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Fund of the United Nations Environment Programme

Financial report and audited financial statements

for the year ended 31 December 2014

and

Report of the Board of Auditors

United Nations • New York, 2015

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Contents

Letters of transmittal

Letter dated 31 March 2015 from the Executive Director of the United Nations Environment Programme addressed to the Chair of the Board of Auditors

In accordance with regulation 6.2 and rule 106.1 of the Financial Regulations and Rules of the United Nations, 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 year ended 31 December 2014, which I hereby approve.

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

(*Signed*) Achim **Steiner**
Executive Director
United Nations Environment Programme

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Environment Programme for the year ended 31 December 2014.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors
(Lead Auditor)

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

We have audited the accompanying financial statements of the Fund of the United Nations Environment Programme for the year ended 31 December 2014, which comprise the statement of financial position (statement I) as at 31 June 2014, the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flows for the year (statement IV), the statement of comparison of budget and actual amounts (statement V) for the year then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

The Executive Director of the United Nations Environment Programme (UNEP) is responsible for the preparation and fair presentation of the financial statements, in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal controls as management determines are necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the United Nations Environment Programme as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Report on other legal and regulatory requirements

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

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

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Environment Programme (UNEP) is mandated to assist and support Member States to protect the environment by inspiring, informing and giving them the means to improve the living standards of their populations without compromising those of future generations. The Programme headquarters is in Nairobi, but it has a global presence of six regional offices and eight liaison offices, and collaborative arrangements and secretariat functions in several other countries. It has 1,156 staff members, of whom 466 are based in Nairobi.

Scope of the report

The Board of Auditors has audited the financial statements and reviewed the operations of the Fund of the United Nations Environment Programme for the financial year ended 31 December 2014. The audit was carried out through the examination of financial transactions and operations at UNEP headquarters in Nairobi, Kenya, and two regional offices in Washington, D.C., and Bangkok. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and has been discussed with UNEP management, whose views have been appropriately reflected in the report.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNEP as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). 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 that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNEP operations in accordance with financial regulation 7.5 of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The report also includes a brief commentary on the status of implementation of the previous recommendations.

Audit opinion

The Board issued an unqualified audit opinion on the financial statements of UNEP for the period ended 31 December 2014. The Board's opinion is reflected chapter I of the present report.

Overall conclusion

The Board found no significant errors, omissions or misstatements which could affect its opinion on the UNEP financial statements. Nevertheless, the Board found some deficiencies in the areas of cost-effective management of core business services, programme and project management, financial management and reporting, and procurement and contract management.

Key findings and recommendations

The Board has identified a number of issues which need management's consideration to enhance the effectiveness of UNEP operations. In particular, the Board highlights the following key findings.

Lack of adequate interface between the Programme Information Management System and the Integrated Management Information System

UNEP management decisions are normally based on the financial data generated from its Programme Information Management System (PIMS) but the risk of arriving at wrong and misleading conclusions is high because the system is not attuned to minimize errors. For example, the Fund Management Officers have the responsibility of creating sub-account details in PIMS during project initiation to enable it to interface and receive subsequent financial data from the Integrated Management Information System (IMIS), but the Board noted that none of the sub-accounts had been created in 2014.

As a result of data errors, PIMS recorded an overexpenditure balance of $3.54 million, or 0.6 per cent, of the total expenses of UNEP. Although the error did not affect financial statements, as it occurred outside IMIS,[a] it underscores the need for regular management reviews to improve the quality of data entered into PIMS.

Terminal evaluation not undertaken for completed projects

UNEP did not undertake terminal evaluation for 38 projects, with total expenses of $123.39 million, out of 44 projects completed between 2013 and 2014. This is contrary to the requirements specified in chapter 10 (b) of the UNEP programme manual dated May 2013. Management explained that the deficiency was due to insufficient capacity within the evaluation office to initiate and manage independent project level evaluations and ensure that project evaluations were completed within the prescribed time frame.

Long-outstanding project advances

From its review of advances to implementing partners, the Board noted that, of the total advances balance of $331.7 million, $6.21 million had been outstanding for more than four years. Of the $6.21 million in advances reported, $3.74 million were to United Nations entities, $2.1 million were to Governments and $0.37 million were to specialized agencies implementing projects on behalf of UNEP. In the Board's view, more effort by UNEP is required to account for or recover the advances if it is confirmed that the intended activities were not delivered.

UNEP explained that advances could not be accounted for within six months as required owing to the lack of project expenditure reports from some of the countries with political instability, unreconciled inter-office vouchers and misposting of transactions in IMIS. The Board, however, considers that most of the reasons given by management are procedural and that continuing to record advances without adequate follow-up entails a risk of misstating the expenditure balances of ongoing projects.

Recommendations

In the light of the findings set out above, the Board makes detailed recommendations in the main body of the present report. In summary, the main recommendations are that UNEP:

(a) **Formulate appropriate rules or guidelines to require fund management operators to create the sub-accounts information in PIMS whenever initiating projects; and review and monitor the accuracy of PIMS data in future. UNEP agreed with the Board's recommendation;**

(b) **Look at ways of ensuring that the Evaluation Office is provided with adequate resources to initiate and manage independent project-level evaluations to the required level, and that project closure time frames are adhered to;**

(c) **Ensure that expenditure reports are obtained from all implementing partners for offsetting the advances as well as reconciling inter-office vouchers with United Nations agencies immediately. UNEP agreed with the Board's recommendation.**

[a] IMIS is used in the preparation of the financial statements.

A. Financial overview

Key facts

$127.48 million	Original Environment Fund and regular budget
$107.46 million	Final Environment Fund and regular budget
$697.5 million	Revenue received during the year under review
$544.6 million	Expenses incurred in 2014
1,156	UNEP staff
466	UNEP staff based at its headquarters
690	UNEP staff based in offices away from headquarters

B. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the Fund of the United Nations Environment Programme (UNEP) and reviewed its operations for the financial period ended 31 December 2014 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of the Fund

of the United Nations Environment Programme as at 31 December 2014 and its financial performance and cash flows for the financial period, and have been properly prepared in accordance with IPSAS. The audit included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies, and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules. It also 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 that the Board considered necessary to form an opinion on the financial statements.

3. The Board also reviewed UNEP operations under financial regulation 7.5, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNEP operations.

4. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with UNEP management, whose views have been appropriately reflected in the report.

United Nations Environment Programme: background

5. UNEP is the designated authority of the United Nations system with respect to environmental issues at the global and regional level. Its mandate is to coordinate the development of environmental policy consensus by keeping the global environment under review and bringing emerging issues to the attention of Governments and the international community for action. The mandate and objectives of UNEP emanate from General Assembly resolution 2997 (XXVII) of 15 December 1972 and subsequent amendments adopted at the United Nations Conference on Environment and Development in 1992, the Nairobi Declaration on the Role and Mandate of UNEP, adopted at the nineteenth session of the UNEP Governing Council, and the Malmö Ministerial Declaration of 31 May 2000. It was founded as a result of the United Nations Conference on the Human Environment in June 1972 and has its headquarters in Nairobi.

6. UNEP has a global presence in six regional offices and eight country/liaison offices, as well as collaborative arrangements and secretariat functions in several other countries. The present report also covers a number of bodies with which UNEP has specific and ongoing relationships. These include the Global Environment Facility (GEF), the multilateral environmental agreements and the United Nations Office at Nairobi.

7. The United Nations Office at Nairobi provides administrative and financial services to UNEP, including procurement, human resources and information and communications technology. Many of the recommendations made by the Board to UNEP require joint action with the United Nations Office at Nairobi.

Global Environment Facility

8. UNEP implements GEF, which funds projects in developing countries on biodiversity, climate change, international waters, land degradation, ozone layer depletion and persistent organic pollutants. GEF receives voluntary contributions from 34 Member States. The adoption and evaluation of the programmes of GEF are the responsibility of its Council.

9. UNEP manages the funds allocated to it from GEF through five trust funds, which are subject to annual audits by the Board. For the financial year ended 31 December 2014, the trust funds collected total revenue of $150.7 million and incurred total expenses of $64.86 million. The Board also provides an annual audit opinion on these trust funds at the request of UNEP and the World Bank, which are the trustees of GEF.

10. For the year ended 31 December 2014, the total number of audit certificates required for submission from implementing partners to the UNEP Division of Global Environment Facility Coordination (UNEP-GEF) was 111, with a disbursed amount of $35.68 million. Of the total 111 audit certificates, 98 (92 per cent), with a disbursement amount of $32.75 million, were received, leaving 13 certificates, with a disbursement amount of $2.93 million, which were not submitted for various reasons, including political instability in the executing Governments and the outbreak of disease.

Multilateral environmental agreements

11. Over the years, UNEP activities have given rise to a number of conventions and associated protocols on major environmental challenges. These have generated multilateral environmental agreements, each requiring countries to develop specific mechanisms and fulfil agreed obligations for improving the environment. UNEP administers 14 multilateral environmental agreements and discloses in its financial statements the transactions of the trust funds it manages directly, in support of the activities of the agreements and conventions for implementing their agreed protocols and programmes. The Board's audit of UNEP includes an examination of balances relating to multilateral environmental agreements.

C. Findings and recommendations

1. Follow-up of previous recommendations

12. Of the 15 recommendations made for the biennium ended 31 December 2013, eight (53 per cent) were fully implemented, six (40 per cent) were under implementation and one (7 per cent) was overtaken by events. Details of the status of implementation of the recommendations are set out in annex I.

2. Financial overview

Financial performance and position

13. Total revenue for the year under review amounted to $697.5 million and total expenses amounted to $544.6 million, resulting in a surplus of $152.9 million. Total assets as at 31 December 2014 amounted to $1,543.3 million, comprising current assets of $1,208.1 million and non-current assets of $335.2 million. Total liabilities amounted to $406.7 million, resulting in net assets of $1,136.3 million.

Ratio analysis/financial indicators

14. Table II.1 illustrates ratio analysis for 2014. The ratios indicate that, as at 31 December 2014, the overall financial position of UNEP was healthy, with sufficient assets to cover its liabilities. The liquidity position was also good, and UNEP can meet its short-term obligations from its liquid assets.

Table II.1
Ratio analysis

Description of ratio	*31 December 2014*	*1 January 2014*
Current ratio[a]		
Current assets: current liabilities	4.84	2.79
Total assets: total liabilities[b]		
Assets: liabilities	3.79	2.87
Cash ratio[c]		
Cash plus investments: current liabilities	1.61	0.91
Quick ratio[d]		
Cash + investments + accounts receivable: current liabilities	3.72	1.82

Source: UNEP 2014 financial statements.

[a] A high ratio (defined as greater than 1:1) indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to convert into cash. A higher ratio means a more liquid current position.

3. Status of implementation of the International Public Sector Accounting Standards

15. The General Assembly, in its resolution 60/283, endorsed the adoption of IPSAS by the United Nations to replace the United Nations system accounting standards (UNSAS).

16. The change in reporting standards required UNEP to develop a series of IPSAS-compliant accounting policies relevant to its circumstances. In addition, it required UNEP to reconsider its assets and liabilities as at 31 December 2013 and make appropriate adjustments to ensure that the opening balances at 1 January 2014 were IPSAS-compliant.

17. In September 2014, the Board examined the IPSAS opening balances of UNEP as at 1 January 2014. The review included an evaluation of the appropriateness of the IPSAS accounting policies and opening balance adjustment methodologies developed by the Programme, assessing whether the accounting policies had been properly applied, as well as conducting controls and substantive testing to the extent considered necessary.

18. The Board noted from the examination that there were some deficiencies and recommended that UNEP review those assets which were fully depreciated to ensure that the treatment and presentation was in compliance with paragraph 67 of IPSAS 17,[1] as well as make adjustments to ensure that the property, plant and equipment opening balance was fairly stated. Under the process, UNEP was required to obtain asset acquisition records to establish their historic values and to

[1] The residual value and useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from the previous estimates, the change(s) shall be accounted for as a change in accounting estimate, in accordance with IPSAS 3.

update the asset register in the asset management system (HardCat) by reconciling the data with the physical verification reports to ensure that the property, plant and equipment balances were correct.

19. The Board was of the view that the non-adjustment of property, plant and equipment opening balances might have led to their misstatement and that UNEP financial statements might therefore not have been fairly stated.

20. However, during the final audit, the Board confirmed that UNEP had satisfactorily implemented all its recommendations relating to the IPSAS opening balances and that the balances were fairly stated.

4. Cost-effective management of core business services

21. UNEP uses the PIMS application software to support, monitor and report on the five phases of the project cycle and to cover the functional needs of the entire UNEP programme of work cycle. The Board noted the following deficiencies, detailed below.

Lack of an adequate interface between the Programme Information Management System and the Integrated Management Information System

22. UNEP established procedures which require all financial information recorded in IMIS to be replicated in PIMS as these two systems should be interfacing. For the systems to interface appropriately the procedure requires immediate creation of sub-accounts in PIMS to enable subsequent records of project expenses to be transferred from IMIS to PIMS for management reports.

23. The Board noted that the role of creating the sub-account details in PIMS is assigned to the fund management officers, but that none of the sub-accounts details had been created in 2014 to enable effective interfacing between two systems. This resulted in three projects in the PIMS reporting a total negative balance of $3.54 million, equivalent to 6 per cent of the total UNEP expenses for the year.

24. Although this error did not occur in IMIS, which is the basis for the preparation of financial statements, such errors may potentially affect management decision-making. UNEP attributed the deficiency to the lack of an enforceable rule or guideline that would compel the fund management officers to create the corresponding sub-account details in PIMS during the initialization stage of projects, and also agreed to review and monitor the accuracy of PIMS data in the future. The deficiency can also be attributed to a lack of regular review, which could improve the quality of data entered into PIMS.

25. The Board considers that the responsibility for formulating rules and guidelines lies with management and that therefore the lack of enforceable procedures is not justification for errors noted.

26. **UNEP agreed with the Board's recommendation that it: (a) formulate appropriate rules or guidelines to require fund management officers to create sub-accounts information in PIMS whenever initiating projects; and (b) review and monitor the accuracy of PIMS data in the future.**

Incomplete Project Information Management System cycle

27. The Board noted that UNEP had developed PIMS to facilitate its project management process. However, it was found during the review of the project work flow within PIMS that the current features focus mainly on the monitoring and reporting function of UNEP. Other activities relating to project design and formulation, as well as project review and approval, are not among the current features of the system, thus undermining the purpose for which the system was intended.

28. UNEP acknowledged the shortcomings noted, but stated that it was currently working with the Umoja business intelligence team in New York to install a new version of PIMS and integrate it with the Umoja database platform. This procedure is intended to provide consolidated reports and improve the capacity for including all key project processes in the business intelligence features of Umoja.

29. The Board considers that the lack of end-to-end coverage of project processes in the system limits the provision of complete information, which is required for project management decisions.

30. **UNEP agreed with the Board's recommendation that it include in the proposed new version of PIMS all key project processes and ensure that consolidated reports are provided and there is improvement in the capacity for the inclusion of all key project processes.**

5. Programme and project management

Lack of guidance and procedures for project cancellation

31. The Board noted that, while, under chapter 4 of the UNEP programme manual, its Deputy Executive Director is empowered to approve the creation of projects, the procedures for project cancellation are not set out in the manual.

32. On 21 March 2012, the Director of the Division of Environmental Policy and Implementation addressed a memorandum to the Chief of the Office for Operations and Corporate Services requesting the cancellation of a $12 million project[2] which was later endorsed by the Chief of the Office. However, according to the UNEP organization charts, the Deputy Executive Director ranks second after the Executive Director in the chain of command, and above the Chief of the Office for Operations and Corporate services.

33. The Board noted that there was no provision in the manual on procedures for the cancellation of previously approved projects. While the Board did not find evidence of fraud, the lack of clear separation of strategic from operational decisions creates loopholes allowing the cancellation of projects to go undetected by the approving authority.

34. UNEP explained that there was currently no specific guidance but that the cancellation had been initiated by the Project Divisional Director and endorsed by the Chief of the Office of Operations and Corporate Services following changes in the political, security and technical conditions prevailing in Afghanistan at that time.

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[2] Project for the Capacity-Building and Institutional Development Programme for Environmental Management in Afghanistan (phase IV).

35. The Board considers that proper guidance for project cancellation is necessary to enhance project management.

36. **UNEP agreed with the Board's recommendation that it revise its programme manual by including clear procedures and authority for project cancellations.**

Projects approved prior to review and clearance by the Quality Assurance Section

37. The Board noted that, in accordance with chapter 4 of the programme manual, all projects are required to be reviewed by the Project Review Committee and cleared by the Quality Assurance Section before submission to the Deputy Executive Director for approval. In its review of the project approval process the Board found that, of 67 ongoing projects with a total budget of $535.1 million), four (6 per cent) with a total project budget of $41.58 million had been approved by the Deputy Executive Director on 18 December 2013, prior to clearance by the Quality Assurance Section.

38. UNEP management explained that the approval by the Deputy Executive Director before clearance by the Quality Assurance Section had been due to pressure from the donors, who had urgently requested the approved project documents before they committed funds. However, the Board found that this was not documented in the project correspondence files and that the current programme manual did not stipulate any procedures for handling urgent matters relating to project approval.

39. The Board is of the view that the absence of stipulated procedures for handling urgent matters relating to project approval may expose projects to the risk of not attaining the desirable level of quality in accordance with the requirements set out in the UNEP programme of work.

40. **UNEP agreed with the Board's recommendation that it revise its programme manual to include procedures for handling emergency approvals.**

Completed projects not evaluated

41. The Board noted that, of 44 projects completed between 2013 and 2014, UNEP had not evaluated 38 projects with total expenses of $123.39 million, contrary to the requirements of chapter 10 (b) of the UNEP programme manual, which requires project terminal evaluations to be undertaken by contracted independent evaluators, ideally within six months of project completion.

42. In addition, records from PIMS showed that 30 projects with a programmed budget of $75.8 million had "operationally completed" status but that 18 projects with a programmed budget of $68.65 million had not been financially and administratively closed for more than 24 months.

43. UNEP explained that the deficiency was due to the insufficient capacity of the Evaluation Office to initiate and manage independent project-level evaluations within the prescribed time frame.

44. The Board is of the view that UNEP management has a role to play in strengthening the Evaluation Office by providing the necessary resources and support to enhance the Office's capacity to initiate and perform terminal evaluations in a timely manner. Furthermore, the failure to perform post-project evaluations and

the delayed closure of the administrative and financial procedures relating to the projects amounts to non-adherence to established UNEP procedures and exposes the entity to the risk of not being able to learn from the past and the further risk of misuse of unspent funds. The deficiency also hinders management's ability to determine whether the project objectives have been achieved cost-effectively.

45. **UNEP agreed with the Board's recommendation that it look at ways of ensuring that the Evaluation Office is provided with adequate resources to initiate and manage independent project-level evaluations to the required level, and that project closure time frames are adhered to.**

Underutilization of project funds

46. The Board noted that the Regional Office for Asia and the Pacific had been allotted a budget of $24.6 million for implementation of the projects[3] in 2014 but that only $12.4 million (50 per cent) had been spent as at 31 December 2014.

47. Management attributed the underutilization to the inadequate capacity of the implementing partners and delays in releasing funds to the Regional Office.

48. The Board is of the view that 50 per cent budget underperformance is indicative of a lack of adequate planning and monitoring and has the effect of delaying delivery of the intended benefits to the community. Additionally, the reasons advanced by management could have been avoided through assessment of the capacity of the implementing partners during the engagement, monitoring stages and proper planning for timely release of the funds.

49. **UNEP agreed with the Board's recommendation that it: (a) enhance the assessment of the implementing partners to ensure that they have the ability to deliver projects; and (b) plan and monitor the implementation of projects more closely.**

6. Financial management and reporting

Long-outstanding project advances

50. In accordance with chapter 5, section E, of the UNEP programme manual, implementing partners are required to submit expenditure reports at least every six months to account for project expenditure.

51. From its review of advances to implementing partners, the Board noted that, of the total advances balance of $331.7 million, $6.21 million had been outstanding for more than four years. Of the $6.21 million in advances, $3.74 million comprised advances to United Nations entities, $2.1 million comprised advances to Governments and $0.37 million was from specialized agencies, which were implementing various projects on behalf of UNEP. In the Board's view, rigorous efforts by UNEP are required with regard to accounting for or recovering the advances if it is confirmed that the planned activities were not delivered.

[3] The projects relate to the Hydrochlorofluorocarbons Phase-out Management Plan, funded under the Montreal Protocol on Substances that Deplete the Ozone Layer in the Asia and Pacific region, and the National climate change plans implemented under the UNEP climate change subprogramme.

52. UNEP explained that advances could not be accounted for immediately, as required, owing to the lack of project expenditure reports from some of the countries experiencing political instability, unreconciled inter-office vouchers and the misposting of transactions in IMIS.

53. The Board considers, however, that most of the reasons given by management are procedural and that continuing to record advances without adequate follow-up entails the risk of misstating project expenditure balances.

54. **UNEP agreed with the Board's recommendation that it ensure that expenditure reports are obtained from all implementing partners to offset advances and that inter-office vouchers are reconciled immediately with United Nations agencies.**

7. Global Environment Facility

Delays in the closure of project CCL-4A98 Technology Needs Assessment

55. It is stipulated in section (c) of chapter 11 of the UNEP programme manual that a project should be closed no more than 24 months after the date of operational completion or project termination.

56. The Board found from its review of GEF project management that financial closure of one project,[4] of a value of $11.04 million, had been delayed for a period of four months beyond the required 24 months after operational closure in April 2013.

57. UNEP-GEF stated that the delay in financial closure had been caused by, among other things, the late submission of the expenditure report from the implementing partners to account for unused project balances and pending terminal evaluation.[5] The Board is of the view that prolonged closure delays might result in administrative costs overruns.

58. **The Board recommends that UNEP-GEF strengthen procedures for the follow-up of expenditure reports from implementing partners, including the sending of regular reminders on timely submission of expenditure reports to facilitate the timely financial closure of projects.**

D. Disclosures by management

59. UNEP made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud. In the Board's view, they are not significant, and management has taken adequate corrective measures.

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

60. UNEP informed the Board that, in accordance with financial rule 106.8, losses of receivables amounting to $245,755.98 had been written off during 2014 (for further details, see annex II).

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[4] CCL-4A98.

[5] Terminal evaluations are undertaken at the end of a project, with a view to assessing project performance and determining the outcomes and impacts of the projects.

2. Ex gratia payments

61. The administration reported no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

62. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

63. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or that have been brought to its attention. We also inquire whether management has any knowledge of any actual, suspected or alleged fraud. This includes enquiries of the Office of Internal Oversight Services. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

64. In 2014, the Board did not identify any cases of fraud and UNEP reported no cases of fraud or presumptive fraud.

E. Acknowledgement

65. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the staff members of UNEP.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India

30 June 2015

Annex I

Status of implementation of recommendations of the Board of Auditors for the financial year ended 31 December 2014

No.	*Financial period in which first made; report reference*	*Para. No.*	*Summary of the recommendation*	*Action reported by management*	*Board's assessment*	*Status after verification*			
						Implemented	*Under Implementation*	*Not Implemented*	*Overtaken by events*
1	2012-2013; A/69/5/Add.7, chap. II	26	UNEP agreed with the Board's recommendation that it: (a) Require funds management officers to closely monitor project budget implementation to ensure that project expenditures are in line with approved allotments; (b) Improve controls over the project funds and perform monthly reconciliations to allow for proper authorizations before any redeployment is effected; (c) Liaise with the United Nations Office at Nairobi to improve budgetary controls within IMIS, if it is considered beneficial to undertake any reconfiguration before it is replaced by the new enterprise resource planning system, Umoja.	(a) UNEP agrees with the recommendation and has taken steps to enhance project monitoring. The status of project expenditure is periodically reviewed and fund management officers who contravene the policy are notified that contravention could lead to the suspension of certifying rights. On 14 July 2014, the Executive Director also formalized fund management officer reporting lines to include direct oversight by both the Director, Office Operations, as second reporting officer of all FMOs and the Chief, Resources Management, as the Technical Reporting Officer on financial and budgetary matters; (b) UNEP agrees with the recommendation, while noting that procedures have been in place for several years that require that additional advances to partners be made only when previous advances have been substantially liquidated. (c) UNEP notes that, with the implementation of Umoja planned for 1 June 2015 for UNEP and other cluster 3 entities, it is not considered justifiable to recommend such a system change now.	Recommendations (a) and (b) already implemented; (c) are to be reviewed after implementation of Umoja to obtain assurance that budget control is in place.		X		

No.	Financial period in which first made; report reference	Para. No.	Summary of the recommendation	Action reported by management	Board's assessment	Status after verification: Implemented	Under Implementation	Not Implemented	Overtaken by events
2	2012-2013; A/69/5/Add.7, chap. II	31	The Board recommends that UNEP (a) establish a well-designed database for its implementing partners to enable proper tracking and monitoring of information (b) Keep a sufficient trail of advances issued to implementing partners.	The UNEP Partnerships Committee performs a thorough review of all new implementing partners and IMIS acts as a central repository for contact information, banking details, financial information, and other information regarding all UNEP implementing partners. A full record of all advances to implementing partners is readily available from IMIS, including detailed or summarized aged receivables reports.	The recommendation is considered implemented.	X			
3	2012-2013; A/69/5/Add.7, chap. II	36	The Board recommends that UNEP enhance the enforcement of the submission of outstanding audit certificates and ensure in future that all audit certificates are submitted within the time frame stipulated in the project cooperation agreement.	UNEP agrees with the recommendation and notes the high level of compliance it has achieved, in obtaining over 90 per cent of the certificates required for the most recent bienniums, as evidence of implementation. Changes in government personnel, and conflicts and disasters in implementing countries account for some of the small remaining percentage of reports not received. We also note that receipt of audit certificates is often within one year of the end of the financial period rather than within the 180 days stipulated in the project cooperation agreement.	Considered to be implemented, as the missing certificates were submitted and verified.	X			

No.	Financial period in which first made; report reference	Para. No.	Summary of the recommendation	Action reported by management	Board's assessment	Status after verification: Implemented	Under Implementation	Not Implemented	Overtaken by events
4	2012-2013; A/69/5/Add.7, chap. II	39	UNEP agreed with the Board's recommendation that it strengthen procurement planning, and deploy effective monitoring and close follow-ups on contract management with a view to minimizing the use of ex post facto approval of contracts.	UNEP agrees with the recommendation and notes that it was implemented with effect from March 2013, when new guidelines on waiver of competitive bidding were issued (13 March 2013), which resulted in a drastic reduction in ex post facto cases.	Implemented	X			
5	2012-2013; A/69/5/Add.7, chap. II,	45	UNEP agreed with the Board's recommendation that it identify and address the causes of delays in the finalization of projects so that all operationally closed projects are also financially closed within 24 months in accordance with the UNEP project manual.	UNEP agrees with the recommendation and has taken progressive steps to clean up IMIS. In preparation for Umoja and in line with this recommendation, UNEP has worked diligently to clean up its books, with the closure of over 750 inactive IMIS projects.	Closure of over 750 inactive IMIS projects has been carried out. The same recommendation is made in paragraph 50 of the present report.				X

No.	Financial period in which first made; report reference	Para. No.	Summary of the recommendation	Action reported by management	Board's assessment	Status after verification: Implemented	Under Implementation	Not Implemented	Overtaken by events
6	2012-2013; A/69/5/Add.7, chap. II	54	In order to ensure that there is proper disclosure and that the migration to IPSAS takes place smoothly and in a timely manner, the Board recommends that UNEP review its IPSAS implementation plan to address the urgent need for: (a) Inspecting the remaining large balance of unliquidated obligations before the preparation of dry-run financial statements; (b) Reviewing its long-outstanding receivables for provisioning of doubtful debts; (c) Correcting non-expendable properties identified with the deficiencies; (d) Engaging closely with United Nations Headquarters for reconciliation of donor agreement information.	UNEP agrees with the recommendations and notes that these have been implemented as part of the preparation for Umoja deployment.	Verified and noted as cleared during preparations for IPSAS and Umoja.	X			

						Status after verification			
No.	*Financial period in which first made; report reference*	*Para. No.*	*Summary of the recommendation*	*Action reported by management*	*Board's assessment*	*Implemented*	*Under Implementation*	*Not Implemented*	*Overtaken by events*
7	2010-2011; A/67/5/Add.6, chap. II	46	It was recommended that UNEP: (a) Review the nature of its relationship with each of the multilateral environmental agreements, taking full account of the extent to which the multilateral environmental agreements have already implemented procedures that place them outside the scope of the operational and financial control of UNEP; (b) Determine for the purposes of IPSAS transition whether the multilateral environmental agreements concerned remain within or under the operational and financial control of UNEP.	UNEP agrees with the recommendations and notes that, as agreed with United Nations Headquarters and the Board, the multilateral environmental agreements and the Multilateral Fund have been fully consolidated in the UNEP financial statements for 2014.	The financial statements for the year ended 31 December 2014 are fully consolidated with all entities operating under UNEP.	X			

No.	Financial period in which first made; report reference	Para. No.	Summary of the recommendation	Action reported by management	Board's assessment	Status after verification: Implemented	Under Implementation	Not Implemented	Overtaken by events
8	2010-2011; A/67/5/Add.6, chap. II	66	The Board recommended that UNEP consider the feasibility of introducing procedures to mitigate exchange rate risks, subject to guidance from United Nations Headquarters and consideration of the costs and benefits.	The recommendation referred to the fixed exchange rate mechanism that was adopted by the Executive Committee of the Multilateral Fund. In follow up to the Board recommendation, UNEP was requested by the Multilateral Fund to carry out a review and to report to the Executive Committee on the feasibility of introducing procedures to mitigate exchange rate risks. The report was submitted to the Executive Committee at its 72nd meeting, held in Montreal from 12 to 16 May 2014.	Considered to be implemented, as the report was submitted to the Executive Committee at its 72nd meeting, held in Montreal from 12 to 16 May 2014, on how to mitigate exchange rate risks.	X			
9	2010-2011; A/67/5/Add.6, chap. II	69	The Board reiterated its previous recommendation that UNEP set up specific arrangements to fund its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly. The Board recognized that UNEP would need to seek guidance from United Nations Headquarters on this matter.	Implementation of this recommendation is outside the direct control of UNEP and requires a policy to be set by United Nations Headquarters. UNEP has communicated this recommendation to the Department of Management.	A policy to be set by United Nations Headquarters is awaited. UNEP has already communicated with the Department of Management.		X		

No.	Financial period in which first made; report reference	Para. No.	Summary of the recommendation	Action reported by management	Board's assessment	Status after verification: Implemented	Under Implementation	Not Implemented	Overtaken by events
10	2010-2011; A/67/5/Add.6, chap. II	76	UNEP, in liaison with the United Nations Office at Nairobi, to seek guidance and clarification from United Nations Headquarters on the management of currency exchange risk on all large non-United States dollar balances within its investment pool.	The recommendation stemmed from the UNEP holding of euros in the euro cash pool, which at 31 December 2011, amounted to €145 million. In accordance with the recommendation, UNEP sought guidance from United Nations Headquarters, which recommended that UNEP maintain euros in an amount not exceeding that required to cover short-term euro expenditure requirements. At 31 December 2014, the euro cash pool balance was €11 million. In addition, the Executive Director approved a proposal to convert all non-United States contributions into dollars, leaving only the amounts required to meet operational requirements in euros.	Considered to be implemented, as guidance has already been received from United Nations Headquarters and euros have been maintained in an amount to cover short-term euro expenditure requirements.	X			
11	2008-2009; A/65/5/Add.6, chap. II	38	Continue to prepare the implementation of IPSAS in collaboration with the United Nations Office at Nairobi; and specify its needs for the migration of the Crystal software to the future enterprise resource planning system of the Secretariat, Umoja.	UNEP agrees with the recommendation, which is currently under implementation. UNEP has been IPSAS-compliant since January 2014 and will be implementing Umoja on 1 June 2015. The implementation of Umoja will also entail the discontinuation of Crystal software and the full implementation of Business Objects for reporting purposes.	Umoja is to go live in June 2015, so it is classified as under implementation.		X		

No.	*Financial period in which first made; report reference*	*Para. No.*	*Summary of the recommendation*	*Action reported by management*	*Board's assessment*	*Status after verification*			
						Implemented	*Under Implementation*	*Not Implemented*	*Overtaken by events*
12	2008-2009; A/65/5/Add.6, chap. II	88	In collaboration with the United Nations Headquarters Administration, revise its accounting treatment of education grants.	Under implementation: implementation of this recommendation is outside of the direct control of UNEP and requires a policy to be set by United Nations Headquarters. UNEP has communicated this recommendation to the United Nations Department of Management.	Policy to be set by United Nations Department of Management.		X		
13	2008-2009; A/65/5/Add.6, chap. II	129	Consider a review of its policy for the valuation of leave liability in its implementation of IPSAS.	UNEP was IPSAS-compliant as of January 2014. Leave balances are booked as a liability in the UNEP books based on the actuarial figures and in accordance with the IPSAS policy.	Noted when reviewing the financial statements for year ending 31 December 2014.	X			
14	2008-2009; A/65/5/Add.6, chap. II	177	In coordination with the United Nations Office at Nairobi, take advantage of the upcoming implementation of the new enterprise resource planning system to eliminate journal voucher entries; and strengthen internal control over journal voucher entries and the access rights to make them.	UNEP, in coordination with the United Nations Office at Nairobi, is implementing Umoja on 1 June 2015, with support from United Nations Headquarters.	Umoja is expected to go live in June 2015.		X		

No.	Financial period in which first made; report reference	Para. No.	Summary of the recommendation	Action reported by management	Board's assessment	Status after verification			
						Implemented	Under Implementation	Not Implemented	Overtaken by events
15	2006-2007; A/65/5/Add.6, chap. II	112	Set up specific funding to balance its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly.	Implementation of this recommendation is outside the direct control of UNEP and requires a policy to be set by United Nations Headquarters and agreed by the General Assembly. UNEP has communicated this recommendation to the Department of Management.	Policy to be set by United Nations Headquarters.		X		
	Total					**8**	**6**	**0**	**1**
	Percentage					**53**	**40**	**0**	**7**

Annex II

Write-offs

A. Write-offs

Summary of assets written off

(United States dollars)

No.	Category (assets, inventory, cash)	Current year	Previous year	Increase
1	Accounts receivable	245 755.98	95 784	149 971.98
	Total	**245 755.98**	**95 784**	**149 971.98**

B. Individual write-offs

Accounts receivable write-offs for the period ended 31 December 2014

(United States dollars)

Category	Approval from	Approval memorandum: authorized by	Payee type[a]	Payee ID	Write-off approval date	Fund charged	GL code 3160 or 6310	Object code in GL 3160[b]	IMIS document No. (PYXX, JNLV)	Amount
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	72981	3 November 2014	BCL	3160	9238	115480	42.68
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	559042	3 November 2014	CPL	3160	9238	115480	1 952.00
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	519218	3 November 2014	FBL	3160	9238	115480	640.00
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	277088	3 November 2014	FEL	3160	9238	115480	15.26
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	349147	3 November 2014	FPL	3160	9238	115480	1.28
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	578385	3 November 2014	FPL	3160	9238	115480	3 780.96

Category	Approval from	Approval memorandum: authorized by	Payee type[a]	Payee ID	Write-off approval date	Fund charged	GL code 3160 or 6310	Object code in GL 3160[b]	IMIS document No. (PYXX, JNLV)	Amount
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	691109	3 November 2014	FPL	3160	9238	115480	133.18
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	696586	3 November 2014	FPL	3160	9238	115480	125.35
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	501086	3 November 2014	RED	3160	9238	115480	23.67
A/R	Local	Mr. A. Steiner, Executive Director, United Nations Environment Programme	Staff member	549807	6 March 2014	IML	3160	9238	118072	3 322.57
A/R	Local	Mr. A. Steiner, Executive Director, United Nations Environment Programme	Staff member	447382	6 March 2014	QWL	3160	9238	118072	20 245.59
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Government — Member State	0030	5 March 2015	BYL	3160	9238	118941	85 280.39
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Government — Member State	K398	5 March 2015	BYL	3160	9238	118941	23 795.78
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Government — other Government	N259	5 March 2015	BYL	3160	9238	118941	5 441.10
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Other United Nations Entities	0517	5 March 2015	BYL	3160	9238	118941	6 300.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	107684	5 March 2015	BYL	3160	9238	118941	2 677.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	129577	5 March 2015	BYL	3160	9238	118941	7 097.34
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	1477	5 March 2015	BYL	3160	9238	118941	1 198.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	169849	5 March 2015	BYL	3160	9238	118941	1 010.01

Category	Approval from	Approval memorandum: authorized by	Payee type[a]	Payee ID	Write-off approval date	Fund charged	GL code 3160 or 6310	Object code in GL 3160[b]	IMIS document No. (PYXX, JNLV)	Amount
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	175166	5 March 2015	BYL	3160	9238	118941	4 974.68
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	193444	5 March 2015	BYL	3160	9238	118941	21 126.69
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	256945	5 March 2015	BYL	3160	9238	118941	9 700.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	269652	5 March 2015	BYL	3160	9238	118941	1 440.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	270455	5 March 2015	BYL	3160	9238	118941	1 120.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	295005	5 March 2015	BYL	3160	9238	118941	19 473.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	34053	5 March 2015	BYL	3160	9238	118941	1 188.63
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	344776	5 March 2015	BYL	3160	9238	118941	750.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	38176	5 March 2015	BYL	3160	9238	118941	1 774.93
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	44540	5 March 2015	BYL	3160	9238	118941	14 958.45
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	475424	5 March 2015	BYL	3160	9238	118941	5 692.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	518092	5 March 2015	BYL	3160	9238	118941	530.00

Category	*Approval from*	*Approval memorandum: authorized by*	*Payee type[a]*	*Payee ID*	*Write-off approval date*	*Fund charged*	*GL code 3160 or 6310*	*Object code in GL 3160[b]*	*IMIS document No. (PYXX, JNLV)*	*Amount*
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	736215	5 March 2015	BYL	3160	9238	118941	2 507.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	819001	5 March 2015	BYL	3160	9238	118941	4 268.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	819133	5 March 2015	BYL	3160	9238	118941	3 778.81
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	819416	5 March 2015	BYL	3160	9238	118941	2 566.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	820086	5 March 2015	BYL	3160	9238	118941	7 045.00
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	845898	5 March 2015	BYL	3160	9238	118941	584.46
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	853578	5 March 2015	BYL	3160	9238	118941	744.29
A/R	Local	Mr. C. Bouvier, Director, Office for Operations/Corporate Services Section, United Nations Environment Programme	Staff member	854424	5 March 2015	BYL	3160	9238	118941	824.00
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	533691	9 March 2015	CPL	3160	9238	119121	50.00
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	701212	9 March 2015	CPL	3160	9238	119121	188.46
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	4702	9 March 2015	FPL	3160	9238	119121	429.10
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Vendor	544	9 March 2015	FPL	3160	9238	119121	51.78

Category	Approval from	Approval memorandum: authorized by	Payee type[a]	Payee ID	Write-off approval date	Fund charged	GL code 3160 or 6310	Object code in GL 3160[b]	IMIS document No. (PYXX, JNLV)	Amount
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Consultant	271116	9 March 2015	GFL	3160	9238	119121	481.50
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Staff member	478562	9 March 2015	MDL	3160	9238	119121	23.10
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Consultant	109224	9 March 2015	NFL	3160	9238	119121	78.25
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Other person	409483	9 March 2015	QML	3160	9238	119121	161.49
A/R	Local	Mr. Barabanov, Director, Division of Administrative Services, United Nations Office at Nairobi	Other person	442856	9 March 2015	SEL	3160	9238	119121	1 043.00
A/R	Local		Staff member	447382		JCL	3160	9238	118072	-20 245.59
A/R	Local		Staff member	549807		JCL	3160	9238	118072	-3 322.57
A/R	Local		Staff member	354728		FPL	3160	9238	107982	-1 310.64
Subtotal										**245 755.98**
Total										**245 755.98**

Abbreviations: A/R, accounts receivable; BCL, Trust Fund for the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; BYL, General Trust Fund for the Convention on Biological Diversity; CPL, Counterpart Contributions in Support of the Environment Fund Activities; FBL, Technical Cooperation Trust Fund for the Implementation of the Global Environment Facility Fee-Based System for Funding Projects Implementation; FEL, Environment Fund biennial support budget; FPL, UNEP Environment Fund programme activities; GFL, Technical Cooperation Trust Fund for Implementation by UNEP of the Activities Funded by the Global Environment Facility; IML, Technical Cooperation Trust Fund for Implementation by UNEP of the Multilateral Fund Activities; JCL, Technical Cooperation Trust Fund for the Establishment of the International Environment Technology Centre in Japan; JNLV, journal voucher; MDL, Technical Cooperation Trust Fund for Implementation by UNEP of the Millennium Development Goals Achievement Fund; NFL, Technical Cooperation Trust Fund for the Implementation of the Framework Agreement between UNEP and the Government of Norway; PYXX, prior-year number; QML, Support of the Mediterranean Action Plan; QWL, Support of the Convention on the Conservation of Migratory Species of Wild Animals; RED, Technical Cooperation Trust Fund to Support the Programme of Work and Responsibilities of the United Nations Environment Programme in the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries; SEL, Technical Cooperation Trust Fund for the Implementation of the Agreement with Sweden; UNEP, United Nations Environment Programme.

[a] Vendors, Governments, agencies/other United Nations entities, separated staff members, consultants, meeting participants, other persons (i.e., interpreters), etc.

[b] Object code 9238 under GL 3160 was set up to record write-offs. Please reconcile GL 3160 object code 9238 balance against the balance reported in this column.

Chapter III
Certification of the financial statements

Letter dated 31 March 2015 from the Chief Finance Officer of the United Nations Office at Nairobi addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Environment Programme for the year ended 31 December 2014 have been prepared in accordance with rule 106.1 of the Financial Regulations and Rules of the United Nations and rule 213.3 of the Financial Rules of the Fund of the United Nations Environment Programme.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes, and the accompanying schedules, provide additional information and clarification of the financial activities undertaken by the United Nations Environment Programme during the period covered by these statements.

The certification function defined in financial rules 105.5 and 105.7 to 105.9 of the United Nations is assigned to the United Nations Environment Programme. Responsibility for the accounts and the performance of the approving function, as defined in article VI and financial rule 105.6 of the Financial Regulations and Rules of the United Nations, is assigned to the United Nations Office at Nairobi.

In accordance with the authority assigned to me, I hereby certify that the appended financial statements of the Fund of the United Nations Environment Programme for the year ended 31 December 2014 are correct.

(*Signed*) Christopher **Kirkcaldy**
Chief Finance Officer
United Nations Office at Nairobi

Chapter IV
Administration's financial overview for the year ended 31 December 2014

Introduction

1. The Executive Director has the honour to submit herewith the financial report, together with the accounts of the United Nations Environment Programme including the Environment Fund, associated trust funds and the related accounts for the year ended 31 December 2014. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.1, these financial statements were transmitted to the Board of Auditors on 31 March 2015.

2. These are the first financial statements for the United Nations Environment Programme prepared in compliance with the International Public Accounting Standards (IPSAS).

3. Given that this is the first year of preparation of IPSAS-compliant statements, comparative data for the year ended 31 December 2013 have only been reflected in the statement of financial position. These have been restated where applicable.

4. Regular budget income and expenditure, insofar as it relates to the United Nations Environment Programme, are included in Volume I, A related party, but for completeness are also included in these financial statements.

5. The notes and schedules included with these financial statements are an integral part of the financial statements.

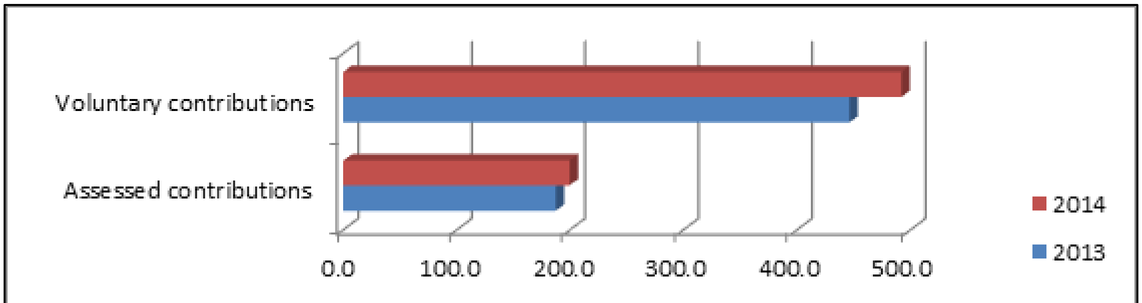
Overview

All funds

6. Statements I to V show the consolidated figure for all UNEP activities comprising the Environment Fund, regular budget, other trust funds supporting the UNEP programme of work, trust funds supporting the UNEP multinational environment agreements and the Multilateral Fund, programme support costs that support the UNEP programme of work and the multilateral environment agreements, and end-of-service and retirement benefits for the year ended 31 December 2014.

7. The following chart shows the revenue of UNEP by major funding source categories for the year ended 31 December 2014 compared with the year ended 31 December 2013.

(Millions of United States dollars)

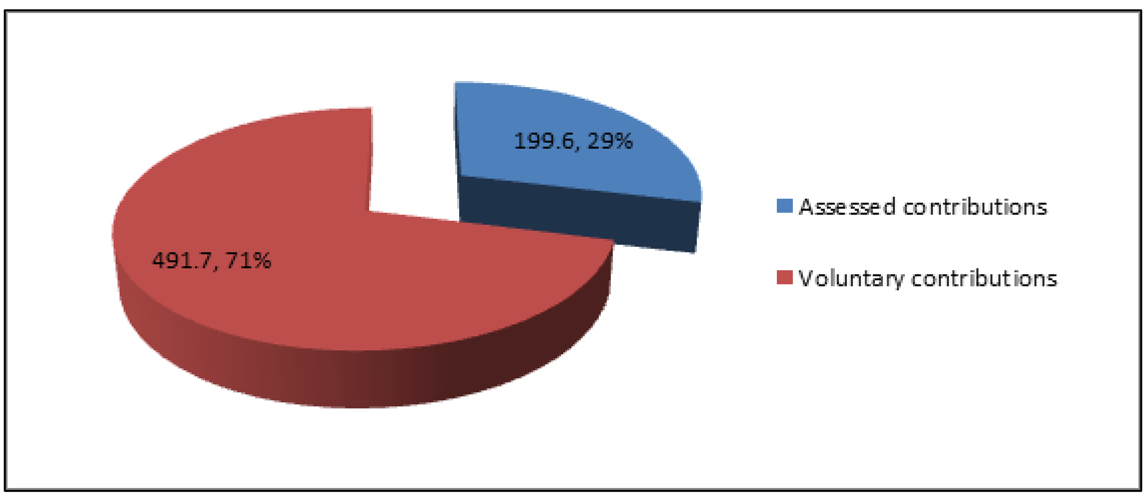


	Assessed contributions	Voluntary contributions
2014	199.6	491.7
2013	187.0	446.0

8. The 2014 contributions are based on IPSAS accounting, whereas the 2013 figures were based on the United Nations system accounting standards. There has been an overall increase of $58.3 million (9.2 per cent) in total contributions over the period. Assessed contributions increased by $12.6 million (6.7 per cent), mostly as a result of a $7 million increase in the UNEP regular budget allocation. Assessed contributions comprise $16.2 to the United Nations regular budget, $52.8 million to conventions and protocols and $130.5 million to the Multilateral Fund. For assessed contributions, the change from United Nations system accounting standards to IPSAS has relatively little impact on the accounting treatment. However, for voluntary contributions, which have increased by $47.1 million, the increase is explained in part by the change in accounting treatment whereby income was only recognized on the receipt of cash or a firm pledge under the United Nations system accounting standards, whereas it is recognized on signature of a funding agreement under IPSAS.

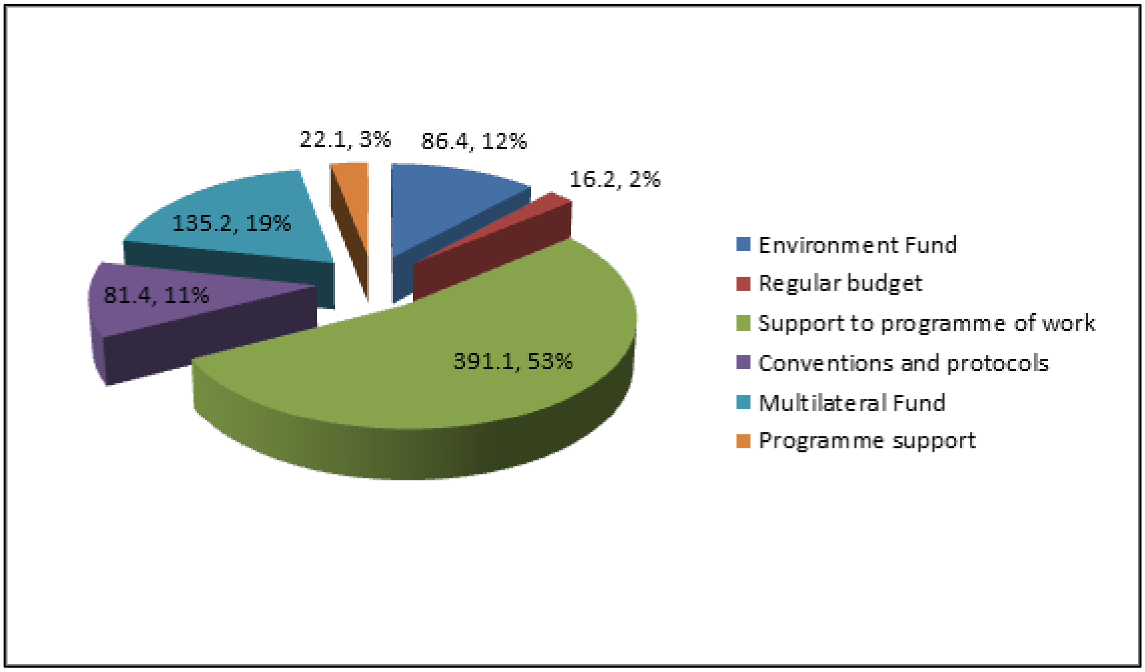
9. The following chart shows the revenue of UNEP for the year ended 31 December 2014 by funding sources categories.

(Millions of United States dollars)



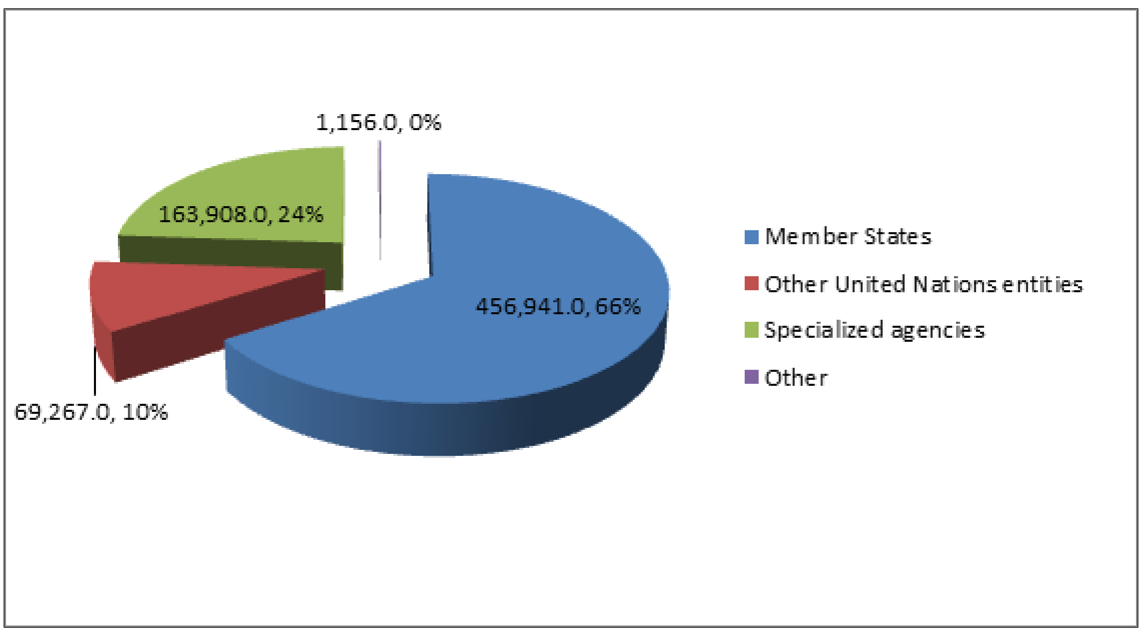
10. The following figure shows the proportion of revenue by segment before elimination.

(Millions of United States dollars)



11. The following figure shows the contributions distribution by type of payment source.

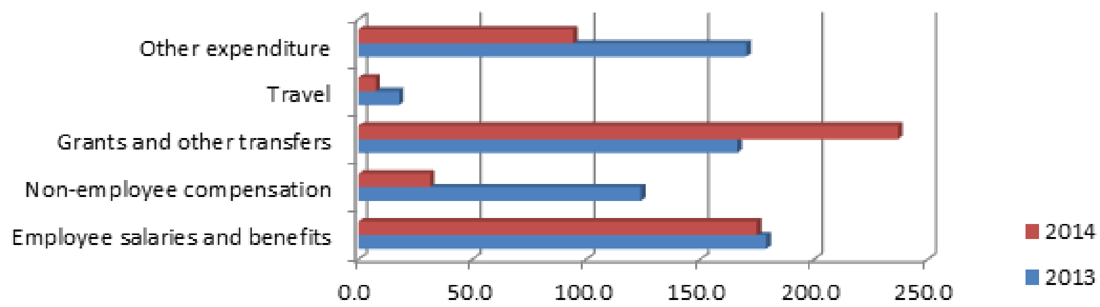
(Millions of United States dollars)



12. Total expenditure decreased by $112.4 million (17.1per cent), to $552.4 million from $657.0 million.

13. The following chart shows a comparison of expenditure by nature of expense for the years ended 31 December 2014 and 2013.

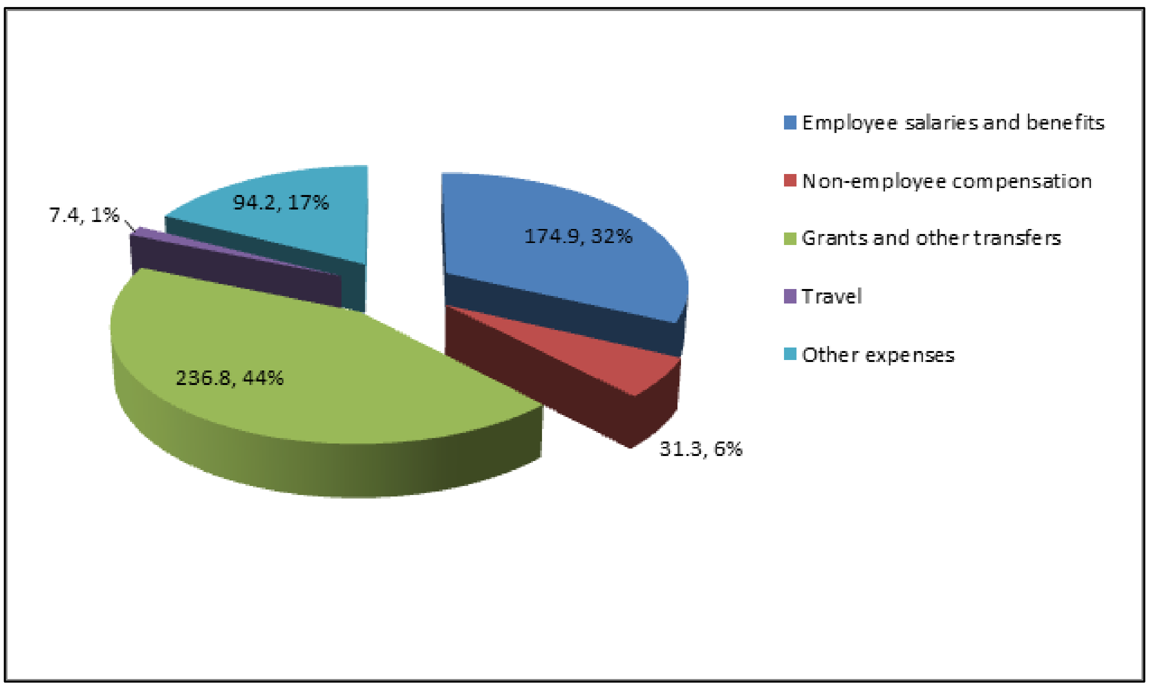
(Millions of United States dollars)



	Employee salaries and benefits	Non-employee compensation	Grants and other transfers	Travel	Other expenditure
2014	174.9	31.3	236.8	7.4	94.2
2013	179.0	123.9	166.2	17.7	170.2

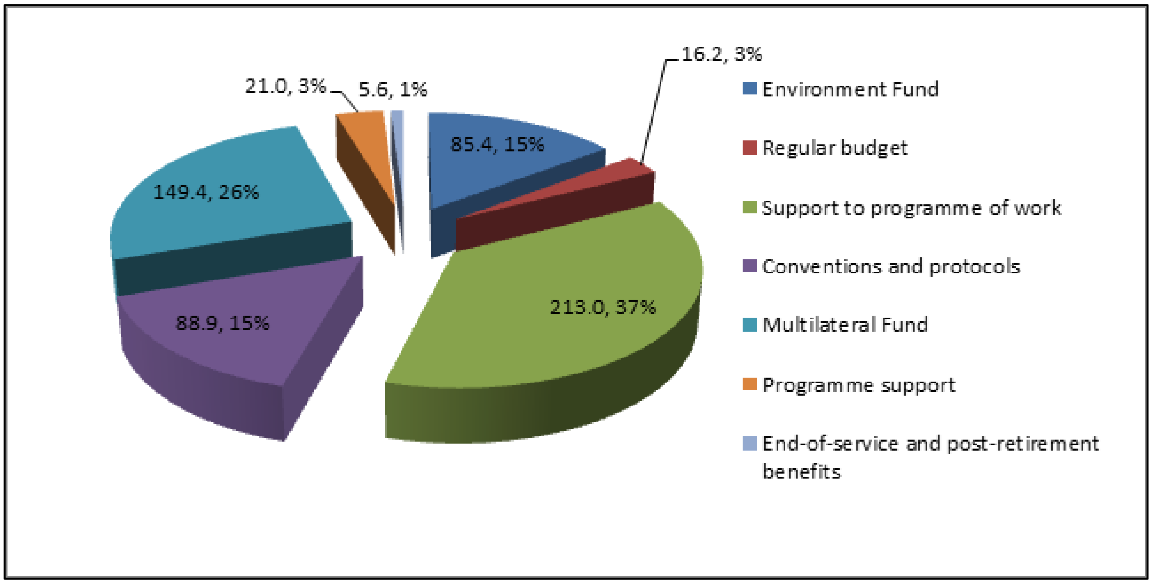
14. Expenditure for the year ended 31 December 2014 by nature of expense is shown in the chart below.

(Millions of United States dollars)



15. The following chart shows the proportion of expenditure by segment without elimination.

(Millions of United States dollars)



16. The cash position (cash and cash equivalents) increased by $25.4 million (21.6 per cent), to $143.0 million from $ 117.6 million as at 31 December 2013.

17. Total assets decreased by $11.9 million (0.8 per cent), to $1,543.3 million from $1,555.2 million as at 31 December 2013.

18. Total liabilities decreased by $134.5 million (24.9 per cent), to $406.7 million from $541.2 million as at 31 December 2013.

19. Net assets increased by $122.6 million (12.1 per cent), to $1,136.6 million from $1,014.0 as at 31 December 2013.

20. Table IV.1 summarizes other key indicators for the United Nations Environment Programme for the year ended 31 December 2014 compared with the year ended 31 December 2013.

Table IV.1
Other key indicators

(Millions of United States dollars)

	2014	*2013*	*Increase/ (decrease)*	*Change (percentage)*
Assessed contributions revenue	199.6	187.0	12.6	6.7
Voluntary contributions revenue	491.7	446.0	45.7	10.2
Total contributions revenue	**691.3**	**633.0**	**58.3**	**9.2**
Cash and cash equivalents	143.0	117.6	25.4	21.6
Short-term investments	259.6	267.6	(8.0)	(3.0)
Long-term investments	221.6	207.7	13.9	6.7
Total cash and investments	**624.2**	**592.9**	**31.3**	**5.3**
Assessed contributions receivable	64.0	66.6	(2.6)	(3.9)
Voluntary contributions receivable	470.7	317.7	153.0	48.2
Total receivables	**534.7**	**384.3**	**150.4**	**39.1**
Advance transfers	333.1	327.9	5.2	1.6
Other assets	50.6	249.0	(198.4)	(79.7)
Accounts payable and accrued payables	44.1	31.9	12.2	38.2
Employee benefits liabilities	165.9	125.5	40.4	32.2
Other liabilities	196.7	383.7	(187.0)	(48.7)

End-of-service and post-retirement accrued liabilities

21. UNEP fully accrues for the end-of-service and post-retirement benefits, comprising after-service health insurance liabilities, annual leave and repatriation benefits. It is to be noted that UNEP makes monthly provisions for repatriation benefits at 8 per cent of net salary.

22. The 31 December 2014 accrued balances have been adjusted to reflect the estimated liabilities as at 31 December 2014 as reflected in the 2014 actuarial study calculations by a consulting firm engaged by the United Nations Secretariat on behalf of UNEP. By fully charging these liabilities in the financial statements as at 31 December 2014, an amount of $132.5 million of cumulative unfunded expenditure is being shown in the statement of net assets.

Chapter V
Financial statements and related explanatory notes for the year ended 31 December 2014

United Nations Environment Programme
I. Statement of financial position as at 31 December 2014

(Thousands of United States dollars)

	Notes	*31 December 2014*	*Opening balance 1 January 2014*
Assets			
Current assets			
Cash and cash equivalents	7	142 984	117 596
Investments	8	259 613	267 647
Assessed contributions receivable	9	55 359	42 657
Voluntary contributions receivable	10	470 695	317 674
Advance transfers	11	228 849	184 479
Other assets	12	50 602	249 030
Total current assets		**1 208 102**	**1 179 083**
Non-current assets			
Investments	8	221 570	207 749
Assessed contributions receivable	9	8 655	23 962
Advance transfers	11	104 220	143 441
Property, plant and equipment	14	760	977
Total non-current assets		**335 205**	**376 129**
Total assets		**1 543 307**	**1 555 212**
Liabilities			
Current liabilities			
Accounts payable and accrued payables	16, 24	44 126	31 860
Employee benefits liabilities	17	8 557	6 807
Provisions	18	–	150
Other liabilities	19, 24	196 736	383 712
Total current liabilities		**249 419**	**422 529**
Non-current liabilities			
Employee benefits liabilities	17	157 320	118 676
Total non-current liabilities		**157 320**	**118 676**
Total liabilities		**406 739**	**541 205**
Net assets			
Accumulated surpluses/(deficits) — unrestricted	20	1 104 690	982 842
Accumulated surplus — restricted	20	–	–
Reserves	20	31 878	31 165
Total net assets		**1 136 568**	**1 014 007**
Total liabilities and net assets		**1 543 307**	**1 555 212**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Environment Programme
II. Statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Notes	*31 December 2014*
Revenue		
Assessed contributions	21	199 594
Voluntary contributions	21	491 678
Investment revenue	24	5 398
Other exchange revenue	22	878
Total revenue		**697 548**
Expenses		
Employee salaries, allowances and benefits	23	174 935
Non-employee compensation and allowances	23	31 265
Grants and other transfers	23, 29	236 763
Supplies and consumables		7 417
Depreciation and amortization	14, 15	266
Travel		14 641
Other operating expenses	23	61 820
Other expenses	23	15 723
Exchange losses from the fixed-rate mechanism	23	1 784
Total expenses		**544 614**
Surplus/(deficit) for the period		**152 934**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Environment Programme
III. Statement of changes in net assets financial performance for the year end 31 December 2014

(Thousands of United States dollars)

	Accumulated surpluses/ (deficits) — unrestricted	*Accumulated surplus — restricted*	*Reserves*	*Total*
Net assets, beginning of period (1 January 2014)	717 658	–	31 165	748 823
IPSAS adjustment				
Transfer from operating reserve to accumulated surplus	8 081	–	–	8 081
Initial recognition of receivables related to voluntary contributions	212 605	–	–	212 605
Initial recognition of accruals	(3 855)	–	–	(3 855)
Initial recognition of property, plant and equipment	977	–	–	977
Initial recognition of allowance for doubtful contributions	27 645	–	–	27 645
Initial recognition of employee benefits accruals	(11 595)	–	–	(11 595)
Initial recognition of other employee benefits accruals	(56 177)	–	–	(56 177)
Initial recognition of conditional liabilities	87 653	–	–	87 653
De-recognition of unliquidated obligations	(150)	–	–	(150)
Total IPSAS adjustment	**265 184**	**–**	**–**	**265 184**
Restated balance, beginning of period	**982 842**	**–**	**31 165**	**1 014 007**
Changes in net assets				
Transfers to reserves	(713)	–	713	–
Other adjustments to net assets	(141)	–	–	(141)
Actuarial gains and losses	(30 232)	–	–	(30 232)
Surplus/(deficit) for period	152 934	–	–	152 934
Total recognized revenue and expense for the period	**121 848**	**–**	**713**	**122 561**
Net assets, end of period	**1 104 690**	**–**	**31 878**	**1 136 568**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Environment Programme
IV. Statement of cash flows for the year ended 31 December 2014

(Thousands of United States dollars)

	Notes	*31 December 2014*
Cash flows from operating activities		
Surplus/(deficit) for the period		152 934
Non-cash movements:		
Depreciation and amortization	14	266
Net loss on disposal of property, plant and equipment and inventory		13
Decrease in allowance for doubtful receivables		(3 026)
Current service and interest cost on employee benefits liabilities		13 362
Changes in assets		
(Increase)/decrease in assessed contributions receivable		5 699
(Increase)/decrease in voluntary contributions receivable		(153 087)
(Increase)/decrease in advance transfers		(5 149)
(Increase)/decrease in other assets		198 428
Changes in liabilities		
Increase/(decrease) in accounts payable and accrued payables		12 266
Increase/(decrease) in employee benefits		(3 200)
Increase/(decrease) in provisions		(150)
Increase/(decrease) in other liabilities		(186 980)
Investment revenue presented as investing activities		(5 398)
Net cash flows from operating activities		**25 978**
Cash flows from investing activities		
Increase/(decrease) in the cash pools		(82 120)
Acquisitions of property, plant and equipment		(61)
Investment revenue presented as investing activities		5 398
Net cash flows from investing activities		**(76 783)**
Cash flows from financing activities		
Adjustment to fund balances		(141)
Net cash flows from financing activities		**(141)**
Net increase/(decrease) in cash and cash equivalents		**(50 946)**
Cash and cash equivalents, beginning of period		**60 147**
Cash and cash equivalents, end of period	7	**9 201**

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Environment Programme
V. Statement of comparison of budget and actual amounts for the year ended 31 December 2014

(Thousands of United States dollars)

	Publicly available budget[a]			*Actual expenditure (budget basis)*	*Difference (percentage)*[b]
	Original biennial	*Original annual*	*Final annual*		
Executive direction and management	7 794	3 499	5 575	4 629	17.0
Programme of work					
Climate change	39 510	17 739	13 484	12 695	5.9
Disasters and conflicts	17 886	8 030	5 681	5 468	3.7
Ecosystem management	36 831	16 536	15 216	14 601	4.0
Environmental governance	21 895	9 830	10 098	8 817	12.7
Chemicals and waste	31 175	13 997	8 369	7 978	4.7
Resource efficiency	45 329	20 352	15 284	14 768	3.4
Environment under review	16 768	7 528	7 384	6 892	6.7
Total programme of work	**209 394**	**94 014**	**75 516**	**71 219**	**5.7**
Fund programme reserve	12 500	5 612	3 637	3 198	12.1
Programme support	15 312	6 875	5 302	5 004	5.6
Total Environment Fund	**245 000**	**110 000**	**90 030**	**84 050**	**6.6**
United Nations regular budget allocation[c]	34 964	17 482	17 430	16 187	7.1
Total	**279 964**	**127 482**	**107 460**	**100 237**	**6.7**

[a] Publicly available budgets are voluntary and approved for a two-year period. Annual budgets are as per 2014 allotments issued.

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 6.

[c] The United Nations regular budget allocation is from assessed contributions as reported in Volume I.

The accompanying notes to the financial statements are an integral part of these financial statements.

United Nations Environment Programme
Notes to the financial statements

Note 1
Reporting entity

The United Nations Environment Programme and its activities

1. The United Nations Environment Programme (UNEP) was established by the General Assembly by its resolution 2997 (XXVII) of 15 December 1972 as an autonomous body and a separate reporting entity within the United Nations, with the Governing Council of UNEP as its policymaking organ and a Secretariat to serve as a focal point for environmental action and coordination within the United Nations system. As from June 2014, UNEP adopted universal membership and the United Nations Environment Assembly became its governing body. UNEP is headed by an Executive Director. UNEP is supported by the Environment Fund, a United Nations regular budget allocation, assessed contributions and voluntary contributions from Governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources. UNEP headquarters is off UN Avenue, Nairobi, at the United Nations Office at Nairobi complex.

2. The mandate of UNEP, as the leading global environmental authority that sets the global agenda and promotes the coherent implementation of sustainable development within the United Nations system, has been confirmed through various legislative measures, both by the General Assembly and the governing body of UNEP. UNEP also provides the secretariats to several global and regional environmental conventions that have been established in areas related to the UNEP programme mandate.

3. The activities for which UNEP is responsible for fall within programme 114 (Environment) of the United Nations strategic framework for the period 2014-2015. The overall objective of programme 114 is to provide leadership and encourage partnership in caring for the environment by inspiring, informing and enabling nations and peoples to improve their quality of life without compromising that of future generations. The main elements of the strategy for achieving the overall objective include: (a) filling the information and knowledge gap on critical environmental issues through more comprehensive assessments; (b) identifying and further developing the use of appropriate integrated policy measures in tackling the root causes of major environmental concerns; and (c) mobilizing action for better integration of international action to improve the environment, particularly in relation to regional and multilateral agreements, as well as United Nations system-wide collaborative arrangements.

The United Nations Environment Programme

4. These United Nations Environment Programme (the organization) financial statements are a separate financial reporting entity of the United Nations and include the Environment Fund, the UNEP United Nations regular budget allocation, trust funds that support the UNEP programme of work, trust funds that support the UNEP multilateral environment agencies and the Multilateral Fund for the Implementation of the Montreal Protocol, related programme support costs for the UNEP programme of work and the multilateral environment agencies and the Multilateral Fund.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

5. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with International Public Sector Accounting Standards (IPSAS). In accordance with the requirements of IPSAS, these financial statements, which present fairly the assets, liabilities, revenue and expenses of the United Nations Environment Programme, and the cash flows over the financial year, consist of the following:

(a) Statement I: statement of financial position;

(b) Statement I: statement of financial performance;

(c) Statement I: statement of changes in net assets;

(d) Statement I: statement of cash flows;

(e) Statement I: statement of comparison of budgets and actual amounts;

(f) A summary of significant accounting policies and other explanatory notes.

6. The financial statements have been prepared on a going-concern basis and the accounting policies as summarized in note 3, have been applied consistently in the preparation and presentation of these financial statements.

7. This is the first set of financial statements prepared in compliance with IPSAS, which includes the application of certain transitional provisions, as identified below. Prior to 1 January 2014, the financial statements were prepared in accordance with the United Nations system accounting standards, a modified accrual basis of accounting.

8. The adoption of the new accounting standards, including the related IPSAS-compliant policies, has resulted in changes to the assets and liabilities recognized in the statement of financial position. Accordingly, the last audited balance sheet dated 31 December 2013 has been restated and the resulting changes are summarized in the statement of changes in net assets.

Authorization for issue

9. These financial statements are certified by the Chief Financial Officer of the United Nations Office at Nairobi and approved by the Executive Director of the United Nations Environment Programme. In accordance with the Financial Regulations and Rules of the United Nations, these financial statements as at 31 December 2014 are authorized for issue on 31 March 2015.

Measurement basis

10. The financial statements are prepared using the historic cost convention except for certain assets as stated in the notes to the financial statements. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Functional and presentation currency

11. The functional currency and the presentation currency of the organization is the United States dollar. The financial statements are expressed in thousands of United States dollars unless otherwise stated.

12. Foreign currency transactions are translated into United States dollars at the United Nations operational rates of exchange (UNORE) at the date of the transaction. The UNORE approximates the spot rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies, those other than the functional currency, are translated at the UNORE year-end rate. Non-monetary foreign currency items measured at historical cost or fair value are translated at the UNORE exchange rate prevailing at the date of the transaction or when the fair value was determined.

13. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgement and estimates

14. Materiality is central to the preparation and presentation of the organization's financial statements and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

15. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgements and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses.

16. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments; valuation of inventory; inflation and discount rates used in the calculation of the present value of provisions and classification of contingent assets/liabilities.

IPSAS transitional provisions

17. As permitted on first-time adoption of IPSAS, the following transitional provisions have been applied:

(a) IPSAS 1: Presentation of financial statements — comparative information is provided only for the statement of financial position;

(b) IPSAS 4: The effects of changes in foreign exchange rates — the cumulative translation differences that may have existed at the date of first time adoption of IPSAS accrual accounting are deemed to be zero;

(c) IPSAS 17: Property, plant and equipment allows a transitional period of up to five years prior to full recognition of capitalized property, plant and equipment. The organization partially invoked this transitional provision and has not recognized project assets, certain long-term donated right-to-use arrangements and leasehold improvements;

(d) IPSAS 31: Intangible assets is applied prospectively to intangible assets. Other than the new enterprise resource planning system, intangible assets acquired or internally developed before 1 January 2014 have not been capitalized in these financial statements. IPSAS 31 has been applied retrospectively to the expenditures associated with the organization's new enterprise resource planning system, Umoja, which is being capitalized as an intangible asset in the Volume I, A related party, financial statements.

Future pronouncements of the IPSAS Board

18. Future financial statements may be impacted by the following significant future pronouncements from the International Public Sector Accounting Standards Board:

(a) Social benefits — the project's objective is to identify the circumstances and manner in which expenses and liabilities of certain social benefits should be reflected in the financial statements;

(b) Reporting service performance information — the project's objective is to use a principles-based approach to develop a consistent framework for reporting service performance inflation of public sector programmes and services that focuses on meeting the needs of users;

(c) Interests in other entities — the project will consider the revision of IPSAS 6: Consolidated and separate financial statements, IPSAS 7: Investments in associates and IPSAS 8: Interests in joint ventures as they relate to the underlying International Financial Reporting Standards.

19. The progress and impact of these future accounting pronouncements on the financial statements of the United Nations Environment Programme continue to be assessed and monitored.

Note 3
Significant accounting policies

Financial assets: classification

20. The organization classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date. Classification of financial assets primarily depends on the purpose for which the financial assets are acquired.

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools
Loans and receivables	Cash and cash equivalents, receivables non-exchange and exchange transactions, loans and advances to implementing partners, executing agency, staff

21. All financial assets are initially measured at fair value. The organization initially recognizes financial assets classified as loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date the organization becomes party to the contractual provisions of the instrument.

22. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the UNORE exchange rates prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the Statement of Financial Performance.

23. Financial assets at fair value through surplus or deficit are those that have been either designated in this category at initial recognition or are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

24. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

25. Financial assets are assessed at each reporting date to determine whether there is an objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise.

26. Financial assets are de-recognized when the rights to receive cash flows have expired or have been transferred and the organization has transferred substantially all risks and rewards of the financial asset.

27. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in cash pools

28. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities and other participating entities, including UNEP. These pooled

funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

29. The organization's investment in the cash pools are included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Financial assets: cash and cash equivalents

30. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables from non-exchange transactions — contributions receivable

31. Contributions receivable represent uncollected revenue from assessed and voluntary contributions committed to the organization by Member States, non-Member States and other donors based on enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts.

32. Voluntary contributions receivable and other receivables are subject to an allowance for doubtful receivables that is calculated at a rate of 25 per cent for outstanding receivables between one to years; 60 per cent for two to three years; and 100 per cent for those in excess of three years.

33. For assessed contributions receivable, the allowance is calculated at a rate of 20 per cent for those outstanding one to two years; 60 per cent for those between two to three years; 80 per cent for those between three and four years; and 100 per cent for those over four years.

34. Outstanding receivables that are identified as requiring specifically allowances are first identified and then the general allowance based on ageing is applied.

35. Decisions for write-offs are considered at the executive body level of the organization, the conventions or the Multilateral Fund, as appropriate.

Financial assets: receivable from exchange transactions — other accounts receivable

36. Other receivables include primarily amounts receivable for goods or services provided to other entities, amounts receivable for operating lease arrangements, and receivables from staff. Receivables from other United Nations reporting entities are also included in this category.

Financial assets: notes receivable

37. Notes receivable consist of promissory notes pledged by Member States in support of the Multilateral Fund.

Investments accounted for using the equity method

38. The equity method initially records an interest in a jointly controlled entity at cost, and adjusted thereafter for the post-acquisition change in the organization's share of net assets. The organization's share of the surplus or deficit of the investee is recognized in the statement of financial performance. The interest is recorded under investments unless there is a net liability position, in which case it is recorded under other liabilities. The organization also has entered into arrangements for jointly financed activities where the interests in such activities are accounted for using the equity method.

Other assets

39. Other assets include education grant advances and prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Advance transfers

40. Advance transfers relate mainly to cash transferred to executing agencies/implementing partners as an advance in order for them to provide agreed goods or services. Advances issued are initially recognized as assets, and then expenses are recognized when goods are delivered or services are rendered by the executing agencies/implementing partners and confirmed by receipt of certified expense reports, as applicable. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual is needed. Balances due for a refund are transferred to other receivables which, where necessary, are subject to an allowance for doubtful receivables.

Inventories

41. Inventory balances are recognized as current assets and include the following categories:

Categories	*Subcategories*
Held for sale or external distribution	Books and publications, stamps
Raw materials and work-in-progress associated to items held for sale or external distribution	Construction materials/supplies, work-in-progress
Strategic reserves	Fuel reserves, bottled water and rations reserves, strategic deployment stocks

42. The organization's inventories include assets held for sale or external distribution, raw materials and work in progress associated with items held for sale or external distribution, and strategic reserves of consumables and supplies.

43. The cost of inventory in stock is determined using the average price cost basis. The cost of inventories includes the cost of purchase, plus other costs incurred in bringing the items to the destination and condition for use. Inventory acquired through non-exchange transactions, that is, donated goods, are measured at fair

value at the date of acquisition. Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no or nominal charge or for consumption in the production of goods/services are valued at the lower of cost and current replacement cost.

44. The carrying amount of inventories is expensed when inventories are sold, exchanged, distributed externally or consumed by the organization. Net realizable value is the net amount that is expected to be realized from the sale of inventories in the ordinary course of operations. Current replacement cost is the estimated cost that would be incurred to acquire the asset.

45. Inventories are subject to physical verification based on value and risk as assessed by management. Valuations are net of write-downs from cost to current replacement cost/net realizable value, which are recognized in the statement of financial performance.

Heritage assets

46. Heritage assets are not recognized in the financial statements but significant heritage assets are disclosed in notes to the financial statements.

Property, plant and equipment

47. Classification: Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies as: vehicles; prefabricated buildings; communications and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (building, infrastructure and asset under construction).

48. Recognition of property, plant and equipment:

(a) All property, plant and equipment other than real estate assets are stated at historical cost, less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price, any costs directly attributable to bringing the asset to its location and condition and the initial estimate of dismantling and site restoration costs;

(b) Owing to the absence of historical cost information, real estate assets are initially recognized using a depreciated replacement cost methodology. Baseline costs per baseline quantity have been calculated by collecting construction cost data, utilizing in-house cost data (where it existed), or using external cost estimators for each catalogue of real estate assets. The baseline costs per baseline quantity adjusted for price escalation factor, size factor and location factor are applied to value the real estate asset and determine the replacement cost;

(c) With respect to property, plant and equipment acquired at nil or nominal cost, including donated assets, the fair value at the date of acquisition is deemed to be the cost to acquire;

(d) Property, plant and equipment are capitalized when their cost is greater or equal to the threshold of $5,000 or $100,000 for leasehold improvements and self-constructed assets.

49. Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method up to their residual value, except for land and assets

under construction, which are not subject to depreciation. Significant components of property, plant and equipment with different useful lives are depreciated using the components approach. Depreciation commences in the month when the organization gains control over an asset in accordance with Incoterms and no depreciation is charged in the month of retirement or disposal. Given the expected pattern of usage of property, plant and equipment, the residual value is nil unless residual value is likely to be significant. The estimated useful lives of property, plant and equipment classes are set out below.

Class	*Subclass*	*Estimated useful life*
Communications and information technology equipment	Information technology equipment	4 years
	Communications and audiovisual equipment	7 years
Vehicles	Light-wheeled vehicles	6 years
	Heavy-wheeled and engineering support vehicles	12 years
	Specialized vehicles, trailers and attachments	6-12 years
Machinery and equipment	Light engineering and construction equipment	5 years
	Medical equipment	5 years
	Security and safety equipment	5 years
	Water treatment and fuel distribution equipment	7 years
	Transportation equipment	7 years
	Heavy engineering and construction equipment	12 years
	Printing and publishing equipment	20 years
Furniture and fixtures	Library reference material	3 years
	Office equipment	4 years
	Fixtures and fittings	7 years
	Furniture	10 years
Buildings	Temporary and mobile buildings	7 years
	Fixed buildings	Up to 50 years
	Finance lease or donated right-to-use buildings	Shorter of term of arrangement or life of building
Infrastructure assets	Telecommunications, energy, protection, transport, waste and water management, recreation, landscaping	Up to 50 years
Lease hold improvements	Fixtures, fittings and minor construction work	Shorter of lease term or 5 years

50. Where there is a material cost value of fully depreciated assets that are still in use, adjustments to accumulated depreciation and property, plant and equipment are incorporated in the financial statements to reflect a depreciation floor of 10 per cent of historical cost based on an analysis of the classes and useful lives of the fully depreciated assets, which revealed that the majority of such assets had relatively short useful lives of 10 years or less.

51. The organization elected the cost model for measurement of property, plant and equipment after initial recognition instead of the revaluation model. Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the organization and the subsequent cost exceeds the threshold for initial recognition. Repairs and maintenance are expensed in the statement of financial performance in the year in which they are incurred.

52. A gain or loss resulting from the disposal or transfer of property, plant and equipment arises where proceeds from disposal or transfer differ from its carrying amount. Those gains or losses are recognized in the statement of financial performance within other revenue or other expenses.

53. Land, buildings and infrastructure assets with a year-end net book value greater than $100,000 are reviewed for impairment at each reporting date. The equivalent threshold for other property, plant and equipment items (excluding assets under construction and leasehold improvements) is $25,000. Impairment assessments are conducted when events or changes in circumstance indicate that carrying amounts may not be recoverable.

Intangible assets

54. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment loss. For intangible assets acquired at nil or nominal cost, including donated assets, the fair value at the date of acquisition is deemed to be the cost to acquire. The threshold for recognition is $100,000 for internally generated software and $5,000 per unit for externally acquired intangible assets.

55. Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by the organization are capitalized as an intangible asset. Directly associated costs include software development employee costs, consultants cost, and other applicable overhead costs.

56. Intangible assets with definite useful life are amortized on a straight-line method, over their estimated useful lives starting from the month of acquisition or when the intangible assets become operational.

57. The useful lives of major classes of intangible assets have been estimated as shown below.

Class	*Range of estimate useful life*
Software acquired externally	3-10 years
Software internally developed	3-10 years
Licenses and rights	2-6 years (period of license/right)
Copyrights	3-10 years
Assets under development	Not amortized

58. Annual impairment reviews of intangible assets are conducted where assets are under construction or have an indefinite useful life. Other intangible assets are subject to impairment review only when there are indicators of impairment.

Financial liabilities: classification

59. Financial liabilities are classified as "other financial liabilities". They include accounts payable, transfer payables, unspent funds held for future refunds, and other liabilities such as inter-fund balances payable. Financial liabilities classified as other financial liabilities are initially recognized at fair value. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The organization re-evaluates classification of financial liabilities at each reporting date and de-recognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued payables

60. Accounts payables and accrued expenses arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are stated at invoice amounts, less payment discounts at the reporting date. Payables are recognized and subsequently measured at their nominal value, as they are generally due within 12 months. Transfers payable within this category relates to amounts owed to executing entities/implementing agencies and partners and residual balances due to be returned to donors.

Advance receipts and other liabilities

61. Other liabilities consist of advance receipts relating to contributions or payments received in advance, liabilities for conditional funding arrangements, assessments or voluntary contributions received for future years and other deferred revenue. Advance receipts are recognized as revenue at the start of the relevant financial year or based on the organization's revenue recognition policies.

Leases: the organization as lessee

62. Leases of property, plant and equipment where the organization has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the start of the lease at lower of fair value or the present value of the minimum lease payments. The rental obligation, net of finance charges, is reported as a liability in the statement of financial position. Assets acquired under finance leases are depreciated in accordance with the

organization's policy on property, plant and equipment. The interest element of the lease payment is charged to the statement of financial performance as an expense over the lease term on the basis of the effective interest rate method.

63. Leases where all of the risks and rewards of ownership are not substantially transferred to the organization are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Leases: the organization as lessor

64. The organization is the lessor for certain assets subject to operating leases. Assets subject to operating leases are reported within property, plant and equipment. Lease income from operating leases is recognized in the statement of financial performance over the lease term on a straight-line basis.

Donated rights to use

65. The organization occupies land and buildings and uses infrastructure assets, machinery, and equipment through donated rights-to-use agreements granted primarily by host Governments at nil or nominal cost. Based on the term of the agreement, and the clauses on transfer of control and termination contained in the agreement, the donated right-to-use arrangement is accounted for as an operating lease or finance lease.

66. In the case of an operating lease, an expense and a corresponding revenue equal to the annual market rent of similar property is recognized in the financial statements. In the case of a finance lease (principally with a lease term over 35 years for premises), the fair market value of the property is capitalized and depreciated over the shorter of the useful life of the property and the term of the arrangement. If property is transferred with specific conditions, deferred revenue for the amount is recognized equal to the entire fair market value of the property (or share of the property) occupied by the organization, which is progressively recognized as revenue and offsets the corresponding depreciation charge. If property is transferred without any specific condition, revenue for the same amount is recognized immediately upon assuming control of the property.

67. Long-term donated rights-to-use building and land arrangements are accounted for as an operating lease where the organization does not have exclusive control over the building and title to the land is not granted.

68. The threshold for the recognition of revenue and expense is the yearly rental value equivalent of $5,000 for donated rights-to-use premises and $5,000 for machinery and equipment.

Employee benefits

69. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter.

70. Employee benefits are classified into short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

71. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries, and allowances), compensated absences (paid sick leave, maternity/paternity leave) and other short-term benefits (education grant, reimbursement of taxes, and home leave) provided to current employees based on services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

72. Post-employment benefits comprise the after-service health insurance plan and end-of-service repatriation benefits that are accounted for as defined-benefit plans. The organization also has an after-service life insurance plan that covers life insurance premiums for eligible retirees; the post-employment benefit liability related to the after-service life insurance plan is not material.

Defined-benefit plans

73. Defined-benefit plans are those where the organization's obligation is to provide agreed benefits and therefore the organization bears the actuarial risks. The liability for defined-benefit plans is measured at the present value of the defined-benefit obligation. Changes in the liability for defined-benefit plans, including actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The organization has elected to recognize changes in the liability for defined-benefit plans from actuarial gains and losses in surplus/deficit. At the end of the reporting year, the organization did not hold any plan assets as defined by IPSAS 25: Employee benefits.

74. The defined-benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds with maturity dates approximating those of the individual plans.

75. After-service health insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependents. Upon end of service, staff members and their dependents may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007, and five years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the organization's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is to consider contributions by all plan participants in determining the organization's residual liability. Contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the organization's residual liability in accordance with cost sharing ratios authorized by the General Assembly.

76. Repatriation benefits: upon end of service, staff who meets certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the organization and is measured as the present value of the estimated liability for settling these entitlements.

77. Appendix D benefits: appendix D to the Staff Rules governs compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations.

Pension plan: United Nations Joint Staff Pension Fund

78. UNEP is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to participating organizations. The organization, along with other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the Pension Fund's multi-employer funded, defined-benefit plan on an IPSAS 25 basis with sufficient reliability for accounting purposes. Therefore, as allowed by IPSAS 25, the organization treats this plan as if it were a defined-contribution plan. Thus, obligations for contributions to the Pension Fund are recognized as an employee benefit expense in the statement of financial performance.

Termination benefits

79. Termination benefits are recognized as an expense only when the organization is demonstrably committed, without a realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

80. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Other long-term employee benefits comprise liabilities related to the commutation of annual leave balances at the end of service.

81. The liabilities for annual leave represent unused accumulating compensated absence up to a maximum of 60 days, whereby an employee is entitled to monetary settlement of this balance upon separation from service. Therefore the organization recognizes as a liability the actuarial value of the total accumulated leave days of all staff members as of the date of the statement of financial position. Annual leave

benefits are calculated on the same actuarial basis as other post-employment benefits. Actuarial gains and losses on other long-term employee benefits are recognized in the statement of financial performance.

Provisions

82. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the organization has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

Contingent liabilities

83. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization; or present obligations that arise from past events but that are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or because the amount of the obligations cannot be reliably measured.

Contingent assets

84. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization.

Commitments

85. Commitments are future expenses to be incurred by the organization on contracts entered into by the reporting date and that the organization has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the organization in future periods, non-cancellable minimum lease payments and other non-cancellable commitments.

Non-exchange revenue: assessed contributions

86. Assessed contributions for the organization comprise the UNEP regular budget allocation and the assessed contributions of its multilateral environment conventions and the Multilateral Fund. Assessed contributions are assessed and approved for a budget period of one or more years. The one-year proportion of the assessed contributions is recognized as revenue at the beginning of the year. Assessed contributions include the amounts assessed to the Member States and non-Member States to finance the activities of the organization in accordance with the agreed scale of assessments. Revenue from assessed contributions from Member States and from non-Member States are presented in the statement of financial performance.

Non-exchange revenue: voluntary contributions

87. Voluntary contributions and other transfers, which are supported by legally enforceable agreements, are recognized as revenue at the time the agreement becomes binding, which is the point when the organization is deemed to acquire control of the asset. However, where cash is received subject to specific conditions or when contributions are explicitly given for a specific operation to commence in a future financial year, recognition is deferred until those conditions have been satisfied.

88. Voluntary pledges and other promised donations that are not supported by binding agreements with the terms of offer and acceptance are recognized as revenue upon the receipt of cash. Pledges and promised donations, as well as agreements not yet formalized by acceptance, are disclosed as contingent assets.

89. Unused funds returned to the donor are netted against revenue (if those funds are recognized as revenue during the year) or shown as reduction of net assets, if the funds were recognized in the previous year.

90. Revenue received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf.

91. In-kind contributions of goods, above the recognition threshold of $5,000, are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to the organization and the fair value of those assets can be measured reliably. Contributions in kind are initially measured at their fair value at the date of receipt determined by reference to observable market values or by independent appraisals. The organization has elected not to recognize in-kind contributions of services but to disclose in-kind contributions of service, above the threshold of $5,000 in the notes to the financial statements.

Exchange revenue

92. Exchange transactions are those in which the organization sells goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met, as follows:

(a) Revenue from sales of publications, books, stamps, and by the United Nations Gift shop and Visitor Centre is recognized when the sale occurs and risks and rewards have been transferred;

(b) Revenue from commissions and fees for technical, procurement, training, administrative and other services rendered to Governments, United Nations entities and other partners is recognized when the service is performed;

(c) Revenue from jointly financed activities represents amounts charged to other United Nations organizations for their share of joint costs paid for by the United Nations;

(d) Exchange revenue also includes income from the rental of premises, net gains on the sale of used or surplus property, plant and equipment, income from services provided to visitors in relation to guided tours and income from net gains resulting from currency exchange adjustments.

Investment revenue

93. Investment revenue includes interest income and the organization's net share of cash pool investment income and transaction costs associated with the operation of investments. Transaction costs that are directly attributable to cash pool investment activity are expensed as incurred in the cash pool and the net income is distributed proportionately to the participating funds. Gains and losses arising from changes in the fair value of financial instruments at fair value through surplus or deficit are included.

Expenses

94. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

95. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances. Non-employee compensation and allowances consists of United Nations Volunteers living allowances and post-employment benefits, consultant and contractors fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

96. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, allowance for bad debt, write-off expenses and expenses related human security and the United Nations Democracy Fund. Other expenses relate to hospitality and official functions, foreign exchange losses and the donation or transfer of assets.

97. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects. Supplies and consumables relate to the cost of inventory used and expenses for supplies.

98. Programme activities, distinct from commercial or other arrangements where the United Nations expects to receive equal value for funds transferred, are implemented by executing entities/implementing partners to service a target population that typically includes Governments, non-governmental organizations and United Nations agencies. Transfers to implementing partners are initially recorded as advances and balances that are not expensed during the year remain outstanding at the end of the year and are reported in the statement of financial position. These executing entities/implementing partners provide the Organization with certified expense reports documenting their use of resources, which are the basis for recording expenses in the statement of financial performance. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual or an impairment should be recorded against the advance and submit the accounting adjustment. Where a transfer of funds is deemed to be an outright grant, an expense is recognized at the point that the Organization has a binding obligation to pay, which is generally upon disbursement. Binding agreements to fund executing entities/

implementing partners not paid out by the end of the reporting period are shown as commitments in the notes to the financial statements.

Self-insurance funds and multi-partner trust funds

99. Self-insurance funds and multi-partner trust fund activities are assessed to determine the existence of control and whether or not the organization is considered to be the principal of the programme/activity. Where control exists and the organization is exposed to the risks and rewards associated with the these activities, such programmes/activities are considered to be the organization's operations and are therefore reported in full in these financial statements. Where joint control exists but the organization is not considered to be the principal, the activities are jointly controlled operations. Such jointly controlled operations are accounted for by recognizing the liabilities and expenses incurred by the organization, the assets it controls and its share of any revenue earned.

Note 4
First implementation of IPSAS: opening balances

100. On 1 January 2014, the Organization adopted IPSAS accrual-based financial accounting standards; the conversion to full accrual accounting resulted in significant changes to accounting policies and in the type and measurement of assets, liabilities, revenue and expenses recognized.

101. Accordingly, adjustments and reclassifications were made to the organization's United Nations system accounting standards balance sheet as at 31 December 2013 to arrive at the restated 1 January 2014 IPSAS opening statement of financial position. The revised statement of financial position is described in these financial statements as the IPSAS opening balances as at 1 January 2014.

102. The net effect of the changes resulting from the adoption of IPSAS adjustments amounted to a $264.2 million increase in net assets. Line-by-line adjustments to net assets are shown in the statement of changes in net assets.

Note 5
Segment reporting

103. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

104. Segment reporting information is provided on the basis of seven segments:

(a) Environment Fund;

(b) Regular budget;

(c) Other support to the UNEP programme of work;

(d) Conventions and protocols;

(e) Multilateral Fund;

(f) Programme support;

(g) End-of-service and post-retirement benefits.

105. The IPSAS Policy Framework 23.4.2 states that during the transitional phase before the full deployment of the Umoja enterprise resource planning system, only the statement of financial performance elements will be considered for disclosure. However, management has decided to provide both the statement of financial position and the statement of financial performance, as shown below.

All funds — Statement of financial position as at 31 December 2014 by segment

(Thousands of United States dollars)

	Environment Fund	*Regular budget*	*Other support to UNEP Programme of work*	*Conventions and protocols*	*Multilateral Fund*	*Programme support*	*End-of-service and post-retirement benefits*	*Total*
Assets								
Current assets								
Cash and cash equivalents	8 199	–	94 177	24 090	13 491	3 027	–	142 984
Investments	8 935	–	175 242	44 291	25 271	5 874	–	259 613
Assessed contributions receivable	–	–	–	8 811	26 428	–	–	35 239
Voluntary contributions receivable	3 294	–	452 336	14 565	–	500	–	470 695
Notes receivable	–	–	–	–	20 120	–	–	20 120
Advances or prepayments	1 635	–	1 444	1 881	321	1 134	–	6 415
Advance transfers	4 107	–	104 585	3 596	116 500	61	–	228 849
Other current assets	3 999	–	9 459	1 134	–	–	29 595	44 187
Total current assets	**30 169**	**–**	**837 243**	**98 368**	**202 131**	**10 596**	**29 595**	**1 208 102**
Non-current assets								
Investments	7 887	–	148 783	37 605	22 308	4 987	–	221 570
Notes receivable	–	–	–	–	8 655	–	–	8 655
Advance transfers	–	–	–	–	104 220	–	–	104 220
Property, plant and equipment	252	–	300	110	96	2	–	760
Total non-current assets	**8 139**	**–**	**149 083**	**37 715**	**135 279**	**4 989**	**–**	**335 205**
Total assets	**38 308**	**–**	**986 326**	**136 083**	**337 410**	**15 585**	**29 595**	**1 543 307**

All funds — Statement of financial position as at 31 December 2014 by segment (continued)

	Environment Fund	*Regular budget*	*Other support to UNEP Programme of work*	*Conventions and protocols*	*Multilateral Fund*	*Programme support*	*End-of-service and post-retirement benefits*	*Total*
Liabilities								
Current liabilities								
Accounts payable and accrued payables	3 041	–	22 782	4 251	12 950	1 092	10	44 126
Advance receipts	766	–	3 670	5 245	19 857	–	–	29 538
Employee benefits	1 610	–	897	948	57	313	4 732	8 557
Other current liabilities	1 276	–	134 531	30 027	127	1 237	–	167 198
Total current liabilities	**6 693**	**–**	**161 880**	**40 471**	**32 991**	**2 642**	**4 742**	**249 419**
Non-current liabilities								
Employee benefits	–	–	–	–	–	–	157 320	157 320
Total non-current liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**157 320**	**157 320**
Total liabilities	**6 693**	**–**	**161 880**	**40 471**	**32 991**	**2 642**	**162 062**	**406 739**
Net assets								
Accumulated surpluses/(deficits) — unrestricted	11 615	–	824 446	88 234	304 419	8 443	(132 467)	1 104 690
Accumulated surplus — restricted	–	–	–	–	–	–	–	–
Reserves	20 000	–	–	7 378	–	4 500	–	31 878
Total net assets	**31 615**	**–**	**824 446**	**95 612**	**304 419**	**12 943**	**(132 467)**	**1 136 568**
Total liabilities and net assets	**38 308**	**–**	**986 326**	**136 083**	**337 410**	**15 585**	**29 595**	**1 543 307**

All funds — Statement of financial position as at 31 December 2014 by segment

(Thousands of United States dollars)

	Environment Fund	*Regular budget*	*Other support to UNEP Programme of work*	*Conventions and protocols*	*Multilateral Fund*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*Total*
Revenue									
Assessed contributions	–	16 187	3	52 860	130 544	–	–	–	199 594
Voluntary contributions	86 228	–	388 281	27 844	2 729	–	–	(13 404)	491 678
Investment revenue	117	–	2 608	641	1 949	83	–	–	5 398
Other exchange revenue	21	–	232	104	21	21 985	–	(21 485)	878
Total revenue	**86 366**	**16 187**	**391 124**	**81 449**	**135 243**	**22 068**	**–**	**(34 889)**	**697 548**
Expenses									
Employee salaries, allowances and benefits	54 444	13 804	38 021	41 533	7 136	14 378	5 619	–	174 935
Non-employee compensation and allowances	6 514	461	19 767	4 186	105	232	–	–	31 265
Grants and other transfers	3 227	154	92 027	12 358	141 901	–	–	(12 904)	236 763
Supplies and consumables	3 087	89	3 354	804	58	25	–	–	7 417
Depreciation and amortization	77	–	118	44	25	2	–	–	266
Travel	3 224	476	6 848	3 406	204	483	–	–	14 641
Other operating expenses	13 048	1 203	44 474	24 350	(5 456)	6 186	–	(21 985)	61 820
Other expenses	1 756	–	8 388	2 212	3 650	(283)	–	–	15 723
Exchange losses from the fixed rate mechanism	–	–	–	–	1 784	–	–	–	1 784
Total expenses	**85 377**	**16 187**	**212 997**	**88 893**	**149 407**	**21 023**	**5 619**	**(34 889)**	**544 614**
Surplus/deficit for the period	**989**	**–**	**178 127**	**(7 444)**	**(14 164)**	**1 045**	**(5 619)**	**–**	**152 934**

Note 6
Comparison to budget

106. The organization prepares budgets on a modified accrual basis, as opposed to the IPSAS full accrual basis, as presented in the statement of financial performance which reflects expenses by nature. Statement V: statement of comparison of budget and actual amounts presents the difference between budget amounts and actual expenditure on a comparable basis.

107. Approved budgets are those that permit expenses to be incurred and are approved by the Governing Council. For IPSAS reporting purposes, approved budgets are the appropriations authorized for each category through Governing Council resolutions.

108. The original budget amounts are the 2014 proportions of the appropriations approved by the Governing Council for the biennium 2014-2015 on 19 April 2013. The final budget reflects the original budget appropriation with any amendments by the Executive Director. The final appropriations for the Environment Fund for 2014 were less than the original budget approved by the United Nations Environment Assembly of UNEP. The original budget was approved on the basis of the projected voluntary contributions to the Environment Fund, whereas the final appropriation was based on the funds that were made available based on the Environment Fund balance brought forward at the start of the period and contributions received during the year.

109. Material difference between the final budget appropriation and actual expenditure on a modified accrual basis are deemed to be those greater than 10 per cent and are considered below.

Budget area	*Material differences greater than 10 per cent*
Executive direction and management	**Expenditure 17% less than budget:** The 2014 Executive Direction and Management budget included $1 million set aside as a Partnership Development Facility. The 17 per cent under expenditure in 2014 as compared to budget was largely a result of the Partnership Development Facility remaining unallocated during 2014, with most allocations taking place during early 2015
Climate change	Non-material difference
Disasters and conflicts	Non-material difference
Ecosystem management	Non-material difference
Environmental governance	**Expenditure 13% less than budget:** The variance arose as a result of the postponement of activities for certain projects owing mostly to Ebola, changes in government leadership and adjustments in delivery planning
Chemicals and waste	Non-material difference
Resource efficiency	Non-material difference
Environment under review	Immaterial difference

Budget area	*Material differences greater than 10 per cent*
Fund programme reserve	**Expenditure 12% less than budget:** A fund programme reserve budget is established to meet unforeseen needs, finance unanticipated projects or phases of projects and meet such other purposes as may be determined from time to time by the UNEP governing body. For 2014, the budget included $1.5 million for the new Umoja enterprise resource planning deployment that had been planned for November 2014 but was subsequently postponed to May 2015
Programme support	Non-material difference
Regular budget	Non-material difference

Reconciliation between actual amounts on a comparable basis and the statement of cash flows

110. The reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows is shown below.

Reconciliation for the year ended 31 December 2014

Reconciliation	*Operating*	*Investing*	*Financing*	*Total*
Actual amounts on comparable basis (statement V)	100 237	–	–	100 237
Basis differences	(216 325)	(81 854)	–	(298 179)
Entity differences	165 668	5 082	(23 754)	146 996
Timing differences	–	–	–	–
Presentation differences	–	–	–	–
Actual amount in statement of cash flows (statement IV)	**49 580**	**(76 772)**	**(23 754)**	**(50 946)**

Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, the non-cash elements such as unliquidated obligations, payments against prior year obligations, property, plant and equipment and outstanding assessed contributions are included as basis differences.

Entity differences represent cash flows of fund groups other than the organization that are reported in the financial statements. The financial statements include results for all fund groups.

Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. For the purposes of comparison of budget and actual amounts, there are no timing differences for the organization.

Presentation differences are differences in the format and classification schemes in the statement of cash flows and the statement of comparison of budget and actual amounts, which are primarily related to the non-recording income in statement V and the net changes in cash pool balances.

Note 7
Cash and cash equivalents

(Thousands of United States dollars)

	Environment Fund	*Multilateral Fund*	*Others*	*Total 31 December 2014*
Cash pools (notes 24, 25)	4 608	13 034	116 141	133 783
Other cash and cash equivalents	3 591	457	5 153	9 201
Total	**8 199**	**13 491**	**121 294**	**142 984**

111. Cash and cash equivalents includes trust fund monies which are for the specific purposes of the respective trust funds.

Note 8
Investments

(Thousands of United States dollars)

	Environment Fund	*Multilateral Fund*	*Others*	*Total 31 December 2014*
Current:				
Cash pools (notes 24, 25)	8 935	25 271	225 407	259 613
Non-current:				
Cash pools (note 25)	7 887	22 308	191 375	221 570
Total	**16 822**	**47 579**	**416 782**	**481 183**

112. Investments include amounts in relation to Trust Funds and funds held in trust.

Note 9
Receivables from non-exchange transactions: assessed contributions

(Thousands of United Sates dollars)

	Current				*Non-current*	
	Environment Fund	*Multilateral Fund*	*Others*	*Total*	*Multilateral Fund*	*Total 31 December 2014*
Member States	–	221 641	12 939	234 580	8 655	243 235
Non-Member States	–	–	933	933	–	933
Allowance for doubtful receivables	–	(174 558)	(5 596)	(180 154)	–	(180 154)
Total assessed contributions receivables	**–**	**47 083**	**8 276**	**55 359**	**8 655**	**64 014**

Note 10
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	Environment Fund	*Multilateral Fund*	*Others*	*Total 31 December 2014*
Member States	3 745	–	56 738	60 483
Other Governments	–	–	182	182
Other United Nations entities	–	–	78 504	78 504
Specialized agencies	–	–	334 131	334 131
Allowance for doubtful receivables	(451)	–	(2 154)	(2 605)
Total voluntary contributions	**3 294**	**–**	**467 401**	**470 695**

Note 11
Advance transfers

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2014*
Advances to implementing partners	226 588	104 220	330 808
Other	2 261	–	2 261
Total advance transfers	**228 849**	**104 220**	**333 069**

Note 12
Other assets

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2014*
Deferred charges	183	–	183
Advances to vendors	149	–	149
Advances to staff	6 084	–	6 084
Interfund receivables	44 186	–	44 186
Total other assets	**50 602**	**–**	**50 602**

Note 13
Heritage assets

113. Certain assets are categorized as heritage assets because of their cultural, educational or historical significance. The organization’s heritage assets were acquired over many years by various means, including purchase, donation and bequest. These heritage assets do not generate any future economic benefits or service potential; accordingly the organization elected not to recognize heritage assets in the statement of financial position.

114. The organization does not own any significant heritage assets.

Note 14
Property, plant and equipment

115. In accordance with IPSAS 17: Property, plant and equipment, opening balances are initially recognized at cost or fair value as of 1 January 2014 and measured at cost thereafter. The opening balance of buildings was obtained on 1 January 2014, on the basis of depreciated replacement cost, and was validated by external professionals. Machinery and equipment are valued using the cost method.

116. During the year, the organization did not write down property, plant and equipment on account of accidents, malfunctions and other losses. As at the reporting date, the organization did not identify any additional impairment.

Property, plant and equipment

(Thousands of United States dollars)

	Communications and information technology equipment	*Vehicles*	*Machinery and equipment*	*Furniture and fixtures*	*Buildings*	*Total*
Balances as at 1 January 2014						
Historical cost/fair value	1 772	1 412	62	483	17	3 746
Accumulated depreciation and impairment	(1 308)	(994)	(50)	(402)	(15)	(2 769)
Opening carrying amount	**464**	**418**	**12**	**81**	**2**	**977**
Movements for the year						
Additions	6	55	–	–	–	61
Disposals	(35)	(140)	–	(20)	–	(195)
Disposals depreciation	36	127	–	20	–	183
Impairment	–	–	–	–	–	–
Depreciation	(113)	(136)	(5)	(12)	–	(266)
Total movements for the year	**(106)**	**(94)**	**(5)**	**(12)**	**–**	**(217)**
Balances as at 31 December 2014						
Historical cost/fair value	1 743	1 327	62	463	17	3 612
Accumulated depreciation and impairment	(1 385)	(1 002)	(54)	(394)	(15)	(2 852)
Closing carrying amount	**358**	**325**	**8**	**69**	**2**	**760**

Note 15
Intangible assets

117. All intangible assets acquired before 1 January 2014, except for the capitalized costs associated with the Umoja project, are subject to the IPSAS transition exemption and are therefore not recognized. The organization did not have intangible assets to report during the period.

Note 16
Accounts payable and accrued payables

(Thousands of United States dollars)

	Total 31 December 2014
Vendor payables	23 850
Accruals for goods and services	20 276
	44 126

Note 17
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2014*	*Opening balance 1 January 2014*
After-service health insurance	778	120 408	121 186	84 725
Repatriation benefits	2 070	17 879	19 949	19 182
Annual leave	1 884	19 033	20 917	19 972
Subtotal defined-benefit liabilities	**4 732**	**157 320**	**162 052**	**123 879**
Accrued salaries and allowances	3 825	–	3 825	1 604
Total employee benefits liabilities	**8 557**	**157 320**	**165 877**	**125 483**

118. The liabilities arising from post-employment benefits and appendix D/worker’s compensation are determined by independent actuaries and are established in accordance with the Staff Rules and Staff Regulations of the United Nations. Actuarial valuation is usually undertaken every two years. The most recent actuarial valuation was conducted as at 31 December 2013, and the liabilities have been rolled forward to 31 December 2014.

Actuarial valuation — assumptions

119. The Organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 31 December 2013 and for roll-forward to 31 December 2014 are:

Actuarial assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates 31 December 2013	4.47%	4.23%	4.37%
Discount rates 31 December 2014	3.29%	3.36%	3.52%
Inflation 31 December 2013	5.00-7.30%	2.50%	–
Inflation 31 December 2014	5.00-6.80%	2.25%	–

120. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United

States dollars (Citigroup Pension Discount Curve), euros (euro area government yield curve) and Swiss francs (the Federation bonds yield curve). Consistent with the decrease observed since 31 December 2013 of interest rates of all maturities in the three areas, lower discount rates were assumed for roll-forward.

121. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption is revised to reflect the current short-term expectations of the after-service health insurance plan cost increases and economic environment. Medical cost trends assumptions that were used for the valuation as of 31 December 2013, which included escalation rates for future years, were maintained for roll-forward since no significant evolution regarding the medical trend has been observed. At 31 December 2014, these escalation rates were a flat health-care yearly escalation rate of 5.0 per cent for non-United States medical plans, health-care escalation rates of 6.8 per cent for all other medical plans, (except 6.1 per cent for the United States Medicare plan, and 5.0 per cent for the United States dental plan), grading down to 4.5 per cent for financial year 2024.

122. With regard to the valuation of repatriation benefits as at 31 December 2013, inflation in travel costs was assumed at 2.50 per cent on the basis of on the projected United States inflation rate over the next 10 years. For the roll-forward valuation, the assumption was decreased to 2.25 per cent to take into consideration the decrease observed on these references in the year.

123. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1-3 years — 10.9 days; 4-8 years — 1 day; and over 8 years — 0.5 days up to the maximum 60 days. This assumption was maintained for the roll-forward valuation. Since the annual leave actuarial valuation method under the United Nations system accounting standards was not in compliance with IPSAS, the actuarial valuation method for the 1 January 2014 IPSAS opening balances and roll-forward to the year-end was changed from the straight-line to the attribution method. The opening balances impact of this change was an increase in liability of $10.0 million, which is disclosed in the statement of changes in net assets.

124. For defined benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation. Appendix D/workers compensation uses mortality assumptions based on World Health Organization statistical tables.

Movement in employee benefit liabilities accounted for as defined-benefit plans

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Net defined-benefit liability at 1 January 2014	84 725	19 182	19 972	123 879
Current service cost	5 765	1 572	987	8 324
Interest cost	3 493	746	799	5 038
Actual benefits paid	(602)	(2 420)	(2 399)	(5 421)
Total costs recognized in the statement of financial performance in 2014	8 656	(102)	(613)	7 941
Subtotal	**93 381**	**19 080**	**19 359**	**131 820**
Actuarial (gains)/loss	27 805	869	1 558	30 232
Net defined liability as at 31 December 2014	**121 186**	**19 949**	**20 917**	**162 052**

Discount rate sensitivity analysis

125. The changes in discount rates are driven by the discount curve, which is calculated based on corporate or government bonds. The bonds markets vary over the reporting year and the volatility impacts the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown below.

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Increase of discount rate by 1 per cent	(26 392)	(1 769)	(1 902)
As percentage of end-of-year liability	(22%)	(9%)	(9%)
Decrease of discount rate by 1 per cent	34 111	1 963	2 117
As percentage of end-of-year liability	28%	10%	10%

Medical cost sensitivity analysis

126. The principal assumption in the valuation of the after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability owing to changes in the medical cost rates while holding other principal assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, this would impact the measurement of the defined benefit obligations as shown below.

(Thousands of United States dollars)

	Increase	*Decrease*
1 per cent movement in the assumed medical costs trend rates		
Effect on the defined-benefit obligation	20.43%	(15.29%)
	33 114	(24 785)
Effect on aggregate of the current service cost and interest cost	2.65%	(2.13%)
	4 289	(3 447)

Other defined-benefit plan information

127. The General Assembly, in its resolution 67/257, endorsed the decision of the International Civil Service Commission to support the recommendation of the United Nations Joint Staff Pension Fund to raise the mandatory age of retirement to 65 years for new staff, effective 1 January 2014. Actuaries determined that this increase in the normal age of retirement would not have a material effect on the valuation of these liabilities.

128. During the financial year, certain activities financed by trust funds have accrued charges to fund employee benefit liabilities related to their extrabudgetary activities. At the year-end, the value of these accrued balances was $29.6 million.

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2015 defined benefit payments, net of participants' contributions	882	2 353	2 144	5 379

Historical information: total for after-service health information, repatriation benefits, annual leave and appendix D as at 31 December 2014

(Thousands of United States dollars)

	2013	*2012*	*2011*	*2010*	*2009*
Present value of the defined-benefit obligations	123 879	112 273	102 111	64 711	58 144

Accrued salaries and allowances

129. These include accruals, for home leave ($1.168 million), overtime ($62,000), income tax ($1.651 million), and monthly salaries due but unpaid ($945,000).

United Nations Joint Staff Pension Fund

130. The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

131. The organization's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.90 per cent for participants and 15.80 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

132. The actuarial valuation performed as of 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2015.

133. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.50 per cent (130.00 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (86.20 per cent in the 2011 valuation), when the current system of pension adjustments was taken into account.

134. After assessing the actuarial sufficiency of the Pension Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

135. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Regulations of the Pension Fund was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Pension Fund as at 31 December 2013. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the United Nations Joint Staff Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments and these can be viewed at www.unjspf.org. During 2014, the organization's contributions paid to the Pension Fund amounted to $20.7 million.

Reserve fund for compensation payments — appendix D/workers' compensation

136. The organization's financial obligation to the reserve fund consists of its mandated contribution at the rate established by the fund. The fund compensation payments relate to the payment of compensation with respect to death, injury or illness attributable to the performance of official duties. The rules governing the compensation payments are under appendix D to the Staff Rules. The reserve fund allows the organization to continue to fulfil its obligation of making compensation

payments for death, injury or illness. The fund derives its revenue from 0.5 per cent of the net base salary, including post adjustment, that is recorded as employee expenses. It covers appendix D claims submitted by personnel, covering monthly death and disability benefits and lump sum payment for injury or illness as well as medical expenses.

Note 18
Provisions

137. During the reporting period, the Organization had no provisions to report in relation to outstanding legal claims, the disposition of which will be decided in the next fiscal year.

Movement in provisions

(Thousands of United States dollars)

	Legal claims	*Credits to Member States*	*Total 31 December 2014*
Carrying amount 1 January 2014	150	–	150
Amounts reversed	(150)	–	(150)
Closing balance 31 December 2014	**–**	**–**	**–**

Note 19
Other liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2014*
Contributions or amounts received in advance	29 539	–	29 539
Liabilities for conditional arrangements	112 473	–	112 473
Interfund balances payable	47 122	–	47 122
Other liabilities	7 602	–	7 602
Total other liabilities	**196 736**	**–**	**196 736**

Note 20
Net assets

Accumulated surpluses/deficits

138. The unrestricted accumulated surplus includes the accumulated deficit for employee benefits liabilities, the net positions of after-service health insurance, repatriation benefit and annual leave liabilities.

139. The following table shows the status of the organization’s net assets balances and movements.

(Thousands of United States dollars)

	1 January 2014	*Surplus/ (deficit)*	*Transfers to/ (from) reserves*	*Other*	*Total 31 December 2014*
Unrestricted fund balance					
Environment Fund	10 501	991	–	123	11 615
Support to programme of work	648 554	178 125	–	(2 233)	824 446
Conventions and protocols	93 863	(7 444)	(713)	2 528	88 234
Multilateral Fund	318 512	(14 164)	–	71	304 419
Programme support	8 028	1 045	–	(630)	8 443
End-of-service liabilities	(96 616)	(5 619)	–	(30 232)	(132 467)
Subtotal unrestricted fund balance	**982 842**	**152 934**	**(713)**	**(30 373)**	**1 104 690**
Reserves					
Environment Fund	20 000	–	–	–	20 000
Support to programme of work	–	–	–	–	–
Conventions and protocols	6 665	–	713	–	7 378
Multilateral Fund	–	–	–	–	–
Programme support	4 500	–	–	–	4 500
End-of-service liabilities	–	–	–	–	–
Subtotal reserves	**31 165**	**–**	**713**	**–**	**31 878**
Total net assets					
Environment Fund	30 501	991	–	123	31 615
Support to programme of work	648 554	178 125	–	(2 233)	824 446
Conventions and protocols	100 528	(7 444)	–	2 528	95 612
Multilateral Fund	318 512	(14 164)	–	71	304 419
Programme support	12 528	1 045	–	(630)	12 943
End-of-service liabilities	(96 616)	(5 619)	–	(30 232)	(132 467)
Total reserves and fund balances	**1 014 007**	**152 934**	**–**	**(30 373)**	**1 136 568**

Note 21
Revenue from non-exchange transactions

Assessed contributions

140. Assessed contributions of $199.6 million have been recorded in accordance with the Financial Regulations and Rules of the United Nations, the relevant resolutions of the various conference of parties and the policies of the United Nations, on the basis of the agreed budget scale of assessment. An amount of $16.2 million of this is an allocation from the United Nations Secretariat.

141. The organization receives an allocation from the United Nations regular budget, each biennium, which is included in assessed contributions. These are reported under Volume I, A related entity, but are also included in these statements for completeness.

Voluntary contributions

(Thousands of United States dollars)

	Total 31 December 2014
Inter-organizational arrangements	8 998
Voluntary monetary contributions	482 587
Voluntary in-kind contributions	1 241
Subtotal voluntary contributions	**492 826**
Refund to donors	(1 148)
Total voluntary contributions	**491 678**

Services in kind

142. In-kind contributions of services received during the year are not recognized as revenue and, therefore, are not included in the above in-kind contributions revenue. Services in kind confirmed during the year are shown below.

(Thousands of United States dollars)

	Total 31 December 2014
Technical assistance/expert services	3 782
Administrative support	130
Total	**3 912**

Note 22
Revenue from exchange transactions

(Thousands of United States dollars)

	Total 31 December 2014
Other revenue	878
Total other revenue from exchange transactions	**878**

Note 23
Expenses

Employee salaries, allowances and benefits

143. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. Allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances.

(Thousands of United States dollars)

	Total 31 December 2014
Leave benefits	1 776
Pension benefits	20 713
Health insurance benefits	9 258
Repatriation benefits	2 318
Salary, wages and other benefits	140 870
Total employee salaries, allowances and benefits	**174 935**

Non-employee compensation and allowances

144. Non-employee compensation and allowances of $31,265,000 consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractors fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

Grants and other transfers

145. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects; see note 29 for more details.

(Thousands of United States dollars)

	Total 31 December 2014
Grants — end beneficiaries	32 187
Transfers to implementing partners	75 579
Transfers to Multilateral Fund implementing partners	128 997
Total grants and other transfers	**236 763**

Other operating expenses

146. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, allowance for bad debt and write-off expenses.

(Thousands of United States dollars)

	Total 31 December 2014
Bad debt expense	(3 027)
Bank charges	70
Communications and utilities	181
Contracted services	23 872
Contributions in kind	1 241
Fellowship grants	26 807
Maintenance expense	2 611
Rent — office and premises	7 963
Rental — other	58
Shipping and freight	91
Loss on intangible assets	13
Other	1 940
Total other operating expenses	**61 820**

Other expenses

147. Other expenses of $15,723 thousands relate to hospitality and official functions, foreign exchange losses and donation/transfer of assets.

Exchange losses from the fixed-rate mechanism

148. The exchange losses from the fixed-rate mechanism of $1,784,000 relate to the fixed exchange rate mechanism, in which the rate of exchange for the Multilateral Fund is fixed to the rate in place during the budget approval.

Note 24
Financial instruments and financial risk management

Financial instruments

(Thousands of United States dollars)

	Note	*Total 31 December 2014*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments — cash pools		259 613
Short-term investments — other		–
Total short-term investments		**259 613**

	Note	Total 31 December 2014
Long-term investments — cash pools		221 570
Long-term investments — other		
Total long-term investments		**221 570**
Total fair value through the surplus or deficit		**481 183**
Loans and receivables		
Cash and cash equivalents — cash pools		133 783
Cash and cash equivalents — other		9 201
Assessed contributions		64 014
Voluntary contributions		470 695
Other receivables		(2)
Other assets (excludes deferred charges)		50 602
Total loans and receivables		**728 293**
Total carrying amount of financial assets		**1 209 476**
Of which relates to financial assets held in cash pool		614 966
Financial liabilities		
Accounts payable and accrued payables		44 126
Other liabilities (excludes deferred revenue)		167 197
Total carrying amount of financial liabilities		**211 323**
Summary of net income from cash pools		
Investment revenue		3 989
Financial exchange gains/(losses)		(1 733)
Unrealized gains/(losses)		(191)
Bank fees		(14)
Net income from cash pools		**2 051**
Other investment revenue		3 347
Total net income from financial instruments		**5 398**

Financial risk management

Overview

149. The organization has exposure to the following financial risks:

(a) Credit risk;

(b) Liquidity risk;

(c) Market risk.

150. This note presents information on the organization’s exposure to these risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk management framework

151. The organization's risk management practices are in accordance with its Financial Regulations and Rules and Investment Management Guidelines (Guidelines). The organization defines the capital that it manages as the aggregate of its net assets, which is comprised of accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The organization manages its capital in the light of global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Credit risk

152. Credit risk is the risk of financial loss if counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions, as well as credit exposures to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

Credit risk management

153. The investment management function is centralized at the United Nations Headquarters, and under normal circumstances other areas are not permitted to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

Contributions receivable and other receivables

154. A large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities that do not have significant credit risk. As at the reporting date, the organization does not hold any collateral as security for receivables.

Allowance for doubtful receivables

155. The organization evaluates the allowance of doubtful receivables at each reporting date. An allowance is established when there is objective evidence that the organization will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approves write-offs under the Financial Regulations and Rules or are reversed when the previously impaired receivables are received. The movement in the allowances account during the year is as shown below.

Movement in allowance for doubtful receivables
(Thousands of United States dollars)

As at 1 January 2014	**185 785**
Additional allowance for doubtful receivables	(3 026)
Receivables written off during the period as uncollectible	–
Unused amounts reversed	–
As at 31 December 2014	**182 759**

156. The ageing of assessed contributions receivable and associated allowance is as shown below.

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither past due nor impaired	28 775	–
Less than one year	26 935	–
One to two years	6 732	1 346
Two to three years	5 807	3 484
Three to four years	2 974	2 379
Over four years	29 228	29 229
Special allowance	143 716	143 716
Total	**244 167**	**180 154**

157. The ageing of receivables other than assessed contributions including associated allowance percentages is shown below.

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither past due nor impaired	–	–
Less than one year	470 632	–
One to two years	50	13
Two to three years	61	36
Over three years	2 557	2 556
Total	**473 300**	**2 605**

Cash and cash equivalents

158. The organization had cash and cash equivalents of $143.0 million as at 31 December 2014, which is the maximum credit exposure on these assets. Cash and cash equivalents are held with bank and financial institution counterparties rated at “A-” and above, based on the Fitch viability rating.

Liquidity risk

159. Liquidity risk is the risk that the organization might not have adequate funds to meet its obligations as they fall due. The organization’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage the organization’s reputation.

160. The Financial Regulations and Rules require that expenses be incurred after the receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions, which are a largely stable annual cash flow. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to with regard to the amounts receivable.

161. The organization performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure that they have sufficient cash to meet operational needs. Investments are made with due consideration to the cash requirements for operating purposes based on cash flow forecasting. The organization maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Financial liabilities

162. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to the receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure that there are appropriate resources to meet its financial obligations. At the reporting date, the organization has not pledged any collateral for any liabilities or contingent liabilities and in the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities based on the earliest date at which the organization can be required to settle each financial liability are shown below.

(Thousands of United States dollars)

	< 3 months	*3 to 12 months*	*>1 year*	*Total*
Maturities for financial liabilities: as at 31 December 2014, undiscounted				
Accounts payable and accrued payables	44 126	–	–	44 126
Other liabilities	–	196 736	–	196 736
Total	**44 126**	**196 736**	**–**	**240 862**

Market risk

163. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities will affect the organization's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the organization's fiscal position.

Interest rate risk

164. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows due to change in interest rates. In general, as interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 25.

Currency risk

165. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The organization has transactions, assets and liabilities in currencies other than in its functional currency and is exposed to currency risk arising from fluctuations in

exchange rates. Management policies and the Guidelines require the organization to manage its currency risk exposure.

166. The organization's financial assets and liabilities are denominated primarily in United States dollars. Non-United States dollars financial assets relate primarily to investments in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The organization maintains a minimum level of assets in local currencies and, whenever possible, maintains bank accounts in United States dollars. The organization mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to the foreign currency needs for operational purposes.

167. The most significant exposure to currency risk relates to cash pool cash and cash equivalents. At the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Swiss francs, along with over 30 other currencies, as shown below.

(In thousands)

	United States dollars	*Euros*	*Swiss francs*	*Others*	*Total*
Currency exposure of the cash pools as at 31 December 2014					
Main cash pool	602 027	–	–	–	602 027
Euro cash pool	–	12 938	–	–	12 938
Total cash pool	**602 027**	**12 938**	**–**	**–**	**614 965**

Sensitivity analysis

168. A strengthening/weakening of the euro and Swiss franc UNORE exchange rates as at 31 December would have affected the measurement of investments denominated in a foreign currency and increased/decreased net assets and surplus or deficit by the amounts shown below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect on net assets/surplus or deficit
(Thousands of United States dollars)

	Strengthening	*Weakening*
Euro (10 per cent movement)	1	(1)
Swiss franc (10 per cent movement)	–	–

Other market price risk

169. The organization is not exposed to significant other price risk, as it has limited exposure to price related risk related to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

170. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits with original maturities of less than three months, receivables and payables, the carrying value is a fair approximation of fair value.

Fair value hierarchy

171. The table below analyses financial instruments carried at fair value, by the fair value hierarchy levels. The levels are defined as:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

(c) Level 3: inputs for the asset or liabilities that are not based on observable market data (that is, unobservable inputs).

172. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian based on valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the cash pools is the current bid price.

173. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

174. There were no level 3 financial assets nor any liabilities carried at fair value, nor any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy

(Thousands of United States dollars)

	31 December 2014		
	Level 1	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit			
Bonds			
– Non-United States agencies	137 645	–	137 645
– Non-United States sovereigns	43 993	–	43 993
Supranationals	28 004	–	28 004
– United States treasuries	82 534	–	82 534
Discounted instruments	63 572	–	63 572
Term deposits	–	124 479	124 479
Total financial instruments at fair value through surplus or deficit	**355 747**	**124 479**	**480 226**

Note 25
Financial instruments: cash pools

175. In addition to directly held cash and cash equivalents, the organization participates in the United Nations cash pools. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and income is based on each participating entity's principal balance.

176. The organization participates in two cash pools managed by the United Nations Treasury, as follows:

(a) The main cash pool, which comprises operational bank account balances in a number of currencies and investments in United States dollars;

(b) The euro cash pool, which comprises investments in euro currency; the pool participants are mostly offices away from Headquarters that may have surplus of euros from their operations.

177. As at 31 December 2014, the cash pools held total assets of $9,608.8 million; of that amount, $615.0 million was due to the organization and the organization's share of net income from cash pools was $2.1 million.

Summary of assets and liabilities of the cash pools as at 31 December 2014
(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through surplus or deficit			
Short-term investments	3 930 497	97 011	4 027 508
Long-term investments	3 482 641	–	3 482 641
Total fair value through the surplus or deficit investments	**7 413 138**	**97 011**	**7 510 149**
Loan and receivables			
Cash and cash equivalents	2 034 824	48 819	2 083 643
Accrued investment income	14 842	119	14 961
Total loans and receivables	**2 049 666**	**48 938**	**2 098 604**
Total carrying amount of financial assets	**9 462 804**	**145 949**	**9 608 753**
Cash pool liabilities			
Payable to the organization	602 027	12 938	614 965
Payable to other cash pool participants	8 860 777	133 011	8 993 788
Total liabilities	**9 462 804**	**145 949**	**9 608 753**
Net assets	–	–	–
Net income and expense			
Investment revenue	62 511	132	62 643
Financial exchange gains/(losses)	(7 064)	(14 396)	(21 460)
Unrealized gains/(losses)	(3 084)	9	(3 075)
Bank fees	(214)	(2)	(216)
Net income from cash pools	**52 149**	**(14 257)**	**37 892**

Financial risk management

178. The United Nations Treasury is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Guidelines.

179. The investment management objectives are to preserve capital and ensure sufficient liquidity to meet operating cash while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

180. An Investment Committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

181. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities

and government securities with maturities of five years or less. The cash pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

182. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. For banks and financial institutions, only independently rated parties with a Fitch minimum viability rating of "A-" are accepted.

183. The credit ratings used are those determined by major credit-rating agencies; Standard & Poor's (S&P) and Moody's are used to rate bonds and commercial paper, and the Fitch viability rating is used to rate term deposits. At 31 December 2014, the credit ratings were as shown below.

Main pool	*Ratings*
Bonds	S&P: 31.2% AAA, 59.8% AA+/AA/AA- and 1.3% A+ not rated by S&P
	Moody's: 69.3% Aaa and 30.7% Aa1/Aa2/Aa3
	Fitch: 52.2% AAA, 21.4% AA+/AA/AA- and 26.4% not rated
Discounted instruments	S&P: 100% A-1+; Moody's: 70.0% P1 and 30.0% not rated; Fitch: 90.0% F1+ and 10.0% not rated
Term deposits	Fitch: 64.1% aa- and 35.9% a+/a/a-

Euro pool	*Ratings*
Bonds	S&P: 100% AA+; Moody's: 100% Aaa; Fitch: 100% not rated
Term deposits	Fitch: 22.1% aa- and 77.9% a+/a/a-

184. The United Nations Treasury actively monitors credit ratings and, given that the organization only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

185. The cash pools are exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. They maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within one day's notice to support operational requirements. Cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

186. Fixed-rate cash and cash equivalents and investments are the organization's interest-bearing financial instruments. The cash pools comprise its main exposure to interest risk. As at the reporting date, the cash pools invested primarily in securities

with shorter terms to maturity, with the maximum being less than five years. The average durations of the main cash pool and euro pool were 1.1 years and 0.64 years, respectively, which is considered to be an indicator of low risk.

Cash pool interest rate risk sensitivity analysis

187. The analysis below shows how the fair value of the cash pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase/decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). These basis point shifts are illustrative.

Cash pool interest rate risk sensitivity analysis as at 31 December 2014

Shift in yield curve (basis points)	**-200**	**-150**	**-100**	**-50**	**0**	**50**	**100**	**150**	**200**
Increase/decrease in fair value (millions of United States dollars)									
Main cash pool	205.5	154.1	102.7	51.4	–	(51.3)	(102.7)	(154.0)	(205.3)
Euro pool	0.6	0.5	0.4	0.1	–	(0.1)	(0.3)	(0.5)	(0.6)
Total	**206.1**	**154.6**	**103.1**	**51.5**	**–**	**(51.4)**	**(103.0)**	**(154.5)**	**(205.9)**

Other market price risk

188. The cash pool is not exposed to significant other price risk, as it does not sell short, or borrow securities, or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value: cash pool

189. The carrying value of investments carried at fair value through surplus or deficit is fair value and, for cash and cash equivalents, including cash pool term deposits, the carrying value is a fair approximation of fair value.

Fair value hierarchy

190. The table below analyses financial instruments carried at fair value, by the fair value hierarchy levels. The levels are defined as:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

(c) Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

191. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent

custodian based on valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the cash pools is the current bid price.

192. The fair value of financial instruments that are not traded in an active market (for example, term deposits with banks) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

193. The following fair value hierarchy presents the cash pool assets that are measured at fair value at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy
(Thousands of United States dollars)

	31 December 2014		
	Level 1	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit			
Bonds			
– Non-United States agencies	2 154 956	–	2 154 956
– Non-United States sovereigns	691 489	–	691 489
– Supranationals	440 169	–	440 169
– United States treasuries	1 297 290	–	1 297 290
Discounted instruments	999 234	–	999 234
Term deposits	–	1 830 000	1 830 000
Subtotal main cash pool	**5 583 138**	**1 830 000**	**7 413 138**
Euro pool			
Bonds			
– Non-United States sovereigns	6 157	–	6 157
Term deposits	–	90 854	90 854
Subtotal euro cash pool	**6 157**	**90 854**	**97 011**
Total investments	**5 589 295**	**1 920 854**	**7 510 149**

Note 26
Related parties

Key management personnel

194. Key management personnel are those with the ability to exercise significant influence over the financial and operating decisions of the organization. For the

United Nations Environment Programme, the key management personnel group is deemed to comprise the Executive Director and the Deputy Executive Director.

195. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment and other entitlements such as grants, subsidies, and employer pension and health insurance contributions.

196. The organization's key management personnel were paid $1.0 million over the financial year; such payments are in accordance with the Staff Regulations and Rules of the United Nations, the published salary scales of the United Nations and other publicly available documents.

(Thousands of United States dollars)

	Key management personnel	*Close family members*	*Total*
Number of positions (full-time equivalents)	3	–	3
Aggregate remuneration:			
Salary and post adjustment	864	–	864
Other compensation/entitlements	156	–	156
Total remuneration for the year ended 31 December 2014	**1 020**	**–**	**1 020**
Other items			
Outstanding loans and advances as at 31 December 2014	**–**	**–**	**–**

197. In addition, as at 31 December 2014, an amount of $0.4 million has been accrued as end-of-service liabilities for key management personnel.

198. Non-monetary and indirect benefits paid to key management personnel were not material. No close family member of key management personnel was employed by the organization at the management level. Advances made to key management personnel are those made against entitlements in accordance with the staff rules and regulations; and such advances against entitlements are widely available to all staff of the organization.

Related entity transactions

199. In the ordinary course of business, to achieve economies in executing transactions, financial transactions of the organization are often executed by one financial reporting entity on behalf of another and then subsequently settled. In this regard, as at 31 December 2014, the organization had inter-entity balances of $2.2 million due to other related reporting entities of the organization. No interest is levied on such inter-entity balances.

Note 27
Leases and commitments

Finance leases

200. The organization does not normally enter into finance leases for the use of land, permanent and temporary buildings and equipment, and had no finance leases during the period.

Operating leases

201. The organization enters into operating leases for the use of land, permanent and temporary buildings and equipment. The total operating lease payments recognized in expenditure for the year were $5.8 million. This total includes $1.1 million towards donated right-to-use arrangements; for which corresponding revenue is recognized in the statement of financial performance and presented within voluntary contributions revenue. Future minimum lease payments under non-cancellable arrangements are shown below.

Obligations for operating leases

(Thousands of United States dollars)

	Minimum lease payment as at 31 December 2014
Due in less than 1 year	5 850
Due 1 to 5 years	18 662
Due later than 5 years	–
Total minimum operating lease obligations	**24 512**

202. These contractual leases are typically between one to seven years, with some leases allowing extension clauses and/or permitting early termination within 30, 60 or 90 days. The amounts present future obligations for the minimum contractual term, taking into consideration contract annual lease payment increases in accordance with lease agreements. No agreements contain purchase options.

Contractual commitments

203. At the reporting date, the commitments for property, plant and equipment, intangible assets and goods and services contracted but not delivered were as shown below.

Contractual commitments by category

(Thousands of United States dollars)

	Total 31 December 2014
Goods	150
Services	10 469
Implementing partners	254 923
Multilateral Fund implementing partners	220 790
Total	**486 332**

Note 28
Contingent liabilities and contingent assets

Contingent liabilities

204. The organization is subject to a variety of claims that arise from time to time in the ordinary course of its operations. These claims are segregated into two main

categories: commercial and administrative law claims. As at the reporting date, the organization had no reportable cases.

205. Owing to the uncertainty of the outcome of these claims, no provision or expense has been recorded as the occurrence, amount and timing of the outflows are not certain. Consistent with IPSAS, contingent liabilities are disclosed for pending claims when the probability of outcome cannot be determined and the amount of loss cannot be reasonably estimated.

Contingent assets

206. In accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets, contingent assets are disclosed where an event will give rise to a probable inflow of economic benefits to the organization. At the reporting date, the organization did not have reportable contingent assets.

Note 29
Grants and other transfers

207. The following are the categories in which the funds given to implementing partners have been spent.

Grants and other transfers: expenditure reporting by category
(Thousands of United States dollars)

	Total 31 December 2014
Grants to end beneficiaries	17 737
Grants to implementing partners:	
Staff and other personnel costs	27 132
Supplies, commodities, materials	469
Equipment, vehicle and furniture	1 625
Contractual services	16 419
Travel	9 119
Transfers and grants to counterparts	19 227
General operating and other direct costs	2 950
Indirect support costs (implementing partner)	184
Subtotal grants to implementing partners	**77 125**
Multilateral Fund expenditure	141 901
Total grants and other transfers	**236 763**

208. The amount under Multilateral Fund is implemented by the following four implementing partners.

(Thousands of United States dollars)

	Total 31 December 2014
United Nations Development Programme	35 342
United Nations Environment Fund	14 939
United Nations Industrial Development Organization	44 555
World Bank	47 065
Total	**141 901**

209. The amounts from the United Nations Development Programme, the United Nations Industrial Development Organization and the World Bank is recorded based on unaudited expenditure, based on the approval of the Executive Committee of the Multilateral Fund in order to allow UNEP to comply with the requirement to issue the financial statements by 31 March of the following biennium. There is, however, an agreement that the implementing agencies will provide audited expenditures as soon as they become available, but not later than 30 September of the following year.

Note 30
Future year contributions

210. The organization has an amount of $25.2 million worth of signed contributions from voluntary contributions for implementation in future years.

Note 31
Events after the reporting date

211. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Annex I

Statement of cash flows for the year ended 31 December 2014

Environment Fund

(Thousands of United States dollars)

	31 December 2014
Cash flows from operating activities	
Surplus (deficit) — for the period	991
Non-cash movements:	
Depreciation and amortization	77
Changes in assets	
(Increase)/decrease in assessed contributions receivable	–
(Increase)/decrease in voluntary contributions receivable	(1 321)
(Increase)/decrease in advances or prepayments	(388)
(Increase)/decrease in advance transfers	1 173
(Increase)/decrease in other assets	(3 990)
Changes in liabilities	
Increase/(decrease) in accounts payable and accrued payables	(101)
Increase/(decrease) in advance receipts	(226)
Increase/(decrease) in employee benefits	1 100
Increase/(decrease) in provisions	(150)
Increase/(decrease) in other liabilities	(2 231)
Investment revenue presented as investing activities	(117)
Net cash flows from operating activities	**(5 183)**
Cash flows from investing activities	
Pro rata share (increase)/decrease in the cash pools	5 500
Net (increase)/decrease in property, plant and equipment	117
Investment revenue presented as investing activities	(42)
Net cash flows from investing activities	**5 575**
Cash flows from financing activities	
Adjustment to fund balances	123
Net cash flows from financing activities	**123**
Net increase/(decrease) in cash and cash equivalents	**515**
Cash and cash equivalents, beginning of period	**3 076**
Cash and cash equivalents, end of period	**3 591**

Annex II

Statement of cash flows for the year ended 31 December 2014

Multilateral Fund

(Thousands of United States dollars)

	31 December 2014
Cash flows from operating activities	
Surplus (deficit) — for the period	(14 164)
Non-cash movements:	
Depreciation and amortization	25
Changes in assets	
(Increase)/decrease in assessed contributions receivable	2 016
(Increase)/decrease in voluntary contributions receivable	–
(Increase)/decrease in advances or prepayments	186 601
(Increase)/decrease in advance transfers	32 506
(Increase)/decrease in other assets	55
Changes in liabilities	
Increase/(decrease) in accounts payable and accrued payables	12 609
Increase/(decrease) in advance receipts	2 816
Increase/(decrease) in employee benefits	14
Increase/(decrease) in provisions	–
Increase/(decrease) in other liabilities	(187 836)
Investment revenue presented as investing activities	(1 949)
Net cash flows from operating activities	**32 693**
Cash flows from investing activities	
(Increase)/decrease in the cash pools	(34 825)
Investment revenue presented as investing activities	1 949
Net (increase)/decrease in property, plant and equipment	(5)
Net cash flows from investing activities	**(32 881)**
Cash flows from financing activities	
Adjustment to fund balances	71
Net cash flows from financing activities	**71**
Net increase/(decrease) in cash and cash equivalents	**(117)**
Cash and cash equivalents, beginning of period	**574**
Cash and cash equivalents, end of period	**457**

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