Board recommends that UNDP benchmark its performance in the time taken to let contracts, establish timetables for each element of the procurement process and monitor performance against them.**

98. The Board found that delays occurred between the deadline for the receipt of bids and the date UNDP opened or began to evaluate them. In six cases UNDP did not open the bids until at least a month after the submission date, and in three of those cases the delay was over two months. In seven cases UNDP took more than a month to begin the bid evaluation exercise, and in four of those the delay was over two months. The average time taken by UNDP to open and evaluate the bids was 53 days. The delays were largely due to a high volume of procurement work that UNDP had to carry out to regularize the situation of 13 major service providers that did not have formal contracts.

99. There was considerable variation in the length of time between the initial evaluation of bids and the final recommendation from the Advisory Committee on Procurement, ranging from 4 to 209 days. The Committee rejected two contracts and sent them back to be re-tendered, a process that took 136 and 127 days respectively. In a third case procurement staff went back to bidders for further clarification prior to submitting a recommendation to the Committee, causing a delay of 74 days.

100. The Board found that the main factors contributing to extensive delays were:

(a) Failure to define clearly the original terms of reference in bid proposals;

(b) Failure to attract bids from a sufficiently large number of suppliers;

(c) Failure to carry out a full technical evaluation procedure.

101. Factors facilitating the smooth letting of contracts were the development of clear terms of reference, with input from specialists in the area to which the service was related, and the utilization of a pro forma pricing sheet to allow direct comparison of the costs of the major elements of contracts.

102. **The Board recommends that UNDP build on the examples of good practice and ensure that clear terms of reference are used for bids and, where possible, use standard pricing sheets to assist in the evaluation of bids.**

Role of the Advisory Committee on Procurement

103. The main role of the Advisory Committee on Procurement is to provide advice to the Chief Procurement Officer on procurement matters. In the biennium 1998-1999, the majority of its work involved providing advice on contracts valued at over $100,000 and on applications for waivers of competition for contracts with a value of over $30,000. Under the new guideline issued at the end of July 1999, these limits were revised to allow higher thresholds depending on the volume of procurement undertaken by particular divisions or country offices and to increase the limit for waiver of formal competitive bidding from $30,000 to $100,000 for all offices.

104. All country offices and headquarters units are required to submit procurement requests to the Committee if they fall outside their delegated authority limits. In the biennium 1998-1999, the Committee received 122 submissions from 53 country offices.

105. The Board noted that the distribution of submissions was uneven; for example, eight offices accounted for 38 per cent of the country office submissions. During one of its country office visits, the Board found that the office had systematically failed to submit relevant procurement requests to the Committee since approximately 1993, even though the country office administered a large project portfolio involving significant levels of procurement. In 1998 its Local Committee on Contracts dealt with 181 submissions valued at over $100,000 and from January to September 1999 dealt with an additional 67. The office was concerned that if it had submitted those procurement actions to headquarters its delivery rate would have been slowed considerably. At the time of the audit the office was negotiating with headquarters under the new procurement guidelines to establish a higher delegated authority reflecting the volume of its procurement activities.

106. **The Board recommends that UNDP ensure that country offices submit to the Advisory Committee on Procurement all procurement actions falling outside their delegated level of authority.**

Country office procurement

107. The Board reviewed a sample of procurement actions at each country office visited and at IAPSO. In total the Board reviewed 70 procurement actions: of these, 24 related to administrative items for the offices' own use and 46 related to goods or services procured for projects. The total value of procurement actions examined by the Board was some $32.7 million. Procurement actions examined at one country office accounted for $25 million of this total.

108. The Board found that the level of compliance with the Programme's own rules and standards of best practice was generally good, although the most common weakness found was the failure to seek sufficient tenders. At five offices all sample items complied fully with expected practices. The Board noted particularly good practice in one office, which used computerized price lists to speed up ordering and had developed pro forma documentation for processes such as the gathering of quotations and notification of goods received.

Procurement by the Inter-Agency Procurement Services Office

109. Regarding the procurement actions of IAPSO, the Board was concerned that there was an increase in the orders of ex-stock vehicles, which can cost 20 per cent

more than ex-factory supply. There was an increase from 11.4 to 13.8 per cent between 1997 and 1998 across the United Nations system as a whole in ex-stock orders processed by IAPSO. Although ex-stock orders processed for UNDP in the same period fell from 12 per cent to 8 per cent, this did not include ex-stock orders placed directly with dealers by country offices using information from the IAPSO catalogue. The Board is concerned that there is a risk that country offices may use the more expensive ex-stock option rather than planning their procurement requirements sufficiently in advance. The Board was pleased to note that IAPSO had since obtained approval to delete the option of ex-stock vehicles from the field motor vehicle catalogue.

110. The Board noted that, although the IAPSO vehicle catalogues were widely used across the United Nations system, there remained scope for achieving additional efficiency savings by further consolidating the points of negotiation and ordering with major manufacturers. At the time of the audit IAPSO was close to concluding arrangements to procure vehicles on behalf of the United Nations Population Fund (UNFPA) and the United Nations Children's Fund (UNICEF), and intended to seek further cooperation with the United Nations Procurement Division, which purchases vehicles on behalf of the Secretariat, including the Department of Peacekeeping Operations. The Board welcomes the efforts of UNDP to explore the scope for maximizing procurement efficiencies.

3. Green office policy

111. The Board examined green office issues both at UNDP headquarters and in country offices to assess the extent to which UNDP had established and implemented a green office policy or environmental management strategy. The Board also reviewed the types of local green initiatives under way at headquarters and country offices. The Board's approach to environmental matters draws on the international standard supporting the concept of sustainable business development (ISO 14001).

112. UNDP launched its green office initiative in June 1997. The focus of the initiative was at headquarters, where UNDP established a Greening UNDP Task Force to identify and implement practical measures to support and protect the environment through its own working practices.

Consideration of environmental and sustainable development issues

113. UNDP confirmed its commitment to environmental issues in its mission statement, and the UNDP Executive Board endorsed environmental and sustainable development issues in a series of Board decisions. It identified environment and natural resources management as an area where it should build national capacity and concentrated the Programme's mandate on four themes, one of which was environment.

114. The Board found that UNDP had not established an environmental management strategy for its internal operations, it had not circulated comprehensive guidance within the organization, and it had not submitted to its Board for approval a formal environmental policy for the organization. Some actions relating to green issues had been initiated under the green office initiative, but UNDP had not systematically set out its environmental practices and had not carried out a comprehensive range of environmental risk assessments across the organization.

Furthermore, UNDP had no systematic objectives, targets or performance indicators to measure the environmental impacts of its internal operations. It also did not have in place a programme for training staff on environmental matters and had not systematically planned to evaluate all activities that could potentially affect the environment.

115. In April 1999 UNDP began to develop an environmental management strategy through a project supported by an international development agency. The objective of the project was to design and implement an environmental management strategy to influence UNDP policies, procedures and practices overall, including the day-to-day management of the organization and its operational programmes. UNDP expects to decide on the direction of its environmental management strategy by September 2000.

116. The Board noted that the terms of reference for the project indicated that greening the in-house activities of UNDP would form only a small part of the work. Most of the project was focused on ensuring that environmental concerns were properly considered in UNDP programme and project activities. In the implementation phase, the objective of "greening" UNDP and the United Nations system was only fourteenth on a list of 20 objectives. The Board is concerned that this project does not give sufficient priority to the internal operations of UNDP.

117. While the Board welcomes the Programme's efforts to develop an environmental management strategy, **it recommends that it give a higher profile to internal environmental issues. The Board also recommended that as it develops an environmental management strategy, UNDP incorporate key elements of good practice described in ISO 14001, in particular:**

(a) Approval of the environmental management strategy at the Executive Board level;

(b) Completion of environmental risk assessments;

(c) Documentation of environmental practices;

(d) Development of environmental objectives and targets, supported by measurable performance indicators to assess progress;

(e) Regular progress reports to the Executive Board;

(f) Identification of environmental training needs for staff and provision of resources to meet such needs;

(g) Internal audit or evaluation procedures covering all activities that can potentially affect the environment.

The Board is pleased to note that UNDP intends to consider the Board's recommendations as part of its environmental management strategy development process.

Green office initiatives at headquarters and country offices

118. Neither IAPSO nor any of the country offices visited by the Board had a formal written policy in place at the time of the audit visits, and only one office had carried out extensive work in this area and had established a focal point to take matters forward. **The Board recommended that each office develop formal green**

policies and establish a focal point to take matters forward. The Board is pleased to note that 11 offices responded positively to the recommendation by beginning to develop green office policies and establish focal points. The remaining office was also supportive of the recommendation and undertook to take forward initiatives as resources allowed.

119. The Board examined three of the major areas addressed by the green office initiative: green procurement; energy efficiency and building management; and recycling.

Green procurement

120. UNDP took its first steps towards developing a green procurement policy in September 1995, when IAPSO issued a booklet setting out guidelines on environmental factors to consider when procuring common types of office equipment. The booklet envisaged that country offices and headquarters units would conduct detailed reviews of internal purchasing practices and that UNDP would develop a strategy to implement recommendations arising from the reviews.

121. The Board found that IAPSO had not used the booklet itself and that only 4 of the 11 country offices visited by the Board referred to the booklet when asked about their green procurement policies. Only one country office was actively using the booklet. Offices had neither developed written guidance nor used any checklist to ensure that they addressed environmental issues on a systematic basis.

122. UNDP has made efforts to develop a green procurement policy for dissemination across the organization. In mid-1998, one Government offered to fund a green procurement conference to be held in September 1999. UNDP actively pursued this option initially, but in February 1999 decided that the Conference would not be tenable until UNDP had formulated its own green procurement policy. UNDP employed a consultant, who had initially been recruited to organize the conference, to develop a policy. In July 1999, the consultant produced an outline paper setting out options for green procurement and highlighting areas where further work remained to be done. The Board noted that since July 1999 UNDP had not acted on the consultant’s recommendations to take forward the development of a green procurement policy. The Greening UNDP Task Force intended to review the recommendations in April 2000, and UNDP planned to undertake a feasibility study, to be completed by September 2000, to determine the level of detail required for guidelines on green procurement procedures and practices.

123. The Board considers that UNDP should develop a high-level green procurement policy. **The Board recommends that UNDP undertake a cost-benefit analysis to assess the savings likely to accrue from the development of a green procurement policy.**

124. In mid-1999 UNDP appointed two staff members with environmental and green procurement backgrounds to the Advisory Committee on Procurement. However, the Board noted that by the time procurement actions reached the Committee, the requisitioners had already completed the tendering and selection processes. At the country office level, UNDP intends to develop tools and information, including guidelines, templates and/or modules, to assist staff in incorporating green issues into the tendering and selection processes by December 2000.

125. **The Board recommends that UNDP develop appropriate tools and information to assist staff in their consideration of green issues at an early stage of the procurement process.**

Energy efficiency and building policies

126. The Greening UNDP Task Force focused on energy efficiency and building policies as offering good potential for financial savings and positive environmental impacts. It arranged for two energy audits of headquarters premises, which indicated that large savings could be made. The first, in October 1996, focusing on the offices at 304 East 45th Street (the FF Building), identified potential savings of some $72,000 annually in energy costs if inefficient lighting and cooling systems were replaced. The review estimated the cost of this investment to be some $194,000, giving a payback period of 2.7 years.

127. In May 1998 a second team carried out a more detailed survey of energy use and the general environmental impacts on the FF Building and the offices at 1 United Nations Plaza (DC-1 Building). Both buildings scored poorly in terms of building fabric and services and were assessed as falling into the lowest category. The FF building was also in the lowest category for building operation and management, while the DC-1 Building was in the second-lowest category. The report suggested 14 actions that UNDP could take to improve performance in the building operation and management category, and 11 actions in the building fabric and services category. At the time of the audit UNDP had not yet fully implemented those proposals. While it has been active in investigating the scope of retrofitting work to be done, it has taken little action to implement the recommendations concerning management practices and the best use of existing infrastructure.

128. **The Board recommends that UNDP follow up on the recommendations made in the 1998 report on energy use and environmental impacts with respect to the FF and DC-1 Buildings.**

129. During 1998 UNDP conducted negotiations on financing the retrofitting of the FF Building. In December 1999 UNDP entered into an agreement to prepare detailed terms of reference for retrofitting the FF Building and issued a request for proposals in March 2000 seeking bids for the work. UNDP expects that retrofitting will begin by the end of 2000. The Board welcomes the Programme’s initiative to retrofit the FF Building, which offers scope for both energy and financial savings.

130. The Board found that country offices had adopted few initiatives to implement energy efficiency or building management policies. Only one office had undertaken detailed research in this area and had tried to formalize a policy and set energy reduction targets. All other offices indicated that they encouraged staff to turn off lights and other equipment when not in use, but none had a written policy in this area or any targets. None of the country offices had negotiated an agreement with building management to optimize use of energy. The Board notes that UNDP is planning to issue guidelines on energy conservation to country offices by the end of 2000 to ensure a consistent approach.

131. **The Board recommends that country offices address energy efficiency when preparing their individual green office policies.**

Recycling

132. UNDP had initiated recycling efforts at headquarters and in most country offices. The Greening UNDP Task Force introduced initiatives at headquarters, in particular for old computers and used paper. The computer-recycling scheme was especially successful. The UNDP Environmental Coordinator entered into an agreement with a company that refurbished old computers and donated them to worthy recipients. UNDP disposed of some 700 computers in this way and other United Nations organizations in New York also became involved in the scheme, recycling 1,800 additional computers.

133. UNDP introduced paper recycling on a trial basis in 1997 and extended it throughout its New York headquarters in November 1998. UNDP provided members of the staff with desktop receptacles to collect any recyclable materials, identified green focal points for each floor and organized clean-up days in different areas to promote the scheme. In November 1997 alone, headquarters divisions collected 750 sacks of paper.

134. UNDP did not monitor the amount of paper it recycled, as it did not have the resources available to set up a measuring system. However, a broad measure would be for UNDP to monitor the amount of new paper procured by divisions. It could derive such reports from its management information system, but it has yet to do so on a systematic basis. However, at the end of 1998, UNDP undertook a count of paper usage, based on manual records and information from the supplier. It identified annual usage of 218 tons (43.5 million sheets), but did not break the figures down by division.

135. **The Board recommends that UNDP improve its monitoring of paper use across divisions and that it set a target for a reduction in paper use. The Board also recommends that UNDP set standards for printer and copier use, for example, ensuring that all machines default to double-sided printing.** The Board was pleased to note that the Greening UNDP Task Force intended to address these issues by June 2000 and implement an action plan to accomplish them by September 2000.

136. Most country offices had paper minimization or recycling initiatives of some kind in place. The position observed by the Board during its visits to the 11 country offices and to IAPSO is summarized below:

(a) Minimization of paper use:

(i) Use of email. All offices commented on the benefits of email;

(ii) Collecting used paper and reusing second side. Two offices had well-developed measures in place; six offices had less-well-developed measures in place; and four offices had very little or nothing in place;

(iii) Electronic filing. Three offices had electronic filing arrangements in place for at least some of their documents, and one of these was planning to expand its system; two offices were considering the scope for use of electronic filing; and seven offices had very little or nothing in place;

(iv) Double-sided photocopying or printing. One office had a well-developed system; five offices had less-well-developed systems; and six offices had very little or nothing in place.

(b) Paper recycling. Six offices had fairly well-developed measures in place to collect and recycle used paper; two offices had less-well-developed measures; and four offices had very little or nothing in place.

(c) Other forms of recycling. Two offices were recycling glass, cans and plastic; one office used china instead of paper cups for drinking; two offices were recycling toner cartridges; and one office was recycling organic waste as fertilizer.

137. The Board encourages all UNDP country offices to continue their efforts to minimize paper use and to maximize recycling through such actions as those set out above.

4. Project management in country offices

Background

138. The Board examined a small sample of projects in each of the 11 country offices visited to determine whether practices were in line with UNDP project management guidance. The Board examined 24 projects with a total value of some $308 million according to the original project documents. A single large project in one country office accounted for some $227 million of this total. The Board also examined two regional projects, with management input from headquarters, that was valued in the original project documents at some $35 million. The Board considered whether offices implemented projects on time and on budget, established appropriate management structures and lines of communication for projects and monitored and evaluated projects on a timely basis.

Implementation on time and on budget

139. Country offices specify the estimated length of a project and when it is due to begin in the project document. The Board noted that many of the projects reviewed had not been carried out within the time frame originally set out in the project document. In ten projects (39 per cent) there were delays in starting the project, which generally ranged between one and nine months, but in one project the delay was four years (box 3). The Board also noted that two projects, which, although formally begun on or near the intended start dates, faced considerable delays in achieving any of the substantive objectives set out in the project documents. In addition, there were several instances in which delays had occurred in agreeing upon and signing the project document. In six projects (23 per cent of sample) the Board found delays of more than six months before all parties had signed the project document. This generally reflected problems in securing funding or agreeing on operational modalities.

Box 3
Delays in project to develop agrotourism

This project aimed to support the development of a national agrotourism industry by establishing a pilot home-stay site. Although UNDP signed the project document in April 1994, the executing agency did no work on the project until 1998. UNDP made several budget revisions to re-phase planned expenditure throughout the four-year period. The delays arose partly because the executing agency had problems in appointing consultants for the project at acceptable rates, but mainly because the project lost much relevance as the Government launched the home-stay concept as a government-backed initiative during the same period. As a result, UNDP twice agreed to change the scope of the project and considered terminating it on two further occasions.

Many of the delays in the delivery of the project were attributable to the executing agency and to changing government policy. However, the country office also failed to track progress regularly.

140. **The Board recommends that country offices ensure that executing agencies provide quarterly reports on the progress of projects and that UNDP take prompt corrective action when projects fall behind schedule.**

141. UNDP anticipated that 16 projects (62 per cent of sample) would take longer to complete than the time estimated in the project document. In some instances UNDP extended the project to compensate for later than expected starts or delays in project implementation; in other instances the extension reflected an expansion in the objectives and scope of the project. The Board recognizes that UNDP might sometimes need to extend the duration of a project in order to deal with local circumstances or difficulties in implementation. The Board is concerned, however, that offices did not always have a realistic timetable for projects.

142. The Board notes that the new Programming Manual provides for all newly approved project budgets to be reviewed within two months of their initial approval date. In addition, the UNDP financial information management system provides a shadow budgeting tool that enables country offices to gauge the impact of delays in project approval and implementation and shift resources accordingly.

143. **The Board recommends that UNDP use the financial information management shadow budgeting facility to implement a more realistic planning system and to control the timing of project delivery.**

144. The Board found that budget documents existed for all projects examined, broken down into a series of sub-heads such as contracts, training, equipment and contingencies. However, country offices did not generally analyse these budgets by the projects’ objectives. As a result, it was not possible to consider the expected costs of delivering a particular objective or output. The Board considers that costing objectives would be a useful method of improving project accountability and would help in comparing outputs with inputs, making progress easier to quantify. The Board notes that the new Programming Manual, issued in March 1999, advocates this approach.

145. **The Board recommends that UNDP ensure that all project documents and revisions contain information on the overall project budget, broken down by sub-heading and phased in over the life of the project, and the overall project budget broken down by objective or sub-objective.**

146. In two projects UNDP had set a budget based on a funding level for which it had not fully identified a source at the start of the project. In one case UNDP proposed a budget of $31.12 million, but had committed resources of only $9.89 million available. In the other case, UNDP proposed expenditure of $3.09 million at the planning stage, but had a committed budget of only $266,400. The Board considers that it is imprudent to plan projects on the basis of anticipated rather than committed funding.

147. **The Board recommends that UNDP prepare project plans only on the basis of committed funding.**

148. In its examination of two projects funded by a major donor, the Board was concerned by the accounting problems caused by differences between the normal practices of the donor and UNDP in respect of the timing of payments and expenditures. Standard UNDP practice is to not incur expenditure before receiving funding, while the donor's normal practice is to pay a portion of the funding that is in arrears once the project has been delivered. These approaches are mutually incompatible, but in accepting such funding, UNDP in effect accepted the donor's financial mechanisms. The Board notes that UNDP is developing guidelines on accounting for such funding and minimizing the risks to UNDP of non-payment.

149. **The Board recommends that UNDP complete and issue the guidelines on projects funded by this donor to country offices as a matter of priority.**

Management structures and lines of communication

150. The sample of 26 projects examined by the Board included 17 managed under national execution arrangements, six managed by the United Nations Office for Project Services, two managed under direct execution and one managed by a non-governmental organization. The management arrangements varied according to local circumstances, particularly in the definition of local responsibilities and accountabilities under national execution. At one end of the spectrum a few countries had arrangements generally in line with UNDP central guidance; that is, government departments or agencies did all the daily project management and the country office focused on policy work and overall review. At the other end of the scale, some governments were able to offer only very limited support to national execution, and the country office had to employ staff directly funded by project funds to carry out most project activities.

151. The Board noted examples of good practice in some areas of project management. In particular, UNDP was able to act effectively as an intermediary between a number of interested parties. In one project, supporting demobilization and national reconciliation, UNDP developed a committee framework through which it held extensive negotiations and consultations at every stage of the project with all relevant parties, including the Government and a range of implementing agencies, donors and interested parties. The Board welcomes such examples of good practice.

Monitoring and evaluation

152. UNDP project management guidelines stipulate that projects should be monitored by country office staff through annual field visits and that an annual tripartite policy-level review of progress should be undertaken by all parties involved, namely, UNDP, the Government, and the institution implementing the project. UNDP guidelines also require all projects to include quantified performance indicators to facilitate the measurement of progress. The Board found that country offices varied in the depth and timeliness of their monitoring and evaluation of projects and that many projects did not have quantified performance indicators or targets that would allow country offices to conduct effective monitoring. For example, there were five instances in which the country office did not carry out tripartite reviews or other evaluation exercises on time or at all and four instances where the project either had no quantified performance indicators or they were limited.

153. **The Board recommends that UNDP ensure that all projects contain quantified and measurable performance indicators or targets and that it measure the progress of a project against those criteria. The Board also recommends that country offices carry out regular monitoring and evaluation in line with the Programme's own guidelines.**

154. The Board also noted instances of good practice on monitoring and evaluation. UNDP monitored a $3.75 million project funded by the Global Environment Facility (GEF) in a highly effective manner. The country office received detailed bimonthly reports from the project manager reporting on activities carried out under each objective. A management committee with representatives from UNDP, the executing agency and project staff met every five or six months to review progress and resolve problems. In line with GEF requirements, the project staff completed an annual project implementation review and attempted to quantify the level of completion of each project objective. The Board welcomes such a committed approach to project monitoring and evaluation.

5. Review of the Office of Audit and Performance Review

Introduction

155. The Office of Audit and Performance Review provides an internal audit function for UNDP. Under the terms of memoranda of understanding with UNFPA and the United Nations Office for Project Services, the Office also provides those organizations with internal audit services. The functions of the Office are to report to the Administrator and the Executive heads of UNFPA and the United Nations Office for Project Services, as appropriate, on:

(a) The regularity of the receipt, custody, expenditure, accounting and reporting of all financial resources;

(b) The effectiveness of internal controls and accounting systems;

(c) The conformity of expenditures with the purposes for which funds were authorized;

(d) The compliance of all financial activities and transactions with established regulations, rules, policies, procedures and administrative instructions;

(e) The effective, efficient and economic use of resources and funds.

Scope of review

156. The Board examined the operations of the Office across UNDP, UNFPA and the United Nations Office for Project Services in its review of the resources, organization and training of the Office. The Board focused solely on UNDP when examining the audit work undertaken by the Office.

Resources

157. During 1998-1999 the total cost of the Office was some $6 million, excluding the cost of international staff. This amount included $2.3 million paid to contractors for audit work in three regions, $1.1 million in travel costs, $1.2 million for consultants and short-term assistance, $0.3 million for computer equipment and $0.2 million for the cost of National Officers. The Board estimated that the payroll cost for international staff amounted to some $6.5 million during the biennium 1998-1999, bringing total biennial costs to some $12.5 million.

Organization and staffing

158. For 1998-1999, the strategy of the Office was to conduct compliance audits of UNDP country offices every two years and management audits of UNDP units and functions every seven to eight years. To complete this programme of work, the Office split the work between its own staff and private sector audit firms.

159. As at November 1999, the Office had contracted with four private sector firms to conduct internal audits of country offices in the Africa, Asia and the Pacific, Arab States and the Latin America and the Caribbean regions.

160. As at 31 December 1999, the Office had 45 staff posts, 31 of which were based in New York and 14 of which were in regional audit service centres in Malaysia, Panama and Zimbabwe. The centres were also responsible for the operational management of the contracts with the audit firms.

161. The Office operated with less than its full complement of staff for most of the biennium 1998-1999. As at December 1998, it had 13 posts vacant. It appointed staff during 1999, but still had six vacancies as at December 1999, mostly at the Professional level. The Office informed the Board that it had taken action to recruit staff for the vacant posts in 2000.

162. As at 31 December 1999, 41 per cent of the audit staff and section chiefs had or were working towards a relevant professional qualification. Eight staff held public accountant qualifications, one was a certified information systems auditor and another two were studying for certified internal auditor certification. Two of these staff members were also certified fraud examiners. While the Board recognizes that accounting or audit qualifications would not be required for all staff of the Office, **the Board recommends that the Office assess the qualifications needed for each audit post and draw up a strategy to ensure that those needs are met.**

Continued professional training

163. The Board reviewed the level of training received by staff of the Office in 1998. Although staff attended 57 training courses in total, 18 staff members did not

attend any audit-related training courses and 15 had had no training at all during the year. For 1999, staff attended only 67 out of 103 training courses planned for the year.

164. The Board also noted that the Office had a budget of $37,500 for external training in 1998 but spent only $15,110. The 1999 budget included $48,000 for external training, of which the Office spent only $22,247. Accordingly, the Office's expenditure on training during 1998-1999 represented less than 0.3 per cent of its total costs.

165. The Board is concerned at the low level of expenditure on training and at the shortfall in the level of training completed by office staff. If the staff do not complete a sufficient level of training, there is a risk that they will not keep their professional skills up-to-date and will not be able to adequately address the needs of the organization. The Board noted, however, that the Office had developed a learning, training and development framework from which it had developed staff training plans.

166. **The Board recommends that the Office of Audit and Performance Review ensure that each member of the staff receives sufficient training to ensure that the organization retains its technical competency.**

Audit coverage

167. The number and type of audit reports produced by the Office during the biennium 1998-1999 are provided in table 4.

Table 4
Number and type of reports produced by the Office of Audit and Performance Review during the biennium 1998-1999

Report type	*1998*	*1999*	*In progress at 31 December 1999*	*Total*
Internal audit	94	76	7	177
Control self-assessments	12	33	0	45
National execution missions	6	10	8	24
United Nations Population Fund	47	28	14	89
United Nations Office for Project Services	28	31	9	68
Special audits	14	23	33	70
Total	**201**	**201**	**71**	**473**

168. The majority of the reports focused on the performance of country offices and nationally executed expenditure. Of the 271 audits on UNDP that the Office had either completed or were still in progress, only 11 related to UNDP headquarters, and two of those were special audits. The Office did not perform any audits during 1999 evaluating and reporting on the reliability of the accounting and other data developed by UNDP for the production of financial statements.

169. Included in the internal audit reports were a total of 2,415 recommendations to UNDP in 1999, compared with 2,122 in 1998 and 1,255 in 1997. The proportion of

recommendations agreed upon by the organization also increased, from 75 per cent in 1997 to 90 per cent for the biennium 1998-1999.

170. In 1999 UNDP introduced its new integrated management information system. It experienced considerable problems in implementing the system and consequently had difficulties in exercising the normal level of management control during the period. The Office provided a staff resource for five months to help implement the system but did not conduct a review of the system or of the significant number of changes made in accounting procedure during this period. The Board considers that the Office should have conducted further work on this area during the biennium 1998-1999.

171. **The Board recommends that the Office conduct a detailed analysis of the risks to management information and financial controls associated with IMIS implementation and perform appropriate reviews of the system and its interfaces.**

172. For the biennium 1998-1999, the Office planned to visit each country office once every two years. During the biennium, it completed audits of all 87 country offices in the African, Arab States and Asia and the Pacific regions. In the Latin America and the Caribbean region, where the Office had established a regional audit service centre in 1999, it audited 13 of the 24 country offices during the biennium.

173. However, the Office audited only three of the 29 country offices in the Europe and Commonwealth of Independent States region during the biennium. It had originally planned to open a fourth regional audit service centre and introduce contracted audits to the region in 2000, but as a result of the UNDP revised budget strategy it postponed the opening of the centre. Instead, the Internal Audit Section will hire auditors on three-year contracts to conduct a management audit of each country office once every four years, on average.

174. **The Board recommends that the Office ensure greater coverage of the Europe and Commonwealth of Independent States region during the biennium 2000-2001, especially given the growth in number of these country offices in recent years.**

175. The Board has also recommended, in its review of the UNDP green office policy, that internal audit or evaluation procedures cover all activities that can potentially affect the environment.

Control self-assessment

176. In 1996, the Executive Board of UNDP adopted a new accountability framework and assigned the Office of Audit and Performance Review the responsibility for its implementation and oversight. The Office began the process of implementing and monitoring the framework by using control self-assessment, whereby teams of co-workers attend a joint workshop to analyse their ability to achieve key objectives. At the conclusion of the workshop, the facilitators produce a report and the team prepares an action plan. UNDP introduced control self-assessment in October 1998, and between then and December 1999 held 46 workshops.

177. Control self-assessment is a diagnostic tool designed to identify problems and risks. It is, however, the responsibility of management to take the information

gathered in the workshop and use it to make improvements. For this process to be effective, management should follow up regularly and thoroughly. At present this is the sole responsibility of local management, and there is no facility for the Office to conduct formal, independent reviews of any follow-up action. **The Board recommends that the Office conduct formal, independent reviews to determine how effectively management is implementing the control self-assessment action plans.**

178. While the control self-assessment process is not designed primarily as a compliance audit, it nevertheless identifies areas in which the organization faces risks. As such, it is a useful tool, which should provide the Office with information to inform its own risk assessments and to identify areas of concern that have a wider application across the organization. **The Board recommends that the Office follow up on the control self-assessment workshop reports and, where applicable, use this information to inform its risk assessments and audit planning.**

Audit planning

Long-term planning

179. Each Office of Audit and Performance Review audit section developed a long-term audit plan detailing the auditable entities for which they had audit responsibility. However, those plans analysed neither the systems and sub-systems in operation within the auditable entities nor the risks or relative importance of each of them. For example, the Internal Audit Section was responsible for headquarters units, including the regional bureaux and the Bureau for Financial and Administrative Services. However, its audit plan of 23 November 1999 did not include details of the management or financial systems or an assessment of each of the bureaux.

180. The Board also noted that by focusing on each section's own responsibilities, the Office did not identify common systems used across the organization, that might benefit from a single review.

181. **The Board recommends that the Office revise its long-term plan to take account of risk to individual systems.**

Annual audit plans

182. The Office produced an annual audit plan, which it circulated widely throughout the organization. The plan provided details of the staffing and budget of the Office, as well as the detailed work plans for individual sections, giving indications of the resources committed to each audit assignment.

Individual audit plans

183. The Board reviewed the planning for individual audits and noted that the Office had not prepared detailed audit programmes for each functional and systems management audit, although it had developed a set of standard programmes for use when auditing country offices. This included a standard pro forma audit report and standard ratings for the audit opinion.

184. **The Board recommends that the Office prepare audit programmes for all the functional and systems management audits it intends to perform, which**

management should review prior to the commencement of the audits to ensure that the proposed coverage is complete and meets the defined audit objectives.

185. The Office plans and monitors projects and audits on the basis of the number of workdays allocated to a task. However, it has yet to develop systems to allow it to determine and report the full cost of any of its outputs.

186. Given the increasing focus by UNDP on outputs and demonstrating the cost-effectiveness of its deliveries, **the Board recommends that the Office develop a system to properly identify the full cost of each output.**

Audit guidance

Permanent files

187. The Office does not maintain standing data on the organization's systems of control. It considers that, in the constantly changing environment within which UNDP currently operates, there is a risk that such standing information would become obsolete within a short time.

188. Nevertheless, the Board considers that it is important for the Office to maintain up-to-date information on the key systems and main internal controls that UNDP operates. Such information not only provides readily accessible background information, but it should be used by the Office to inform and guide audit planning.

189. **Accordingly, the Board recommends that, as a first step in each audit, and to help inform audit planning, the Office document key systems and controls and keep the information on file permanently to facilitate subsequent audits.**

Audit procedures

190. The Director of the Office issued a series of mandatory ad hoc guidelines on audit procedures. Eight of the ten extant guidelines refer to administration, staffing issues and the production, format and issuance of audit reports. Only two guidelines related directly to audit issues (guidelines 2 and 6, on audit working papers and standards of evidence respectively). The Office also prepared a standard audit programme for country office management audits, known as the country office management audit guideline. The Office had not issued specific guidelines on several key aspects of the audit process, such as audit planning and risk analysis. Furthermore, it did not have an overarching audit manual setting out internal audit standards as recommended by the Institute of Internal Auditors.

191. **The Board recommends that the Office develop an internal audit manual that provides a framework for its future operations. It should support the internal audit manual with a series of comprehensive audit guidance notes to provide detailed advice for the effective performance of the audits.**

Audit quality

192. The Director of the Office arranged for independent consultants to conduct a full review of the quality of its activities during 1998. The consultants reviewed and assessed:

(a) The adequacy of professional standards, practices and operational guidelines;

(b) The extent to which the operational units complied with the operational and professional policies, standards and guidelines of the Office and of UNDP;

(c) A sample of working paper files for each operational unit in order to validate compliance with the professional and operational standards and guidelines of the Office.

193. The consultants noted weaknesses in the review procedures used by two regional audit service centres and a headquarters audit section. Although the Office informed the consultants that all audits had been reviewed, this was sometimes done informally and was not always documented on the working papers. The review noted that the Office included procedures for full and complete reviews in the contracts for the audits conducted by contractors.

194. The Board considers that it is important for the Office to have a comprehensive system of quality review in place to ensure that it meets professional standards. The Board is concerned that management did not always review, or provide evidence of a review, on audit working papers prepared by their own staff. **The Board recommends that the Office introduce a standard approach for conducting management reviews of working papers and providing evidence thereof.**

Contracted-out audits

195. The Office contracted out its audits of country offices in the Africa, Asia and the Pacific, Arab States and Latin America and the Caribbean regions to four private audit firms. It required the audit contractors to conduct thorough reviews of their own working papers and to coordinate and control the quality of their services.

196. The Board reviewed contractors' working papers for the audits of UNDP offices in Bolivia, Ecuador, Jamaica, Panama, and Venezuela.

197. The Board noted that all the working papers contained some evidence that the contractors had performed some management review, but the individual working papers did not contain any formal review papers or questions on the audit process.

198. In its detailed review of the working papers for the audits of the Jamaica and Ecuador country offices, the Board noted instances of poor quality audit work from the contractors. In the audit of the Jamaica office, this included contradictory audit results and a lack of working papers to support the audit findings. In the audit of the Ecuador office, the Board also noted the lack of a trail between the audit programme and the working papers.

199. The Board was pleased to note the swift and positive action taken by the Office following these findings, including meeting with the firm's review partners, deferring payments and performing a review of working papers. The Board also noted that the Office had reduced its reliance on contracted audits in the Africa region because of the poor quality of the contractor's performance. **Accordingly, the Board recommends that the Office review on a test basis the working papers of all its contractors to ensure that they obtain sufficient, relevant and reliable audit evidence to support their conclusions.**

Follow-up of audit recommendations

200. The Office requires auditees to provide six-monthly updates on the status of any outstanding recommendations. Each audit section reviews the responses and

maintains details of them on a central database. The Office has amended this database to allow country offices direct access to update the status of their audit recommendations. The Board considers that the system will provide the Office with valuable management information on the action taken as a result of the audit work performed.

Audit committees

201. In 1997 UNDP set up a Management Review and Oversight Committee to act as its audit committee. The Committee comprised four senior UNDP officials and the United Nations Under-Secretary-General for Internal Oversight Services. The purpose of the Committee was to facilitate the process that provides the Administrator, and through him the Executive Board, with assurance that the accountability framework of UNDP is operating effectively. Its main functions were to review and comment on the plans for the internal audit of UNDP activities and the summary results of audits and reviews and to monitor the implementation of corrective action resulting from audits and reviews.

202. The Committee did not meet in 1999, partly because of the ongoing structural reorganizations within UNDP. The position was further complicated by the fact that UNDP did not appoint replacements for the three members who resigned or retired during 1999.

203. The Board considers it important for UNDP to establish a process of scrutiny and review, which will provide the Administrator with assurance that there is an effective accountability framework in place. **The Board recommends that UNDP re-establish the Committee by appointing individuals to the vacant seats.**

6. Cases of fraud and presumptive fraud

204. During the biennium 1998-1999, UNDP identified 22 cases of fraud or presumptive fraud. UNDP was unable to quantify monetary loss for two of the cases of alleged fraud, but identified a total loss of $408,000 in the other 20 cases. As at 31 December 1999, it had recovered only $3,000. Two of the twenty cases, which cost a total of $280,000, related to payments that UNDP made on the basis of falsified documents. Eight of the remaining cases, with a total loss of $8,700 related to falsified staff medical claims.

D. Acknowledgement

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

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General of the United Kingdom of Great Britain and Northern Ireland

(*Signed*) Osei Tutu **Prempeh***
Auditor-General of Ghana

(*Signed*) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

28 July 2000

* The term of office of the Auditor-General of Ghana expired on 30 June 2000 prior to the signing of the present report. The Auditor-General, however, has expressed agreement with the contents of the report. In addition, the relevant audit programme had been approved by the Board and all special instructions given by the Board were carried out.

Annex I

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1997[a]

Recommendation in paragraph 20

1. UNDP should retain for at least two bienniums all audit reports received on national execution expenditure to enable the Board of Auditors to complete its audit of those reports that had not been received in the previous biennium.

Measures taken by the Administration

2. The Office for Audit and Performance Review has implemented this recommendation.

Comments of the Board

3. The Board welcomes this development.

Recommendation in paragraph 36

4. UNDP should establish clear separation of duties between requisitioning, receipt of goods and maintenance of inventory records.

Measures taken by the Administration

5. The revised policy on expenditure control with clear separation of duties was included in the comprehensive revision of the UNDP Financial Regulations and Rules, which took effect as from 1 April 2000.

Comments of the Board

6. The Board welcomes the introduction of a revised policy on expenditure control and will monitor how the policy is applied.

Recommendation in paragraph 38

7. The UNDP financial regulations should be amended to require exchange losses arising other than from voluntary contributions to be charged as expenditure, as suggested by the United Nations accounting standards, paragraph 29, and in line with practice adopted by United Nations Headquarters.

Measures taken by the Administration

8. The relevant financial rule has been amended in document DP/2000/4.

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

Comments of the Board

9. The Board welcomes this development.

Recommendation in paragraph 45

10. UNDP should monitor returns on investments against prevailing market rates.

Measures taken by the Administration

11. The benchmark was approved by the Investment Committee in October 1998. The Bureau of Management and the Treasury Division are responsible for this recommendation.

Comments of the Board

12. The Board welcomes the development of a benchmark for monitoring investment returns.

Recommendation in paragraph 52

13. UNDP should define a "reasonable period of foreseen cash requirements" for its advances to agencies and regularly review the balance held.

Measures taken by the Administration

14. UNDP met with the Board of Auditors on 4 March 1999 to clarify its position and to confirm the Programme's interpretation of "reasonable period of foreseen cash requirements".

Comments of the Board

15. The Board is pleased to note the action taken.

Recommendation in paragraph 53

16. UNDP should examine the scope for reducing the extent to which agencies are funded in advance and, where possible, move to a system of reimbursing actual expenditure, thereby reducing cash flow risks and improving financial control.

Measures taken by the Administration

17. A meeting was held with the Board of Auditors on 4 March 1999 to clarify the position. UNDP does not consider it feasible for agencies to act as an executing agency without advance funding.

Comments of the Board

18. The Board notes the comments of the Administration and will keep the matter under review.

Recommendation in paragraph 67

19. UNDP should maintain information on occupancy levels of its headquarters buildings in order to help control and monitor costs.

Measures taken by the Administration

20. Leasing and other data for UNDP country offices and for headquarters space occupied by UNDP have started to be captured in the Aperture database. The Sub-Group on Common Premises and Services of the United Nations Development Group (UNDG) and the Bureau of Management and the Administrative Services Division are responsible for this recommendation.

Comments of the Board

21. The Board is pleased to note that UNDP has started to collect data on the space that it occupies.

Recommendation in paragraph 68

22. UNDP should develop and adopt key performance indicators to assess the effectiveness and efficiency of field offices and headquarters in managing their real estate. These indicators should include unit cost measures relating directly to the objectives specified in an estate management strategy.

Measures taken by the Administration

23. Leasing and other data for UNDP country offices and for headquarters space occupied by UNDP have started to be captured in the Aperture database. The UNDG Sub-Group on Common Premises and Services, the Bureau of Management and the Administrative Services Division are responsible for this recommendation.

Comments of the Board

24. The Board will monitor developments in its future audits.

Recommendation in paragraph 71

25. UNDP should finalize and issue the guidelines on common premises and services without delay.

Measures taken by the Administration

26. The draft guidelines were approved by the Consultative Committee on Programme and Operational Questions and distributed to all resident coordinators and UNDP resident representatives. A survey on common services has been received from 136 country offices. The data have been analysed and a draft report has been issued. On this basis, best practices will be developed. A workshop was held early in 2000.

Comments of the Board

27. The Board welcomes the development of draft guidelines and looks forward to the use of best practices throughout UNDP.

Recommendation in paragraph 81

28. UNDP should strengthen its efforts to implement its current policy with regard to seeking rent-free office accommodation.

Measures taken by the Administration

29. In the context of government contributions towards local office costs, offices continued to be requested and encouraged by headquarters to work with Governments in obtaining rent-free office space. Recent trends show that there is an increase in government-provided rent-free office space to UNDP, from $5.9 million in 1997 to $7.0 million in 1998. In addition, UNDP in the context of the United Nations Development Group is working with other United Nations organizations on the subject. The strengthening of this policy is articulated in the UNDP report on United Nations houses submitted to the United Nations Development Group executive boards in the spring of 1999.

Comments of the Board

30. The Board notes these developments, including the report on United Nations houses, and looks forward to an increasing level of rent-free office accommodation.

Recommendation in paragraph 84

31. UNDP should prepare a forward plan for maintenance and alteration work to the premises it occupies.

Measures taken by the Administration

32. A maintenance plan has been formulated for headquarters premises, which was expected to be implemented early in 2000. Analysis of country office premises is ongoing in the context of United Nations house implementation. The Bureau of Management and the Administrative Services Division are responsible for this recommendation.

Comments of the Board

33. The Board welcomes the development of a maintenance plan for headquarters premises and encourages UNDP country offices to develop similar plans for their own offices.

Recommendation in paragraph 86

34. UNDP should collect and analyse energy cost and consumption data for its premises in order to facilitate comparisons and to identify wastage and excessive costs.

Measures taken by the Administration

35. Several discussions have taken place, both within UNDP and in the context of the Sub-Group. The maintenance plan developed for headquarters focused on the need to conserve energy and reduce costs. The green office initiative, chaired jointly by the Bureau of Management and the Division for Sustainable Energy and Environment, is developing guidelines on energy conservation measures. An energy retrofit plan (for lighting and heating, ventilation and air conditioning) has been developed and is in the process of being finalized. Implementation was expected to be completed by early 2000. The Bureau of Management, the Administrative Services Division and the Division for Sustainable Energy and Environment are responsible for this recommendation.

Comments of the Board

36. The Board comments further on this issue in the present report.

Recommendation in paragraph 89

37. UNDP should establish organization-wide standards for space occupancy, with standards flexed to take account of job function within grade.

Measures taken by the Administration

38. The collection of data on space occupancy at headquarters has been completed through Aperture. Work is ongoing to review space standards at headquarters. The application of Joint Inspection Unit standards is being encouraged for any new space being occupied by UNDP offices. The Bureau of Management and the Administrative Services Division are responsible for this recommendation.

Comments of the Board

39. The Board welcomes this development and looks forward to the use of Joint Inspection Unit standards for all new office space.

Recommendation in paragraph 99

40. UNDP should standardize its procedures for investment appraisal of information technology projects to take full account of financial and non-financial benefits, as well as operational requirements.

Measures taken by the Administration

41. The Bureau of Management and the Chief Information Officer are in the process of implementing this recommendation.

Comments of the Board

42. The Board will review the standardized procedures when they are issued.

Recommendation in paragraph 100

43. UNDP should ensure that project status reports include summaries of project expenditure against lifetime and biennial budgets.

Measures taken by the Administration

44. Summaries will be prepared for biennial budget reporting and for project files upon project completion. The Bureau of Management and the Chief Information Officer are responsible for this recommendation.

Comments of the Board

45. The Board welcomes this development.

Recommendation in paragraph 103

46. UNDP should encourage country offices to begin operating the financial information management budget module at the earliest opportunity.

Measures taken by the Administration

47. The financial information management module has been fully implemented in all country offices.

Comments of the Board

48. The Board welcomes this development.

Recommendation in paragraph 117

49. UNDP should ensure that future contracts provide for payments to be linked to the achievement of specific targets and goals.

Measures taken by the Administration

50. All new contracts are prepared in accordance with this recommendation and the Advisory Committee on Procurement scrutinizes each contract prior to clearance. The Bureau of Management and the Policy and Control Unit are responsible for this recommendation.

Comments of the Board

51. The Board welcomes the linking of payments to the achievement of specific targets in contracts.

Recommendation in paragraph 124

52. UNDP should ensure that all systems are tested for year-2000 compliance, with sufficient lead time to correct any deficiencies.

Measures taken by the Administration

53. The Bureau of Management and the Information Systems Division implemented this recommendation.

Comments of the Board

54. The Board notes that UNDP faced little disruption from the year-2000 problem.

Recommendation in paragraph 135

55. UNDP should establish clear arrangements for funding the full costs of the change management initiative.

Measures taken by the Administration

56. In relation to the forthcoming UNDP business plan proposed by the Administrator in January 2000 and in continuation of the remaining UNDP 2001 initiatives to be integrated with that plan, funding sources and arrangements will be clearly identified. The Bureau for Planning and Resource Management is responsible for this recommendation.

Comments of the Board

57. The Board comments on this issue further in the present report.

Recommendation in paragraph 140

58. UNDP should assess the financial and non-financial benefits expected to flow from its change programme and use this assessment to carry out a full investment appraisal of the change initiative.

Measures taken by the Administration

59. The assessment report on UNDP 2001 has addressed the issues of benefits from the change programme. The recommendations will be considered in the context of the new business plan and in calculating the related investment. The Bureau of Management and the Office of Planning are responsible for this recommendation.

Comments of the Board

60. The Board comments further on this issue in the present report.

Recommendation in paragraph 150

61. UNDP should develop appropriate performance indicators and measures to assess specific change implementation activities, relating them directly to the main objectives of the change process.

Measures taken by the Administration

62. The development and use of appropriate performance indicators have been recognized as important elements for measuring and assessing progress in change activities. The Administrator has attached the highest importance to this. Work is currently under way on institutionalizing measurements in the business plan, strategic results frameworks and the scorecard system. The Bureau of Management and the Office of Planning are responsible for this recommendation.

Comments of the Board

63. The Board comments further on this issue in the present report.

Annex II

Costing of UNDP 2001

UNDP-funded activities	*Budget* *May 1997*	*September 1997*
Headquarters staff redeployed to field	0	†
Training manuals developed	0	30
Subregional resource facilities to be established	0	5 800
Compulsory rotation of staff	0	†
Strengthen resident coordinator function	0	†
Focus on poorest countries	0	†
Expanded audit of programme	0	†
Career transition scheme	0	4 000
Information management	*	†
	0	**9 830**
Resources to be mobilized		
Subregional resource facilities to be established	2 500	0
Countries in special circumstances	0	600
Controls ex-ante to ex-post	150	150
Round tables	0	1 000
Leadership skills	4 000	4 000
Core competencies	0	100
	6 650	**5 850**
Costs to be met from trust fund	2 485	2 450
Total of costed activities	**9 135**	**18 130**

* Not mentioned.
† Cost expected but value unknown.

Annex III

Costs to be met from trust funds

Activity	Budget May 1997	Budget September 1997
Executive committee expanded	*	25
Job descriptions for the Operations Support Group	25	25
Country office quicker access to headquarter funds	20	20
National Officer role enhanced	20	20
Countries in special circumstances	400	400
Streamlined manuals	400	400
Resource mobilization targets refined	60	60
Core competencies aligned	*	60
Subregional resource facilities and global hub	720	720
Better meetings	100	100
Efficiency Ombudsman	10	10
Bureau for Finance and Administrative Services preliminaries	20	20
Country office resource guide	230	170
Controls ex-ante to ex-post	250	250
Global staff survey	100	†
Unified nomenclature for all jobs	20	0
Chief information officer	20	*
Bureau for Planning and Resource Management established	30	0
Strengthened Office of United Nations System Support and Services	30	*
Ethics culture established	0	60
Human resources management enhanced	*	60
Performance pay	*	20
New functions for policy bureau	30	30
Total	**2 485**	**2 450**

* Not mentioned.
† Cost expected but value unknown.

Chapter III
Audit opinion

We have audited the accompanying financial statements, comprising statements I to IV, schedules 1 to 8, and the supporting notes of the United Nations Development Programme for the biennium ended 31 December 1999. The financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the 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.

With the exception of: (a) the effect of any adjustments that may be necessary upon receipt of outstanding audited expenditure statements relating to nationally and United Nations executed projects and (b) any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the cash balance, in our opinion these financial statements present fairly, in all respects, the financial position as at 31 December 1999 and the results of operations and cash flows for the period then ended in accordance with the Programme's stated accounting policies set out in note 2 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

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

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

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(*Signed*) Osei Tutu **Prempeh***
Auditor-General of Ghana

(*Signed*) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

28 July 2000

* The term of office of the Auditor-General of Ghana expired on 30 June 2000 prior to the signing of the present report. The Auditor-General, however, has expressed agreement with the contents of the report. In addition, the relevant audit programme had been approved by the Board and all special instructions given by the Board were carried out.

Chapter IV
Financial statements for the biennium ended 31 December 1999

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 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 to be 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 biennial. The current biennium covers the period from 1 January 1998 to 31 December 1999. The financial statements reflect the application of the significant accounting policies described below.

Framework

UNDP activities are accounted for in accordance with the following:

(a) The Financial Regulations formulated by its Executive Board and the Rules established by the Administrator under the above regulations;

(b) The United Nations System Accounting Standards, as adopted by the Administrative Committee on Coordination, which are based to a large extent on relevant International Accounting Standards issued by the International Accounting Standards Committee. Where differences from the International Accounting Standards exist, it is mainly because of the essentially non-commercial nature of the organization's activities. These standards are based on the following principles and assumptions:

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

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

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies which have been used;

(iv) The disclosure of the significant accounting policies used is an integral part of the financial statements;

(v) Unusual items or prior period items should be disclosed if they have a material effect on the financial statements or schedules;

(vi) If there is a change in accounting policy that has a material effect in the current period, or may have a material effect in subsequent periods, the effect of such change should be disclosed and quantified, together with the reason for the change.

Income

Interest income is accrued as income in the year to which it relates. Interest on interfund balances is credited to the trust fund accounts one year in arrears. 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 UNDP expenditure is accounted for on an accrual basis, except for that relating to staff entitlements (costs related to the early separation programme are recorded on an accrual basis, however) and project components implemented by Governments and non-governmental organizations, 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 non-governmental organizations). The following criteria is generally used in applying the accrual basis:

Experts and other project personnel	Costs relating to the period of contractual service falling within the current biennium up to the amount provided for in the current budget;
Travel on official business	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;
Subcontracts	Payments falling due in the current biennium according to the terms of the contract or payment schedule;
Fellowships	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;
Group training	Full cost of any training activity held in the current biennium or beginning in the current and ending in the next biennium;
Equipment	Full cost of contractual agreement or firm order placed with the supplier prior to the end of the current biennium up to the amount provided in the current budget;
Miscellaneous	Cost of events occurred (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. In any given year, expenditure may exceed an approved project budget for that year by $20,000 or 4 per cent thereof, whichever is the higher, provided the executing agent does not incur overall expenditure for that year in excess of 2 per cent of the total allocations made to it.

Agency programme support costs and technical support services

Agency programme support costs denote the percentage of total project costs authorized by the Executive Board for payment to the executing and cooperating agents and implementing agents to reimburse them for costs incurred in the administration (technical and otherwise) of UNDP-financed projects. These support costs are based on total annual programme expenditure. Sectoral support costs are also paid to certain agents for provision of sectoral advice to Governments and UNDP. The level of sectoral support and the use of its resources for a given cycle are determined by the Executive Board. The Executive Board, by its decisions 95/23 and 96/31, approved new successor programming arrangements and new directives on agency support costs. The major features of the new arrangements are the following:

(a) To provide incentives for national execution and ensure that agency technical support services are available to Governments, particularly for nationally executed programmes/projects;

(b) To improve the upstream technical focus of agents and reduce their administrative and operational involvement in programmed project implementation;

(c) To assign resources that will permit programme countries to exercise increased choice in programme/project implementation;

(d) To replace the cluster rate system by a flat rate not to exceed 10 per cent of the administration and operational services reimbursement.

Details of the support costs under the previous arrangements and the new successor arrangements are provided in schedule 2.1.

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

Biennial support budget

The biennial support budget comprises three components:

(a) Programme support: expenditure incurred by organizational units (country offices and headquarters) whose primary function is the development, formulation, delivery and evaluation of the programmes of the organization. This will typically include units that provide backstopping of programmes either on a technical, theoretical, geographical, logistical or administrative basis;

(b) Management and administration: expenditure incurred by organizational units whose primary function is the maintenance of the identity, discretion and well-being of the organization. This will typically include units that carry out the functions of executive direction, organizational policy and evaluation, external relations, information and administration;

(c) Support to operational activities of the United Nations: this comprises four elements which are basically applicable to the Regular Resources activities, namely, Country Offices Support, United Nations Development Group, United Nations Volunteers programme and Inter Agency Procurement Services Office (IAPSO).

The expenditure under the biennial support budget is recorded in accordance with the principle set out in note 2 above.

Exchange rates

Voluntary contributions received from Governments are translated into United States dollars using the United Nations operational rate of exchange in effect on the date of payment.

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

For the purposes of accounting for assets, liabilities and 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 report or transaction.

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 country office in Argentina (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 $500 or more per unit and with a serviceable life of at least five years and items of equipment included in any special list for which formal inventory records are maintained).

The inventory held at UNDP headquarters and at UNDP country offices as at 31 December 1999 was valued at $18.3 million ($25.6 million in 1997) and $73.8 million ($68.8 million in 1997), respectively. Assets capitalized are not amortized or depreciated.

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 component*: 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 component*: 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 component*: 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, UNICEF and UNFPA. 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, which 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 (JPOs), Reserve for Field Accommodation, among others, are included in the other resources activities;

(d) Funds administered by UNDP: activities of funds established by the General Assembly and administered by UNDP.

The nature of some expenditure was redefined as explained above under “Biennial support budget”.

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 fund’s income statement with the ending balance reflected in the “unexpended resources balance”. 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 fund’s income statement with the ending balance reflected in the "unexpended resources balance". In prior years, the net balance of these 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 (UNV): these activities presented as part of the income statement with the ending balances reflected in the "unexpended resources balance". In prior periods, the net balance of these 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:

(a) UNV fully funded agreements with Governments and institutions, by country and by project;

(b) Trust funds' management service agreements;

(c) 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-activities/interfund balances (within each component) in the balance sheet have been eliminated in computing these totals. Other interfund transactions are not eliminated. Therefore, these aggregates are not intended to, and do not, reflect consolidated amounts, which would have required elimination of all interfund 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, etc. are commingled in the regular resources accounts (investments, deferred charges, receivables, payables, etc.). Whenever possible, the balances of these accounts as at 31 December 1999, and the comparatives, have been apportioned essentially on the basis of the best available information. The accounts not apportioned have been reflected in the interfund account balance.

Note 3
Contributions receivable and in-kind contributions and related party transactions (off-balance sheet)

(a) (i) 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 1999 are as follows:

	Voluntary contributions	*Voluntary contributions for the Special Measures Fund for the Least Developed Countries*	*Total*
	(thousands of United States dollars)		
1995 and prior years	5 465	-	5 465
1996	855	-	855
1997	4 159	-	4 159
1998	7 955	-	7 955
1999	18 956	-	18 956
Total	**37 390**	**-**	**37 390**

(ii) Contributions of Governments and other contributors — cost-sharing and government cash counterpart contributions

As at 31 December 1999, the following amounts were receivable for cost-sharing and government cash counterpart contributions projects. These amounts are to be rephased to future years.

	(thousands of United States dollars)
Cost-sharing	248 391
Government cash counterpart contributions	5 252
Total	**253 643**

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

(b) In-kind contributions

In 1996, Hewlett Packard Company (a leading manufacturer of computing, communications and measurement products) donated a wide range of new computing equipment, including enterprise servers, personal computers, printers and other peripherals, to the UNDP Sustainable Development Networking Programme. The value of this contribution, estimated at $1.1 million, has not been recorded in the accounts.

These products are intended for direct use in various projects in developing countries. The Sustainable Development Networking Programme links bodies, universities, non-governmental organizations, the private sector and individuals in developing countries for the purpose of exchanging critical information on sustainable human development.

As part of UNDP agreements with recipient countries, the Governments of those countries are to provide UNDP with accommodations free of charge. These in-kind contributions received during the biennium 1998-1999 are estimated at $16.5 million. 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 partnership with Cisco Systems, Inc., KPMG LLP and Akamai Technologies, Inc., and with the support of other partners, UNDP launched during the current biennium 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, Netaid.org will use the Internet's interactive capabilities to draw attention to the issue of extreme poverty, and to offer Internet users the possibility of becoming directly involved. Netaid.org is being managed for UNDP by the Netaid.org Foundation, an independent entity that enjoys not-for-profit status in the United States (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.

Note 4
Unidentified receipts

Monies received, but not identified as to purpose, are held as accounts payable until identified. At 31 December 1999, $19,557,223 ($13,401,874 in 1997) in unidentified receipts were held as accounts payable. This amount is included in note 12 (b).

Note 5
Accounting linkage — voluntary contributions and contributions to local office costs

At its thirty-first session, in 1984, the Governing Council authorized the establishment of a country-specific accounting linkage between voluntary contributions and contributions to local office costs in such a manner that voluntary contributions are first accounted for against any shortfall in contributions to local office costs. The total amount of $24,465,837 ($12,554,775 in 1997) which was transferred from voluntary contributions in respect of such linkage is included in the $51,396,485 ($44,167,892 in 1997), figure in schedule 3 and shown in note 6.

Note 6
Income received for the biennial support budget — regular resources

The amount of $51,396,485 ($44,167,892 in 1997) shown in schedule 3 as income received for the biennial support budget consists of host Government cash contributions to local office costs of $38,746,118 ($40,120,346 in 1997), reimbursement of tax charges of $10,996,145, UNV income of $1,174,519 and other income of $479,703 ($4,047,546 in 1997).

Host Government contributions consist of:

	1999	*1997*
	(thousands of United States dollars)	
Government local office contributions	25 276	27 566
Transfers from voluntary contributions	24 466	12 555
Total	**49 742**	**40 121**

Note 7
Interest income — regular resources

The amounts shown in statement I.1 consist of:

	1999	*1997*
	(thousands of United States dollars)	
Interest from investments	166 0	166 9
Interest on construction loans	21	98
Interest on the Medical Insurance Plan		-
Interest transferred to:		
Cost-sharing	(49 4	(33 1
Trust funds	(19 7	(28 8
Management service agreements	(17 2	(12 0
Reimbursable support services	(11 1	(6 0
Total	**68 2**	**87 1**

Note 8
Cash — regular resources

The amounts shown in statement II.1 consist of:

	1999	1997
	(thousands of United States dollars)	
Cash in headquarters bank accounts	44 6	18 3
Cash at country offices	(16 4	(5 9
Transfer from regular resource investments	-	2 2
Subtotal	**28 2**	**14 6**
Less: provision for depreciation of accumulating non-convertible currencies	14 6	14 6
Total	**13 6**	**-**

The cash balance at country offices takes into account the uncleared checks of $299,260,685 ($238,863,596 in 1997). There is an automatic replenishment from the headquarters current and investment accounts once these checks are cashed.

Note 9
Government letters of credit

Government letters of credit shown in statement II.2 were made to UNDP in respect of cost-sharing for the following activities:

	1999	1997
	(thousands of United States dollars)	
Rehabilitation, reconstruction and development in Tajikistan	700	100
Bi-communal development programme	3 322	
Support to the promotion of human rights in Ukraine	194	
Unspecified	240	
Lutte contre l'épidémie de choléra	25	
Reinstallation and reintegration of refugees	25	
Assistance to government aid management and aid coordination		30
Promotion of community-based peace and confidence-building measures, Tajikistan		150
Plan of action for the reinstallation and reintegration of refugees and formerly displaced persons		25

	1999	1997
	(thousands of United States dollars)	
Establishment of the early warning system in Bulgaria		52
Total	**4 506**	**357**

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

Note 10
Valuation of cash and investments at 1 January 2000 United Nations operational rate of exchange

In accordance with the accounting policy disclosed in note 2 (f), cash for regular resources and IAPSO totalling $13,626,628 as reported in statement II and investments totalling $1,181,679,200 as reported in statement II and schedule 8 include the United States dollar equivalent of cash and investments in other currencies using the United Nations operational rate of exchange established on 1 December 1999 and in effect on 31 December 1999. At the United Nations operational rate of exchange in effect on 1 January 2000, which more closely reflects the market rate of exchange as at 31 December 1999, the value shown in the accounts would have decreased by approximately $302,087 and $40,172 for cash and investments, respectively.

Note 11
Write-offs and provision for asset write-down

In the normal course of business, advances were made to Governments to enable implementation of nationality executed projects. Amounts adding up to $4,118,851 have been written off in these financial statements as follows:

	(thousands of United States dollars)
Regular resources	2 (
United Nations fund for Sudano-Sahelian activities	1 4
United Nations Development Fund for Women	171
UNDP trust fund for the developing countries afflicted by famine and malnutrition	306
Australian Development Assistance Bureau (ADAB)/UNDP programme trust fund	49
UNDP trust fund for assistance to refugee-related development projects in Africa-ICARA II	15
United Nations fund for science and technology for development	133
UNDP energy account	(3)

	(thousands of United States dollars)
UNDP trust fund for Namibia	12
Other	(17)
Total	**4 1**

These amounts written off were long outstanding advances made to Governments for nationally executed projects, which are considered unrecoverable.

The amount on schedule I comprises:

	(thousands of United States dollars)
Nationally executed projects write-off to regular resources (see above)	2 053
Other write-offs — core activities	248
Total	**2 421**

The provision of $14,600,000 was established during the biennium 1996-1997 to reflect the overvaluation of the Cuban peso against the United Nations rate of exchange.

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:

	1999	*1997*
	(thousands of United States dollars)	
Accounts receivable	36 337	10 569
Current account with agencies	25 244	2 525
Miscellaneous deferred charges	6 834	558
Other accounts receivable	7 361	25 016
Accounts receivable from agencies	10 040	-
Subtotal	**85 816**	**38 669**
Less: provision to reduce the book value of accounts receivable	305	305
Total	**85 511**	**38 364**
This total is reported as follows:		
Regular resources, statement II.1	33 030	19 839
Cost-sharing, statement II.2	52 481	18 525
Total	**87 511**	**38 364**

The provision established in 1987 to reduce the deficit in operating the FAO fisheries vessel pool was reduced to reflect the current value of the receivables.

(b) Accounts payable

The amounts shown in statements II.1 and II.2 consist of:

	1999	*1997*
	(thousands of United States dollars)	
Accounts payable	66 274	34 212
Payment assignment	7 270	-
Deferred payables	2 335	2 239
Clearing account	-	339
Cash received and awaiting clarification	19 557	13 614
Other liabilities	2 843	29 107
Total	**98 279**	**79 511**
This total is reported as follows:		
Regular resources, statement II.1	45 902	45 706
Cost-sharing, statement II.2	52 377	33 805
Total	**98 279**	**79 511**

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 $5.4 million shown in schedule 6 is derived mainly from the operations of housing rental and offices premises.

As at 31 December 1999, the excess of total expenditure over the authorized level of reserve under Reserve for Field Accommodation activities is $23,818,000 ($27,626,292 in 1997).

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 biddings for the constructions, etc. The income statement data for both the housing and the office premises are based on the nature of the actual transactions.

The income statement includes write-offs of $17,637 in rehabilitation costs which are irrecoverable. This amount is included as part of other expenditure in schedule 6. In addition, $309,485 receivable from the Housing Appliance Rental Scheme, which had been provided for in the prior biennium, has been written-off in current biennium.

The long-term receivable of $953,370 ($1,126,710 in 1997) 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 ($86,670) is included in other accounts receivable.

Prior year adjustment

A portion of rental income is applied against capitalized rehabilitation costs. In previous years, $2,020,272 in such rental income was taken as income on housing operations. For 1998, a prior year adjustment has been processed to transfer this income from the housing account fund balance, and to reduce capitalized rehabilitation costs.

Note 14
Office premises purchased for the UNDP country office in Argentina

In October 1996, an office space was purchased for the country office in Argentina. The cost of this acquisition amounted to $1,570,000 and was financed by:

(a) Appropriation from country office reimbursable support services resources for $630,694;

(b) Borrowing from the cost-sharing resources for $939,306. This interest-free borrowing is reimbursable from country office extrabudgetary resources. As at 31 December 1998, the full amount of the borrowing has been paid off.

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

Note 15
Reserves for staff separations and transitional measures and United Nations House Programme

(a) Reserve for staff separations and transitional measures

At its fortieth session, in 1993, the Governing Council approved the use of the 1992-1993 budget savings to support a smooth implementation of the 1994-1995 budget strategy. Accordingly, the reserve for transitional measures and the reserve for budgeted separations were established with the initial amounts of $7,200,000 and $6,359,000, respectively.

On the basis of the same principle, the Executive Board, at its third regular session in 1995, approved additional resources to be set aside for the implementation of the 1996-1997 budget strategy. In accordance with that decision,

$8,400,000 and $14,000,000 were transferred from UNDP regular resources to the reserve for transitional measures and the reserve for budgeted separations.

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

The unexpended balance of the reserve for transitional measures shown in statement II.1 consists of:

	Balance as at 1 January 1998	*Payments/adjustments made during the biennium*	*Balance as at 31 December 1999*
	(thousands of United States dollars)		
Balance in relation to the 1994-1995 budget strategy	84	(84)	-
Balance in relation to the 1996-1997 budget strategy	50	(50)	-
Balance in relation to the 2000-2001 budget strategy	-	1 500	1 500
Total	**134**	**1 366**	**1 500**

The reserve for budgeted separations shown in statement II.1 consists of:

	Balance as at 1 January 1998	*Payments/adjustments made during the biennium*	*Balance as at 31 December 1999*
	(thousands of United States dollars)		
Balance in relation to the 2000-2001 budget strategy	-	7 000	7 000
Total	**-**	**7 000**	**7 000**

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

(b) United Nations House programme

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

	Balance as at 1 January 1998	Payments/adjustments made during the biennium	Balance as at 31 December 1999
	(thousands of United States dollars)		
Balance in relation to the 2000-2001 budget strategy	-	3 800	3 800
Total	**-**	**3 800**	**3 800**

Note 16
Unspent allocations and future commitments

(a) Unspent allocations

Unspent allocations issued against UNDP resources for programme expenditure (excluding national execution) as at 31 December 1999 amount to approximately $344 million ($702 million in 1997), against which forward commitments reported by executing agencies are approximately $12 million ($56 million in 1997).

(b) Leasehold commitments

Future leasehold commitments against regular resources as at 31 December 1999 amount to $66.7 million ($75.8 million in 1997) for headquarters and $52.7 million ($6.7 million in 1997) for country offices. The figures for the country offices include long-term leases signed for the following period:

Country office	*Lease end date*
Angola	23 June 2080
Ethiopia	4 October 2077
Jordan	30 November 2079
Moldova	17 July 2093

(c) End-of-service and post-retirement liabilities

Consistent with note 2 (c) above, UNDP has not specifically accrued liabilities for after-service health insurance costs or liabilities for other types of 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.

(i) End-of-service liabilities

Costs relating to annual leave as at 31 December 1999 are estimated at $22.92 million.

The contingent liability resulting from the termination benefits that UNDP will be required to pay to its staff members in future years is estimated as at 31 December 1999 to be $18,944,583 in respect of repatriation grants and $4,980,110 in respect of termination indemnity.

(ii) Post-retirement benefits

In order to gain a better understanding of the financial dimensions of the organization's liabilities for after-service health insurance, a consulting actuary was engaged in 1999 to carry out an actuarial valuation of post-retirement health insurance benefits as at 1 January 1999. On the basis of that study, it has been estimated that UNDP liability as at 31 December 1999 for after-service health insurance benefits covering all participants is as follows:

	Current value of future benefits	*Accrued liability*
	(thousands of United States dollars)	
Gross liability	383 429	297 420
Offset from retiree		
Contribution	70 549	56 078
Net liabilities	**312 880**	**241 342**

The "current value of future benefits" figures shown above are the discounted values of all benefits to be paid in the future to all current retirees and active employees expected to retire in the future. The accrued liabilities represent those portions of the current values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued when the staff members have reached their dates of full eligibility for benefits.

(d) Pension benefits

UNDP is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The 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 General Assembly together with any 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 General Assembly has invoked the provision of 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.

(e) 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 are made. Payments of $129,302 were made during current biennium.

Note 17
Unliquidated obligations

The balance of unliquidated obligations shown in statement II consists of:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	84 234	104 184
Biennial support budget	30 400	23 569
Reimbursable support services, Reserve for Field Accommodation and special activities	5 841	3 423
Total	**120 475**	**131 176**
Regular resources	64 434	68 368
Cost-sharing	50 200	59 385
Reimbursable support services	4 498	3 348
Reserve for Field Accommodation	24	30
Special activities	1 319	45
Total	**120 475**	**131 176**

Note 18
Outstanding commitments of the Reserve for Field Accommodation

Unpaid invoices and commitments to contractors and subcontractors against the Reserve for Field Accommodation total approximately $1.8 million as at 31 December 1999 (1997: $2.7 million). These invoices are not accrued in the current biennium.

Note 19
Inter-Agency Procurement Services Office

(a) Accounts payable

The amount of $14,530,733 ($10,423,722 in 1997) shown in schedule 6.4 represents advances received relating to direct procurement.

(b) Biennial support budget

The IAPSO core support budget of $3,493,100 ($3,876,825 in 1997) is included in the amount for regular resources in the biennial support budget and detailed in schedule 3.

(c) Basis of accounting

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

(d) Trading activities

The trading activities of IAPSO for the biennium 1998-1999 generated gross revenue of $137.2 million ($119.6 million in 1997). On the basis of those activities, IAPSO earned procurement handling fees and other fees amounting to $7.1 million ($5.7 million in 1997) as shown in schedule 6.4.

Note 20
Special activities (schedule 6.5)

(a) Support to United Nations resident coordinator activities

The activities are to support collaborative programming; follow-up to major international conferences; United Nations system public information activities; review and planning of United Nations system shared services and common premises; and special assignments.

For the biennium ended 31 December 1999, total expenditure incurred with regard to these activities amounted to $690,504.

The portion of the support to United Nations resident coordinator activities funded from specific contributions is shown under special activities. The remaining portion of $21,033,368 is funded by the core resources and therefore presented under regular resources in statement 1.1.

(b) Unified coding system

Up to 31 December 1995, the net resource available ($400,000) for the unified coding system was included in accounts payable. It was reclassified in special activities to better reflect the nature of the operations.

(c) Other

Various other activities have been reclassified from accounts payable to special activities (for example, Centre of Experimentation, Sustainable Energy and Environment Division).

Note 21
Amounts due to/from funds and trust funds administered by UNDP

UNDP receives contribution for, and makes advances to, funds and trust funds that it administers. The balance of these transactions at 31 December 1999 is shown in schedule 7 for funds and statement II for trust funds.

Note 22
Trust Fund to Combat Desertification and Drought (UNSO)

(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, under the acronym UNSO. In 1977, UNSO was placed under UNDP administration. In 1978, its mandate was extended to assist, on behalf of 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, UNSO was explicitly called upon to assume a major advisory role and participate effectively in the implementation of Agenda 21 provisions related to combating drought and desertification, and to 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 UNSO mandate. In 1995, the UNDP Executive Board and the Economic and Social Council endorsed the renaming of UNSO to Office to Combat Desertification and Drought, while retaining its familiar acronym.

In response to the Executive Board's call for greater functional integration of UNSO into UNDP, the Administrator in 1994 brought together UNSO and 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 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 and environmental information systems);

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

(b) Combined accounts

In the light of the above evolution in the UNSO 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:

	United Nations Trust Fund for Sudano-Sahelian Activities	*Trust Fund to Combat Desertification and Drought*	*Total*
	(thousands of United States dollars)		
Unexpended resources as at 1 January 1998	14 509	8 863	23 372
Income received	1 691	5 008	6 699
Expenditure incurred	(9 130)	(6 270)	(15 400)
Management service agreement inter-fund transfers	(101)	82	(19)
Refunds to donors	(120)	-	(120)
Unexpended resources as at 31 December 1999	**6 849**	**7 683**	**14 532**

(c) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 5.2 consists of:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	145	238
Biennial support budget	85	29
UNDP/UNEP joint venture activities	-	-
Total	**230**	**267**

(d) Reimbursable support services

The balance of reimbursable support services (formerly extrabudgetary) of $44,250 as at 31 December 1999 was transferred to regular resources in accordance with the instruction from UNSO management.

(e) Unspent allocations and unexpended resources

The amounts shown in schedule 5.2 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	2 538	3 668	6 427	11 831
Cost-sharing	5 030	8 590	5 432	6 842
Sub-trust funds	1 977	4 092	2 560	4 283
Management service agreements	-	-	113	416
Total	**9 545**	**16 350**	**14 532**	**23 372**

Unspent allocations exceeding cost-sharing resources of $402,317 were issued on the basis of contributions receivable totalling $258,158. This amount is included in the contributions receivable amount of $292,585 shown in note 35.

(f) Write-offs

In the normal course of business, advances were made to Governments to enable implementation of nationally executed projects. Amounts adding up to $1,400,479 have been written off in these financial statements and are included in other expenditure in schedule 5.2.

Note 23
Trust Fund for the Global Environment Facility

(a) Mandate and goals

The Trust Fund for GEF was established for the receipt and administration of funds to finance UNDP pre-investment studies, technical assistance and training for global environment policies, programmes and projects. The agreement between UNDP and the World Bank, as trustee for GEF, was signed on 29 April 1991. As stated in the "Instrument for the Establishment of the Restructured Global Environment Facility":

> GEF shall operate, on the basis of collaboration and partnership among the implementing agencies, as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas: climate change; biological diversity; international waters; and 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 to by the Council shall also be eligible for funding insofar as they achieve global environmental benefits by protecting the global environment in the four focal areas;

> GEF shall ensure the cost-effectiveness of its activities in addressing the targeted global environmental issues, shall fund 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) Interest income

In August 1996, an investment account was established for this trust fund. Interest income earned from those investments are recorded under general resources in the same year it is earned. This differs from the policy in prior periods where interest earned from investments commingled with UNDP resources were credited to the trust fund accounts one year in arrears. However, interest income on sub-trust funds will continue to be credited one year in arrears.

(c) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 5.2 consist of:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	7 425	8 423
Biennial support budget	1 125	206
Total	**8 550**	**8 629**

(d) Unspent allocations and unexpended resources

The amounts in schedule 5.2 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	301 922	152 146	12 500	29 493
Cost-sharing	1 806	1 512	13 032	6 271
Sub-trust funds	1 127	2 896	1 949	3 455
Management service agreement	-	-	154	-
Total	**304 855**	**156 554**	**27 635**	**39 219**

The unspent allocations for regular resources include $30,861,440 allocated to the small grants programme. Allocations exceeding regular resources in the amount of $291,834,131 were issued on the basis of letters of commitments from the World Bank as trustee of the GEF Trust Fund confirming allocations of $700,123,500 to UNDP. The amounts receivable under this mechanism are not included in the contributions receivable shown under note 34. Funds are remitted by the trustee as required by UNDP/GEF. To date, a total of $421,974,745 has been received.

Note 24
Multilateral Fund for the Implementation of the Montreal Protocol

(a) Mandate and goals

The stratospheric ozone layer prevents most ultraviolet radiation from reaching earth. This ozone layer is under intense attack by chloroflorocarbons, 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 the ozone-depleting substances. Developed countries have already eliminated consumption of 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 to eliminate the ozone-depleting substances; it is funded by developed countries (since they had contributed the most to the ozone layer depletion problem). The Multilateral Fund during 1991-1996 approved $530 million in projects to eliminate 77,000 metric tons of ozone-depleting substances. 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, UNIDO and the World Bank). UNDP assists 60 countries (51 under the Multilateral Fund and 9 under GEF) to implement national programmes to phase out chloroflorocarbons, 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 chloroflorocarbons, in agricultural uses. The programme comprises a mix of UNOPS-executed (80 per cent) and nationally executed (20 per cent) activities. UNDP is also assisting Australia, Denmark, Sweden and the United States to implement certain bilateral programmes under the Multilateral Fund.

(b) Interest income

In December 1996, an investment account was established for the trust fund. Interest income earned from those investments are recorded under general resources in the same year it is earned. This differs from the policy in prior periods where interest earned from investments commingled with UNDP resources were credited to the trust fund accounts one year in arrears. However, interest income on sub-trust funds will continue to be credited one year in arrears.

(c) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 5.2 consists of:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	11 804	15 564
Biennial support budget	156	43
Total	**11 960**	**15 607**

(d) Unspent allocations and unexpended resources

The amounts in schedule 5.2 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	65 302	54 281	95 826	84 394
Sub-trust funds	529	1 083	786	486
Total	**65 831**	**55 364**	**96 612**	**84 880**

Note 25
"Capacity 21" Trust Fund

(a) Mandate and goals

The "Capacity 21" Trust Fund was established by the Administrator in 1993, subsequent to the Governing Council's decision, as an initiative to help countries 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) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 5.2 consists of:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	797	623
Biennial support budget	58	31
Total	**855**	**654**

(c) Unspent allocations and unexpended resources

The amounts in schedule 5.2 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	16 136	16 274	41 368	46 711
Cost-sharing	284	599	50	114
Sub-trust funds	632	1 366	1 526	2 277
Total	**17 052**	**18 239**	**42 944**	**49 102**

Note 26
Energy Account

(a) Mandate and goals

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

(a) Utilizing renewable sources of energy to meet the basic energy needs of rural communities and focusing on energy efficiency in residential, commercial and industrial sectors (while renewable energy systems are environmentally benign and have demonstrated their reliability under a wide range of conditions, energy efficiency measures can, at a minimum, reduce carbon dioxide emission 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:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	70	37
Biennial support budget	11	10
Total	**81**	**47**

(c) Unspent allocations and unexpended resources

The amounts shown in schedule 5.2 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources and cost-sharing	1 458	2 217	3 301	2 874
Sub-trust funds	-	-	-	4
Total	**1 458**	**2 217**	**3 301**	**2 878**

Note 27
Fund for the Programme of Assistance to the Palestinian People

(a) Mandate and goals

The UNDP Programme of Assistance to the Palestinian People has been operational in the West Bank and the Gaza Strip since 1980, having been mandated by the Governing Council to undertake both technical and capital assistance projects. The Programme is a decentralized assistance programme that reports directly to the office of the Administrator. Most of the activities supported by UNDP are directed at strengthening newly created Palestinian institutions and creating employment opportunities in the occupied territories.

Since the establishment of the Palestinian Authority in the West Bank and the Gaza Strip in May 1994, there has been a redefinition of the Programme's strategies and programme initiatives. As mandated by the programme framework, the Programme's primary counterpart for development activities is the Palestinian implementation capacities of the Palestinian ministries, municipalities and village councils, and civil society organizations. In conjunction with the Palestinian Authority, UNDP is also identifying and launching longer-term types of initiatives which 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 for all Palestinians in the occupied territories by implementing specific projects. The development and assistance strategies have resulted from a joint assessment of the top priorities in each sector by the Programme and the Palestinian Authority. The projects reflect a realistic view of what is achievable and readily implementable in each sector, and attempt to narrow down the practically unlimited range of development needs in the West Bank and the Gaza Strip to those specific projects that will provide the most tangible and visible results to the Palestinian people.

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

(b) Unliquidated obligations

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

(c) Unspent allocations and unexpended resources

The amounts shown in schedule 5.2 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	30 204	31 816	34 699	36 477
Sub-trust funds	3 708	5 978	1 823	2 856
Total	**33 912**	**37 794**	**36 522**	**39 333**

Unspent allocations for sub-trust funds exceeded available resources in the amount of $3,321,000 ($3,199,841). As at 31 December 1999, there was no contribution receivable ($3,026,316 in 1997) as shown in note 34.

(d) Other accounts receivable

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

(e) Endowment Fund

A contribution of $3,000,000 was received from the Government of Japan in 1998 for the establishment of an 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 $37,551,000 (nil in 1997) 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. This project is included in schedule 5.1. Throughout the life of the Endowment Fund, a number of Palestinian institutions and their personnel will benefit from training opportunities and support to be provided through the project.

Note 28
Trust Fund for Rwanda

(a) Mandate and goals

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

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	23 778	14 954	19 958	35 571
Sub-trust funds	2 338	8 570	8 903	6 310
Total	**26 116**	**23 524**	**28 861**	**41 881**

Unspent allocations for four sub-trust funds exceeded their available resources in the amount of $1,231,000. Contributions receivable for these sub-trust funds amount to $17,007. This amount is included in the contributions receivable of $6,301,613 shown in note 35.

(d) Expenditure

The amount of $1,121,000 shown in schedule 5.1 comprises agency support cost of $639,000 and UNDP support cost of $482,000. The latter amount is also included in the amount of $944,000 shown in schedule 5.2.

Note 29
Perez-Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries

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

Note 30
United Nations Capital Development Fund

(a) Mandate and goals

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 resolution 2186 (XXI) of 13 December 1966. The Assembly further decided, by 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:

	1999	*1997*
	(thousands of United States dollars)	
United States dollar accounts	-	128
Convertible currencies	-	1
Accumulating non-convertible currencies	471	460
Total	**471**	**589**

(c) Loans to Governments

The amount of $2,667,059 ($5,636,840 in 1997) 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:

Recipient country	Project number	Loan amount as at 1 January 1998	Repayments	Outstanding loan amount as at 31 December 1999
		(thousands of United States dollars)		
Benin	RAF/94/CO2	220	-	200
Botswana	BOT/87/CO2	715	715	-
	BOT/87/CO5	2 685	1 342	1 343
	BOT/87/CO6	1 092	783	309
Burkina Faso	RAF/94/CO2	200	-	200
Ghana	RAF/94/CO2	200	-	200
Mali	RAF/94/CO2	200	-	200
Nepal	NEP/85/CO1	145	130	15
Senegal	RAF/94/CO2	200	-	200
Total		**5 637**	**2 970**	**2 667**

These loans are repayable over a period of 10 years. The amount due for 1999 and prior years is $215,259 ($36,332 in 1997).

(d) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 7 consists of:

	1999	1997
	(thousands of United States dollars)	
Executing agents	2 130	6 437
Biennial support budget and others	1 206	241
Total	**3 336**	**6 678**

(e) Operational reserve

At its twenty-sixth session, in 1979, the Governing Council approved the establishment of an operational reserve at the level of at least 20 per cent of project commitments and contingent liabilities for guarantees entered into by the Fund in respect of bank loans to Governments (excluding sub-trust fund and cost-sharing arrangements). In line with that decision, the operational reserve originally established in 1979 was adjusted to $45 million as at 31 December 1997, as shown in schedule 7.

(f) Unspent allocations and future commitments

The unspent allocations as at 31 December 1999 amounted to $8,643,563 ($22,213,749 in 1997). However, total commitments made under the partial funding system amount to $236,381,000 ($224,948,000 in 1997).

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 consist of:

	1999	*1997*
	(thousands of United States dollars)	
Regular resources	230 829	221 737
Cost-sharing	351	218
Sub-trust funds	5 201	2 993
Total	**236 381**	**224 948**

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

Note 31
United Nations Revolving Fund for Natural Resources Exploration

(a) Mandate and goals

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

Its mandate is to extend and intensify the activities of the United Nations system in the field of natural resources exploration in developing countries through the sharing of 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 of UNDP since July 1996, UNRFNRE 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 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 focused 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 environmentally 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:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	-	34
Biennial support budget	61	2
Total	**61**	**36**

(c) Unspent allocations and unexpended resources

The amounts shown in schedule 7 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	901	340	3 068	3 111
Sub-trust funds	18	18	37	32
Total	**919**	**358**	**3 105**	**3 143**

Note 32
United Nations Fund for Science and Technology for Development

(a) Mission and goals

UNFSTD 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 build endogenous capacity. It provides assistance in such priority areas 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:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	-	391	315	792
Cost-sharing	-	-	27	27
Sub-trust funds	-	31	390	351
Total	**-**	**422**	**732**	**1 170**

(c) Future

The Fund plans to conclude its activities in 2000.

Note 33
United Nations Development Fund for Women

(a) Mandate and goals

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

(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) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 7 consists of:

	1999	*1997*
	(thousands of United States dollars)	
Executing agents	1 114	1 133
Biennial support budget	497	51
Total	**1 611**	**1 184**

(c) Partial funding system and operational reserve

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

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

Under the partial funding modality, the maximum approved level for programming over a three-year period should be the net of a conservative estimate of income realization for the next three years minus administrative costs for that same period. A very conservative estimate of income to be realized for the first year would be equal to the estimated income for that year, calculated on the basis of the pledging conference results and direct consultation with donors. The estimate for the second year would be equal to 50 per cent of the estimated income of the first year while the estimate for the third year would be equal to 25 per cent of the estimated income of the first year (that is, 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 has been increased to $6.7 million as of 31 December 1999.

(d) Unspent allocations and unexpended resources

The amounts shown in schedule 7.0 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	8 323	6 549	8 624	5 768
Cost-sharing	3 929	4 702	3 360	3 505
Sub-trust funds	7 293	4 084	4 867	2 159
Total	**19 545**	**15 335**	**16 851**	**11 432**

Allocations exceeding cost-sharing and sub-trust fund resources amounting to $570,574 and $2,423,431 respectively were issued on the basis of contributions receivable from Governments in the amount of $752,492 and $1,615,951 respectively. These amounts are included in the contributions receivable of

$2,708,379 shown in note 34. Contributions receivable shown in note 34 do not include pledges for future years amounting to $5,589,158.

Note 34
United Nations Volunteers programme

(a) Mandate and goals

Set by the General Assembly in 1970, under the general aegis of UNDP, UNV 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 (UNVs); and by stimulating the establishment of local volunteer and youth schemes;

(b) To provide a global facility, under the United Nations system, that allows UNVs 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, UNV 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 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 developing countries themselves;

(f) A 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) 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 UNV biennial support budget of $26,959,391 ($30,287,000 in 1996-1997) is included in UNDP regular resources in the 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 recovery of 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 $6,072,437 ($7,903,662 in 1996-1997) were recovered and credited as income to the Fund. This amount is shown as part of other income of $6,245,113 ($7,693,939 in 1996-1997) in schedule 7.

(d) Other accounts receivable and deferred charges

The amount of $5,481,477 ($1,168,638 in 1997) shown in schedule 7 includes the balance due from the United Nations of $3,337,884 (nil in 1997) for costs and 10 per cent overhead in respect of Volunteers attached to agency-executed project activities.

(e) Unliquidated obligations

The balance of unliquidated obligations shown in schedule 7 consists of:

	1999	*1997*
	(thousands of United States dollars)	
Reimbursable activities	174	-
Special Voluntary Fund activities	29	-
Sub-trust fund activities	6	-
Fully funded arrangements	6	16
Total	**215**	**16**

(f) Special Voluntary Fund

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

(g) Unspent allocations and unexpended resources

The amounts shown in schedule 7 consist of:

	Unspent allocations		*Unexpended resources*	
	1999	*1997*	*1999*	*1997*
	(thousands of United States dollars)			
Regular resources	11 630	9 794	26 5	23 4
Cost-sharing	-	276	740	162
Sub-trust funds	11 061	13 260	15 6	16 8
Fully funded arrangements	4 430	5 391	4 4	5 3
United Nations joint venture	-	-	(1 3	(1 5
Total	**27 121**	**28 721**	**46 0**	**44 3**

Of the unspent allocations of regular resources, $1,353,600 ($4,131,125 in 1997) represents estimated commitments in respect of repatriation travel and resettlement allowances for serving volunteers as at 31 December 1999.

(h) Contribution receivable

The amount shown in schedule 7 includes the following:

	Contribution receivable
	1999 *(thousands of United States dollars)*
Fully funded arrangements	848
United Nations joint venture	1 302
Total	**2 150**