



**Governing Council  
of the United Nations  
Environment Programme**



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**GLOBAL MINISTERIAL ENVIRONMENT FORUM**

**PROGRAMME, THE ENVIRONMENT FUND AND ADMINISTRATIVE AND  
BUDGETARY MATTERS**

**REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON  
THE ACCOUNTS OF THE UNITED NATIONS ENVIRONMENT PROGRAMME  
FOR THE BIENNIUM ENDED 31 DECEMBER 1999**

Note by the Executive Director

In accordance with Governing Council decision 18/46, paragraph 6, of 25 May 1995, the Executive Director has the honour to submit herewith for the information of the Governing Council, at its twenty-first session, the report of the Board of Auditors to the General Assembly on the accounts of the United Nations Environment Programme for the biennium ended 31 December 1999.

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\* UNEP/GC.21/1.



**United Nations**

**Fund of the United Nations Environment  
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. 5F (A/55/5/Add.6)**

**General Assembly**  
Official Records  
Fifty-fifth session  
Supplement No. 5F (A/55/5/Add.6)

**Fund of the United Nations Environment Programme**

**Financial report and audited financial  
statements**

**for the biennium ended 31 December 1999 and**

**Report of the Board of Auditors**



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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## Letters of transmittal

31 March 2000

Sir,

Pursuant to regulation 11.4 of the Financial Regulations of the United Nations and rule 213.3 of the Financial Rules of the United Nations Environment Programme, I have the honour to transmit the financial report and accounts of the United Nations Environment Programme, including associated trust funds and other related accounts for the biennium ended 31 December 1999, which I hereby approve.

Copies of this financial report and accounts are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

Accept, Sir, the assurances of my highest consideration.

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

The Chairman of the Board of Auditors  
United Nations  
New York

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30 June 2000

Sir,

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

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

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

#### Introduction

1. The Executive Director has the honour to submit herewith the financial report, together with the accounts of the Fund of the United Nations Environment Programme (UNEP), including associated trust funds and of the related accounts for the biennium ended 31 December 1999. The accounts consist of 12 statements supported by 8 schedules and notes to the financial statements. These accounts were transmitted to the Board of Auditors on 31 March 2000.

2. As prescribed by financial regulation 2.1, the financial period of the organization consists of two consecutive calendar years, the first one being an even year. The interim accounts for the first year of the biennium 1998-1999 were made available to the Governing Council at its twentieth session. The Board of Auditors conducted an interim audit on these accounts and did not report to the Advisory Committee on Administrative and Budgetary Questions any situation that should be brought to the attention of Member States.

3. Comparative figures for the biennium 1996-1997, as appropriate, have been reflected in the financial statements. The length of the financial report has been kept to the minimum in accordance with United Nations guidelines.

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

#### Levels of appropriations, allocations/allotments, expenditures and commitments

5. The Governing Council, in its decision 20/22 of 4 February 1999, approved a revised appropriation of Fund resources in 1998-1999 of \$25.83 million for the management and administrative support costs budget, \$75 million for Fund programme activities and \$5 million for Fund programme reserve activities.

6. Total appropriations, allocations/allotments and expenditures for the biennium 1998-1999 were as follows (in United States dollars):

	<i>Appropriations</i>	<i>Allocations/ allotments issued</i>	<i>Expenditures</i>	<i>Unexpended appropriations</i>	<i>Unexpended allocations/ allotments</i>
Fund programme activities	75 000 000	69 649 833	64 820 138	10 179 862	4 829 695
Fund programme reserve activities	5 000 000	5 000 000	3 099 457	1 900 543	1 900 543
Management and administrative support costs	25 833 200	24 827 722	22 352 366	3 480 834	2 475 356
<b>Total</b>	<b>105 833 200</b>	<b>99 477 555</b>	<b>90 271 961</b>	<b>15 561 239</b>	<b>9 205 594</b>

## Chapter II

### Report of the Board of Auditors

#### *Summary*

The Board of Auditors has audited the operations of the Fund of the United Nations Environment Programme (UNEP) at the headquarters of UNEP at Nairobi. The Board has also validated the financial statements of the Fund of UNEP for the period from 1 January 1998 to 31 December 1999.

The Board's main findings are as follows:

(a) UNEP did not fully comply with United Nations accounting standards insofar as it disclosed accounts receivable and accounts payable in net instead of gross terms. This led to an understatement of accounts receivable and accounts payable in the amount of \$688,829 and \$1,106,112, respectively;

(b) Expenditures in respect of 13 projects exceeded the approved commitments in the total amount of \$3,033,142;

(c) UNEP did not provide the United Nations Office at Nairobi with information needed to maintain a central roster of consultants, which should be the basis of the selection of consultants;

(d) Of the 557 projects implemented by UNEP, 247, with a total project cost of \$296 million (46 per cent) were inactive, 84 of which had been inactive prior to 1995. The Board was disappointed to note that there had been no improvement in the closure of inactive projects despite its recommendation in its reports in the bienniums 1990-1991, 1994-1995 and 1996-1997;

(e) Terms of reference for the engagement of consultants did not include performance indicators, such as timeliness, by which to assess or evaluate results.

The Board made recommendations for strict adherence to the United Nations accounting standards, enhancement of the existing accounting system, strengthening of the monitoring and reporting system used for projects and improvement in the procedure for hiring consultants.

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

## A. Introduction

1. The Board of Auditors has audited the financial statements of the Fund of the United Nations Environment Programme (UNEP) for the period from 1 January 1998 to 31 December 1999, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article XIV of the Financial Rules of UNEP. The audit has been conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto, and with the auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1998 to 31 December 1999 had been incurred for the purposes approved by the General Assembly; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNEP presented fairly the financial position as at 31 December 1999. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at UNEP headquarters at Nairobi, the Regional Office at Geneva and the subregional office in Mexico City.

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

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

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

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below the recommendation that has not been fully implemented by the Administration. The Board noted that there had only been one recommendation outstanding prior to the biennium 1996-1997. The Board had recommended in bienniums 1990-1991 and 1994-1995 that UNEP ensure timely closure of completed projects. The Board further comments on that matter in the present report.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ending 31

December 1997. Details of the action taken and the comments of the Board are set out in the annex to the present report.

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

- (a) The need for specification of timetables for the implementation of recommendations;
- (b) The disclosure of office holders to be held accountable;
- (c) The establishment of an effective mechanism to strengthen oversight with regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

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

10. A summary of main recommendations is contained in paragraph 12. The detailed findings of the audit are reported in paragraphs 13 to 39.

11. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the report were communicated to the Administration, which has confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to its queries. The report covers the audit of both financial and management issues.

### **Recommendations**

**12. The Board recommends that the Administration:**

- (a) Disclose the accounts receivable and accounts payable in gross terms, rather than in net terms (para. 15);**
- (b) Ensure that project expenditures are maintained within approved commitments (para. 20);**
- (c) Review all inactive projects and take steps to obtain the required documents to make possible the timely closure of all completed projects. Further UNEP should determine causes of the factors that prevented the timely closure of projects (para. 25);**
- (d) Provide the United Nations Office at Nairobi with the information needed to maintain a central roster of consultants which should be used as the basis for their selection (para. 28);**
- (e) Ensure that the terms of reference of consultants include performance indicators by which to assess or evaluate results (para. 32).**

## **B. Financial issues**

### **1. Financial statements**

#### **United Nations accounting standards**

13. The Board assessed the extent to which the financial statements of UNEP for the biennium 1998-1999 conform with the United Nations accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards, except for the netting off of accounts receivables and accounts payable, as discussed below.

#### **Disclosure of accounts receivable and accounts payable**

14. UNEP financial statements (statements II, III, V and VII) disclosed accounts receivable of \$10,998,878 after netting off negative balances totalling \$688,829. Similarly, the financial statements showed accounts payable of \$4,209,005, after netting off negative balances totalling \$1,106,112. This treatment was contrary to United Nations accounting standards, which require that significant items should not be offset against other items without separate identification.

**15. The Board recommends that the Administration disclose the accounts receivable and accounts payable in gross terms, rather than in net terms in accordance with United Nations accounting standards.**

### **2. Write-off of losses of cash, accounts receivable and property**

16. For the biennium ended 31 December 1999, and on the basis of the Administration's decision that the approval of write-off is within the authority of the Executive Director, the Executive Director of UNEP, pursuant to the provisions of General Assembly resolution 2997 (XXVII) of 15 December 1972, approved the write-off of accounts receivable amounting to \$2,805,334, of which \$2,721,696 was for the Environment Fund.

### **3. Ex gratia payments**

17. The Administration informed the Board that no ex gratia payments had been made during the biennium 1998-1999.

## **C. Management issues**

### **1. Programme management**

#### **Excess of expenditures over approved commitments**

18. Expenditures for a particular project shall be limited only to the cost stated in the project document unless a revision was approved increasing the project cost. Comparison of approved commitments against actual expenditures revealed that the expenditures for 13 projects exceeded the approved commitments in the total amount of \$3,033,142. Of the 13 projects, 9 had been implemented by other agencies and 4 by UNEP, with excess expenditures ranging from 2 to 31 per cent and from 38 to 1,200 per cent, respectively.

19. The Administration informed the Board that the excess of expenditures had been due to errors in recording obligation documents, and partly to project revisions not having being made in 1999. While the review and monitoring of expenditures was strictly carried out, a few cases of over-expenditures were occasionally allowed in order to expedite the implementation of specific activities for which funds had been allocated but were not reflected in a revised project budget.

**20. The Board recommends that the Administration take action to ensure that project expenditures are maintained within approved commitments.**

### **Inactive projects**

21. The Board reviewed the activity levels of projects and noted that, of the 557 projects, 247 with total project costs of \$296 million (46 per cent) were inactive. Of the inactive projects, 189 were implemented by other agencies and 58 were implemented by UNEP. Particularly noticeable were the levels of inactive projects in the environment fund where there was some 76 per cent inactive projects with total project costs of \$105 million. The ageing analysis (table 1) of inactive projects disclosed that, of the 247 inactive projects, 84 had been inactive prior to 1995, 81 between 1996 and 1997 and 82 between 1997 and 1998.

Table 1  
**Details of inactive projects**

<i>Funds</i>	<i>Total</i>	<i>Value (\$)</i>	<i>Year last revised</i>		
			<i>Pre-1995</i>	<i>1996-1997</i>	<i>1997-1998</i>
Environment	148	104.98	51	51	46
Trust	39	12.14	16	9	14
Counterpart	2	1.79	1		1
Combination of any of the above	58	177.12	16	21	21
<b>Grand total</b>	<b>247</b>	<b>296.03</b>	<b>84</b>	<b>81</b>	<b>82</b>

22. The Board noted that the large number of inactive projects was owing to one or more of the following procedural factors: evaluation of fact sheets not done in 155 cases; non-expendable property accounts not transmitted in 58 cases; terminal reports not received in 54 cases; final reports not received in 23 cases; quarterly expenditure statements not received in 14 cases; half-yearly reports not received in 16 cases; and final statement of accounts and audited reports not received in 52 cases.

23. UNEP informed the Board that most inactive projects were from the Environment Fund because during the initial years, that had been the main source of funding, and it was only later that the trust fund and counterpart contribution mechanism of funding had grown in significance. Furthermore, as a result of the changing UNEP priorities of global environmental needs, assignment of staff was a contributing factor to the difficulties encountered in getting the required substantial reports. However, a review was being carried out of all organizations implementing UNEP projects, with a view to identifying those organizations that failed to submit

the required reports, so that cash advances for ongoing projects were withheld until reports are submitted.

24. The Board was disappointed to note that there had been no improvement in this area despite the previous recommendations in its report for the bienniums 1990-1991, 1994-1995 and again in 1996-1997.

**25. The Board recommends that UNEP review all inactive projects and take steps to obtain the required documents to make possible the timely closure of all completed projects. In this regard, UNEP should determine the causes of the factors which have prevented the timely closure of projects.**

## **2. Human resources management**

### **Roster of consultants**

26. Under the comprehensive guidelines on the engagement and use of consultants (A/53/385, annex), a central roster shall be maintained to facilitate the identification of suitable candidates for consultants.

27. The Board noted that, owing to the absence of a roster, UNEP selected consultants on the recommendation of requesting departments which generally submitted the names of three candidates. The Administration informed the Board that the United Nations Office at Nairobi is unable to establish and maintain a roster for consultants, owing to lack of resources.

**28. The Board recommends that UNEP should provide the United Nations Office at Nairobi with information needed to maintain a central roster of consultants which should be used as the basis for their selection.**

### **Selection of consultants**

29. The Board reviewed 65 special service agreements and was pleased to note that in 61 cases (94 per cent) the candidates had been selected on a competitive basis. That was an improvement over the position reported by the Board on its report for the biennium 1994-1995, where the Board had expressed its concern that a number of candidates had not been considered.

### **Terms of reference of consultants**

30. According to the established guidelines, heads of departments and offices should ensure that detailed terms of reference are prepared well in advance of the engagement of the consultant, and submitted in a timely manner to the executive or administrative office for processing. Such terms of reference should describe the work to be performed, the objective and target, the measurable outputs, the realistic delivery dates and performance indicators, such as timeliness, for the evaluation of results.

31. The Board noted that terms of reference prepared by UNEP for the work assignment of consultants did not include performance indicators, such as timeliness, for the evaluation of results, as required under existing procedures.

**32. The Board recommends that UNEP ensure that terms of reference of consultants include performance indicators by which to assess or evaluate results.**

33. The Administration informed the Board that a new administrative instruction on consultants and individual contractors would be implemented.

### **3. Cases of fraud and presumptive fraud**

34. The Administration informed the Board that two cases of fraud or presumptive fraud had been reported during the biennium 1998-1999, as follows:

#### **UNEP trust funds misdirected contributions**

35. UNEP maintained a United States dollar account in one bank in New York (Account No. 001.1.507001) for receipt of contributions for all trust funds (except the Montreal Protocol). However, instead, the bank credited the proceeds from 13 contributions, totalling \$701,999 to Account No. 001.507001, the account of a private individual. The case was detected when a donor requested confirmation of the receipt of funds, which eventually led to the discovery that the funds had been deposited into the wrong bank account.

36. An investigation by the Office of Internal Oversight Services concluded that all instructions from the United Nations Office at Nairobi, which handles transactions on behalf of UNEP, had quoted the correct bank account number and that the Office had followed proper procedures. However, the investigation had not been able to determine how the amount of \$701,999 had been misdirected to the account of a private individual instead of to UNEP.

37. The bank has returned the full amount of \$701,999 to UNEP. To avoid a recurrence of this error, a new bank account has been opened for UNEP trust funds.

#### **Fraudulent encashment of four cheques totalling \$5,171.63**

38. In January 1998, the United Nations Office at Nairobi discovered that four cheques with a total equivalent value of \$5,171.63 drawn against the UNEP local currency bank accounts in Nairobi had been fraudulently encashed the previous month. An internal investigation concluded that the fraud was perpetrated by a staff member of the United Nations Office at Nairobi undertaking the bank reconciliations. The staff member had been summarily dismissed and no amount had been recovered to date.

39. The Board noted that the United Nations Office at Nairobi had changed the procedures for handling blank voided checks and for issuance of replacement checks.

## **D. Acknowledgement**

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

*(Signed)* 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

30 June 2000

## Annex

### **Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the biennium ending 31 December 1997<sup>1</sup>**

#### **Recommendation 12 (a)**

1. UNEP should obtain reports on the value of non-expendable property purchased by all implementing agencies out of UNEP funds and disclose the value in the notes to the financial statements.

#### **Measures taken by the Administration**

2. The value of the non-expendable property was disclosed in the 1998-1999 accounts.

#### **Comments of the Board**

3. The recommendation has been implemented.

#### **Recommendation 12 (b)**

4. UNEP should review all the unpaid pledges under the different funds and make appropriate provision in the accounts where the collection of the income is considered doubtful.

#### **Measures taken by the Administration**

5. The Budget and Funds Management Service of the United Nations Office at Nairobi continuously reviews unpaid pledges for all funds. In respect of the Montreal Protocol, contribution tables are maintained separately for each year since the inception of the Fund (1991), thus providing detailed information in respect of the age of unpaid pledges. Age analysis information for other UNEP trust funds is being developed. Writing off pledges, as well as considering pledges of some Governments to be doubtful and making corresponding provisions in the accounts, is the prerogative of meetings of parties contributing jointly to those funds. However, in the management of allocations and commitments of all trust funds, it is the policy and practice of UNEP and the United Nations Office at Nairobi to take into consideration cash balances only, supplemented very exceptionally by some amount in pledges considered to be fully reliable.

#### **Comments of the Board**

6. The Board considers that, where appropriate, UNEP should make provisions for doubtful pledges and that where pledges are uncollectible, proper write-off should be approved by appropriate authorities.

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<sup>1</sup> *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5F (A/53/5/Add.6), chap. II.*

**Recommendation 12 (c)**

7. UNEP should continue efforts to ensure that executing agencies that are required to provide audit certificates in respect of moneys released from the Environment Fund do so soon after the end of the financial period.

**Measures taken by the Administration**

8. The UNEP Manual on Project Formulation, Approval, Monitoring and Evaluation sets out the conditions relating to the submission of audit certificates. UNEP has put in place all the necessary measures to ensure timely submission of audited expenditure statements. Specifically, UNEP will withhold future cash advances to those organizations which have not provided audit certificates and will not enter into new contractual arrangements with supporting organizations that have not provided necessary audit documents.

**Comments of the Board**

9. The Board noted the measures taken and will monitor implementation.

**Recommendation 12 (d)**

10. UNEP should establish a system of periodic review of accounts receivable to recover and/or adjust the items.

**Measures taken by the Administration**

11. A major exercise was conducted to review all outstanding receivables. As a result, write-offs and provisions totalling \$3.3 million were approved and are included in the financial statements for the biennium 1998-1999. Enhancements to the computerized accounting system for improved monitoring and control of outstanding receivables is planned for 2000.

**Comments of the Board**

12. The Board comments further on this matter in the present report.

**Recommendation 12 (e)**

13. UNEP should reconcile all long outstanding inter-office vouchers as early as possible and adhere to the system of monthly reconciliation of inter-office vouchers in consultation with United Nations Headquarters.

**Measures taken by the Administration**

14. Reconciliation of inter-office vouchers account is undertaken by the Office of Programme Planning, Budget and Accounts at Headquarters.

### **Comments of the Board**

15. The Board emphasizes the need to maintain liaison with the Office of Programme Planning, Budget and Accounts in the implementation of this recommendation.

### **Recommendation 12 (f)**

16. As a matter of urgency, UNEP should review the cost-effectiveness and viability of the Mercure project, including the compatibility of the Mercure satellite communications system with the United Nations communications system.

### **Measures taken by the Administration**

17. The conclusions of an independent and external cost-benefit analysis of the UNEPnet/Mercure System, based on preliminary experience gained during the first five months of operation, were reported by the Executive Director to the UNEP Governing Council at its twentieth session. In decision 20/30, the Governing Council noted that Mercure does, in fact, provide cost-effective services and positive benefits to UNEP. In the same decision, the Governing Council requested the Executive Director to present a comprehensive cost-benefit analysis to it at its following session.

18. The Administration further informed the Board that the Mercure system had demonstrated full compatibility at the level of internet data services with the United Nations telecommunications network since the commencement of services. Compatibility with United Nations video-conferencing services had since also been reliably and repeatedly demonstrated. Integration of voice telephone services, including switch-to-switch integration and uniform dialling, was to be demonstrated once necessary negotiations with Kenyan telecommunications authorities were concluded. Those negotiations would be finalized once the current restructuring telecommunications by the Kenyan authorities was complete. A technical coordination meeting between UNEP and the Information Technology Services Division at United Nations Headquarters to coordinate voice services had been held in May 1999. UNEP was currently awaiting feedback from the Government of Kenya. Extension of data services to other United Nations agencies in Nairobi had already been implemented; and voice services would also be extended once operational.

### **Comments of the Board**

19. The Board will follow these developments in future audits.

### **Recommendation 12 (g)**

20. UNEP should improve its management and control over projects by ensuring that objectives and outputs are clearly specified, that terms of reference for consultants are specified, and that quarterly expenditures and half yearly progress reports are received promptly. The Administration should also take action to obtain all prescribed reports, so as to allow timely closure of completed projects.

**Measures taken by the Administration**

21. Project formulation has been streamlined with the approval in 1998 of the UNEP Manual on Project Formulation, Approval, Monitoring and Evaluation; measures to ensure timely submission of financial statements and progress reports were put in place (UNEP withholds cash advances to organizations which have not submitted required reports). Action has also been taken to solicit from executing agencies all outstanding project reports and to effect timely closure of projects.

**Comments of the Board**

22. The Board notes the measures taken and will monitor their implementation.

**Recommendation 12 (h)**

23. UNEP should review the project management report sheet and include the specific outputs in it, in addition to ensuring they are updated on an ongoing basis in order for them to serve as an effective project management instrument.

**Measures taken by the Administration**

24. The UNEP Manual on Project Formulation, Approval, Monitoring and Evaluation already provides tools (project progress report, terminal report and self-evaluation fact sheet) for collecting comprehensive information on the life of a project, so as to meet evaluation and reporting requirements, including specific outputs. Fund management officers are following up the project development through the "project management report sheet", on which all expected and received reports are listed. UNEP considers that these reports and the filing system will adequately meet the audit requirements and does not see the need to include specific outputs on the "project management report sheet".

**Comments of the Board**

25. The Board takes note of the action taken and will follow up its implementation in future audits.

## Chapter III

### Audit opinion

We have audited the accompanying financial statements, comprising statements I to VIII of the United Nations Environment Programme and the supporting notes for the period from 1 January 1998 to 31 December 1999. These financial statements are the responsibility of the Executive Director of the United Nations Environment Programme at Nairobi. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all respects, the financial position at 31 December 1999 and the results of operations and cash flows for the period then ended in accordance with the organization's stated accounting policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

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

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

*(Signed)* 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

30 June 2000

## Chapter IV

### Certification of the financial statements

31 March 2000

I certify that the appended financial statements of the United Nations Environment Programme, numbered I to VIII, are correct.

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



## **Chapter V**

### **Financial statements for the biennium ended 31 December 1999**



## Notes to the financial statements

### Note 1

#### The United Nations Environment Programme and its objectives

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

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

## **Note 2**

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

The following are the significant accounting policies of UNEP:

(a) The accounts are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, including the Financial Rules of the Fund of the United Nations Environment Programme, specific decisions of the Governing Council of UNEP and administrative issuances, and in conformity with generally accepted accounting principles;

The United Nations and the United Nations Environment Fund follow the common accounting standards of the United Nations system (A/48/530), and where departures from the standards occur as a result of the legislative authorities of individual organizations, attention is drawn to each instance in the statement of significant accounting policies included in the financial statements;

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

(c) Financial reserve. As stated in rule 209.2 of the Financial Rules of the Fund, the purpose of the financial reserve is to guarantee the financial liquidity and integrity of the Fund, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the Governing Council. The level of financial reserve is determined from time to time by the Governing Council and the Council, in its decision 18/40, paragraph 9, authorized the Executive Director to increase gradually the level of the financial reserve to \$20 million by 1999 using the underutilized Fund resources;

(d) Operational reserve. With regard to the Special Account Programme Support Costs, an operational reserve is required to be held to protect against unforeseen shortfalls in delivery, inflation and currency adjustments or to liquidate legal obligations in case of abrupt terminations of activities financed from extrabudgetary resources;

(e) Revolving Fund. The Governing Council, by its decision 11/(III) of 22 March 1994, established a Revolving Fund (Information) to finance the production of materials in support of national programmes of public information and education in the environment field. The Council further decided that the income from the sale or rental of information materials, the production of which was financed from Revolving Fund (Information) shall be credited to that Fund. Cumulative surplus in excess of \$200,000 is transferred to the Environment Fund;

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

(g) Fund accounting. The accounts are maintained on a "fund accounting" basis and each fund is maintained as a distinct financial and accounting entity with a

separate self-financing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature;

(h) The financial period of UNEP is a biennium and consists of two consecutive calendar years;

(i) The income and expenditures and assets and liabilities are recognized on the accrual basis of accounting;

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

(k) Translation of currencies. The accounts of UNEP are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of transaction at the rates of exchange established by the Treasurer of the United Nations. In respect of such currencies, the financial statements reflect the cash, investments and unpaid pledges in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements;

Differences arising from the conversion of currencies at the United Nations rate of exchange are accounted for as gain or loss on exchange. In accordance with rule 205.2 of the Financial Rules of the Fund, losses and gains on exchange arising from the payment of voluntary contributions from Governments are recorded as credit or debit to such contributions;

(l) Contributions. Pledges are recorded as income on the basis of a written commitment by prospective donors to pay monetary contributions at a specified time or times. Pledges received for future years are recorded as deferred income. Pledges to the Environment Fund remaining unpaid after four years are written off with the approval of the Governing Council. Pledges to Trust Funds which involve the share of a party or parties for a budget convention that has been approved by Governments are written off with the approval of the Conference of Parties in question. And finally, trust funds which are purely voluntary are written off with the approval of the Executive Director of UNEP;

(m) Investments. Funds on deposits in interest-bearing bank accounts, certificates of deposits and time deposits are shown in the statements of assets and liabilities as cash and term deposits;

(n) Deferred charges. Deferred charges comprise expenditure items which are not properly chargeable in the current financial period and which will be charged as expenditure in a subsequent financial period. For balance sheet statement purposes, only that portion of the education grant advance which is assumed to pertain to the scholastic year completed as at the date of the financial statement is shown under deferred charges. The full amount of the advance is maintained in the accounts receivable from staff members until such time as the staff member produces the required proof of the entitlement to the education grant, at which time the budgetary account is charged and the advance recovered;

(o) Fixed assets. Furniture, equipment and other non-expendables are not included in the assets of UNEP. Acquisitions are charged against the appropriate budget accounts in the year of purchase;

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

(q) Miscellaneous income consists of the following:

(i) Refunds of expenditure charged to prior financial periods;

(ii) Monies accepted in respect of which no purpose is specified;

(iii) Uncashed cheques one year from their date of issuance;

(iv) Interest from counterpart contributions to the Fund;

(v) Balance of the Revolving Fund in excess of \$200,000 as at the end of the biennium.

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

(s) At the 11th meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol, it was decided that promissory notes did constitute committable resources and that the deposit of a promissory note would be considered to be payment of a country's contribution to the Multilateral Fund. Consequently, promissory notes received from member countries have been reflected accordingly in the accounts of the Fund.

### **Note 3**

#### **Financial reporting by agencies and supporting organizations**

All agencies and organizations (except 11) engaged in the implementation of projects funded by UNEP and/or its associated trust funds reported their expenditures as at 31 December 1999.

**Note 4****Summary of expenditure by object code for the Fund programme and Fund programme reserve activities for the biennium ended 31 December 1999**

(United States dollars)

<i>Object of expenditure</i>	<i>Disbursements</i>	<i>Unliquidated obligations</i>	<i>Total</i>
Project personnel	22 584 425	591 638	23 176 063
Consultants	2 163 859	966 254	3 130 113
Administrative support personnel	8 540 234	81 429	8 621 663
Travel	3 017 799	410 167	3 427 966
Sub-contracts	9 622 776	4 160 871	13 783 647
Fellowships	364 271	4 445	368 716
Meetings and conferences	3 097 114	1 250 929	4 348 043
Expendable equipment	568 722	147 647	716 369
Non-expendable equipment	664 231	498 274	1 162 505
Rentals	2 431 999	55 778	2 487 777
Operation and maintenance of equipment	394 916	189 202	584 118
Reporting costs	1 779 928	752 164	2 532 092
Sundry	2 049 986	445 178	2 495 164
Hospitality	39 920	13 900	53 820
UNEP participation costs (external projects)	988 507	43 032	1 031 539
<b>Total</b>	<b>58 308 687</b>	<b>9 610 908</b>	<b>67 919 595</b>

**Note 5****Inter-fund balances receivable by Environment Fund**

The following is a breakdown of inter-fund balances receivables as at 31 December 1999 appearing in statement II (in United States dollars):

<i>UNEP General Trust Funds (statement III)</i>	
CITES	3 563 467
Environmental Training Network	53 998
Montreal Protocol	408 847
Vienna Convention	417 169
Conservation of Migratory Species	104 546
Basel Convention	886 791
Implementation of the Basel Convention	323 795
Northwest Pacific Region	52
Prior Informed Consent Procedure	171 942

Bio-diversity support for approved activities	84 761
Bio-diversity participation of parties	131 300
International Action on Persistent Organic Pollutants	630 928
UNEP High-Level Committee	6 653
Implementation of Governing Council in North America	197 188
Financial services on environment	119 833
UNEP/HABITAT Balkans Task Force	489 510
<b>Subtotal</b>	<b>7 590 780</b>
<i>Multilateral Fund under the Montreal Protocol (statement IV)</i>	569 011
<i>UNEP Technical Cooperation trust funds (statement V.1)</i>	
Material management (Sweden)	24 442
Financing of professional officers	40 247
Implementation of Montreal Protocol (Sweden)	57 754
Global Environmental Facility	713 661
Implementation of the Multilateral Fund by UNEP	1 854 844
Implementation of Agenda 21 in Europe (Netherlands)	26 170
Montreal Protocol for French-Speaking African Countries (France)	5 865
Network for environmental training at the tertiary level (Denmark)	48 489
Secondment to Commission on Sustainable Development (Netherlands)	101 685
UNEP High-Level Committee of Ministers and Officials (United States of America)	167 520
Support activities on environmental issues (Japan)	300 000
Provision of a mining expert (South Africa)	27 222
Coordination Office of GPA (Netherlands)	23 219
Financing of professional officers by Nordic Governments (Sweden)	28 252
Provision of a professional officer to the Ozone Secretariat (Netherlands)	8 168
Production of an information video and video booklet (Germany)	17 000
Implementation of personnel reforms in UNEP (United States of America)	130 000
Promotion of cleaner production investments in developing countries (Norway)	190 768
Provision of a Senior Programme Officer to the UNEP/GPA Office in the Hague (France)	7 648
Provision of an Executive Assistant to the Executive Director of UNEP (United Kingdom)	10 900
Implementation by UNEP of enabling and pioneering environmental projects (Germany)	237 637
Implementation of Federation of European Accountants-based system (Global Environmental Facility)	120 675
<b>Subtotal</b>	<b>4 142 166</b>
<i>UNEP Junior Professional Officers Programme (statement V.2)</i>	
Denmark	48 882
Germany	30 875

Japan	75 050
Netherlands	164 962
Italy	52 788
United States of America	176 085
<b>Subtotal</b>	<b>548 642</b>
<i>Sasakawa UNEP Environment Prize (statement V.3)</i>	33 026
<i>Special account for programme support (statement VI)</i>	1 014 818
<i>Counterpart contributions (statement VII.1)</i>	
Main	2 965 047
Caribbean	153 440
East Asian Seas	62 607
Mediterranean Plan	728 393
Ozone	50 969
Cites	21 655
Migratory Species	47 372
Basel Convention	26 392
<b>Subtotal</b>	<b>4 055 875</b>
<i>United Nations Office at Nairobi Conference Services (including Printshop)</i>	877 386
<b>Total (statement II)</b>	<b>18 831 704</b>

## Note 6

### Other accounts receivable

The accounts receivable balance comprises the following (in United States dollars):

Staff members	3 297 522
Vendors	6 237 169
Accrued Interest	899 573
Others	564 614
<b>Subtotal (statement II)</b>	<b>10 998 878</b>
Provision for doubtful debts	(1 695 714)
<b>Net amount</b>	<b>9 303 164</b>

## Note 7

### Deferred charges

(a) The following is an analysis of the amount shown in statement II as deferred charges as at 31 December 1999 (United States dollars):

Education grant advances	746 474
Prepaid expenses	182 264
Advance to finance self-liquidating activities	59 798
Others	211 924
<b>Total (statement II)</b>	<b>1 200 460</b>

(b) The deferred charges shown in statements III, IV, V.1, V.2, and VII.1 represent education grant advances as follows (United States dollars):

Statement III	99 683
Statement IV	7 732
Statement V.1	66 358
Statement VII.1	1 552
<b>Total</b>	<b>175 325</b>

The portion of the education grant advance which is assumed to pertain to the scholastic year completed as of the date of financial statement is included in deferred charges for balance sheet purposes only.

## Note 8

### Inter-fund balances payable by Environment Fund

The following is a breakdown of inter-fund balances payable as at 31 December 1999 appearing in statement II (United States dollars):

<i>UNEP general trust funds (statement III)</i>	
Mediterranean	732 133
Kuwait Action Plan	200
East Asian Seas	95 944
Caribbean	11 072
West and African Central Region	1 487
East African Regional Seas	44 172
Bio-diversity Convention	225 831
Global Programme Marine Protection	55 037
<b>Subtotal</b>	<b>1 165 876</b>

*UNEP technical cooperation trust funds (statement V.1)*

Andean Eco-system (Germany)	18
Consultancies to developing countries (Finland)	2 230
Financing of professional officers	1 295
Environmental awareness and machinery (Germany)	10 805
Vienna Convention under Montreal Protocol (Finland)	4 551
Establishment of an account for INFOTERRA (United States of America)	9 703
Environmental damage Kuwait and Iraq conflict	1 277
International Environmental Technology Centre (Japan)	272 573
Management of chemicals (Switzerland)	784
Institutional and regulatory capacity of developing countries in Africa (Netherlands)	11 710
Land degradation assessment and mapping in Kenya (Netherlands)	4 035
Action in accordance with Agenda 21 (Sweden)	27 574
Managerial innovation excellence (United States of America)	27
Regional centres under the Basel Convention (Swiss Confederation)	14 564
Implementation of activities funded by the United Nations Fund for International Partnerships	297 678
<b>Subtotal</b>	<b>658 824</b>

*UNEP Junior Professional Officers Programme (statement V.2)*

Australia	14 855
Austria	55
Belgium	1 267
France	644
Norway	11
Sweden	24 669
<b>Subtotal</b>	<b>41 501</b>

*Non-convertible currency counterpart contributions to the Mediterranean Trust Fund (statement VII.2)* 409 819

*Non-convertible currency counterpart contributions to the Caribbean Trust Fund (statement VII.3)* 34 159

*Revolving Fund (Information) (statement VIII)* 199 723

*United Nations Office at Nairobi Kenya Security Coordinator's Office* 15 079

<i>United Nations Office at Nairobi extrabudgetary resources</i>	894 107
<i>United Nations General Fund</i>	41 060 383 <sup>a</sup>
<b>Total (statement II)</b>	<b>44 479 471</b>

<sup>a</sup> The inter-fund balances between the Fund of UNEP, UNEP trust funds and other accounts are settled on a periodic basis, except for the liability to the United Nations General Fund, which is settled as and when requests are made by United Nations Headquarters. The liability to United Nations Headquarters at the end of 1997 was \$19,545,732 as stated in the 1996-1997 biennium financial statements. This excludes \$3,601,187 included in advances provided by implementing agencies. Taken together, the total liability at the end of 1997 was \$23,146,919. This has grown to \$41,060,383 at the end of 1999, in absence of settlement requests from United Nations Headquarters which is abnormal. A return to normal levels of indebtedness is expected in 2000.

## **Note 9**

### **Accounts payable**

The accounts payable balance comprises the following (in United States dollars):

Staff members	784 801
Vendors	1 734 188
UNDP field offices	740 455
Others	949 560
<b>Total (statement II)</b>	<b>4 209 004</b>

## **Note 10**

### **Non-expendable property**

According to the cumulative inventory records of UNEP, the value of non-expendable property at cost, as at 31 December 1999 at UNEP headquarters and its overseas offices was US\$ 9,825,577 and the value of non-expendable property held by various UNEP projects was \$604,531. In accordance with United Nations accounting policies, non-expendable equipment is not included in the fixed assets of the organization, but is charged against current appropriations.

## **Note 11**

### **Write-off of receivables and provision for doubtful debts**

(a) In accordance with financial rule 110.14, and after a full investigation, a write-off of uncollectible receivables amounting to \$1,294,185 (of which \$1,210,547 pertained to the Environment Fund) was approved by the Executive Director. In each case it was determined, in the light of the facts known at the time, that (a) responsibility for the loss could not be fixed and attached to an official of UNEP, (b) every effort has been made to collect the amount and (c) further collection efforts would be fruitless. The write-offs have been recorded as prior year adjustments, as the debts originated in prior bienniums.

(b) The Executive Director further approved the setting-up of a provision for doubtful debts amounting to \$2,036,145 (of which \$1,695,714 pertained to the Environment Fund), relating to debts where recovery is unlikely. The provisions have been recorded as prior year adjustments, as the debts originated in prior bienniums, as shown below (in United States dollars):

1997	48 034
1996	291 640
1995	917 954
1994	469 007
1993 and earlier	309 510
<b>Total</b>	<b>2 036 145</b>

(c) Non-recording of the write-offs and provisions in the accounts of earlier bienniums is owing to deficiencies in the past accounting systems of UNEP and the United Nations Office at Nairobi. These deficiencies have been overcome in the current biennium as a result of the extensive work done to substantiate the receivable amounts.