



**FUND OF THE
UNITED NATIONS ENVIRONMENT PROGRAMME**

**FINANCIAL REPORT AND ACCOUNTS
for the year ended 31 December 1975
and
REPORT OF THE BOARD OF AUDITORS**

GENERAL ASSEMBLY

OFFICIAL RECORDS: THIRTY - FIRST SESSION

SUPPLEMENT No. 7F (A/31/7/Add.6)

UNITED NATIONS



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UNITED NATIONS

New York, 1976

NOTE

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LETTERS OF TRANSMITTAL

26 March 1976

Sir,

Pursuant to financial regulation 11.4, as amended by General Assembly resolution 3192 (XXVIII), I have the honour to submit the report and accounts of the Fund of the United Nations Environment Programme for the fiscal year 1975, which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

Yours truly,

(Signed) Mostafa K. TOLBA
Executive Director

The Chairman of the Board of Auditors
United Nations
New York

25 June 1976

Sir,

I have the honour to transmit to you the financial statements of the United Nations Environment Programme as at 31 December 1975, which were submitted by the Executive Director. These statements have been examined and includes the audit opinion of the Board of Auditors.

In addition to the above, I have the honour to present the report of the Board with respect to the Accounts of the United Nations Environment Programme for the year 1975.

Accept, Sir, the assurances of my highest consideration.

(Signed) J. J. MACDONELL
Auditor General of Canada
and
Chairman of the United
Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

I. FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 1975

1. The Executive Director of the United Nations Environment Programme has the honour to submit herewith the financial report on the accounts of the Fund of UNEP for the year ended 31 December 1975 as follows:

Statement I	Statement of assets, liabilities and unencumbered funds
Statement II	Statement of income and expenditure
Schedule 1	Investments
Schedule 2	Status of pledges unpaid
Schedule 3	Summary of appropriations, expenditures and obligations for programme and programme reserve activities
Schedule 4	Summary of appropriations, allocations issued, expenditures incurred and unencumbered balances for programme and programme support costs of the Fund
Schedule 5	Summary of allocations, expenditures and obligations and unencumbered balance of the United Nations Habitat and Human Settlements Foundation

Financial position of the Fund of UNEP and its resources

2. The third session of the Governing Council of UNEP, held from 17 April to 2 May 1975, reviewed and authorized the revised allocations for the operation of the Fund programme for 1975 and for the biennium 1976-1977.

3. The net operating result for 1975 shows an excess of expenditure over income amounting to \$2,258,187. In accordance with United Nations financial regulations 4.3 and 4.4 any unliquidated obligation of a prior fiscal year shall lapse at the end of the 12-month period following the end of the prior year. Accordingly, an amount of \$234,972 was cancelled and transferred to the resources of the Fund. The financial position of the Fund stands at \$17,572,741 after provision for the financial reserve and other Fund related activities; at the end of 1974 the financial position was \$21,999,192.

Commitments on approved projects

4. Outstanding commitments on approved projects are as follows:

Balance of commitments at 1 January 1975	\$ 9,245,320
<u>Add:</u> Projects approved during 1975	<u>34,701,828</u>
	43,947,148
<u>Less:</u> Expenditures incurred: UNEP	<u>12,943,250</u>
Balance of commitments at 31 December 1975	<u><u>\$31,003,898</u></u>

5. The above figure as shown by year of funding as follows, and represents a contingent liability of the future resources of the Fund:

1976	\$20,553,318
1977	8,702,230
1978	1,748,350

Custodianship of the fund

6. The Secretary-General of the United Nations, as custodian of the Fund of UNEP, continued to receive contributions from Governments and to invest cash not immediately required. Funds were remitted to the Executive Director as and when required for UNEP operations.

7. Cash contributions received from Governments during the year amounted to \$16,858,097, compared to \$17,777,023 in 1974. Interest earned on short-term investments amounted to \$973,987 in 1975, compared to \$621,866 in the previous year. Remittances to the Executive Director during the year totalled \$11,750,000.

Operation and Fund Programme

8. Funds appropriated by the Governing Council were utilized during 1975 as follows:

	<u>Appropriations</u>	<u>Utilized</u>	<u>Unutilized appropriation</u>
	(in thousands of United States dollars)		
Fund Programme activities	21,700	12,388	9,312
Fund Programme reserve	1,000	555	445
Programme and Programme Support Costs	5,221	5,083	138
	<u>27,921</u>	<u>18,026</u>	<u>9,895</u>
1975			
	<u>22,501</u>	<u>8,148</u>	<u>14,353</u>
1974			

International prize for the most outstanding
contribution in the field of the environment

9. The General Assembly, under resolution 3003 (XXVII) of 15 December 1972, established an international prize in the field of the environment. In 1974, the Government of Iran contributed in cash the amount of \$27,000 to establish the fund for the prize and related costs and in 1975 pledged a further sum of \$30,000 to raise the prize to \$50,000. Interest earned was credited to the prize account in the amount of \$1,631.

Revolving Fund (Information)

10. The Governing Council established the above fund for the purpose of financing the preparation, production and distribution of UNEP information materials as a self-liquidating operation.

11. An amount of \$12,800 was obligated for procurement and distribution of a publication, and income of \$900 was received during 1975.

Construction of UNEP temporary premises at Gigiri

12. The 13.5 acres of land for the temporary headquarters of UNEP were made available to the organization by the Government of Kenya. Construction was started on 1 July 1975 and the eight buildings were completed and occupied in mid-December 1975. The Kenya Government contributed the sum of 6 million Kenyan shillings (equivalent to \$US 738,916) towards the cost of construction while the Fund of UNEP advanced \$1,150,000 to be repaid over a period of six years (1976-1981) through annual budget appropriations from the regular budget of the United Nations and the programme and programme support costs of the Fund of UNEP. The difference between the estimated and actual costs, \$6,896, was absorbed by the savings in the Fund's budget programme and programme support costs for 1975.

United Nations Habitat and Human Settlements Foundation

13. Acting on the recommendations of the Governing Council, the General Assembly adopted, on 16 December 1974, resolution 3327 (XXIX) establishing the United Nations Habitat and Human Settlements Foundation as from 1 January 1975. Pursuant to paragraphs 12 and 13 of Governing Council document UNEP GC/36 the Executive Director has opened a separate account in which the financial resources available to the Foundation are being held and accounted for. As will be seen from statement I, an initial allocation of \$600,000 from the Fund of UNEP was entered into this account together with a first pledged contribution of \$5,000. Obligations and expenditures incurred to the end of 1975 totalled \$307,930, leaving an unencumbered balance at 31 December 1975 of \$297,070.

Budgetary matters

14. A net savings of \$137,991 has been realized on the programme and programme support costs of the Fund.

15. A brief explanation is given below on some of the more important items, as they appear in schedule 4.

Salaries and common staff costs

16. Against an appropriation of \$3,069,000 savings were realized in the amount of \$143,354. This is mainly to be attributed to delays in recruitment and turnover of staff.

17. The over-expenditure of \$115,659 represents the actual recruitments of the liaison and regional offices during the year as a result of the expanded activities in the regions. The vacancy situation did not permit the temporary utilization of established posts to meet these requirements, therefore temporary assistance funds were utilized with a view to requesting established posts to meet these needs, should they continue in the future.

18. It will be noted that under the provision for consultancy and ad hoc experts savings of \$183,031 have been realized at 31 December.

Acquisition of furniture and equipment

19. It was necessary to purchase new furniture and additional equipment for the UNEP temporary premises which resulted in an over expenditure of \$269,986. It may be recalled that while at the Kenyatta Conference Centre UNEP expected to purchase the furniture that was being used at the Centre from the host Government. As a result of the move to Gigiri this purchase could not be made. Consequently, the Executive Director authorized the expenditure of up to \$300,000 towards unforeseen expenditures necessitated by the move to the new premises. This expenditure was to be absorbed from the over-all expected savings in the programme and programme support costs of the Fund in 1975.

Regular budget of the United Nations

20. The total revised appropriation from the regular budget of the United Nations for the biennium 1974-1975 to meet the cost of the "small secretariat" was established at \$5,274,000. During the biennium, a total of \$4,890,117 was spent resulting in savings of \$383,883 at the end of this period. The accounts and report for the regular budget are reflected under section 16 in statement I, schedules 1, 2, 3 and 4, of the financial report and accounts of the United Nations for the biennium ended 31 December 1975.

Action taken on observations and recommendations made by the Board of Auditors in its report 1/ to the General Assembly at its thirtieth session concerning the accounts of the United Nations Environment Programme for the year ended 31 December 1974

Internal control procedures

21. The Executive Director has taken note of the comments and recommendations of the Board of Auditors as contained in paragraphs 7 to 30 of the financial report and accounts for the year ended 31 December 1974 and the report of the Board of Auditors. 2/

22. The Executive Director reported to the Governing Council of UNEP at its fourth session, held at Nairobi from 30 March to 14 April 1976, on the efforts made to comply with the comments and recommendations of the Board of Auditors.

1/ Official Records of the General Assembly, Thirtieth Session, Supplement No. 7 F (A/10007/Add.6).

2/ Ibid., sect. IV.

II. AUDIT OPINION

We have examined the following appended financial statements, numbered I and II, properly identified, and relevant schedules of the United Nations Environment Programme for the year ended 31 December 1975. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. As a result of our examination, we are of the opinion that the financial statements properly reflect the recorded financial transactions for the year, which transactions were in accordance with the Financial Regulations and legislative authority, and present fairly the financial position as at 31 December 1975.

(Signed) J. J. MACDONELL
Auditor General of Canada

(Signed) A. MARTINEZ-ZULETA
Controller General of Colombia

(Signed) A. HAMID
Auditor General of Pakistan

25 June 1976

III. ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1975

Comparative statement of assets, liabilities and unencumbered funds as at 31 December 1975
(in United States dollars)

	<u>1975</u>	<u>1974</u>		<u>1975</u>	<u>1974</u>
Assets			Liabilities and reserves		
Cash at banks and on hand	757 285	444 162	Accounts payable	304 556	178 280
Letter of credit	1 800 000	3 200 000	Reserve for outstanding obligations	3 384 330	636 952
Investments (Schedule 1)	18 036 169	13 263 885	Financial reserve	2 200 000	1 650 000
Accrued interest on investments	264 714	82 541	Deferred contributions (Schedule 2)	64 487 184	722 911
Pledged contributions receivable from Governments (Schedule 2)	69 756 397	74 697 525	Due to United Nations General Fund	2 286 708	673 478
Accounts receivable and deferred charges	551 016	199 700	Due to Revolving Fund (Information)	100 900	-
			Due to account for construction work-in-progress	447 077	-
			Due to United Nations and Human Settlements Foundation	353 454	-
			UNEP Trust Fund for international prize in the field of environment	28 631	27 000
			Balance of unencumbered funds	<u>73 592 840</u>	<u>69 888 621</u>
			Balance available at 1 January	21 999 192	10 036 873
			Add: Income from cancellation of unliquidated obligations of prior year	234 972	153 512
			Less: Transfer to financial reserve	550 000	(1 158 026)
			Advance for construction of temporary premises (Gigiri)	1 150 000	
			Allocation to Revolving Fund (Information)	100 000	
			Allocation to United Nations Habitat and Human Settlements Foundation	600 000	(2 400 000)
			Expenditures related to pre-conference (Stockholm) activities	(3 236)	-
			Excess of expenditure over income (Statement II)	(2 258 187)	12 956 833
			Balance available at 31 December	<u>17 572 741</u>	<u>21 999 192</u>
	<u>91 165 581</u>	<u>91 887 813</u>		<u>91 165 581</u>	<u>91 887 813</u>
			<u>Revolving Fund (Information)</u>		
Due from Fund of UNEP	100 900	-	Reserve for outstanding obligations	12 800	-
			Allocation from Fund of UNEP	100 000	
			Other income	900	
			Expenditures	(12 800)	
			Balance available 31 December	88 100	-
	<u>100 900</u>	<u>-</u>		<u>100 900</u>	<u>-</u>
			<u>Construction work-in-progress - Temporary Premises at Gigiri</u>		
Due from Fund of UNEP	447 077	-	Accounts payable - retention	79 273	-
Accounts receivable - sales tax	34 760	-	Reserve for outstanding obligations	406 138	-
Expenditures and obligations incurred	1 899 386	-	Advance from Fund of UNEP	1 150 000	-
			Donation from Government of Kenya	738 916	-
			Appropriation from Programme and Programme Support Costs of the Fund	6 896	-
	<u>2 381 223</u>	<u>-</u>		<u>2 381 223</u>	<u>-</u>
			<u>United Nations Habitat and Human Settlements Foundation</u>		
Pledged contributions receivable	5 000	-	Reserve for outstanding obligations	61 384	-
Due from Fund of UNEP	353 454	-	Unencumbered funds:		
			Allocation from Fund of UNEP	600 000	-
			Contribution from Governments	5 000	-
				605 000	-
			Less: Expenditures and obligations	(307 930)	-
			Balance of unencumbered funds	297 070	-
	<u>358 454</u>	<u>-</u>		<u>358 454</u>	<u>-</u>

CERTIFIED CORRECT

(Signed) R. B. STEWART
Assistant Executive Director
and Director, Environment Fund

Nairobi, 26 March 1976

Comparative statement of income and expenditure
for the year ended 31 December 1975

(in United States dollars)

<u>Income:</u>	<u>1975</u> \$	<u>1974</u> \$
Contributions from Governments (Schedule 2)	14 152 697	20 483 915
Counterpart contribution for specific projects (Swedish International Development Agency)	554 895	60 000
Public donations	518	305
Interest income	973 987	621 866
Refund of project expenditures of prior year(s)	83 162	10 396
Other income	38 449	7 610
	<hr/>	<hr/>
Total income	15 803 708	21 184 092
	<hr/>	<hr/>
<u>Less: Expenditure</u>		
Fund programme activities (Schedule 3)		
Expenditures and obligations	12 388 265	5 430 971
Fund programme reserve activities (Schedule 3)		
Expenditures and obligations	554 985	167 027
Programme and Programme Support Costs (Schedule 4)		
Expenditures and obligations	5 083 009	2 550 095
Other expenditures		
Loss/gain on exchange	35 636	69 166
	<hr/>	<hr/>
Total expenditure	18 061 895	8 217 259
	<hr/>	<hr/>
<u>Excess of income over expenditure (deficit)</u>	<u>(2,258,187)</u>	<u>12 966,833</u>
(To Statement I)	<hr/> <hr/>	<hr/> <hr/>

CERTIFIED CORRECT

(Signed) R. B. STEDMAN
Assistant Executive Director
and Director, Environment Fund

Nairobi, 26 March 1976

SCHEDULE 1

Investments as at 31 December 1975

In United States dollars

Chemical Bank, 5 per cent, savings account	1 936 169
Bankers Trust Co., Nassau 7 13/16 per cent, 10 February 1976	800 000
Bankers Trust Co., Nassau 6 3/4 per cent, 17 March 1976	2 000 000
European American Banking Corp., Nassau 7 11/16 per cent, 17 February 1976	1 000 000
First National City Bank, Nassau 8 1/16 per cent, 30 January 1976	1 500 000
Irving Trust Co., Grand Cayman 7 1/4 per cent, 17 May 1976	1 000 000
Irving Trust Co, Grand Cayman 7 5/16 per cent, 18 May 1976	3 200 000
Lloyds Bank, London 6 3/16 per cent, 2 January 1976	500 000
Lloyds Bank, London 7 11/16 per cent, 2 June 1976	1 000 000
Manufacturers Hanover Trust Co., Frankfurt 7 1/2 per cent, 5 January 1976	500 000
Morgan Guaranty Trust, Nassau 7 7/16 per cent, 12 March 1976	1 000 000

In Japanese yen equivalent of United States dollars

Mitsubishi Bank Tokyo 7 3/16 per cent, 19 April 1976	3 600 000
Total	<hr style="border: 1px solid black;"/> 18 036 169 <hr style="border: 1px solid black;"/>

FUND OF THE UNITED NATIONS ENVIRONMENT PROGRAMME
 STATUS OF PLEDGES UNPAID AS AT 31 DECEMBER 1975
 (EXPRESSED IN UNITED STATES DOLLARS)

SCHEDULE 2

COUNTRIES	UNPAID PLEDGES			COLLECTIONS DURING 1975	UNPAID PLEDGES AS AT 31 DECEMBER 1975
	AS AT 31 DECEMBER 1974	PLEDGES FOR 1975 AND ADJUSTMENTS	PLEDGES FOR FUTURE YEARS		
ARGENTINA	-	40,000	120,000	40,000	120,000
AUSTRALIA	-	500,000	1,000,000	500,000	1,000,000
AUSTRIA	-	200,000	600,000	200,000	600,000
BELGIUM	-	250,000	500,000	250,000	500,000
BOTSWANA	-	1,150	1,153	1,150	1,153
BRAZIL	-	20,000	-	20,000	-
BULGARIA	-	-	13,332	-	13,332
BYELORUSSIAN SOVIET SOCIALIST REPUBLIC	-	17,544	35,088	-	52,632
CANADA	1,500,000	-	5,000,000	-	6,500,000
CHINA	131,579	-	-	131,579	-
CUBA	24,540	24,540	-	149,080	-
CZECHOSLOVAKIA	-	25,554	76,661	-	102,215
DENMARK	-	400,000	800,000	400,000	800,000
FINLAND	-	200,000	200,000	200,000	200,000
FRANCE	-	1,445,783	2,727,272	1,445,783	2,727,272
GERMAN DEMOCRATIC REPUBLIC	73,469	87,722	238,809	161,191	238,809
GERMANY, FEDERAL REPUBLIC OF	-	1,939,538	3,461,538	1,939,538	3,461,538
GHANA	11,023	19,723	-	30,746	-
GREECE	-	-	-	-	-
HUNGARY	-	22,989	24,462	22,989	24,462
ICELAND	-	4,000	-	4,000	-
INDIA	-	100,000	-	-	100,000
INDONESIA	-	10,000	-	-	10,000
IRAQ	-	13,573	-	13,573	-
ITALY	800,000	-	1,200,000	759,124	1,240,876
JAMAICA	-	4,000	-	4,000	-
JAPAN	-	2,000,000	5,500,000	2,000,000	5,500,000
KENYA	-	30,000	60,000	-	90,000
KUWAIT	-	33,200	66,700	33,300	66,700
LESOTHO	-	1,000	-	1,000	-
LIBERIA	-	1,500	-	1,500	-
LUXEMBOURG	-	10,000	-	-	10,000
MALTA	-	2,630	-	2,630	-
MEXICO	-	200,000	-	200,000	-
NETHERLANDS	-	300,000	600,000	300,000	600,000
NEW ZEALAND	70,249	74,530	113,200	144,779	113,200
NIGERIA	40,000	20,000	-	60,000	-
NORWAY	-	484,157	860,870	494,157	860,870
PERU	-	2,000	-	2,000	-
PHILIPPINES	(10,000)	10,000	-	-	-
POLAND	-	50,201	150,602	50,201	150,602
PORTUGAL	-	2,000	6,000	-	8,000
REPUBLIC OF SOUTH VIET-NAM	1,000	-	-	-	1,000
ROMANIA	-	12,500	8,333	12,500	8,333
SENEGAL	1,000	104	-	1,104	-
SINGAPORE	-	1,000	2,000	1,000	2,000
SPAIN	-	200,000	400,000	200,000	400,000
SWEDEN	-	-	-	-	-
SUBBENT	-	1,000,000	2,000,000	1,000,000	2,000,000
SWITZERLAND	-	405,268	1,503,759	405,268	1,503,759
UKRAINIAN SOVIET SOCIALIST REPUBLIC	-	42,105	84,211	-	126,316
UNION OF SOVIET SOCIALIST REPUBLICS	-	3,449,123	6,898,245	-	10,347,368
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	331,753	425,163	2,694,949	756,916	2,694,949
UNITED STATES OF AMERICA	5,000,000	-	27,500,000	5,000,000	27,500,000
YUGOSLAVIA	-	60,000	40,000	28,989	71,011
ZAIRE	-	10,000	-	-	-10,000
TOTAL	7,974,613 ^{a/}	14,152,697	64,487,184	16,858,097	69,756,397

^{a/} Adjusted by \$66,722,911 in respect of pledges made prior to 31 December 1974 for future years.

SCHEDULE 3

Summary of appropriations, expenditures and obligations
for programme and programme reserve activities
for the year ended 31 December 1975

(in United States dollars)

	<u>Appropriation</u> <u>(apportio.ment)</u>	<u>Expenditures</u> <u>(obligation)</u>
<u>I. Programme activities</u>		
Human settlements, human health	5 100 000	3 753 907
Support	3 250 000	2 989 251
Environment and development	2 500 000	1 338 310
Oceans	2 300 000	812 894
Energy	300 000	213 727
Environmental management	525 000	238 267
Ecosystems	4 700 000	1 637 878
Natural disaster	200 000	124 500
Earthwatch	2 125 000	1 231 259
Environmental law	100 000	48 272
United Nations Habitat and Human Settlements Foundation (UNHHSF)	600 000	-
	21 700 000	12 388 265
 <u>II. Programme reserve activities</u>		
	1 000 000	554 985
	22 700 000	12 943 250

Summary of approved projects (commitments)
at 31 December 1975

Outstanding commitments, 1 January 1975	9 245 320
<u>Add:</u> Projects approved during 1975	34 701 828
	43 947 148
<u>Less:</u> Expenditures and obligations in 1975	12 943 250
Outstanding commitments 31 December 1975	31 003 898

SCHEDULE 4

Summary of appropriations, allocations issued, expenditures
incurred and unencumbered balances for programme and
programme support costs of the Fund for the year ended
31 December 1975

(in United States dollars)

	<u>Appropriations (allocations issued)</u>	<u>Expenditures incurred</u>	<u>Unencumbered balance</u>
Salaries:			
Established posts	2 213 000	1 916 710	296 290
General temporary assistance	106 000	221 659	(115 659)
Consultants	200 000	167 911	32 089
Overtime and night differential	45 000	13 497	31 503
<u>Ad hoc</u> expert groups	200 000	48 068	151 932
Common staff costs	856 000	1 008 936	(152 936)
Travel on official business	364 000	271 791	92 209
Contractual services (printing)	60 000	39 208	20 792
General operating expenses	612 000	630 030	(18 030)
Supplies and materials	204 000	181 460	22 540
Acquisition of furniture and equipment	306 000	575 986	(269 986)
Improvement to premises	55 000	7 753	47 247
TOTAL	<u>5 221 000</u>	<u>5 083 009</u>	<u>137 991</u>

SCHEDULE 5

Summary of allocations, expenditures and obligations and
unencumbered balance of the United Nations Habitat and
Human Settlements Foundation for the year ended
31 December 1975

(in United States dollars)

	<u>Appropriations (allocations issued)</u>	<u>Expenditures incurred</u>	<u>Unencumbered balance</u>
Salaries:			
Established posts		58 210	
General temporary assistance		1 845	
Consultants		139 242	
Overtime and night differential		98	
Common staff costs		56 237	
Travel on official business		38 877	
Contractual services		1 900	
General operating expenses		178	
Supplies and materials		736	
Acquisition of furniture and equipment		10 607	
	<u>600 000</u>	<u>307 930</u>	<u>292 070</u>

IV. ANNEX TO THE FINANCIAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1975

Audited 1974 accounts

1. The financial report and accounts of the Fund of the United Nations Environment Programme for the year ended 31 December 1974 and report of the Board of Auditors 3/ and the report of the Advisory Committee on Administrative and budgetary Questions were presented to the General Assembly at its thirtieth session, jointly with those of six other United Nations programmes and funds.

2. The General Assembly considered the reports and, on 30 October 1975, adopted resolution 3370 F (XXX), which read as follows:

"The General Assembly

1. Accepts the financial report and accounts of the United Nations Environment Programme for the year ended 31 December 1974 and the audit opinion of the Board of Auditors;

2. Takes note of the observations of the Advisory Committee on Administrative and Budgetary Questions as set forth in its report;

3. Requests the Executive Director of the United Nations Environment Programme to take such remedial action as may be required by the comments made by the Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions 4/ in their reports."

3. The Governing Council, at its third session, requested the Executive Director, "after consultations with the Secretary-General, to present to the Governing Council at its fourth session his recommendations regarding the application of financial rule 214.1 with respect to the action required of the Council following its consideration of the financial report and accounts of the Fund of the United Nations Environment Programme and of the report of the Board of Auditors". 5/

4. The Executive Director was advised by the Secretary-General that, owing to the timing of Governing Council sessions, the audited accounts of UNEP would necessarily be submitted to the General Assembly prior to their submission to the Governing Council.

5. The Executive Director did, however, provide to the Council at its third session, for information, the unaudited financial report and accounts for the

3/ Official Records of the General Assembly, Thirtieth Session, Supplement No. 7F (A/10007/Add.6).

4/ A/10239, paras. 18-20.

5/ Official Records of the General Assembly, Thirtieth Session, Supplement No. 25 (A/10025), decision 41 (III), sect. II, para. 2.

year ended 31 December 1974. The audited financial report and accounts were accepted by the General Assembly as indicated in paragraph 2 above. The Secretary-General has advised the Executive Director that the Governing Council should take note of and approve the audited accounts subsequent to their acceptance by the General Assembly.

6. The Executive Director would point out that the action taken by the General Assembly is generally of a formal nature, and normally does not include an examination of the comments of the Board of Auditors in any detail. Accordingly, the Governing Council may wish to review those comments and to consider the actions thereon taken or contemplated by the Executive Director, in the light of its responsibilities for the activities of the Environment Fund. An account of such actions is contained in the paragraphs which follow.

7. The Executive Director has taken note of the comments and recommendations of the Board of Auditors and of the Advisory Committee and has made efforts to comply with them to the greatest extent possible. Specifically, the Board of Auditors suggested that a system of remittances be established to cover agencies' cash requirements over a period of three to six months, with remittances made to agencies to be accounted for as advances pending receipt of reports of actual expenditures. The Board also urged that a regular system of financial reporting be established and uniform procedures set down with respect to certification of accounts and audit by internal and external auditors. This subject was discussed at an informal meeting of representatives of a number of co-operating agencies in December 1975 and an agreement was reached on the establishment of a system which reflects the recommendations of the Board of Auditors, with effect from 1 January 1976. Thereafter, UNEP reports on Fund Programme activities will reflect actual expenditures, and cash balances of UNEP funds held by co-operating agencies and supporting organizations will not exceed their current requirements.

8. The Board of Auditors further recommended that the standard project document be revised to cover such items as disposal of project equipment, apportionment of project income, copyrights and title to royalties, responsibility for cost over-runs, and a standard format for the project budget. To this end, UNEP has prepared and issued, with effect from 1 January 1976, a new format of the project document and project budget and standard procedures for the revision of project documents. These formats were also discussed and agreed with representatives of co-operating agencies at the meeting mentioned above.

9. As noted in the report of the Board of Auditors, the Administration has agreed in the light of the comments of the Board to give clear scrutiny to the use of internal projects and consultancy services. Measures have been taken to charge the appropriate budget (regular budget or programme and programme support costs) for the use of consultants' services as described in paragraph 18 of the report of the Board of Auditors. The Executive Director has, however, continued to utilize the services of a few consultants in the development of some important projects, and has charged these services to the cost of those projects.

10. The Executive Director can also report that he is seeking the agreement of the Government of Kenya to secure a sales tax exemption on supplies procured locally.

11. The Executive Director has noted the comments of the Board of Auditors and of the Advisory Committee regarding the measures aimed at ensuring that programme

support and administrative capacity are commensurate with a realistic level of programme delivery. The Executive Director wishes to recall that, at the second and third sessions of the Governing Council, he had made clear his view that the measure of success of UNEP should not logically be based on a ratio of project expenditures to programme and programme support costs. He feels that the consideration of such a ratio would be meaningful only if UNEP were solely a funding agency. The Executive Director is convinced, however, that the programme support and administrative capacity which the Governing Council has approved represents the minimum staff essential to carry out the mandate UNEP has received from the General Assembly in resolution 2997 (XXVII). The Executive Director would also observe that the proportions of programme and programme support costs in total Fund costs will decrease considerably in 1976 in the light of the large volume of project expenditures already committed for that year under signed project documents, as reported in the report on the implementation of the Fund Programme in 1975 (UNEP/GC/69).

12. Finally, the comments of the Board of Auditors on the verification of bank accounts have been noted by the Executive Director and the Board's suggestion has been followed.

Suggested action by the Governing Council

13. In the light of the above observations, the Governing Council may wish to take note of and approve the financial report and accounts of the United Nations Environment Programme for the year ended 31 December 1974 and take note of the comments of the Executive Director on the audit opinion of the Board of Auditors and on the observations of the Advisory Committee on Administrative and Budgetary Questions as set forth in its report.

V. REPORT OF THE BOARD OF AUDITORS

1. The Board of Auditors, established under General Assembly resolution 74 (I), is required under General Assembly resolution 3192 (XXVIII) to audit the accounts of the Fund of the United Nations Environment Programme in accordance with article XII of the Financial Regulations and Rules of the United Nations and annex thereto entitled "Additional terms of reference governing the audit of the United Nations".

Financial statements submitted for the year ended 31 December 1975

2. The Executive Director of UNEP submitted for audit the following two financial statements, together with five relative schedules:

Statement I	Statement of assets, liabilities and unencumbered Funds as at 31 December 1975
Statement II	Statement of income and expenditure for the year ended 31 December 1975

Scope of audit

3. The scope of audit of the Board of Auditors is enunciated in the Financial Regulations, which state that:

"The audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special directions of the General Assembly, in accordance with additional terms of reference set out in the annex to the Regulations.

"The Board of Auditors may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organization.

"The Board of Auditors shall be completely independent and solely responsible for the conduct of the audit."

4. Paragraph 1 of the annex to the Financial Regulations referred to above requires that:

"The Board of Auditors shall perform jointly and severally such audit of the accounts of the United Nations, including all trust funds and special accounts, as it deems necessary in order to satisfy itself:

"(a) That the financial statements are in accord with the books and records of the Organization;

"(b) That the financial transactions reflected in the statements have been in accordance with the Rules and Regulations, the budgetary provisions and other applicable directives;

"(c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Organization's depositaries or by actual count;

"(d) That the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereupon;

"(e) That procedures satisfactory to the Board of Auditors have been applied to the recording of all assets, liabilities, surpluses and deficits."

5. The Board's examination was carried out in accordance with the above provisions and included a general review of the accounting procedures, systems of internal financial controls and such tests of the accounting records, and other supporting evidence as it considered necessary in the circumstances.

6. The Board's examination of the accounts and financial statements was carried out at Nairobi.

Audit comments and recommendations

General

7. The Fund received an income of \$15,803,708 during the year ended 31 December 1975; the expenditure during this period amounted to \$18,061,895 causing an excess of expenditure over income of \$2,258,187. The balance of unencumbered funds at the close of the year stood at \$17,572,741.

8. Appropriations for programme activities (including programme reserve activities) were approved by the Governing Council in the sum of \$22,700,000 out of which expenditures and obligations amounted to \$12,943,250.

9. Appropriations for programme and programme support costs were in the sum of \$5,221,000 and expenditures incurred amounted to \$5,083,009.

Construction of temporary office premises for UNEP at Nairobi

10. The Government of Kenya provided office accommodation for UNEP at 50 per cent rental subsidy. This arrangement was to last for five years ending 30 September 1978, but UNEP moved in December 1975 to its temporary office buildings. The ultimate plan was to construct a permanent headquarters for UNEP at Nairobi but during consultations at Headquarters New York in March 1975 it became clear that a realistic time-table would not allow for occupancy of permanent headquarters before early 1982. Therefore, UNEP constructed temporary office premises on land provided by the Government of Kenya at Gigiri, Nairobi.

11. The total cost of construction was \$1,895,813 after deducting \$34,337 on account of sales tax charged on purchases made by the construction contractor which the Administration hope to recover from the Government of Kenya. In addition, an expenditure of about \$150,000 per annum would be incurred on repair of temporary buildings, maintenance services, cleaning and service personnel, etc. The Government of Kenya contributed KSh 300,000 (\$US 738,916) towards these costs. The

balance of construction costs have been met from an advance of \$1,150,000 from the UNEP Fund which is intended to be charged off against the provision for rental of premises in the regular budget of the United Nations and programme and programme support costs of the Fund over the six-year period 1976-1981. The net shortfall of \$6,897 has been absorbed in the budget for 1975 under programme and programme support costs.

12. The Government of Kenya had agreed in 1972 to consider a contribution towards the eventual construction of permanent headquarters. While making a contribution of KSh 300,000 towards the cost of temporary premises, the Government indicated however that it would have no further liability in this regard. The Administration has been in touch with the Government on this issue and it is noted that Kenya's delegate to the fourth session of the Governing Council reiterated his Government's intended support in the construction of permanent headquarters.

13. The United Nations Environment Programme plans to use temporary buildings until 1982 when the permanent headquarters is expected to be ready for occupation. The disposal of the temporary premises when the permanent building is ready has not yet been determined. In view of the substantial expenditure incurred on the construction of the temporary buildings, External Audit suggested that the buildings be eventually incorporated into the permanent headquarters complex. The Board is glad to note that the suggestion was well taken and Administration intends to act accordingly.

Duplication of projects

14. An internal project costing \$290,000, in progress from January 1974, is due for completion in July 1976. In May 1975 another project with a UNEP support of \$1,551,500 was entrusted to a supporting organization (International Union for Conservation of Nature and Natural Resources - IUCN). It was found that although it was larger in scale the scope and objectives of the IUCN project were, more or less, the same as those of the UNEP internal project. The IUCN project document stated that the work already done tended to be fragmented and needed to be placed within the framework of an over-all strategy to include a world overview with defined priorities. However, the earlier ongoing internal project was not incorporated or integrated with the larger IUCN project as it should have been.

15. The Administration stated that the internal project provided expert assistance to UNEP secretariat which had insufficient professional staff, while the IUCN project was mainly concerned with technical assistance and support to countries. If it is so, the raising of a project for this purpose would not be in line with the criteria adopted by UNEP for charging costs to Fund programme activities or to programme support. Since, however, the cost of the internal project was charged to "Fund programme activities", its functions should have been co-ordinated with the larger project.

16. The Board would stress the need for closer appraisal of project proposals with reference to ongoing projects in order to avoid duplication and spread of effort.

Environmental education project

17. The United Nations Environment Programme approved in 1975 a three-year UNESCO project - International Programme in Environmental Education. Prior to

the approval of the programme, projects dealing with fragments of environmental education were supported by UNEP on an ad hoc basis with no definite links between them. Some of those projects proved fruitless as they did not achieve the objectives set forth in the project documents. However, even after the approval of the UNESCO project, other projects were approved which were not at the time of their conception and design co-ordinated with the major environmental education programmes.

18. The Administration explained that the first two years of the Fund activities were the conceptualization stage which involved a degree of background research, trial and error, identification and definition of operational tasks. UNEP was breaking new grounds in many fields and was developing new relationships with the United Nations system on a basis which was different from that governing the relationship of UNDP with the executing agencies.

19. The Board would suggest co-ordination of all projects contemplated in this field till the basis for comprehensive strategy and methodology is created through the UNEP/UNESCO programme in environmental education.

Appraisal, monitoring, follow-up and evaluation of projects

20. Projects are implemented by co-operating agencies and supporting organizations. Some are executed as internal projects. A project document is drawn up which sets forth the objectives of the project as well as follow-up action on its completion. An examination of some of the projects revealed that:

(a) In certain projects activities were not co-ordinated with several parallel activities which were being carried out in the field by other United Nations agencies.

(b) The objectives set forth in some of the project documents were not achieved.

(c) A project was not implemented at all; after 10 months of delay the co-operating agency found that it was unable to implement the project and refunded the money.

(d) When the final report of a project was received UNEP found that its objective was interpreted differently by the co-operating agency. It was also found that the project no longer fitted in with UNEP objectives.

(e) In some cases there was delay in the implementation of projects.

21. The UNEP Administration is aware of the short-comings pointed out above and is taking steps to formulate well-defined project objectives and ensure continuous monitoring. The Board recommends conception and designing of projects with a clearer view of its objectives, careful selection of implementing agencies and closer appraisal of project proposals. An effective mechanism for feedback providing UNEP with an opportunity to exercise continuous surveillance of ongoing project operations against parameters set out in the project documents also needs to be established.

22. One of the functions of UNEP is to encourage and co-ordinate wider collection and dissemination of environmental knowledge. A large number of seminars and

workshops have been held for collection of existing knowledge, identification of gaps, identification of sources of knowledge and technical know-how on environmental matters, the results of which could with equal benefit be applicable to other countries. A system for dissemination of the knowledge remains to be established.

23. Some of the project documents contemplated maintaining contacts with the participants of training courses so as to involve them in eventual studies or to find out the extent to which the former participants had put their knowledge into practice. The External Audit suggested that pilot projects should be initiated for utilizing personnel who received training in order to achieve the objective set forth in the project documents. UNEP is conscious of the importance of evaluation of projects and has initiated a pilot evaluation procedure.

24. Apart from an evaluation of individual projects, and of the results of a particular area of activity, an assessment of the financial input in relation to the impact of the environment programme initiated by UNEP should be also considered as far as practicable.

Interest earned by co-operating agencies on UNEP funds held by them

25. The United Nations Environment Programme has been advancing money to co-operating agencies for the implementation of individual projects. As the periodical remittances made to agencies were not based on estimated cash requirements, substantial balances accumulated with the agencies. As at 31 December 1974, the co-operating agencies held cash balances totalling over \$1,800,000 in UNEP funds which rose to over \$2,200,000 by the end of December 1975. The agencies normally make short-term investments of money not needed for immediate requirements; the income derived from such investment of UNEP funds needs to be credited to UNEP.

26. The Administration informed that the question was taken up at an informal meeting with representatives of some co-operating agencies in December 1975. It was noted at the meeting that it would not be practicable to identify interest earned in this one time situation since, under the practice of most agencies, UNEP funds lost their identity for investment purposes.

27. The Board feels that there is need for examination of specific cases of substantial balances in some detail. While it may not be feasible to identify interest accruing on UNEP balances since they are merged with other funds, the Board sees no difficulty in distributing on pro rata basis the income earned by the agencies on invested funds as between UNEP moneys and other funds. The Administration stated that in future the question of heavy balances shall not exist as disbursements will be made for immediate requirements based on estimated expenditure for three months.

Hire of office equipment

28. The United Nations Environment Programme had been hiring typewriters for office use since 1974 instead of making outright purchase, although the machines were required for regular work. This resulted in the hire charges exceeding the cost of new typewriters in some cases. The sum paid as hire amounted to \$29,220 which could finance 49 out of 55 electric typewriters subsequently purchased.

29. Administration agreed that the arrangements made were not the most economical but explained that machines were hired, in the prevailing circumstances, because of urgency, budgetary constraints, etc. They have now reviewed their requirements and will take corrective action wherever necessary.

Administrative and programme support costs

30. Attention was drawn in previous years to the high proportion of administrative and programme support costs which were 47 per cent of total expenditure in 1974 and 45 per cent in 1973.

31. In 1975, administrative and programme support costs (renamed programme and programme support costs) met from the Fund amounted to \$5,083,009. Adding the expenditure of \$2,432,198 on secretariat met from regular budget, the total cost amounted to \$7,515,207. The expenditure on programme, including programme reserve activities being \$12,943,250, the administrative and programme support costs constituted 37 per cent of the total expenditure of \$20,458,457.

32. It is gratifying that there has been a significant drop in the percentage of administrative and programme support costs to the total expenditure.

Follow-up on recommendations made last year

33. The Administration had generally taken follow-up action on the recommendations made last year.

Acknowledgement

34. The Board of Auditors records its appreciation for the co-operation and assistance extended by the Executive Director, his officers and members of their staff and the Secretariat of the United Nations.

(Signed) J. J. MACDONELL
Auditor General of Canada

(Signed) A. MARTINEZ ZULETA
Controller General of Colombia

(Signed) A. HAMID
Auditor General of Pakistan

25 June 1976

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