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Fund of the United Nations Environment Programme

Financial report and audited financial statements

for the year ended 31 December 2015

and

Report of the Board of Auditors

United Nations • New York, 2016

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 May 2016 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 2015, which I hereby approve on the basis of the attestations of the Chief Finance Officer, United Nations Office at Nairobi, and the Chief, Resources Management, United Nations Environment Programme.

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 19 September 2016 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 2015.

(*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 2015, which comprise the statement of financial position (statement I) as at 31 December 2015, the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and 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 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 judgment, 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 2015 and its financial performance and cash flows for the year then ended, in accordance with 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

19 September 2016

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 in protecting 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's headquarters is in Nairobi, but it has a global presence of six regional offices and eight liaison offices, as well as 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 2015. The audit was carried out through the examination of financial transactions and operations at UNEP headquarters in Nairobi, Kenya, and Montreal, Canada, for the Multilateral Fund for the Implementation of the Montreal Protocol. 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 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 2015 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 recommendations from previous years.

Audit opinion

The Board issued an unqualified audit opinion on the financial statements of UNEP for the year ended 31 December 2015. The Board's opinion is reflected in chapter I of the present report.

Overall conclusion

The Board did not identify significant deficiencies in the presentation and disclosure of the financial statements, although it found some errors in the financial statements that required correction.

The Board noted scope for improvement in some areas of operations and financial management related to: the Umoja enterprise resource planning system, results-based management, staff advances, programme and project management, reassessment of useful lives of property, plant and equipment and long-term unapplied deposits. Those areas highlight the need for enhanced internal control and monitoring of activities for proper delivery of the UNEP mandate.

UNEP migrated successfully to the Umoja enterprise resource planning system as from 1 June 2015, but still faced a number of challenges, such as the absence of a service-level agreement between the United Nations Office at Nairobi (on behalf of UNEP) and the Umoja support desk for information and communications technology support, difficulties in accessing and using human resources and travel modules, and a lack of description of ledger entries.

Key findings

The Board has identified a number of issues that need to be considered by management in order to enhance the effectiveness of UNEP operations. In particular, the Board highlights the key findings set out below.

Programme and project management

Operationally closed projects pending financial closure

The UNEP programme manual requires that a project be financially closed not more than 24 months after the date of operational closure or termination. However, a total of 52 projects (63 per cent) of the 82 projects implemented between 1999 and 2015 were pending financial closure for periods ranging from 26 to 117 months. The delayed financial closure of projects exposes the organization to the risk of the misuse of the fund balances, amounting to $8.32 million, held for these projects.

Delayed submission of project identification forms for endorsement

The Board noted that UNEP was late in the submission of project identification forms to the Chief Executive Officer of the Global Environment Facility (GEF) for endorsement. As a result, the endorsements of eight projects in 2014 and 34 projects in 2015 were delayed. Out of the total of 54 projects in 2015 whose approved project identification forms were awaiting endorsement by the Chief Executive Officer, 34 (63 per cent) were delayed for periods ranging from 1 to 40 months. Under GEF policy OP/PL/01 ("Project cancellation"), section IV, paragraph 5 (b), the delayed endorsement of the project identification form by the Chief Executive Officer would lead to the cancellation of a project that is overdue by more than 18 months and therefore cause a loss to GEF trustees in terms of the 40 per cent fee paid up front to UNEP. UNEP attributed the delays in endorsement by the Chief Executive Officer to the late submission of project documents for endorsement, owing to factors such as longer periods of time taken by national authorities to clear the documents.

Non-submission of expenditure and progress reports

Implementing agencies for 30 of the 314 externally implemented projects reviewed by the Board did not prepare or submit to UNEP some of the annual implementation reports, half-yearly expenditure reports and co-financing and progress reports for the years 2014 and 2015. The non-submission of the reports means that the results of the implementation of the projects were not properly communicated to UNEP-GEF for timely decisions and corrective measures. The Board considers that the non-submission of these project reports was due mainly to inadequate monitoring and follow-up with the implementing agencies.

Results-based management

Lack of a results-based management policy

The UNEP programme manual does not provide guidance on how results-based management can be operationalized, and there are no policies to guide executive management on results-based management reporting so as to ensure compliance with results-based management requirements. UNEP stated that it was updating its programme manual to include more detailed operational guidance on the best approach for UNEP to take in putting results-based management into practice. The lack of results-based management guidance procedures may result in inconsistency in results-based management practices.

Recommendations

The Board has made several recommendations based on its audit that are contained in the body of the present report. The main recommendations are that UNEP:

(a) **Enhance follow-up on the implementation of projects to expedite their closure so that projects are financially closed within 24 months after being operationally closed;**

(b) **Strengthen the provision of technical and oversight knowledge on project development to the implementing agencies to facilitate the timely submission of project identification forms to the Chief Executive Officer of GEF, and monitor the amount of time required for the preparation of projects and take corrective measures in consultation with the implementing agencies;**

(c) **Strengthen compliance in the area of project management, including the preparation and submission of the required project identification reports by the implementing agencies in compliance with the project cooperation agreements;**

(d) **Expedite the updating of the programme manual to include greater detail with respect to developing and managing projects and establishing partnership agreements, as well as securing funds, so as to provide operational guidance on putting results-based management into practice.**

Key facts

$152.48 million	Original Environment Fund and regular budget
$101.43 million	Final Environment Fund and regular budget
$655.98 million	Revenue
$559.70 million	Expenses
1,156	Number of staff

A. 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 2015 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 2015 and its financial performance and cash flows for the financial period, and have been properly prepared in accordance with the International Public Sector Accounting Standards (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 levels. 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 bodies with which UNEP has specific and ongoing relationships. These include the Global Environment Facility (GEF) and the multilateral environmental agreements.

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

Global Environment Facility

8. UNEP is an implementing agency of GEF, which funds projects in developing countries on biodiversity, climate change, international waters, land degradation, chemicals and waste, and sustainable forest management. 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 and projects allocated to it by GEF through five trust funds, which are subject to annual audits by the Board. For the financial year ended 31 December 2015, the trust funds collected total revenue of $155.50 million and incurred total expenses of $79.21 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. The Board has issued an unqualified audit opinion on the UNEP-GEF financial statements for the year ended 31 December 2015.

Multilateral environmental agreements

10. 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 carried out under the agreements and conventions for the implementation of their agreed protocols and programmes. The Board's audit of UNEP includes an examination of balances relating to multilateral environmental agreements.

B. Findings and recommendations

1. Follow-up of previous recommendations

11. Of the 14 recommendations outstanding as at 31 December 2014, 4 (29 per cent) had been fully implemented, 9 (64 per cent) were under implementation and 1 (7 per cent) had been overtaken by events.

12. The recommendation overtaken by events required that UNEP continue to prepare for the implementation of IPSAS and specify its needs with respect to the migration of the Crystal software to Umoja. Umoja has been implemented, and while the Crystal software is not in use in relation to Umoja, business intelligence reports are available and under development. Details regarding the status of implementation of previous recommendations are set out in annex I to the present report.

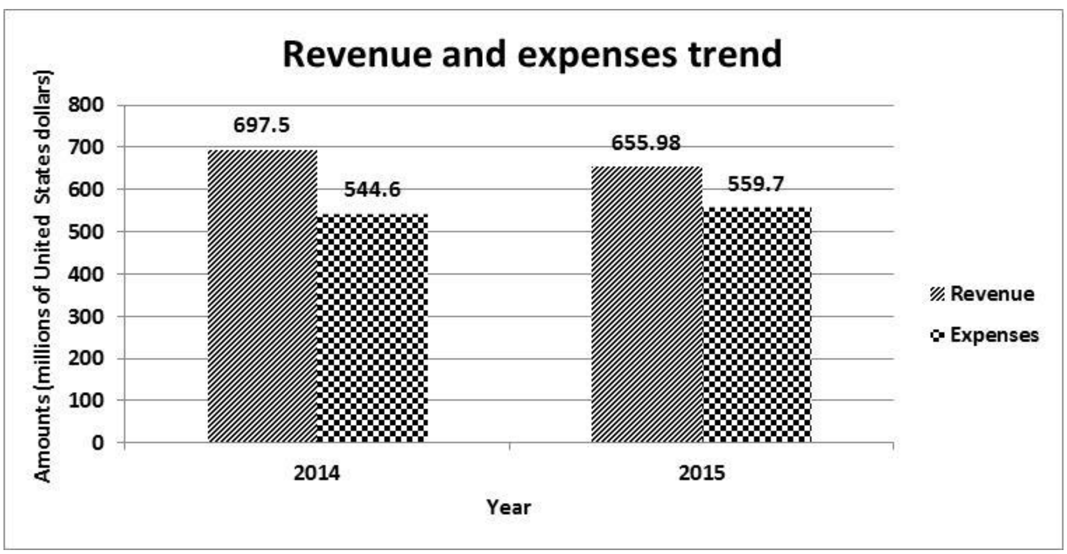
2. Financial overview

Financial performance and position

13. In 2015, UNEP reported total revenue of $655.98 million (2014: 697.55 million) and total expenses of $559.70 million (2014: 544.61 million), resulting in a surplus of $96.28 million (2014: 152.93 million). Total assets as at 31 December 2015 amounted to $1,638.05 million (2014: $1,543.31 million), comprising current assets of $990.56 million (2014: $973.12 million) and non-current assets of $647.49 million (2014: $570.18 million). Total liabilities amounted to $332.11 million (2014: $406.74 million), resulting in net assets of $1,305.94 million (2014: $1,136.57 million).

14. A comparison of revenue and expenses for the financial years 2014 and 2015 is illustrated in the figure below.

Financial performance pattern



Source: UNEP 2015 financial statements.

Revenue analysis

15. Voluntary contributions form a major part of UNEP revenues. During 2015, UNEP received total contributions of $637.65 million (2014: $691.27 million), of which $414.53 million (65 per cent) comprised voluntary contributions from various donors, compared with $491.67 million (71 per cent) in 2014. The remaining $223.11 million (2014: $199.59 million), equivalent to 35 per cent, comprised assessed contributions from Member States. In comparison with the previous year, voluntary contributions decreased by $79.8 million (16 per cent). The decrease in revenue is attributed largely to the unpredictable nature of voluntary monetary contributions, which are, in some cases, received in advance during a particular year for use in subsequent years to finance multi-year projects. In addition, the decline is attributed in part to fluctuations in exchange rates, particularly the weakening of the euro against the United States dollar.

Expense analysis

16. Total expenses increased by $15.09 million (2.7 per cent) from $544.61 million in 2014 to $559.70 million in 2015. The increase in expenses is attributed mainly to the increase in exchange losses caused by the fixed exchange rate mechanism in which the rate of exchange for the Multilateral Fund for the Implementation of the Montreal Protocol is fixed at the rate in place during budget approval. Losses from exchange rates increased from $1.78 million in 2014 to $20.71 million in 2015, reflecting an increase of 1,063 per cent.

17. Grants and other transfers amounted to $246.82 million (2014: $236.76 million), or 44 per cent of the total expenses of $559.70 million, which is a significant portion of UNEP expenses. The reported amount of grants and transfers includes outright grants and transfers to implementing agencies, partners and other entities.

Ratio analysis

18. Table II.1 illustrates the analysis of key financial ratios from the UNEP financial statements, mainly the statement of financial position.

Table II.1
Ratio analysis

Description of ratio	*31 December 2015*	*31 December 2014*
Current ratio[a]		
Current assets: current liabilities	4.80	3.90
Total assets: total liabilities[b]	4.93	3.79
Cash ratio[c]		
Cash plus investments: current liabilities	2.13	1.61
Quick ratio[d]		
Cash + investments + accounts receivable: current liabilities	3.46	2.78

Source: UNEP 2015 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 indicates an entity's liquidity by measuring the amounts of cash, cash equivalents or invested funds that 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.

19. Overall, the ratios indicate a strong financial position of UNEP as at 31 December 2015. All ratios have improved compared with the preceding year, implying a stronger liquidity and solvency position as indicated by the current ratio, the cash ratio and the total assets to total liabilities ratio. UNEP has sufficient assets to cover its liabilities and enough liquidity to meet its short-term obligations from its liquid assets. These ratios increased in 2015 owing to an increase in receivables and investments.

3. Review of the financial statements

20. The financial statements for the year ended 31 December 2015 submitted for audit included the following errors:

(a) An overstatement of revenue by $4.5 million in the process of recognition of multi-year contributions for the years 2015 to 2017. This amount relates to a voluntary contribution which was recognized in full in 2015 at the signing of the contract with the donor, but which includes pledges to be received in 2016 and 2017 subject to the review of cash flow requirements by both parties;

(b) An overstatement of provision for doubtful debts by $18.5 million, caused by errors in computing multi-year projects and programme funds yet to be received by UNEP. For example, $8.6 million recognized for 2015 under the environment support budget "FEL"[1] included Can$ 6.2 million, equivalent to $4.5 million, relating to the periods from 2016 to 2018, the amount receivable of which, according to the agreement, is not confirmed, as it may change upon the review of cash flow requirements by both parties; however, revenue was recognized and allowance

[1] Stands for "Environment Fund biennial support budget".

calculated at 25 per cent on an amount receivable of $4.5 million, resulting in an over-allowance of $1.1 million;

(c) An understatement of total expenses by $1.2 million, due to losses from the Multilateral Fund fixed exchange rate mechanism;

(d) An understatement of revenue and expenditure by $4.5 million, as a result of improper accounting treatment of refunds to donors.

21. While the errors were adjusted, the Board considers that they highlight deficiencies in the review process during the preparation of the financial statements and challenges experienced in the use of two enterprise resource planning systems (Umoja and the Integrated Management Information System (IMIS)) during the year.

22. UNEP stated that there had been ongoing review of the accounts during the period of preparation, with a combination of data from the two enterprise resource planning systems. In the future, the United Nations plans to use the SAP Business Planning and Consolidation software for the preparation of financial statements and is expected to have the capacity to produce more detailed classifications, which should facilitate more detailed review within and across periods.

23. **The Board recommends that UNEP strengthen the review of the accounts during and after the production of the financial statements to enhance the timely detection of errors and omissions.**

4. Post-IPSAS implementation phase

Lack of an IPSAS benefits realization plan

24. The Board noted that UNEP had not prepared a detailed IPSAS benefits realization plan. Such a plan is crucial, as it outlines mechanisms for identifying and tracking those benefits. The Board is aware that UNEP has developed an IPSAS benefits report, which outlines benefits such as the availability of comprehensive information on property, plant and equipment. However, the report does not show how those benefits would be realized.

25. The Board was informed that the tracking and reporting of IPSAS benefits realization is carried out by the United Nations Secretariat, for which Headquarters collects data on qualitative and quantitative benefits, including best practices, stewardship, cost information, comparability and transparency. UNEP subscribes to this reporting by providing information in the required database format every quarter. This reporting tool has been tailored specifically to support benefits realization efforts across all entities of the Secretariat, including UNEP. Management considers that this reporting modality is sufficient and that there is no need to develop a parallel benefits realization plan. However, UNEP has not provided to the Board a copy of a document that was submitted to the Secretariat for the preparation of an IPSAS benefits realization plan.

26. The Board considers that UNEP needs a comprehensive benefits realization plan to guide management at the entity level on how the benefits identified should be monitored and realized at an optimal level.

27. **The Board recommends that UNEP prepare an IPSAS benefits realization plan to ensure effective monitoring and realization of the intended benefits.**

5. Overview of the development of the Umoja enterprise resource planning system

28. The Umoja enterprise resource planning system was deployed at UNEP effective 1 June 2015, with both the Foundation phase, covering mainly finance and procurement processes, and Extension 1, which involves mainly payroll and human resources processes. This combination of Umoja Foundation and Extension 1 was termed “Umoja Integration”. Umoja streamlines Secretariat business processes, as it replaces stand-alone applications and paper-based administrative processes across the Secretariat. While acknowledging the efforts made by the Secretariat in New York during the data conversion and data validation processes, the Board remains concerned that greater intervention by management is required to address the remaining deficiencies. For example:

(a) There was no service-level agreement between the United Nations Office at Nairobi and the Umoja support desk to define benchmark criteria for measuring support desk performance to ensure its effectiveness in providing information and communications technology (ICT) support to users;

(b) System configuration and bug issues related to the travel and human resources modules of Umoja made it difficult for staff to access and use those modules. For example, staff could not create travel requests, travel administrators could not process requests on behalf of others or for themselves, country offices could not approve shipment requests, and staff could not submit leave requests. Management explained that a task force had been put in place to address the root causes of the defects of the travel module to resolve each of the trips affected by those defects, and that the work was ongoing;

(c) Ledger entries lacked descriptions, which made it difficult to understand the nature of the transactions. Management explained that the Umoja solution permitted the inclusion of descriptions in all accounting entries entered directly into the system, but that the software did not require that field as mandatory. This matter will be discussed with the Office of Programme Planning, Budget and Accounts to ensure that all approving officers understand the importance of the field;

(d) Project management applications, especially budgeting and expenditure applications, have not been integrated with Umoja. Such integration will be part of the implementation of Umoja Extension 2, with deployment scheduled for the third and fourth quarters of 2018. However, for the time being there were inconsistences between the project information contained in Umoja and project management applications (for example, the Programme Information Management System (PIMS)) owing to the manual transmission of data between the applications.

29. **The Board recommends that UNEP, in collaboration with the United Nations Office at Nairobi: (a) establish a service-level agreement with the support desk for Umoja support service and ensure that the performance of the support desk is reviewed regularly; (b) maintain liaison with Headquarters to ensure that the established task force thoroughly reviews and fixes the configurations and bugs related to the travel and human resources modules of Umoja and performs adequate test runs to confirm that the problems have been corrected; and (c) put controls in place to ensure that the ledger entry description field is mandatory and emphasize that users should enter full descriptions in the ledger.**

6. Programme and project management

Operationally closed projects pending financial closure

30. The Board reviewed 82 projects with operationally closed and inactive status and noted that 52 of them had been operationally closed for more than 24 months without being financially closed. The delays in financial closure ranged from 26 to 117 months after operational closure, contrary to chapter 11 of the UNEP programme manual.

31. The Board is of the view that delays in the financial closure of projects exposes UNEP to the risk of the misuse of the fund balances, amounting to $8.32 million, held for those projects.

32. Management attributed the delayed closure of projects to the non-receipt of final expenditure reports from implementing partners and/or delays in receiving refunds of unspent cash advanced to the projects. Other factors included delays in the receipt of project final audit reports, final substantive reports and final evaluation reports.

33. **The Board recommends that UNEP enhance its follow-up on project closure, including the setting-up of controls over the timely submission of final expenditure reports to expedite their closure so that projects are financially closed within 24 months after being operationally closed.**

Project extension without approval by the Project Review Committee of the Office of Operations

34. Table 7 in chapter 5 of the UNEP programme manual, entitled "Process and requirements for project revisions", indicates that the extension of a project timeline must be approved by the Office of Operations, including the Project Review Committee.

35. The project carried out for the secretariat of the Strategic Approach to International Chemicals Management (SAICM) was being implemented globally by the Division of Technology, Industry and Economics and had originally been approved by the Project Review Committee for the period from November 2006 to December 2009; then, in 2008, the Committee had granted its approval for an extension to November 2013. However, the Board noted that after that extension had been approved, the project had been extended further to December 2015 without Committee approval. Furthermore, the review of the financial records of SAICM showed that from November 2006 to October 2015, the project had received $9.46 million from donors and spent a total of $8.66 million.

36. Management stated that the extension of the project beyond the time frame approved by the Project Review Committee was due mainly to changes in the management of both the UNEP Chemicals Branch and the SAICM secretariat during the period. The new management was under the impression that the project was still ongoing and thus required only a substantive revision. The Board was also informed that management was taking remedial measures, including consultation with the Quality Assurance Section (which serves as the secretariat of the Committee) on the revised project document, which involved preparation for an evaluation of the

existing project and the development of a concept note for a new, eight-month-long SAICM project starting on 1 January 2016.

37. While acknowledging the action being taken by management, the Board considers that the extension of projects without the approval of the Project Review Committee is contrary to the requirements of the UNEP programme manual and may have a negative impact in terms of the cost of projects and their incompatibility with the programme of work.

38. **The Board recommends that UNEP ensure that a project extension is granted after the revised project document has been approved by the Project Review Committee of the Office of Operations.**

Delays in the approval of project proposals

39. The UNEP project revision log has set a baseline of a maximum of 82 working days for the approval a project, from the date of the inception of the project concept. However, from its review of Project Review Committee and Revision Log reports for two years (2014 and 2015), the Board found that, out of the 87 project proposals approved during the period from January 2014 to September 2015, 33 (38 per cent) had been reviewed and approved by the Deputy Executive Director over periods ranging from 84 to 335 days, as shown in table II.2.

Table II.2
Project approval status

Period	*No. of projects approved during the year*	*No. of projects approved beyond baseline timeline*
January-December 2014	50	16
January-September 2015	37	17
Total	**87**	**33**

Source: UNEP Project Review Committee revision log.

40. UNEP stated that the approval of the project proposals had been delayed owing to administrative factors such as a lack of reviewers and the change in management. In addition, technical project information such as stakeholder analysis and sustainability issues involved in project design and development were a challenge to some managers and required longer periods of time for the finalization of project documents.

41. The Board considers that this deficiency has an impact on the timely completion of projects and could eventually prevent UNEP from fulfilling its programme of work.

42. **The Board recommends that UNEP: (a) enhance training for project managers on the analysis of technical project information in order to improve the quality of project documents; and (b) enhance supervision during project formulation and revision with a view to accelerating the approval of project documents.**

Delayed submission of project identification forms for GEF endorsement

43. The GEF project and programmatic approach cycles require that an implementing partner work with a GEF implementing agency to develop project concepts and prepare project identification forms for approval by the GEF Council along with the work programme. After a project identification form has been approved by the Council, implementing agencies are required to prepare detailed project design and final project documents and secure their endorsement by the Chief Executive Officer of GEF within 18 months for full-size projects and 12 months for medium-size projects.

44. The Board noted that the project identification forms submitted by implementing agencies for 8 projects (5 full-size and 3 medium-size) out of a total of 19 in 2014 had been approved and that the forms for 34 projects (21 full-size and 13 medium-size) out of a total of 54 in 2015 had also been approved. However, the implementing agencies had been between 1 and 40 months late in submitting the forms to the Chief Executive Officer of GEF for endorsement.

45. According to the GEF fee structure for agencies, UNEP is credited with 40 per cent of the earned fees for full-sized projects when the project identification form is approved, and the balance of 60 per cent is credited when the project has been developed and endorsed by the Chief Executive Officer of GEF. In accordance with GEF policy OP/PL/01 ("Project cancellation"), section IV, paragraph 5 (b), delays in the submission of projects for endorsement by the Chief Executive Officer pose the risk of the cancellation of all projects that are overdue by more than 18 months after the project identification form has been approved by the GEF Council. The Board is concerned that such cancellation may result in the loss to the GEF trustees of the 40 per cent of the project fees (totalling $4.48 million) paid up front to UNEP at the planning stage. The Board was informed that the delays in endorsement by the Chief Executive Officer were attributed to the late submission of project identification forms owing to administrative factors, including the fact that it had taken longer periods of time than expected for them to be cleared by national authorities and that implementing partners were unfamiliar with GEF project preparation grant processes.

46. **The Board recommends that UNEP: (a) strengthen the provision of technical and oversight knowledge to the implementing agencies on project development to facilitate the timely submission of project identification forms to the Chief Executive Officer of GEF; and (b) monitor the amount of time required for the preparation of projects and take immediate corrective measures in consultation with the implementing agencies.**

Non-submission of expenditure and progress reports

47. The standardized project cooperation agreement between UNEP divisions and non-United Nations implementing agencies, the letter of agreement between UNEP divisions and United Nations implementing agencies and the internal cooperation agreement for internally implemented UNEP projects require that the implementing agencies prepare and submit annual project implementation reports, financial reports, progress reports and co-financing reports. Furthermore, the agreements

require that after the completion of a project, the implementing agencies provide UNEP-GEF with a final expenditure statement and final report on the project.

48. The Board reviewed 314 files on externally implemented projects with closed, completed and ongoing status. The review showed that 30 implementing agencies for 30 ongoing projects, with a total value of $4.06 million, had not prepared and submitted to UNEP all of the required annual implementation reports, half-yearly expenditure reports, co-financing reports and progress reports for 2014 and 2015.

49. Furthermore, the Board noted that for four projects, with a total value of $3.35 million, that had been operationally closed for more than five years, no final reports from implementing agencies had been submitted, as required under the cooperation agreement between UNEP and the implementing agencies.

50. UNEP explained that the non-submission of the project reports was due to various factors, including the fact that some implementing agencies resisted preparing reports on projects on which minimal or no activities had been carried out. UNEP-GEF promised to institute a robust database and report tracking system to ensure more systematic follow-up with implementing agencies on the submission of reports.

51. The Board is of the view that the non-submission of the project reports was due mainly to inadequate monitoring of and follow-up with the implementing agencies.

52. **The Board recommends that UNEP ensure sufficient controls over the preparation and submission of required project reports by implementing agencies in compliance with the project cooperation agreements.**

Long-outstanding receivables from advances to implementing agencies

53. As at 31 December 2015, UNEP had long-outstanding advances amounting to $3 million, representing an increase of $1.52 million (103 per cent) compared with the amount of $1.48 million recorded in 2014. Of the long-outstanding advances in 2015, $69,488.23 had been overdue for more than 10 years and $2.938 million had been overdue for periods ranging from 5 to 10 years. The Board also noted that an overdue advance of $40,000 had been made for two projects that had been closed 10 and 13 years ago, respectively, and therefore expenditure reports on those projects could not be easily obtained. UNEP explained that the long-outstanding advances were due to difficulties in obtaining expenditure reports from implementing agencies despite the requirement, set out in chapter 5, section E (table 6), of the UNEP programme manual, that the implementing agencies submit expenditure reports at least every six months, together with progress reports, to account for project expenditure.

54. UNEP attributed the long-outstanding advances to the unlikelihood of receiving expenditure reports from the implementing agencies owing to the long periods of time that had elapsed, the changes in administration that had occurred for some of the implementing agencies and the delays in the implementation and completion of projects.

55. UNEP assured the Board that regular follow-up with respect to expenditure reports was now a priority and would also be carried out by project managers and fund management officers to accelerate the submission of the reports. Where all

means to ensure the receipt of expenditure reports had been exhausted, the write-off of the long-outstanding receivables might be considered.

56. **The Board recommends that UNEP-GEF: (a) make more effort and follow-ups to ensure that expenditure reports are submitted within the agreed time frames under the signed agreements; and (b) consider the write-off of receivables with respect to which expenditure reports cannot be retrieved and the recoverability of advances has proved to be uncertain.**

7. Results-based management

Lack of policies compliant with results-based management

57. In 1997, as part of a United Nations-wide reform process, the Secretary-General recommended that programme budgeting be shifted towards results-based budgeting to introduce results-oriented accountability and flexibility. The report of the Secretary-General on results-based budgeting of 11 October 1999 (A/54/456) introduced a prototype of the logical framework for such budgeting.

58. UNEP has introduced the midyear results review to complement the established annual review process. The purpose of the results review is to align best practices in the area of results-based management by proactively reviewing organizational performance in key areas and linking results with utilized resources. In that regard, the results-based management review serves as a mechanism for providing an opportunity for executive management and other key staff to assess the progress made in the implementation of the UNEP programme of work.

59. UNEP produced a midyear results review report and an annual report for 2015, and both were shared with executive management for decision-making. However, the Board notes that the programme manual does not provide guidance on how results-based management can be operationalized in relation to, inter alia, developing and managing projects, establishing partnership agreements or securing funds. UNEP lacks a policy document to ensure compliance and accountability with respect to integral results-based management practices. The Board considers that a policy document would serve as a guide for operationalizing results-based management and optimizing efficiency in achieving results.

60. UNEP stated that it was updating its programme manual to include more detailed operational guidance on the best approach for UNEP to take in putting results-based management into practice. Given that results-based management is part and parcel of the entire programme cycle, management took the decision to embed it in the manual, rather than creating a separate section in the new programme manual. This will ensure that it is more institutionalized in terms of UNEP processes.

61. **The Board recommends that UNEP expedite the updating of the programme manual to include more details about developing and managing projects, establishing partnership agreements and securing funds, in order to provide operational guidance on putting results-based management into practice.**

8. Property, plant and equipment presentation management

Useful lives of assets not reassessed

62. Paragraph 67 of IPSAS 17: Property, plant and equipment requires that the residual value and the useful life of an asset be reviewed at least at each reporting date and that, if expectations differ from previous estimates, the change(s) be accounted for as a change in an accounting estimate.

63. As at 31 December 2015, UNEP had a total of 250 assets, with a net book value of $470,842, of which 175 (70 per cent) were fully depreciated but still in use. The Board noted that, in order to comply with the year-end closure instructions from Headquarters, management had restated the net book value of the 175 fully depreciated assets still in use by applying 10 per cent of their costs, resulting in an addition of $251,031 to their net book value. The value of the remaining 75 assets (30 per cent), with a total net book value of $470,842, was not reviewed.

64. The Board also noted that in the adjustment of the value of the assets, the asset register had not been updated. The net book value recorded in the asset register was $1,425,960, while the financial statements showed a balance of $1,676,991, reflecting a difference of $251,031.

65. UNEP acknowledged those shortcomings and explained that accounting for property, plant and equipment was in accordance with the 2015 year-end instructions from Headquarters, which required a write-back of only 10 per cent of the cost of fully depreciated assets that were still in use. Moreover, it informed the Board that Headquarters planned to carry out a comprehensive analysis of property, plant and equipment that involved revaluation. Upon the finalization of this exercise, UNEP confirmed, it would update the asset register accordingly.

66. The Board considers that the review of the useful lives of only fully depreciated assets that are still in use is contrary to paragraph 67 of IPSAS 17, which requires that an entity reassess the useful lives of all assets and that, if expectations differ from previous estimates, the change(s) be accounted for as a change in an accounting estimate and applied in the current and future reporting periods.

67. **UNEP agreed with the Board's recommendation that it review the residual value and the useful lives of all assets, and ensure that the asset register is updated to reflect the restated figures after Headquarters has completed the analysis of property, plant and equipment.**

9. Revenue contributions

Deposits unapplied for long periods

68. In its financial statements, UNEP reported other liabilities of $138.32 million, of which $4.7 million was related to unapplied deposits in the bank accounts pending the identification of the donor or the identification of particular projects to be funded by the contribution. The Board noted that those deposits had been received between June 2014 and December 2015 and that, up to the time of audit in June 2016, UNEP had not identified the depositors or the particulars applying to the deposits. UNEP attributed the late identification of the deposits to inadequate collaboration in addressing early bottlenecks and technical challenges between its

resource mobilization team and the Accounts Section of the United Nations Office at Nairobi. The lack of regular reconciliation of information between the two organizations to permit the early identification of pending contributions was also one of the reasons identified.

69. The Board is concerned that the measures taken by management to minimize the amount of time taken to identify the sources of contributions are inadequate. The delayed identification of contribution sources has negative effects such as delays in the implementation of the intended projects and in the recognition of revenue for given periods.

70. **UNEP agreed with Board's recommendation that it: (a) expedite follow-up procedures to permit the early identification of donor contributions for timely revenue recognition; and (b) work closely with the Accounts Section of the United Nations Office at Nairobi to ensure collaboration in addressing early bottlenecks and technical challenges and regular reconciliation between the Section and the resource mobilization team.**

Long-outstanding receivables from assessed contributions

71. In paragraph 72 of the Board's report for the biennium ended 31 December 2007 (A/63/5/Add.6, chap. II), UNEP agreed with the Board's recommendation that it continue to draw the attention of the parties to the payment of long-outstanding contributions or their write-off.

72. In 2015, UNEP reported outstanding assessed contributions receivable of $217.6 million. During the year, UNEP made a full allowance for assessed contributions receivable of $176.7 million, of which $36.6 million related to special allowances on contributions from a Member State that had requested not to pay its dues because of administrative disputes. At the 67th meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol, held in July 2012, another Member State had indicated that it would commence payments in 2013 on the condition that all future contributions not be associated with its outstanding pledges for prior years. The outstanding contributions from the Member State concerned that had accrued prior to 2011 amounted to $107 million. Despite all the evidence indicating uncertainty with regard to the recoverability of the outstanding assessed contributions receivable, UNEP had not initiated the write-off process in line with paragraph 18.4.3 (j) of the United Nations policy framework for IPSAS (ST/IC/2013/36) ,which requires that decisions involving write-offs be considered at the management level or, in the case of assessed or voluntary contributions from Member States, at the General Assembly level or executive body level, as appropriate.

73. The Board was informed that UNEP had brought prior-year audit recommendations on write-offs to the attention of the Multilateral Fund on a number of occasions. However, while the Fund's Executive Committee agrees to comply with United Nations IPSAS policies with respect to allowances for long-outstanding receivables, including 100 percent provision where deemed appropriate, it does not approve the writing-off of any obligation due from stakeholders. Therefore, all receivables are required to be maintained and collection pursued through discussions and negotiations at meetings of the stakeholders.

74. However, the Board considers that, in view of the uncertainty with respect to the recoverability of the receivables outstanding since 2010, management must seek the position of the Executive Committee on the issue and properly disclose it in the financial statements.

75. **The Board recommends that UNEP again bring the matter to the attention of the Executive Committee of the Multilateral Fund for its consideration.**

10. Advances

Non-submission of monthly expenditure reports on staff advances

76. Financial rule 104.9 of the Financial Regulations and Rules of the United Nations, on cash advances, requires that officials to whom cash advances are issued be held personally accountable and financially liable for the proper management and safekeeping of cash advances and that they be in a position to account for these advances at all times. Moreover, the rule requires that they submit monthly accounts unless otherwise directed by the Under-Secretary-General for Management.

77. As at 31 December 2015, UNEP had issued staff advances amounting to $5.4 million, of which $3.6 million comprised advances issued to staff acting as paymasters to meet the costs of meetings held in 2015. However, the Board noted that the paymasters had not been submitting monthly accounts to account for the advances. The Board also noted that included in the schedule of staff advances was a balance of $36,000 due to a supplier for the purchase of a Toyota Land Cruiser that had been delivered in July 2015. The amount was improperly classified under the category of staff advances, but did not qualify as an advance after the delivery of the motor vehicle.

78. UNEP stated that review and recording for settlement was ongoing, as expenditure reports were being received in 2016. In respect of the balance relating to the supplier, UNEP indicated that it would be cleared in 2016 because the relevant sections were working to that end; however, as at the time of audit, in June 2016, the advances had yet to be cleared.

79. While acknowledging the actions taken, the Board remains concerned that inadequate follow-up on the submission of monthly expenditure reports by staff to whom advances have been issued increases the risk that the amounts will not be recovered or may be misused. In addition, the lack of monthly reconciliation between the department receiving goods and the accounts function may result in the issuance of advances to a vendor that has already delivered.

80. **UNEP agreed with the Board's recommendation that it: (a) enhance follow-up with staff who have outstanding advances for clearance; and (b) ensure regular reconciliation between the department receiving goods and the accounts function to enhance the accuracy of reported advances.**

C. Disclosures by management

81. 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

82. UNEP informed the Board that, in accordance with financial rule 106.8, losses of receivables from staff advances amounting to $11,515.18 had been written off during the year.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

84. 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.

85. 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.

86. In 2015, the Board did not identify any cases of fraud and UNEP reported no cases of fraud or presumptive fraud.

D. Acknowledgement

87. 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

19 September 2016

Annex

Status of implementation of previous recommendations for the year ended 31 December 2014

						Status after verification			
No.	*Summary of the recommendation*	*Financial period in which first made; report reference*	*Para. No.*	*Action reported by management*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	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 its Programme Information Management System (PIMS) whenever initiating projects; and (b) review and monitor the accuracy of PIMS data in the future.	2014; A/70/5/Add.7, chap. II	26	(a) Rules and guidelines for initiating projects in Umoja are being finalized by the Office of Operations and integrated into the new programme and project management manual. For every project approved and created in PIMS, a corresponding project structure is created in Umoja and its reference number is maintained in PIMS. The Quality Assurance Section is responsible for creating the first 2 levels of the structure, and the fund management officers for the third and fourth levels; (b) project managers are monitoring and maintaining the accuracy of PIMS data. This is facilitated by the Umoja reports extracted by fund management officers. Meanwhile, meetings and discussions are ongoing with the Umoja business intelligence teams in New York and Vienna on the requirement of UNEP that programmatic and financial reports be produced from a platform (SAP HANA) that links the new PIMS thematic data with the financial data stored in Umoja.	The Board is awaiting the finalization of guidelines.		X		

No.	Summary of the recommendation	Financial period in which first made; report reference	Para. No.	Action reported by management	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
2	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.	2014; A/70/5/Add.7, chap. II	30	Rules and guidelines for initiating projects in Umoja are being finalized by the Office of Operations and integrated into the new programme and project management manual. Accordingly, the new version of PIMS being worked on will include the entire project cycle. In addition, meetings and discussions are ongoing with the Umoja business intelligence teams in New York and Vienna on the requirement of UNEP that programmatic and financial reports be produced from a platform (SAP HANA) that links the new PIMS thematic data with the financial data stored in Umoja. It is to be noted that UNEP is the second entity, after the United Nations Office on Drugs and Crime, to develop a template for consolidated reporting, in June-July 2016.	The Board is awaiting the finalization of guidelines.		X		
3	UNEP agreed with the Board's recommendation that it revise its programme manual by including clear procedures and authority for project cancellations.	2014; A/70/5/Add.7, chap. II	36	Standard operating procedures and roles and responsibilities for project cancellation are being created by the Office of Operations and will be included in the programme and project management manual.	Timelines were not provided to show the status and commitment of UNEP management; otherwise, the Board is waiting for the approved standard operating procedures for project cancellation.		X		

No.	Summary of the recommendation	Financial period in which first made; report reference	Para. No.	Action reported by management	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
4	UNEP agreed with the Board's recommendation that it revise its programme manual to include procedures for handling emergency approvals.	2014; A/70/5/Add.7, chap. II	40	There is a special process for emergency situations already in place whereby project approvals are "fast-tracked" to prevent the loss of donor funding. This is also reflected and reinforced in the programme and project management manual.	The Board is awaiting a revised programme manual.		X		
5	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.	2014; A/70/5/Add.7, chap. II	45	UNEP's programme manual has been updated in terms of procedures to ensure that all projects approved since 2014 have adequate budgets for evaluations and to ensure that evaluations are conducted within the required time frames. This is also reflected and reinforced in the new programme and project management manual.	The Board is awaiting a revised programme manual.		X		
6	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.	2014; A/70/5/Add.7, chap. II	49	(a) Under the UNEP partnership policy adopted in October 2011, the ability of implementing partners to carry out the required interventions is assessed, together with their financial standing. Screening under the due diligence procedure is also applied to non-profit government agencies (business companies and State-owned companies or companies controlled by the Government) to prevent any incompatibility with the organization's principles of integrity, impartiality and independence; (b) guidance on the planning and monitoring of the implementation of projects is being updated and included in the programme and project management manual.	Part (a) of the recommendation has been implemented; with respect to part (b), the Board is awaiting updated guidelines and their inclusion in the programme and project management manual.		X		

						Status after verification			
No.	*Summary of the recommendation*	*Financial period in which first made; report reference*	*Para. No.*	*Action reported by management*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
7	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.	2014; A/70/5/Add.7, chap. II	54	This is an ongoing process. The planning and monitoring of the implementation of projects is being strengthened, and clear guidelines will be provided in the new programme manual. Accordingly, obtaining expenditure reports from implementing partners will be expedited. It is to be noted that UNEP already carried out a major reconciliation exercise in the first half of 2015 as part of the preparations for the implementation of Umoja, as well as another exercise whereby letters were sent to implementing partners requesting them to submit their expenditure reports as part of the 2015 year-end closure.	The Board is awaiting the new programme manual, as well as the inclusion and practice of the new guidelines in the new programme manual.		X		
8	The Board recommended 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.	2014; A/70/5/Add.7, chap. II	58	This is an ongoing process. The planning and monitoring of the implementation of projects is being strengthened, and clear guidelines will be provided in the new programme manual. Accordingly, obtaining expenditure reports from implementing partners will be expedited. It is to be noted that UNEP already carried out a major reconciliation exercise in the first half of 2015 as part of the preparations for the implementation of Umoja, as well as another exercise whereby letters were sent to implementing partners requesting them to submit their expenditure reports as part of the 2015 year-end closure.	The Board continues to review the planning and monitoring of the implementation of projects and is waiting for the new programme manual for clear guidelines.		X		

						Status after verification			
No.	*Summary of the recommendation*	*Financial period in which first made; report reference*	*Para. No.*	*Action reported by management*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
9	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; and (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.	2012-2013; A/69/5/Add.7, chap. II	26	UNEP migrated to the Umoja system on 1 June 2015, and therefore this recommendation has been fully implemented.	IMIS is no longer used by UNEP, and the new enterprise resource planning system, Umoja, has automated budgetary controls at the fund level as well as the project level.	X			
10	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.	2010-2012; A/67/5/Add.6 and Corr.1, chap. II	69	While UNEP agrees to this recommendation, it is for Headquarters to issue instructions and guidance on setting up specific funding for end-of-service liabilities. Until then, UNEP will continue applying a "pay-as-you-go" approach to after-service health insurance liabilities.	UNEP is advised to maintain liaison with Headquarters for instruction.		X		

						Status after verification			
No.	*Summary of the recommendation*	*Financial period in which first made; report reference*	*Para. No.*	*Action reported by management*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
11	UNEP agreed with the Board's recommendation that it: (a) continue to prepare for the implementation of IPSAS in collaboration with the United Nations Office at Nairobi; and (b) specify its needs for the migration of the Crystal software to the future enterprise resource planning system of the Secretariat (Umoja).	2008-2009; A/65/5/Add.6, chap. II	38	UNEP adopted IPSAS as from 1 January 2014. The first set of IPSAS-compliant financial statements, for the year ended 31 December 2014, have been audited and an unqualified audit opinion has been issued by the Board. In addition, UNEP migrated to Umoja on 1 June 2015. The Crystal software is still in use for extracting financial information and reports for the first 5 months of 2015 and for prior years, but is no longer in use for periods after 31 May 2015.	Since UNEP has already adopted IPSAS and migrated to Umoja, this recommendation has been overtaken by events. While the Crystal software is not in use with Umoja, business intelligence reports are available and under development.				X
12	The Board recommended that UNEP, in collaboration with the United Nations Headquarters Administration, revise its accounting treatment of education grants.	2008-2009; A/65/5/Add.6, chap. II	88	As from 1 January 2014, the accounting treatment of education grants applied is IPSAS-compliant.	The education grant is included in note 12 ("Other assets") as an advance to staff; therefore, the recommendation has been implemented.	X			
13	UNEP agreed with the Board's recommendation that, in coordination with the United Nations Office at Nairobi, it: (a) take advantage of the upcoming implementation of the new enterprise resource planning system to eliminate journal voucher entries; and (b) strengthen internal control over journal voucher entries and the access rights to make them.	2008-2009; A/65/5/Add.6, chap. II	177	UNEP migrated to Umoja with effect from 1 June 2015, and therefore this recommendation has been fully implemented.	Although UNEP has migrated to Umoja with effect from 1 June 2015, we still observe excessive journal voucher entries in the processing of financial information.	X			

No.	*Summary of the recommendation*	*Financial period in which first made; report reference*	*Para. No.*	*Action reported by management*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
14	UNEP agreed with the Board's recommendation that it set up specific funding to balance in its accounts its liabilities for end-of-service and post-retirement benefits, particularly health insurance.	2006-2007; A/63/5/Add.6, chap. II	44	While UNEP agrees to this recommendation, it is for Headquarters to issue instructions and guidance on setting up specific funding for end-of-service liabilities. Until then, UNEP will continue applying a "pay-as-you-go" approach to after-service health insurance liabilities.	UNEP is advised to maintain liaison with Headquarters for instruction.	X			
	Total					**4**	**9**	**0**	**1**
	Percentage					**29**	**64**	**0**	**7**

Chapter III

Certification of the financial statements

Letter dated 31 May 2016 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 2015 have been prepared in accordance with rule 106.1 of the Financial Regulations and Rules of the United Nations and rule 207.3 of the supplement to the Financial Regulations and Rules of the United Nations (ST/SGB/2015/4).

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 Financial Regulations and Rules 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 2015 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 2015

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report, together with the accounts, of the United Nations Environment Programme (UNEP), including the Environment Fund, associated trust funds and the related accounts, for the year ended 31 December 2015. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.1, these financial statements were to be transmitted to the Board of Auditors on 31 March 2016 but have been exceptionally issued on 31 May 2016.

2. The financial year 2015 was marked by the transition of the United Nations Environment Programme to the new enterprise resource planning system based on Systems Applications and Products in Data Processing (SAP). The new system, Umoja, is now the central administrative solution in the areas of budget execution, procurement, logistics, grant management, asset management and financial accounting, and also includes an array of self-service functionalities, allowing for a more modern, efficient and transparent way of managing the organization's resources. Umoja also facilitates reporting on the financial position and performance of the organization based on the requirements of the International Public Sector Accounting Standards (IPSAS).

3. Regular budget income and expenditure, insofar as they relate to the United Nations Environment Programme, are included in Volume I, a related party, but for completeness have also been included in these financial statements.

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

B. IPSAS sustainability

5. This is the second year for which the financial statements of the United Nations Environment Programme have been prepared in accordance with IPSAS. To support continued IPSAS compliance, the organization has deployed an IPSAS sustainability plan with ongoing work under five major components that have been identified as the core pillars for IPSAS sustainability, namely:

(a) Management of the benefits of IPSAS: this entails tracking and compiling IPSAS benefits and examining ways of using IPSAS-triggered information to better manage the organization;

(b) Strengthening of internal controls: this includes the deployment and ongoing management of the framework that will support a statement of internal control;

(c) Management of the IPSAS regulatory framework: this includes active participation in the work of the IPSAS Board to formulate new IPSAS or change existing standards, and the related update of the IPSAS Policy Framework and financial rules and guidance, as well as the related changes to systems and processes;

(d) Maintenance of the integrity of Umoja as the backbone for IPSAS-compliant accounting and reporting: work in this area includes ensuring IPSAS-compliant processes for new programmes and activities, and automating the production of financial statements via Umoja;

(e) Continued IPSAS training and the deployment of a skills strategy that will support a strengthened finance function.

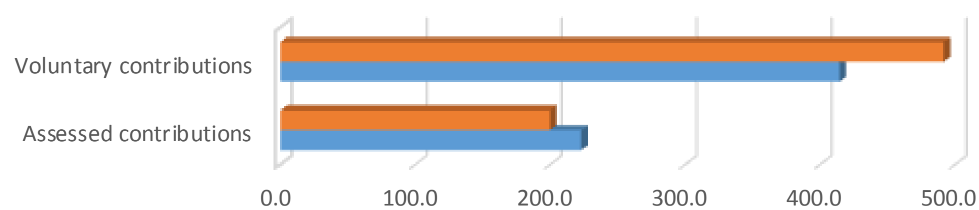
C. Overview

All funds

6. Statements I to IV show the consolidated figures for all UNEP activities, comprising the Environment Fund, the regular budget, other trust funds supporting the UNEP programme of work, trust funds supporting the UNEP Multilateral 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 2015. Statement V reports on the Environment Fund and the regular budget.

7. The figure below shows the revenue of UNEP by major funding source category for the year ended 31 December 2015 compared with the year ended 31 December 2014.

(Millions of United States dollars)

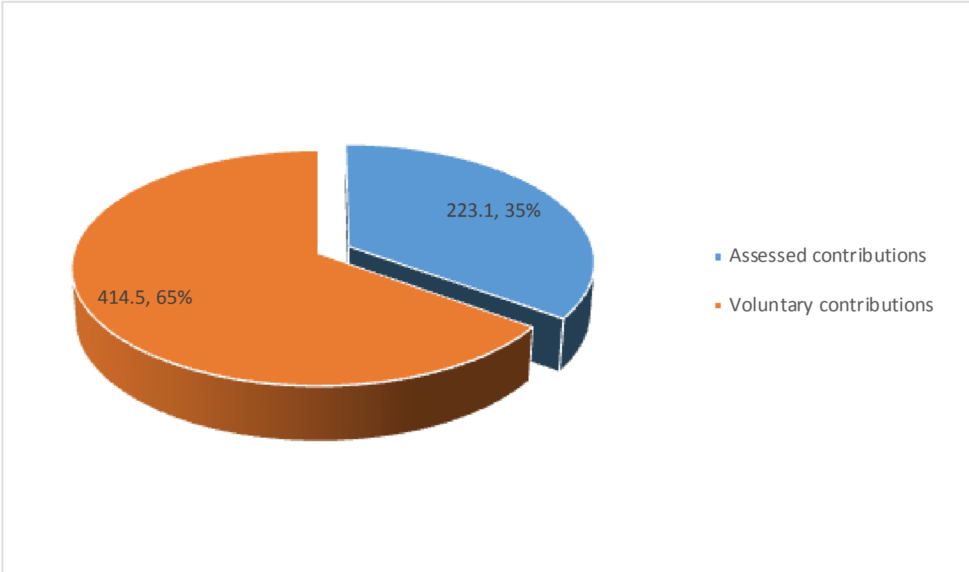


	Assessed contributions	Voluntary contributions
2014	199.6	491.7
2015	223.1	414.5

8. The contributions are based on IPSAS accounting. There has been an overall decrease in total contributions.

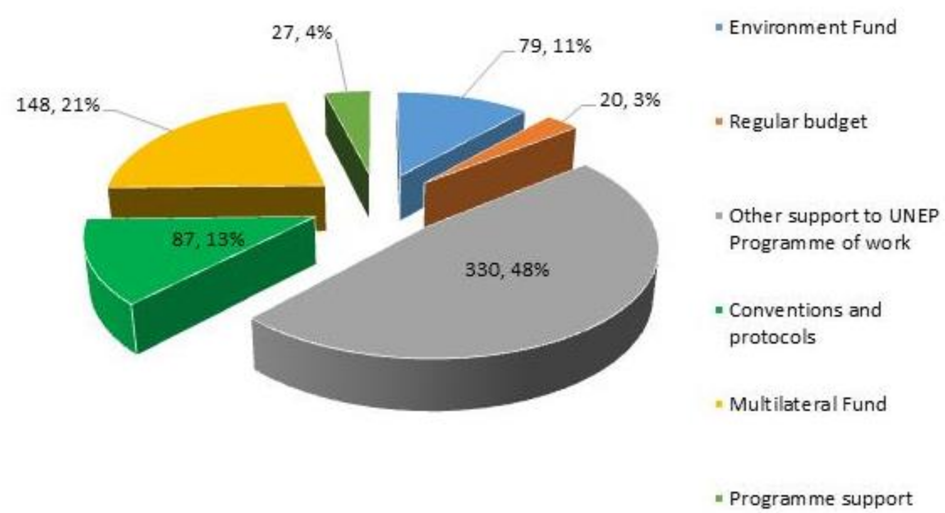
9. The figure below shows the revenue of UNEP for the year ended 31 December 2015 by funding source category.

(Millions of United States dollars)



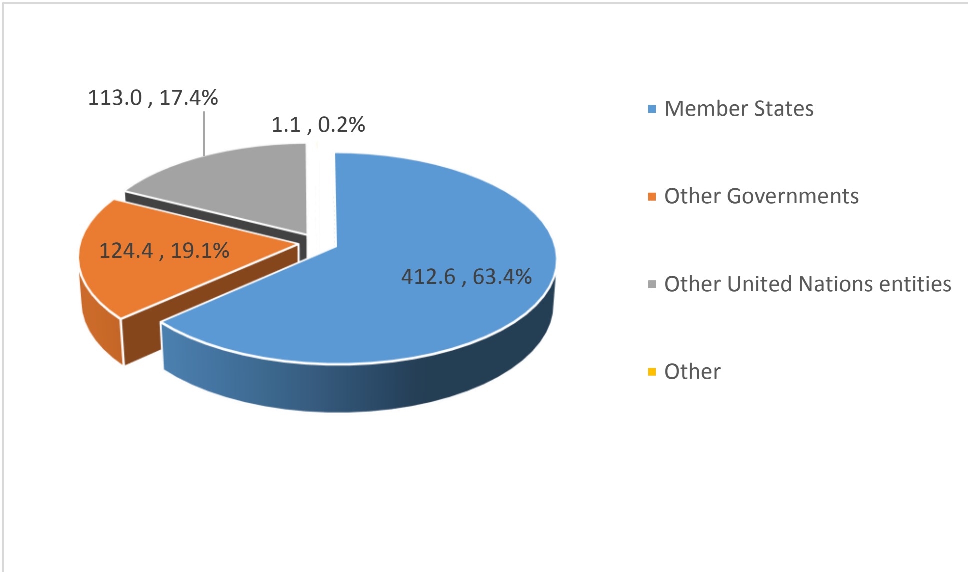
10. The figure below shows the proportion of revenue by segment before elimination.

(Millions of United States dollars)



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

(Millions of United States dollars)



12. Total expenditure increased by $15.1 million (2.8 per cent), to $559.7 million from $544.6 million.

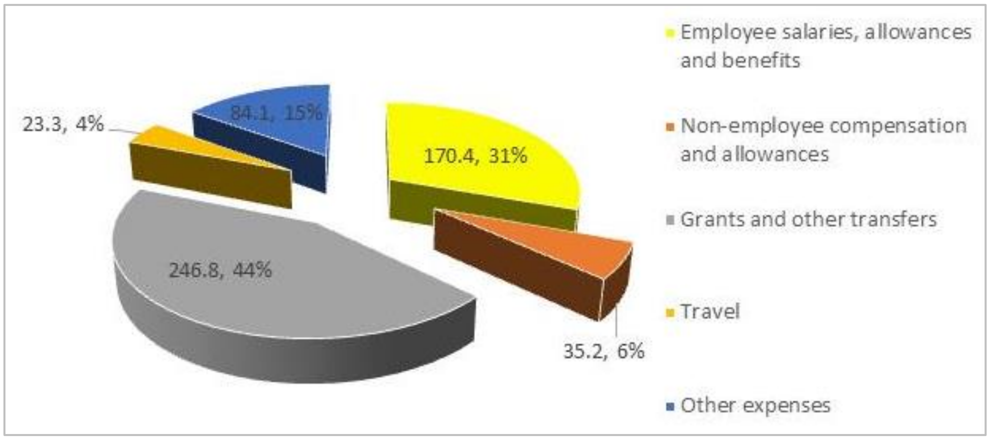
13. The figure below shows a comparison of expenditure by nature of expense for the years ended 31 December 2015 and 31 December 2014.

(Millions of United States dollars)

	Employee salaries, allowances and benefits	Non-employee compensation and allowances	Grants and other transfers	Travel	Other expenses
2015	170.4	35.2	246.8	23.3	84.1
2014	174.9	31.3	236.8	14.6	87.0

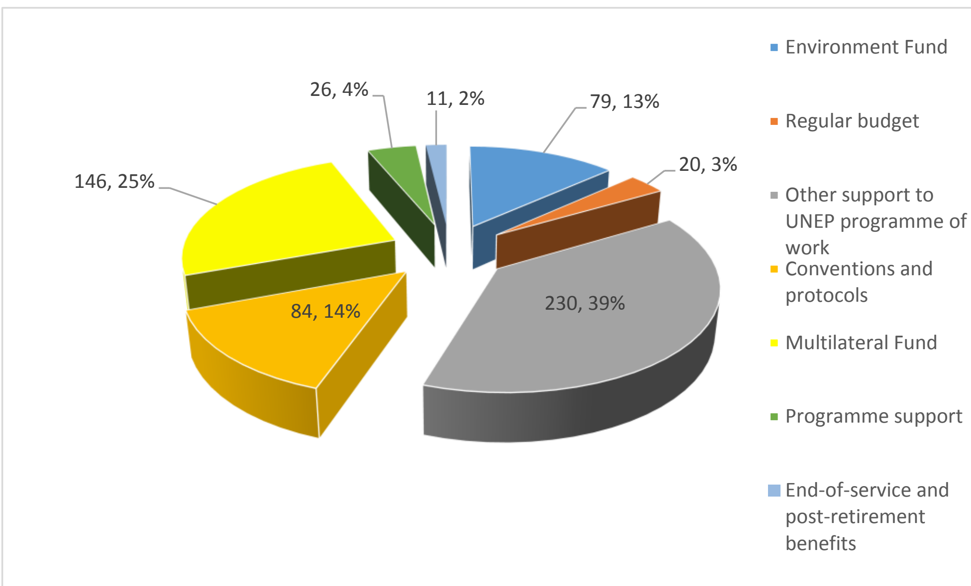
14. Expenditure for the year ended 31 December 2015 by nature of expense is shown in the figure below.

(Millions of United States dollars)



15. The figure below shows the proportion of expenditure by segment before elimination.

(Millions of United States dollars)



16. The cash position (cash and cash equivalents) decreased by $33.3 million (23.3 per cent), to $109.7 million from $143.0 million as at 31 December 2014.

17. Total assets increased by $94.7 million (6.1 per cent), to $1,638.1 million from $1,543.3 million as at 31 December 2014.

18. Total liabilities decreased by $74.6 million (18.3 per cent), to $332.1 million from $406.7 million as at 31 December 2014.

19. Net assets increased by $169.4 million (14.9 per cent), to $1,305.9 million from $1,136.6 million as at 31 December 2014.

20. Table IV.1 summarizes other key indicators for the United Nations Environment Programme for the year ended 31 December 2015 compared with the year ended 31 December 2014.

Table IV.1
Other key indicators

(Millions of United States dollars)

	2015	*2014*	*Increase/decrease*	*Change (percentage)*
Assessed contributions revenue	223.1	199.6	23.5	11.8
Voluntary contributions revenue	414.5	491.7	(77.2)	(15.7)
Total contributions revenue	**637.6**	**691.3**	**(53.7)**	**(7.8)**
Cash and cash equivalents	109.7	143.0	(33.3)	(23.3)
Short-term investments	329.3	259.6	69.7	26.9
Long-term investments	220.2	221.6	(1.4)	(0.7)
Total cash and investments	**659.2**	**624.2**	**35.0**	**5.6**
Assessed contributions receivable	31.9	64.0	(32.1)	(50.1)
Voluntary contributions receivable	521.0	470.7	50.3	10.7
Total receivables	**552.9**	**534.7**	**18.2**	**3.4**
Advance transfers	413.7	333.1	80.6	24.2
Other assets	10.6	50.6	(40.0)	(79.0)
Accounts payable and accrued payables	56.3	44.1	12.2	27.7
Employee benefits liabilities	137.3	165.9	(28.6)	(17.2)
Other liabilities	138.3	196.7	(58.4)	(29.7)

D. End-of-service and post-retirement accrued liabilities

21. The UNEP statement reflects 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 2015 accrued balances have been adjusted to reflect the estimated liabilities as at 31 December 2015 as reflected in the 2015 actuarial study calculations by a consulting firm engaged by the United Nations Secretariat on behalf of UNEP. As a result of fully charging these liabilities in the financial statements as at 31 December 2015, an amount of $101.6 million of cumulative unfunded expenditure is shown in the statement of net assets.

Chapter V

Financial statements and related explanatory notes for the year ended 31 December 2015

United Nations Environment Programme
I. Statement of financial position as at 31 December 2015

(Thousands of United States dollars)

	Notes	*31 December 2015*	*31 December 2014*[a]
Assets			
Current assets			
Cash and cash equivalents	7	109 653	142 984
Investments	8	329 312	259 613
Assessed contributions receivable	9	30 514	55 359
Voluntary contributions receivable	10	244 496	235 712
Advance transfers	11	265 961	228 704
Other assets	12	10 620	50 747
Total current assets		**990 556**	**973 119**
Non-current assets			
Investments	8	220 159	221 570
Assessed contributions receivable	9	1 433	8 655
Voluntary contributions receivable	10	276 460	234 983
Advance transfers	11	147 738	104 220
Property, plant and equipment	14	1 677	760
Intangibles	15	32	–
Total non-current assets		**647 499**	**570 188**
Total assets		**1 638 055**	**1 543 307**
Liabilities			
Current liabilities			
Accounts payable and accrued payables	16, 24	56 299	44 126
Employee benefits liabilities	17	11 538	8 557
Provisions	18	192	–
Other liabilities	19, 24	138 321	196 736
Total current liabilities		**206 350**	**249 419**
Non-current liabilities			
Employee benefits liabilities	17	125 762	157 320
Total non-current liabilities		**125 762**	**157 320**
Total liabilities		**332 112**	**406 739**
Net assets			
Accumulated surpluses/(deficits), unrestricted	20	1 271 479	1 104 690
Accumulated surplus, restricted	20	–	–
Reserves	20	34 464	31 878
Total net assets		**1 305 943**	**1 136 568**
Total liabilities and net assets		**1 638 055**	**1 543 307**

[a] Comparatives have been restated to conform to current presentation.

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 2015

(Thousands of United States dollars)

	Notes	*31 December 2015*	*31 December 2014*
Revenue			
Assessed contributions	21	223 117	199 594
Voluntary contributions	21	414 529	491 678
Other transfers and allocations	21	13 468	–
Investment revenue	24	4 185	5 398
Other revenue	22	686	878
Total revenue		**655 985**	**697 548**
Expenses			
Employee salaries, allowances and benefits	23	170 356	174 935
Non-employee compensation and allowances	23	35 202	31 265
Grants and other transfers	23, 29	246 816	236 763
Supplies and consumables		1 723	7 417
Depreciation and amortization	14, 15	187	266
Travel	23	23 265	14 641
Other operating expenses	23	45 779	61 820
Other expenses	23	15 657	15 723
Exchange losses from the fixed-rate mechanism	23	20 718	1 784
Total expenses		**559 703**	**544 614**
Surplus/(deficit) for the period		**96 282**	**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 for the year ended 31 December 2015

(Thousands of United States dollars)

	Accumulated surpluses/(deficits) — unrestricted	*Accumulated surplus — restricted*	*Reserves*	*Total*
Net assets, beginning of period	1 104 690	–	31 878	1 136 568
Changes in net assets				
Transfers to reserves[a]	(2 586)	–	2 586	–
Other adjustments to net assets[b]	30 843	–	–	30 843
Actuarial gains and losses	42 250	–	–	42 250
Surplus/(deficit) for period	96 282	–	–	96 282
Net movement in net assets	**166 789**	**–**	**2 586**	**169 375**
Net assets, end of period	**1 271 479**	**–**	**34 464**	**1 305 943**

[a] See note 20.
[b] See note 29, para. 210.

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 2015

(Thousands of United States dollars)

	Notes	*31 December 2015*	*31 December 2014*[a]
Cash flows from operating activities			
Surplus/(deficit) for the period		96 282	152 934
Non-cash movements			
Depreciation and amortization	14, 15	187	266
Net book value of assets acquired in prior periods recognized in 2015		(25)	–
Net loss on disposal of property, plant, equipment and inventory		4	13
(Decrease)/increase in allowance for doubtful receivables		7 552	(3 026)
Current service and interest cost on employee benefits liabilities		11 418	13 362
Changes in assets			
(Increase)/decrease in assessed contributions receivable		26 558	5 699
(Increase)/decrease in voluntary contributions receivable		(52 288)	(153 087)
(Increase)/decrease in advance transfers		(80 774)	(5 004)
(Increase)/decrease in other assets		40 109	198 283
Changes in liabilities			
Increase/(decrease) in accounts payable and accrued payables		12 173	12 266
Increase/(decrease) in employee benefits		2 255	(3 200)
Increase/(decrease) in provisions		192	(150)
Increase/(decrease) in other liabilities		(58 415)	(186 980)
Investment revenue presented as investing activities		(4 185)	(5 398)
Net cash flows from operating activities		**1 043**	**25 978**
Cash flows from investing activities			
(Increase)/decrease in the cash pools		(68 287)	(5 786)
Acquisitions of property, plant and equipment	14	(1 078)	(61)
Acquisitions of intangibles	15	(37)	–
Investment revenue presented as investing activities		4 185	5 398
Net cash flows from investing activities		**(65 217)**	**(449)**
Cash flows from financing activities			
Adjustment to fund balances		30 843	(141)
Net cash flows from financing activities		**30 843**	**(141)**
Net increase/(decrease) in cash and cash equivalents		**(33 331)**	**25 388**
Cash and cash equivalents, beginning of period		142 984	117 596
Cash and cash equivalents, end of period	7	**109 653**	**142 984**

[a] Comparatives have been restated to conform to current presentation.

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 2015

(Thousands of United States dollars)

	Publicly available budget				
	Original biennial	*Original annual*	*Final annual*	*Actual expenditure (budget basis)*	*Difference (percentage)*[a]
Executive direction and management	7 794	4 295	5 500	5 595	-1.7
Programme of work					
Climate change	39 510	21 771	12 200	11 786	3.4
Disasters and conflicts	17 886	9 855	5 000	4 983	0.3
Ecosystem management	36 831	20 294	13 500	13 156	2.5
Environmental governance	21 895	12 065	12 500	12 911	-3.3
Chemicals and waste	31 175	17 178	8 460	8 218	2.9
Resource efficiency	45 329	24 977	11 000	11 296	-2.7
Environment under review	16 768	9 240	7 200	7 563	-5.0
Total programme of work	**209 394**	**115 380**	**69 860**	**69 913**	**-0.1**
Fund programme reserve	12 500	6 888	2 640	2 636	0.2
Programme support	15 312	8 437	6 000	6 270	-4.5
Total Environment Fund	**245 000**	**135 000**	**84 000**	**84 414**	**-0.5**
United Nations regular budget allocation[b]	34 964	17 482	17 430	17 969	-3.1
Total	**279 964**	**152 482**	**101 430**	**102 383**	**-0.9**

[a] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 6.
[b] 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 11, Environment, of the United Nations biennial programme plan and priorities for the period 2014-2015. The overall objective of programme 11 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 financial statements of the United Nations Environment Programme (the organization) 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 II: statement of financial performance;

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

(d) Statement IV: statement of cash flows;

(e) Statement V: statement of comparison of budget 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 second 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.

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 2015 are to be transmitted to the Board of Auditors by 31 March 2016. These financial statements have been exceptionally transmitted by 31 May 2016.

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 judgment 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, judgments 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.

Future accounting pronouncements

17. The progress and impact of the following significant future International Public Sector Accounting Standards Board (IPSAS Board) accounting pronouncements on the organization's financial statements continues to be monitored:

(a) Public sector-specific financial instruments — to develop this accounting guidance, the project will focus on issues related to public sector-specific financial instruments which are outside the scope of those covered by IPSAS 28: Financial instruments: presentation; IPSAS 29: Financial instruments: recognition and measurement; and IPSAS 30: Financial instruments: disclosures;

(b) Public sector combinations — this project will prescribe the accounting treatment for public sector combinations and develop a new standard setting out the classification and measurement of public sector combinations, i.e., transactions or other events that bring two or more separate operations into a single public sector entity;

(c) Heritage assets — this project's objective is to develop accounting requirements for heritage assets;

(d) Non-exchange expenses — the aim of this project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(e) Revenue — the scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede those currently located in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(f) Employee benefits — the objective of this project is to issue a revised IPSAS 25: Employee benefits which will converge with the underlying International Accounting Standard (IAS) 19: Employee benefits;

(g) Consequential amendments arising from chapters 1-4 of the Conceptual Framework — this project's objective is to make revisions to IPSAS standards that reflect concepts from these chapters, in particular the objectives of financial reporting and the qualitative characteristics and constraints of information.

Future pronouncements of the International Public Sector Accounting Standards Board

18. On 30 January 2015, the IPSAS Board published five new standards: IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. Initial application of these standards is required for periods beginning on or after 1 January 2017. Their impact on the organization's financial statements for the year ending 31 December 2017 and the comparative period therein has been evaluated to be as follows:

IPSAS	*Anticipated impact in the year of adoption*
IPSAS 34	The requirements for separate financial statements in IPSAS 34 are very similar to the current requirements in IPSAS 6: Consolidated and separate financial statements. However, given that the Financial Regulations and Rules of the United Nations do not require separate financial statements, the introduction of IPSAS 34 is not expected to have an impact on the United Nations Volume I financial statements.
IPSAS 35	IPSAS 35 still requires that control be assessed having regard to benefits and power, but the definition of control has changed, and the standard now provides considerably more guidance on assessing control. Management is assessing the United Nations Volume I interests in other reporting entities and arrangements to ensure compliance with the revised definitions. The other key change introduced by IPSAS 35 is the elimination of the IPSAS 6 exemption from consolidation of temporarily controlled entities; the preparation of financial statements for periods beginning on or after 1 January 2017 will include the assessment of temporarily controlled entities.
IPSAS 36	A key change introduced by IPSAS 36 is the elimination of the IPSAS 7 exemption from application of the equity method where joint control or significant influence is temporary; the preparation of financial statements for periods beginning on or after 1 January 2017 will include the assessment of such arrangements. Furthermore, the scope of IPSAS 36 is limited to entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. The applicability of IPSAS 36 to United Nations Volume I is therefore limited, as interests generally do not involve a quantifiable ownership interest.
IPSAS 37	IPSAS 37 introduces new definitions and has a significant impact on the way in which joint arrangements are classified and accounted for. These financial statements include joint venture arrangements accounted for using the equity method. Where these are formed under a binding agreement and assessed as being subject to joint control, they meet the IPSAS 37 definition of a joint arrangement. Where assessed as being a joint venture, that is, the United Nations Volume I interest gives rise to rights over net assets, IPSAS 37 requires the equity method to be used, and this will not represent a change in accounting policy. If there are rights to assets and obligations for liabilities, the interest is classified as a joint operation and United Nations Volume I will account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSAS applicable to the particular assets, liabilities, revenues and expenses. United Nations Volume I is working with the other participants in these arrangements when developing its accounting policies under IPSAS 37.

IPSAS	*Anticipated impact in the year of adoption*
IPSAS 38	This standard increases the extent of disclosures required for interest in other entities and has a significant impact on the United Nations Volume I financial statements. Planning to implement these disclosures, including disclosures for the comparative period, has commenced in 2016.

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 depends primarily 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 and receivables

21. All financial assets are initially measured at fair value. The organization initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which 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 either have been 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 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 on the basis of 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 and two 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 and 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 with items held for sale or external distribution	Construction materials/supplies, work in progress
Strategic reserves	Fuel reserves, bottled water and rations reserves
Consumables and supplies	
Material holdings of consumables and supplies, including spare parts and medicines	

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 than 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
	Marine vessels	10 years
Machinery and equipment	Light engineering and construction equipment	5 years
	Medical equipment	5 years
	Security and safety equipment	5 years
	Mine detection and clearing equipment	5 years
	Accommodation and refrigeration equipment	6 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, depending on type	25, 40 or 50 years
	Major exterior, roofing, interior and services/utilities components, where component approach is utilized	20-50 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
Leasehold 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 into 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 on the basis of 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, consultant costs and other applicable overhead costs.

56. Intangible assets with a 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
Licences and rights	2-6 years (period of licence/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 interfund 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 the 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 payable 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 relate 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 the 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 right-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 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. Donated right-to-use land arrangements are accounted for as operating leases where the organization does not have exclusive control over the land and/or title to the land is transferred under restricted deeds.

67. Long-term donated right-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 right-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 on the basis of 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, in addition to the pension provided through the United Nations Joint Staff Pension Fund. 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 dependants. Upon end of service, staff members and their dependants 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 5 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 meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based on 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. Annual leave: 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 at the date of the statement of financial position.

Pension plan: United Nations Joint Staff Pension Fund

78. The organization 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 to employees. The Pension Fund is a funded, multi-employer defined-benefit plan. As specified in article 3 (b) of the regulations of the Pension Fund, membership of the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies. 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 defined-benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Therefore, the organization has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS 25: Employee benefits. The organization's contributions to the Fund during the financial year are recognized as employee benefit expenses 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.

81. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled via a monetary payment to employees upon their separation from the organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff), as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities whereby staff members access current-period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose, and overall, there is an increase in the level of accumulated annual leave days, leading to the commutation of accumulated annual leave as a cash settlement at end of service. The accumulated annual leave benefit reflecting the outflow of economic resources from the organization at end of service is therefore classified as other long-term benefit; it should be noted that the portion of the accumulated annual leave benefit that is expected to be settled via monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly as post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined post-employment benefit that is actuarially valued.

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. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

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 that are 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 on 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 that 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.

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 services 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 and 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 the organization's share of net cash pool revenue and other interest revenue. Net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between sales proceeds and book value. Transaction costs that are directly attributable to investment activities are netted against revenue, and the net revenue is distributed proportionately to all cash pool participants on the basis of their average daily

balances. Cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances.

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 consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges’ allowances and non-military personnel compensation and allowances.

96. Other operating expenses include acquisition of goods and intangible assets not capitalized, maintenance, utilities, contracted services, training, security services, shared services, rent, insurance and allowance for doubtful accounts. Other expenses relate to contributions in kind, hospitality and official functions, foreign exchange losses and donations or transfers 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.

Multi-partner trust funds

99. Multi-partner trust fund activities are pooled resources from multiple financial partners that are allocated to multiple implementing entities to support specific national, regional or global development priorities. They are assessed to determine the existence of control and whether the organization is considered to be the principal of the programme or activity. Where control exists and the organization is exposed to the risks and rewards associated with the multi-partner trust fund activities, such programmes or activities are considered to be the organization's operations and are therefore reported in full in the financial statements.

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.

102. The net effect of the changes resulting from the adoption of IPSAS adjustments amounted to a $264.2 million increase in net assets as at 1 January 2014.

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 2015 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*	*2015 Total*	*2014 Total*[a]
Assets										
Current assets										
Cash and cash equivalents	3 440	–	73 095	16 481	9 027	2 242	5 368	–	109 653	142 984
Investments	10 592	–	216 596	50 818	27 836	6 914	16 556	–	329 312	259 613
Assessed contributions receivable	–	–	–	10 300	11 427	–	–	–	21 727	35 239
Voluntary contributions receivable	7 919	–	220 156	16 421	–	–	–	–	244 496	235 712
Notes receivable	–	–	–	–	8 787	–	–	–	8 787	20 120
Other accounts receivable	209	–	91	668	1 248	7	–	–	2 223	–
Loans receivable	2 500	–	12 065	394	–	374	–	(15 333)	–	–
Advances or prepayments	1 639	–	4 210	1 345	113	1 065	–	–	8 372	6 559
Advance transfers	4 637	–	119 396	6 491	134 433	1 004	–	–	265 961	228 704
Other assets	–	–	9	16	–	–	–	–	25	44 188
Total current assets	**30 936**	**–**	**645 618**	**102 934**	**192 871**	**11 606**	**21 924**	**(15 333)**	**990 556**	**973 119**
Non-current assets										
Investments	7 106	–	144 529	34 098	18 678	4 639	11 109	–	220 159	221 570
Voluntary contributions receivable	–	–	276 460	–	–	–	–	–	276 460	234 983
Notes receivable	–	–	–	–	1 433	–	–	–	1 433	8 655
Advance transfers	–	–	–	–	147 738	–	–	–	147 738	104 220
Property, plant and equipment	1 532	–	33	78	34	–	–	–	1 677	760
Intangibles	–	–	32	–	–	–	–	–	32	–
Total non-current assets	**8 638**	**–**	**421 054**	**34 176**	**167 883**	**4 639**	**11 109**	**–**	**647 499**	**570 188**
Total assets	**39 574**	**–**	**1 066 672**	**137 110**	**360 754**	**16 245**	**33 033**	**(15 333)**	**1 638 055**	**1 543 307**

All funds — Statement of financial position as at 31 December 2015 by segment (continued)

(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*	*2015 Total*	*2014 Total*[a]
Liabilities										
Current liabilities										
Accounts payable and accrued payables	4 913	–	33 814	15 858	319	1 394	–	–	56 298	44 126
Advance receipts	343	–	87 060	20 413	22 697	–	–	–	130 513	29 538
Employee benefits liabilities	1 156	–	759	555	36	202	8 830	–	11 538	8 557
Provisions	192	–	–	–	–	–	–	–	192	–
Loan payables	–	–	14 853	480	–	–	–	(15 333)	–	–
Other liabilities	861	–	5 925	664	14	344	–	–	7 808	167 198
Total current liabilities	**7 465**	**–**	**142 411**	**37 970**	**23 066**	**1 940**	**8 830**	**(15 333)**	**206 349**	**249 419**
Non-current liabilities										
Employee benefits liabilities	–	–	–	–	–	–	125 762	–	125 762	157 320
Total non-current liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**125 762**	**–**	**125 762**	**157 320**
Total liabilities	**7 465**	**–**	**142 411**	**37 970**	**23 066**	**1 940**	**134 592**	**(15 333)**	**332 111**	**406 739**
Net assets										
Accumulated surpluses/ (deficits), unrestricted	12 109	–	923 462	89 974	337 688	9 805	(101 559)	–	1 271 479	1 104 690
Accumulated surplus, restricted	–	–	–	–	–	–	–	–	–	–
Reserves	20 000	–	798	9 166	–	4 500	–	–	34 464	31 878
Total net assets	**32 109**	**–**	**924 260**	**99 140**	**337 688**	**14 305**	**(101 559)**	**–**	**1 305 943**	**1 136 568**
Total liabilities and net assets	**39 574**	**–**	**1 066 671**	**137 110**	**360 754**	**16 245**	**33 033**	**(15 333)**	**1 638 054**	**1 543 307**

[a] Comparatives have been restated to conform to current presentation.

All funds — Statement of financial performance for the period ended 31 December 2015 by segment (continued)

(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 2015*	*Total 2014*
Revenue										
Assessed contributions	–	20 227	–	57 269	145 621	–	–	–	223 117	199 594
Voluntary contributions	82 155	–	301 900	29 451	1 023	–	–	–	414 529	491 678
Other transfers and allocations	(2 983)	–	26 885	95	–	(269)	–	(10 260)	13 468	–
Investment revenue	144	–	736	230	1 694	1 305	76	–	4 185	5 398
Other	157	–	371	157	2	26 297	–	(26 298)	686	878
Total revenue	**79 473**	**20 227**	**329 892**	**87 202**	**148 340**	**27 333**	**76**	**(36 558)**	**655 985**	**697 548**
Expenses										
Employee salaries, allowances and benefits	53 498	17 291	38 267	34 074	2 508	13 300	11 418	–	170 356	174 935
Non-employee compensation and allowances	4 643	432	21 280	5 096	624	3 127	–	–	35 202	31 265
Grants and other transfers	4 416	1 145	120 834	14 169	116 140	212	–	(10 100)	246 816	236 763
Supplies and consumables	245	65	1 113	120	139	41	–	–	1 723	7 417
Depreciation and amortization	107	–	47	(10)	43	–	–	–	187	266
Travel	4 723	394	11 599	5 594	271	844	–	(160)	23 265	14 641
Other operating expenses	10 692	883	28 305	20 449	3 829	7 919	–	(26 298)	45 779	61 820
Other expenses	655	17	8 633	4 182	1 642	528	–	–	15 657	15 723
Exchange losses from the fixed-rate mechanism	–	–	–	–	20 718	–	–	–	20 718	1 784
Total expenses	**78 979**	**20 227**	**230 078**	**83 674**	**145 914**	**25 971**	**11 418**	**(36 558)**	**559 703**	**544 614**
Surplus/(deficit) for the period	**494**	**–**	**99 814**	**3 528**	**2 426**	**1 362**	**(11 342)**	**–**	**96 282**	**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 United Nations Environment Assembly (formerly the Governing Council). For IPSAS reporting purposes, approved budgets are the appropriations authorized for each category through United Nations Environment Assembly resolutions.

108. The original budget amounts are the 2015 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 2015 were less than the original budget approved by the United Nations Environment Assembly. 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 on the basis of the Environment Fund balance brought forward at the start of the period and contributions received during the year.

109. Material differences 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. For the current reporting period, no material variances have occurred.

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 2015

(Thousands of United States dollars)

Reconciliation	*Operating*	*Investing*	*Financing*	*Total 2015*
Actual amounts on comparable basis (statement V)	102 383			102 383
Basis differences	(9 404)	(1 115)	–	(10 519)
Entity differences	(95 790)	–	–	(95 790)
Timing differences	–	–	–	–
Presentation differences	3 854	(64 102)	30 843	(29 405)
Actual amount in statement of cash flows (statement IV)	**1 043**	**(65 217)**	**30 843**	**(33 331)**

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 statement V of 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 related primarily 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 2015*	*Total 31 December 2014*
Cash pools (notes 24, 25)	3 434	9 027	97 183	109 644	133 783
Other cash and cash equivalents	6	–	3	9	9 201
Total	**3 440**	**9 027**	**97 186**	**109 653**	**142 984**

111. Cash and cash equivalents include 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 2015*	*Total 31 December 2014*
Current:					
Cash pools (notes 24, 25)	10 592	27 836	290 884	329 312	259 613
Non-current:					
Cash pools (note 25)	7 107	18 678	194 374	220 159	221 570
Total	**17 699**	**46 514**	**485 258**	**549 471**	**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		
	Multilateral Fund	*Others*	*Total*	*Multilateral Fund*	*Total 31 December 2015*	*Total 31 December 2014*
Member States	196 869	19 075	215 944	1 433	217 377	243 235
Non-Member States	–	232	232	–	232	933
Allowance for doubtful receivables	(176 655)	(9 007)	(185 662)	–	(185 662)	(180 154)
Total assessed contributions receivables	**20 214**	**10 300**	**30 514**	**1 433**	**31 947**	**64 014**

Note 10
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	Current			Non-current		
	Environment Fund	*Others*	*Total*	*Others*	*Total 31 December 2015*	*Total 31 December 2014*[a,b,c]
Member States	8 322	62 123	70 445	–	70 445	60 483
Other Governments	2	1 751	1 753	–	1 753	182
Other United Nations entities	–	107 324	107 324	276 460	383 784	373 487
Specialized agencies	–	69 602	69 602	–	69 602	39 148
Others	–	4	4	–	4	–
Allowance for doubtful receivables	(404)	(4 228)	(4 632)	–	(4 632)	(2 605)
Total voluntary contributions	**7 920**	**236 576**	**244 496**	**276 460**	**520 956**	**470 695**

[a] Comparative figures have been restated to conform to the current presentation.
[b] $234.9 million in voluntary contributions due from the World Bank (International Bank for Reconstruction and Development) for the Global Environment Trust Fund has been reclassified under long-term voluntary contributions receivables to conform to 2015 presentation.
[c] $294.9 million due from the World Bank (International Bank for Reconstruction and Development), previously classified under the donor group “specialized agencies”, has been reclassified under “other United Nations entities”.

Note 11
Advance transfers

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2015*	*Total 31 December 2014*[a]
Advances to implementing partners	266 330	147 738	414 068	330 663
Other	(369)	–	(369)	2 261
Total advance transfers	**265 961**	**147 738**	**413 699**	**332 924**

[a] Comparatives have been restated to conform to current presentation.

Note 12
Other assets

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*[a]
Deferred charges	21	183
Advances to vendors	5	149
Advances to staff	5 416	6 084
Other assets[b]	5 178	145
Interfund receivables	–	44 186
Total other assets	**10 620**	**50 747**

[a] Comparatives have been restated to conform to current presentation.
[b] Includes cash advances to the United Nations Office for Project Services for administrative services.

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 at 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*	*Assets under construction*	*Total*
Balance as at 1 January 2015							
Historical cost/fair value	1 742	1 326	62	463	17	–	3 610
Accumulated depreciation and impairment	(1 385)	(1 002)	(54)	(394)	(15)	–	(2 850)
Opening carrying amount	**357**	**324**	**8**	**69**	**2**	**–**	**760**
Movements for the year							
Additions							
Donations	–	–	–	–	–	–	–
Purchased	–	122	–	–	–	956	1 078
Disposals					–		–
Donated	(150)	–	–	–	–	–	(150)
Sold	–	–	–	–	–	–	–
Depreciation on disposals	146	–	–	–	–	–	146
Transfer[a]							
Historical cost/fair value	13	(13)	–	–	–	–	–
Accumulated depreciation and impairment	(8)	8	–	–	–	–	–
Other changes[b]							
Historical cost/fair value	113	31	6	13	–	–	163
Accumulated depreciation and impairment	(113)	(6)	(6)	(13)	–	–	(138)
Impairment	–	–	–	–	–	–	–
Depreciation	(109)	(106)	31	2	–	–	(182)
Total movements for the year	**(108)**	**36**	**31**	**2**	**–**	**956**	**917**
Balances as at 31 December 2015							
Historical cost/fair value	1 718	1 466	68	476	17	956	4 701
Accumulated depreciation and impairment	(1 469)	(1 106)	(29)	(405)	(15)	–	(3 024)
Closing carrying amount	**249**	**360**	**39**	**71**	**2**	**956**	**1 677**

[a] Asset transferred from “vehicles” asset class to “communications and information technology equipment” asset class to accurately reflect its nature.
[b] Assets acquired in earlier periods identified during the current-period physical verification.

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.

(Thousands of United States dollars)

	Software acquired externally	*Total*
Balance as at 1 January 2015		
Historical cost/fair value	–	–
Accumulated amortization and impairment	–	–
Opening carrying amount	**–**	**–**
Movements for the year		
Additions		
Donations	–	–
Purchased	37	37
Amortization	(5)	(5)
Total movements for the year	**32**	**32**
Balances as at 31 December 2015		
Historical cost/fair value	37	37
Accumulated amortization and impairment	(5)	(5)
Closing carrying amount	**32**	**32**

Note 16
Accounts payable and accrued payables

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*
Vendor payables	1 712	23 850
Accruals for goods and services	45 388	20 276
Others	9 199	–
Total accounts payable and accrued payables	**56 299**	**44 126**

Note 17
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2015*	*Total 31 December 2014*
After-service health insurance	746	91 583	92 329	121 186
Repatriation benefits	6 238	19 883	26 121	19 949
Annual leave	1 846	14 296	16 142	20 917
Subtotal defined-benefit liabilities	**8 830**	**125 762**	**134 592**	**162 052**
Accrued salaries and allowances	2 708	–	2 708	3 825
Total employee benefits liabilities	**11 538**	**125 762**	**137 300**	**165 877**

118. The liabilities arising from end-of-service/post-employment benefits and the workers' compensation programme under appendix D to the Staff Rules 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 full actuarial valuation was conducted as at 31 December 2015.

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 at 31 December 2015 and 31 December 2014 are as follows.

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*	*Appendix D/workers' compensation*[a]
Discount rates, 31 December 2014	3.29	3.36	3.52	–
Discount rates, 31 December 2015	3.49	3.67	3.73	–
Inflation, 31 December 2014	5.00-6.80	2.25	–	2.50
Inflation, 31 December 2015	5.00-6.80	2.25	–	2.25

[a] For the appendix D/workers' compensation valuation, the actuaries applied the year-end Citigroup Pension Discount Curve discount rate applicable to the year in which the cash flows take place.

120. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denominations of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (euro area government yield curve) and Swiss francs (Federation bonds yield curve). Slightly

higher discount rates were assumed for the 31 December 2015 valuation with slight variation in the inflation rates from 31 December 2014.

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. The medical cost trend assumptions used for the valuation as at 31 December 2015 were updated to include escalation rates for future years. As at 31 December 2015, these escalation rates were a flat health-care yearly escalation rate of 4.0 per cent (2014: 5.0 per cent) for non-United States medical plans, health-care escalation rates of 6.4 per cent (2014: 6.8 per cent) for all other medical plans except 5.9 per cent (2014: 6.1 per cent) for the United States Medicare plan and 4.9 per cent (2014: 5.0 per cent) for the United States dental plan, grading down to 4.5 per cent (2014: 4.5 per cent) over nine years.

122. With regard to the valuation of repatriation benefits as at 31 December 2015, inflation in travel costs was assumed to be 2.25 per cent (2014: 2.25 per cent), on the basis of the projected United States inflation rate over the next 10 years.

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 more than 8 years — 0.5 days up to the maximum of 60 days. The assumption is consistent with the 2014 valuation. The attribution method used for annual leave actuarial valuation since 2014 is in compliance with IPSAS.

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 benefits liabilities accounted for as defined-benefit plans

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total 2015*
Net defined-benefit liability at 1 January 2015	121 186	19 949	20 917	162 052
Current service cost	8 539	1 650	1 078	11 267
Interest cost	3 716	638	687	5 041
Actual benefits paid	(802)	(2 139)	(1 949)	(4 890)
Total costs recognized in the statement of financial performance in 2015	11 453	149	(184)	11 418
Subtotal	**132 639**	**20 098**	**20 733**	**173 470**
Actuarial (gains)/loss	(40 310)	2 651	(4 591)	(42 250)
Net defined liability as at 31 December 2015	**92 329**	**22 749**	**16 142**	**131 220**

Discount rate sensitivity analysis

125. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate and government bonds. The bonds markets vary over the reporting year, and the volatility has an impact on 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	(18 939)	(1 858)	(1 321)
As percentage of end-of-year liability	(21%)	(8%)	(8%)
Decrease of discount rate by 1 per cent	25 877	2 099	1 529
As percentage of end-of-year liability	28%	9%	9%

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 have an impact on 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	19.72%	(14.67%)
	25 882	(19 254)
Effect on aggregate of the current service cost and interest cost	2.29%	(1.65%)
	3 006	(2 170)

Other defined-benefit plan information

127. The General Assembly, in its resolution 67/257, endorsed the decision of the International Civil Service Commission set out in its report 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 as from 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 benefits liabilities related to their extrabudgetary activities. At year-end, the value of these accrued balances was $33.0 million.

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2016 defined-benefit payments, net of participants' contributions	961	2 363	1 468	4 792

Historical information: total for after-service health information, repatriation benefits and annual leave as at 31 December 2015

(Thousands of United States dollars)

	2014	*2013*	*2012*	*2011*	*2010*
Present value of the defined-benefit obligations	162 052	113 888	112 273	102 111	64 711

Accrued salaries and allowances

129. These include accruals for home leave overtime income tax and monthly salaries due but unpaid.

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 payable only 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 at 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. However, the results of the valuation were not available as at the reporting date.

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. 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.

134. 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 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

135. The fund for compensation payments relates to the payment of compensation with regard 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 fund allows the organization to continue to fulfil its obligation to make compensation payments for death, injury or illness. The fund derives its revenue from a charge of 1.0 per cent of net base remuneration, including post adjustment for eligible personnel. 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.

Impact of the General Assembly resolutions on staff benefits

136. On 23 December 2015, the General Assembly adopted its resolution 70/244, in which it approved certain changes to conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes that have an impact on the calculation of other long-term and end-of-service employee benefits liabilities are shown in the table below.

Change[a]	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65; for those who joined before 1 January 2014, it is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. Once implemented, this change is expected to have an impact on future calculations of employee benefits liabilities.
Unified salary structure	The current scales for internationally recruited staff (Professional and Field Service) are based on single or dependent rates. These rates affect the staff assessment and post adjustment amounts. The General Assembly has approved a unified salary scale that will result in the elimination of single and dependent rates. The dependent rate will be replaced by allowances for staff members who have recognized dependants in accordance with the Staff Rules. A revised staff assessment scale and pensionable remuneration scale will be implemented along with the unified salary structure. The implementation of the unified salary scale is planned for 1 January 2017 and is not designed to result in reduced payments for staff members. However, it is expected that, once implemented, it will have an impact on the calculation and valuation of the repatriation benefit, as well as the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to repatriation grant upon separation, provided they have been in service for at least one year at a duty station outside their country of nationality. The General Assembly has since revised eligibility for repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. Once implemented, this change is expected to have an impact on future calculations of employee benefits liabilities.

[a] As at the reporting date, the necessary information regarding the implementation of the proposed changes was not available. Therefore, the organization is not able to perform a detailed impact analysis of the proposed changes on employee benefits liabilities for the 2015 financial period. As required by IPSAS 1: Presentation of financial statements, the organization will determine such impact in the course of 2016 when substantial implementation information is likely to be available, and, where material, disclose it in the financial statements for 2016.

Note 18
Provisions

137. At year-end, the organization had provided for one ongoing legal claim, assessing that a total provision of $0.2 million should be recognized.

Movement in provisions

(Thousands of United States dollars)

	Legal claims	*Credits to Member States*	*Total 31 December 2015*
Carrying amount as at 1 January 2015	–	–	–
Additional provisions made	192	–	192
Amounts reversed	–	–	–
Closing balance as at 31 December 2015	**192**	**–**	**192**

Note 19
Other liabilities

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*
Contributions or amounts received in advance	34 455	29 539
Liabilities for conditional arrangements	96 057	112 473
Interfund balances payable	–	47 122
Other liabilities	7 809	7 602
Total other liabilities	**138 321**	**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 by segments.

Net assets balances and movements[a]

(Thousands of United States dollars)

	1 January 2015	*Surplus/(deficit)*	*Transfers to/ (from) reserves*	*Other*	*31 December 2015*
Unrestricted fund balance					
Environment Fund	11 615	494	–	–	12 109
Support to programme of work	824 446	99 814	(798)	–	923 462
Conventions and protocols	88 234	3 528	(1 788)	–	89 974
Multilateral Fund	304 419	2 426	–	30 843	337 688
Programme support	8 443	1 362	–	–	9 805
End-of-service liabilities	(132 467)	(11 342)	–	42 250	(101 559)
Subtotal unrestricted fund balance	**1 104 690**	**96 282**	**(2 586)**	**73 093**	**1 271 479**
Reserves					
Environment Fund	20 000	–	–	–	20 000
Support to programme of work	–	–	798	–	798
Conventions and protocols	7 378	–	1 788	–	9 166
Multilateral Fund	–	–	–	–	–
Programme support	4 500	–	–	–	4 500
End-of-service liabilities	–	–	–	–	–
Subtotal reserves	**31 878**	**–**	**2 586**	**–**	**34 464**
Total net assets					
Environment Fund	31 615	494	–	–	32 109
Support to programme of work	824 446	99 814	–	–	924 260
Conventions and protocols	95 612	3 528	–	–	99 140
Multilateral Fund	304 419	2 426	–	30 843	337 688
Programme support	12 943	1 362	–	–	14 305
End-of-service liabilities	(132 467)	(11 342)	–	42 250	(101 559)
Total reserves and fund balances	**1 136 568**	**96 282**	**–**	**73 093**	**1 305 943**

[a] Net assets movements, including fund balances, are IPSAS-based.

Note 21
Revenue from non-exchange transactions

Assessed contributions

140. Assessed contributions of $223.1 million (2014: $199.6 million) have been recorded in accordance with the Financial Regulations and Rules of the United Nations, the relevant resolutions of the various conferences of parties and the policies of the United Nations, on the basis of the agreed budget scale of assessment. An amount of $20.2 million (2014: $16.2 million) of this is an allocation from the United Nations Secretariat.

141. Each biennium, the organization receives an allocation from the United Nations regular budget, which is included in assessed contributions. These are reported under Volume I, a related entity, but are also included in these statements for completeness. In addition, internally within the organization, funds are allocated for implementation that are reflected as other transfers and allocations in the statement of financial performance.

Voluntary contributions

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*[a]
Inter-organizational arrangements	168 227	159 279
Voluntary monetary contributions	248 547	332 306
Voluntary in-kind contributions	2 101	1 241
Subtotal voluntary contributions	**418 875**	**492 826**
Refund to donors	(4 346)	(1 148)
Total voluntary contributions	**414 529**	**491 678**

[a] Comparatives have been restated to conform to current presentation.

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 2015	*Total 31 December 2014*
Technical assistance/expert services	1 284	3 782
Administrative support	7 559	130
Participation in training	195	–
Total	**9 038**	**3 912**

Note 22
Other revenue

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*
Other revenue	686	878
Total other revenue	**686**	**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 2015	*Total 31 December 2014*
Leave benefits	2 776	1 776
Pension benefits	20 664	20 713
Health insurance benefits	14 372	9 258
Repatriation benefits	4 998	2 318
Salary, wages and other benefits	127 546	140 870
Total employee salaries, allowances and benefits	**170 356**	**174 935**

Non-employee compensation and allowances

144. Non-employee compensation and allowances of $35.2 million (2014: $31.3 million) consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor 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 2015	*Total 31 December 2014*
Grants — end beneficiaries	16 343	32 187
Transfers to implementing partners	124 432	75 579
Transfers to Multilateral Fund implementing partners	106 041	128 997
Total grants and other transfers	**246 816**	**236 763**

Travel

146. Since its introduction in June 2015, the new Umoja system has captured meeting participants' travel and travel for training within the travel costs

expenditure category. These costs amounted to $9.2 million in 2015. In 2014, under the Integrated Management Information System (IMIS), travel for training and travel for meeting participants were reported as staff costs and operating expenses, respectively.

Other operating expenses

147. 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 2015	*Total 31 December 2014*
Bad debt expense	7 585	(3 027)
Bank charges	107	70
Communications and utilities	1 570	181
Contracted services	14 360	23 872
Contributions in kind	2 102	1 241
Fellowship grants	6 981	26 807
Maintenance expense	1 234	2 611
Rent — office and premises	7 030	7 963
Rental — other	481	58
Shipping and freight	77	91
Training	584	–
Loss on disposal of assets	4	13
Other	3 664	1 940
Total other operating expenses	**45 779**	**61 820**

Other expenses

148. Other expenses of $15.6 million (2014: $15.7 million) relate largely to foreign exchange losses, hospitality and official functions, and donation/transfer of assets.

Exchange losses from the fixed-rate mechanism

149. The exchange losses from the fixed-rate mechanism of $20.7 million (2014: $1.8 million) 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 budget approval.

Note 24
Financial instruments and financial risk management

Financial instruments

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments — cash pools	329 312	259 613
Short-term investments — other	–	–
Total short-term investments	**329 312**	**259 613**
Long-term investments — cash pools	220 159	221 570
Long-term investments — other	–	–
Total long-term investments	**220 159**	**221 570**
Total fair value through the surplus or deficit	**549 471**	**481 183**
Loans and receivables		
Cash and cash equivalents — cash pools	109 644	133 783
Cash and cash equivalents — other	9	9 201
Assessed contributions	31 947	64 014
Voluntary contributions	506 981	470 695
Other receivables	–	(2)
Other assets (excludes deferred charges)	5 380	50 602
Total loans and receivables	**653 961**	**728 293**
Total carrying amount of financial assets	**1 203 432**	**1 209 476**
Of which relates to financial assets held in cash pool	659 115	614 966
Financial liabilities		
Accounts payable and accrued payables	56 299	44 126
Other liabilities (excludes deferred revenue)	103 866	167 197
Total carrying amount of financial liabilities	**160 165**	**211 323**
Summary of net income from cash pools		
Investment revenue	4 101	3 989
Foreign exchange gains/(losses)	(1 197)	(1 733)
Unrealized gains/(losses)	–	(191)
Bank fees	–	(14)
Net income from cash pools	**2 904**	**2 051**
Other investment revenue	1 281	3 347
Total net income from financial instruments	**4 185**	**5 398**

Financial risk management

Overview

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

(a) Credit risk;

(b) Liquidity risk;

(c) Market risk.

151. 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

152. 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 comprises 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

153. Credit risk is the risk of financial loss if a 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

154. The investment management function is centralized at 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

155. 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 did not hold any collateral as security for receivables.

Allowance for doubtful receivables

156. 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)

	2015	*2014*
As at 1 January	**182 759**	**185 785**
Additional allowance for doubtful receivables	7 552	(3 026)
Receivables written off during the period as uncollectible	–	–
Unused amounts reversed	–	–
As at 31 December	**190 311**	**182 759**

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

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Less than one year	19 247	–
One to two years	11 513	2 303
Two to three years	5 253	3 152
Three to four years	6 941	5 553
Over four years	138 029	138 028
Special allowance	36 626	36 626
Total	**217 609**	**185 662**

158. The ageing of receivables other than assessed contributions, including associated allowances, is shown below.

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Less than one year	441 034	–
One to two years	86 356	4 256
Two to three years	113	68
Over three years	325	325
Total	**527 828**	**4 649**

Cash and cash equivalents

159. The organization had cash and cash equivalents of $109.7 million as at 31 December 2015 (2014: $143.0 million), 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

160. 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 to the organization’s reputation.

161. 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 permitted only if specified risk management criteria are adhered to with regard to the amounts receivable.

162. 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

163. 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 had 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 2015, undiscounted				
Accounts payable and accrued payables	22 107	197 491	–	219 598
Total	**22 107**	**197 491**	**–**	**219 598**

Market risk

164. 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

165. 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

166. 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 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.

167. The organization's financial assets and liabilities are denominated primarily in United States dollars. Non-United States dollar 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 foreign currency needs for operational purposes. 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 2015					
Main cash pool	647 785	1 292	306	4 960	654 343
Euro cash pool	–	4 772	–	–	4 772
Total cash pool	**647 785**	**6 064**	**306**	**4 960**	**659 115**

Sensitivity analysis

168. A strengthening/weakening of the euro and Swiss franc UNORE exchange rates as at the reporting date would have affected the measurement of investments denominated in a foreign currency and increased or 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)

	As at 31 December 2015 Effect on net assets/surplus or deficit		*As at 31 December 2014 Effect on net assets/surplus or deficit*	
	Strengthening	*Weakening*	*Strengthening*	*Weakening*
Euro (10 per cent movement)	1 532	(1 532)	1 239	(1 239)
Swiss franc (10 per cent movement)	10 677	(10 677)	11 656	(11 656)

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 in 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 on the basis of the 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. 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 2015		
	Level 1	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit			
Bonds — corporates	12 589	–	12 589
Bonds — non-United States agencies	184 274	–	184 274
Bonds — non-United States sovereigns	10 481	–	10 481
Bonds — supranationals	11 760	–	11 760
Bonds — United States treasuries	91 856	–	91 856
Main pool — commercial papers	79 826	–	79 826
Main pool — term deposits	–	156 438	156 438
Main pool total	**390 786**	**156 438**	**547 224**
Euro pool — term deposits	–	920	920
Euro pool total	**–**	**920**	**920**
Total cash pools	**390 786**	**157 358**	**548 144**

Note 25
Financial instruments: cash pools

175. In addition to directly held cash and cash equivalents, the organization participates in the United Nations Treasury cash pools. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and 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 euros; the pool participants are mostly offices away from Headquarters that may have a surplus of euros from their operations.

177. As at 31 December 2015, the cash pools held total assets of $7,827.4 million (2014: $9,608.8 million); of that amount, $659.1 million (2014: $615.0 million) was due to the organization and the organization's share of net income from cash pools was $2.9 million (2014: $2.1 million).

Summary of assets and liabilities of the cash pools as at 31 December 2015

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through surplus or deficit			
Short-term investments	3 888 712	10 941	3 899 653
Long-term investments	2 617 626	–	2 617 626
Total fair value through surplus or deficit investments	**6 506 338**	**10 941**	**6 517 279**
Loans and receivables			
Cash and cash equivalents	1 265 068	32 637	1 297 705
Accrued investment income	12 462	3	12 465
Total loans and receivables	**1 277 530**	**32 640**	**1 310 170**
Total carrying amount of financial assets	**7 783 868**	**43 581**	**7 827 449**
Cash pool liabilities			
Payable to UNEP	654 664	4 773	659 437
Payable to other cash pool participants	7 129 204	38 808	7 168 012
Total liabilities	**7 783 868**	**43 581**	**7 827 449**
Net assets	**–**	**–**	**–**

Summary of net income and expenses of the cash pools for the year ended 31 December 2015

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	51 944	48	51 992
Foreign exchange gains/(losses)	(11 720)	(15 300)	(27 020)
Unrealized gains/(losses)	(10 824)	(4)	(10 828)
Bank fees	(525)	–	(525)
Net income from cash pools	**28 875**	**(15 256)**	**13 619**

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 surplus or deficit investments	**7 413 138**	**97 011**	**7 510 149**
Loans 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 UNEP	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	–	–	–

Summary of net income and expenses of the cash pools for the year ended 31 December 2014

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	62 511	132	62 643
Foreign 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.

183. The credit ratings used for the cash pools are those determined by major credit-rating agencies; Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Investments of the cash pools by credit ratings as at 31 December

(Percentage)

Main pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*			
Bonds (long-term ratings)							
	AAA	*AA+/AA/AA-*	*NR*	*AAA*	*AA+/AA/AA-*	*A+*	*NR*
S&P	37.7	54.2	8.1	31.2	59.8	1.3	7.7
Fitch	61.9	26.5	11.6	52.2	21.4	–	26.4
	Aaa	*Aa1/Aa2/Aa3*		*Aaa*	*Aa1/Aa2/Aa3*		
Moody's	65.8	34.2	–	69.3	30.7	–	–
Commercial papers (short-term ratings)							
	A-1+			*A-1+*			*NR*
S&P	100.0			100.0			–
	F1+			*F1+*			
Fitch	100.0			90.0			10.0
	P-1			*P-1*			
Moody's	100.0			70.0			30.0
Reverse repurchase agreement (short-term ratings)							
	A-1+						
S&P	100.0						
	F1+			No reverse repurchase agreements were held as at 31 December 2014			
Fitch	100.0						
	P-1						
Moody's	100.0						

Main pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*		
Term deposits (Fitch viability ratings)						
	aaa	*aa/aa-*	*a+/a*	*aaa*	*aa/aa-*	*a+/a*
Fitch	–	53.6	46.4	–	64.1	35.9

Euro pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*			
Bonds (long-term ratings)							
				AAA	*AA+*		*NR*
S&P	No bonds were held as at 31 December 2015			–	100.0		–
Fitch				–	–		100.0
				Aaa	*Aa1*		
Moody's				100.0	–		–
Term deposits (Fitch viability ratings)							
	aaa	*aa/aa-*	*a+*	*aaa*	*aa-*	*a+/a/a-*	
Fitch	–	–	100.0	–	22.1	77.9	

Abbreviation: NR, not rated.

184. The United Nations Treasury actively monitors credit ratings, and, given that the organization has invested only 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 maintain 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. Cash pools comprise the organization's main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the cash pools had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2014: five years). The average durations of the main pool and the euro pool were 0.86 years (2014: 1.10 years) and 0.21 years (2014: 0.22 years), respectively, which are 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 2015

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 pool	128.99	96.74	64.48	32.24	–	(32.23)	(64.46)	(96.69)	(128.91)
Euro pool	0.04	0.03	0.02	0.01	–	(0.01)	(0.02)	(0.03)	(0.04)
Total	**129.03**	**96.77**	**64.50**	**32.25**	**–**	**(32.24)**	**(64.48)**	**(96.72)**	**(128.95)**

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 pool	205.45	154.08	102.71	51.35	–	(51.34)	(102.67)	(154.00)	(205.31)
Euro pool	0.61	0.49	0.37	0.12	–	(0.12)	(0.37)	(0.49)	(0.61)
Total	**206.06**	**154.57**	**103.08**	**51.47**	**–**	**(51.46)**	**(103.04)**	**(154.49)**	**(205.92)**

Other market price risk

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

Accounting classifications and fair value: cash pool

189. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an 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 in 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 on the basis of the 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 is determined by using valuation techniques which maximize the use of observable market data. If all significant inputs required to determine the fair value of 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, nor any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: cash pools

(Thousands of United States dollars)

	31 December 2015			*31 December 2014*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporates	149 682	–	149 682	–	–	–
Bonds — non-United States agencies	2 190 965	–	2 190 965	2 154 956	–	2 154 956
Bonds — non-United States sovereigns	124 612	–	124 612	691 489	–	691 489
Bonds — supranational	139 828	–	139 828	440 169	–	440 169
Bonds — United States treasuries	1 092 139	–	1 092 139	1 297 290	–	1 297 290
Main pool — commercial papers	949 112	–	949 112	999 234	–	999 234
Main pool — term deposits	–	1 860 000	1 860 000	–	1 830 000	1 830 000
Main pool total	**4 646 338**	**1 860 000**	**6 506 338**	**5 583 138**	**1 830 000**	**7 413 138**
Euro pool — bonds: non-United States sovereigns	–	–	–	6 157	–	6 157
Euro pool — term deposits	–	10 941	10 941	–	90 854	90 854
Euro pool total	**–**	**10 941**	**10 941**	**6 157**	**90 854**	**97 011**
Total cash pools	**4 646 338**	**1 870 941**	**6 517 279**	**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 of UNEP, the Deputy Executive Director of UNEP, the Head of the New York office of UNEP and the Executive Secretary of the Secretariat for the Convention on Biological Diversity.

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

196. The organization's key management personnel were paid $1.2 million over the financial year; such payments are in accordance with the Staff Regulations and Staff 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)	4	–	4
Aggregate remuneration:			
Salary and post adjustment	1 208	–	1 208
Other compensation/entitlements	7	–	7
Total remuneration for the year ended 31 December 2015	**1 215**	**–**	**1 215**

197. Non-monetary and indirect benefits paid to key management personnel were not material.

198. 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. Before the introduction of the Umoja system, these had to be manually followed up and settled. In Umoja, settlement occurs when the service provider is paid.

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 $7.0 million. 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 2015	*Minimum lease payment as at 31 December 2014*
Due in less than 1 year	7 325	5 850
Due in 1 to 5 years	5 879	18 662
Due later than 5 years	–	–
Total minimum operating lease obligations	**13 204**	**24 512**

202. These contractual leases are typically between one and 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, implementing partners and goods and services contracted but not delivered were as shown below.

Contractual commitments by category

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*[a]
Goods and services	21 140	10 619
Implementing partners	236 710	254 923
Multilateral Fund implementing partners	112 349	220 790
Total	**370 199**	**486 332**

[a] Comparatives have been restated to conform to current presentation.

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 2015	*Total 31 December 2014*
Grants to end beneficiaries	16 343	17 737
Grants to implementing partners:		
Staff and other personnel costs	46 622	27 132
Supplies, commodities, materials	2 104	469
Equipment, vehicles and furniture	1 835	1 625
Contractual services	21 891	16 419
Travel	12 614	9 119
Transfers and grants to counterparts	34 493	19 227
General operating and other direct costs	4 757	2 950
Indirect support costs (implementing partner)	116	184
Subtotal grants to implementing partners	**124 432**	**77 125**
Multilateral Fund expenditure	106 041	141 901
Total grants and other transfers	**246 816**	**236 763**

208. The amount under Multilateral Fund is implemented by the four implementing partners set out below.

(Thousands of United States dollars)

	Total 31 December 2015	*Total 31 December 2014*
United Nations Development Programme	36 059	35 342
United Nations Environment Fund	9 009	14 939
United Nations Industrial Development Organization	23 189	44 555
World Bank	47 883	47 065
Total	**116 140**	**141 901**

209. The amounts from the United Nations Development Programme, the United Nations Industrial Development Organization and the World Bank are 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.

210. In 2015, in accordance with decision 75/70 of the Executive Committee of the Multilateral Fund, a revised expense report was received from the United Nations Industrial Development Organization reducing cumulative expenses reported by $30.8 million. This has been recorded in the statement of changes in net assets for the year ended 31 December 2015.

Note 30
Future year contributions

211. The organization has an amount of $34.5 million worth of signed contributions from voluntary contributions for implementation in future years.

Note 31
Events after the reporting date

212. 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 2015

Environment Fund

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*[a]
Cash flows from operating activities		
Surplus (deficit) — for the period	494	991
Non-cash movements:		
Depreciation and amortization	107	77
(Decrease)/increase in allowance for doubtful receivables	(48)	–
Changes in assets		
(Increase)/decrease in voluntary contributions receivable	(4 577)	(1 321)
(Increase)/decrease in advances or prepayments	(4)	(388)
(Increase)/decrease in advance transfers	(530)	1 173
(Increase)/decrease in other assets	1 290	(3 990)
Changes in liabilities		
Increase/(decrease) in accounts payable and accrued payables	1 872	(101)
Increase/(decrease) in advance receipts	(423)	(226)
Increase/(decrease) in employee benefits	1 157	1 100
Increase/(decrease) in provisions	(1 418)	(150)
Increase/(decrease) in other liabilities	(415)	(2 231)
Investment revenue presented as investing activities	(144)	(117)
Net cash flows from operating activities	**(2 639)**	**(5 183)**
Cash flows from investing activities		
Pro rata share (increase)/decrease in the cash pools	(877)	10 108
Net (increase)/decrease in property, plant and equipment	(1 387)	117
Investment revenue presented as investing activities	144	(42)
Net cash flows from investing activities	**(2 120)**	**10 183**
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	**(4 759)**	**5 123**
Cash and cash equivalents, beginning of period	**8 199**	**3 076**
Cash and cash equivalents, end of period[b]	**3 440**	**8 199**

[a] Comparatives have been restated to conform to current presentation.
[b] See note 7.

Annex II

Statement of cash flows for the year ended 31 December 2015

Multilateral Fund

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*[a]
Cash flows from operating activities		
Surplus (deficit) — for the period	2 426	(14 164)
Non-cash movements:		
Depreciation and amortization	41	25
Net book value of assets acquired in prior periods recognized now	(25)	
(Decrease)/increase in allowance for doubtful receivables	2 097	–
Changes in assets		
(Increase)/decrease in assessed contributions receivable	31 459	2 016
(Increase)/decrease in voluntary contributions receivable	–	–
(Increase)/decrease in advances or prepayments	208	186 601
(Increase)/decrease in advance transfers	(61 451)	32 506
(Increase)/decrease in other assets	(1 248)	55
Changes in liabilities		
Increase/(decrease) in accounts payable and accrued payables	(12 631)	12 609
Increase/(decrease) in advance receipts	2 840	2 816
Increase/(decrease) in employee benefits	36	14
Increase/(decrease) in provisions	(57)	–
Increase/(decrease) in other liabilities	(113)	(187 836)
Investment revenue presented as investing activities	(1 694)	(1 949)
Net cash flows from operating activities	**(38 112)**	**32 693**
Cash flows from investing activities		
Pro rata share (increase)/decrease in the cash pools	1 065	(21 791)
Net (increase)/decrease in property, plant and equipment	45	1 949
Investment revenue presented as investing activities	1 694	(5)
Net cash flows from investing activities	**2 804**	**(19 847)**
Cash flows from financing activities		
Adjustment to fund balances	30 843	71
Net cash flows from financing activities	**30 843**	**71**
Net increase/(decrease) in cash and cash equivalents	**(4 465)**	**12 917**
Cash and cash equivalents, beginning of period	**13 491**	**574**
Cash and cash equivalents, end of period[b]	**9 027**	**13 491**

[a] Comparatives have been restated to conform to current presentation.
[b] See note 7.

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