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**SUBSIDIARY BODY FOR IMPLEMENTATION**

**Twenty-fifth session**

**Nairobi, 6–14 November 2006**

**Item 14 (a) of the provisional agenda**

**Administrative, financial and institutional matters**

**Audited financial statements for the biennium 2004–2005**

**Audited financial statements for the biennium 2004–2005**

**Note by the Executive Secretary**

1. The financial procedures of the Convention require that “a final audited statement of accounts for the full financial period shall be provided to the Conference of the Parties as soon as possible after the accounts for the financial period are closed”. They also stipulate: “The accounts and financial management of all funds governed by these financial procedures shall be subject to the internal and external audit process of the United Nations” (FCCC/CP/1995/7/Add.1, decision 15/CP.1, annex I, paras. 18–19).
2. The United Nations Board of Auditors audited the financial statements for the biennium 2004–2005. The full text of the Board’s draft report, which was received by the secretariat on 27 October 2006, is attached as an annex as received, without editing, ahead of receipt of the final report. The final report, which the secretariat has been assured will not differ in substance from the draft, will be submitted in due course. The secretariat’s response to the audit recommendations, and the audited financial statements themselves, have been issued as addendum 1 and addendum 2, respectively, to this document.
3. The Subsidiary Body for Implementation is invited to take note of the information contained in the audited financial statements and the report of the auditors. It may also wish to propose appropriate actions, which may be included in draft decisions on administrative and financial matters for adoption by the Conference of the Parties at its twelfth session.

ANNEX  
D R A F T  
REPORT  
OF THE BOARD OF AUDITORS  
TO THE CONFERENCE OF THE PARTIES  
ON THE FINANCIAL STATEMENTS OF THE  
UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE  
FOR THE BIENNIUM ENDED 31 DECEMBER 2005

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## Chapter II

### Report of the Board of Auditors

#### *Executive Summary*

The Board has audited the financial statements of United Nations Framework Convention on Climate Change (UNFCCC) in Bonn, for the biennium ended 31 December 2005. In addition, the Board has reviewed, under UN financial regulation 7.5, the operations of UNFCCC in Bonn.

Without qualifying its opinions on the financial statements of UNFCCC for the biennium ended 31 December 2005, the Board draw attention to emphasize its concerns as follow:

- a) the Administration did not disclose in its financial statements the income and expenditure of the Special Account established for the Conferences of the Parties, thus understating in its 2004-2005 statements income by \$3.3 million, expenditures by \$2.9 million and assets by \$1.3 million;
- b) UNFCCC did not disclose the valuation procedure of its non-expendable property, nor did it provide details of assets by category;
- c) Contrary to UNSAS, UNFCCC did not disclose and report in its financial statements or in note information on the estimated in-kind donation, including the basis for such valuation;
- d) Fees collected for revenue producing activities in an amount of \$1.9 million were disclosed as contributions instead of miscellaneous income, as discussed in paragraphs 46 to 49 of the long form report.

#### **Full disclosure in the financial statements**

In its previous report<sup>1</sup>, the Board recommended that UNFCCC disclose in the Financial Statements and in the same manner as the other trust funds, the income and the expenditure of the Special Account established for the Conferences of the Parties. The Board noted that there had been no change and that income and expenditure of the special account were still not disclosed in the financial statements contrary to UNSAS 25 that states, "*All income and expenditure of the organization, whatever the source of funds, should be reported*" in the statements.

<sup>1</sup> FCCC/SBI/2004/12 from 13 August 2004

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### **Contributions management**

At 31 December 2005, 111 parties out of 189 did not pay their contribution in 2004-2005. These parties owed at 31 December 2005, \$1.5 million or five per cent of all contributions receivable for the core budget of the Convention.

For the Kyoto Protocol Interim Allocation (KPIA), the Board noted that 87 countries had not paid their contributions in 2005 for a total amount of \$693,154 or 14.5 per cent of contributions receivable for the KPIA.

As at 31 December 2005, \$2.4 million of indicative contributions were outstanding of which \$1.7 million was outstanding for the Convention and \$0.7 million for the Kyoto Protocol Interim Allocation. For the Convention the amount represented an increase of 33 per cent compared to the amount of contributions receivable at the end of the previous biennium.

### **Miscellaneous income**

The Executive Board (EB) of the Clean Development Mechanism (CDM) accredits operational entities, which meet the CDM accreditation requirements. Fees, amounting to \$1.9 million in 2004-2005, are collected for the services provided. These fees were recorded as voluntary contributions instead of miscellaneous income.

### **Accounting for expenditures**

Contracts for financial commitment of the organisation beyond the biennium 2004-2005 were accounted for as expenditures for the 2004-2005 biennium instead as deferred expenditures.

### **After service liabilities**

The present value of the accrued liability for after-services health benefits was \$9.9 million. UNFCCC, like other UN agencies, has to deal with an important risk that will impact future funding since UNFCCC had no unearmarked reserve to fund this liability. Following the international accounting standards from the start of the UNFCC activities, the annual expense charged in the financial statements would have been \$1.5 million. In addition the Board observed that liabilities for unused leave accumulated to \$1.1 million and liabilities for repatriation grants amounted to \$1.0 million.

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### **Non expendable property**

UNFCCC did not disclose the valuation procedure of its non-expendable property, nor did it provide details of assets by category.

### **In kind donation**

An amount of \$692,660 was taken off the inventory value during the biennium. This amount was the current estimated value of in-kind contributions of 1.5 million DM that were received from the German government in 1997. This large group of items were identified for the first time as a donation at the end of 2005.

UNFCCC did not disclose information on the estimated in-kind donation, including the basis for such valuation, in the financial statements.

### **Procurement**

For 2004 and 2005 expenditures, delegation of procurement authority has not been formally sub-delegated from the Executive Secretary to staff members in charge of procurement, which is contrary to UN regulations and rules in respect of delegation of authority. In some cases, procurement authority was performed beyond financial threshold recommended by the UN Controller

UNFCCC did not fully adhere to the competitive bidding process in some cases. There was also no formal registration process and performance review for the vendors.

### **Results based management**

For the current biennium, the work programme established a detailed structure to define expenditures. However the framework lacked clear, relevant, comprehensive and quantified indicators or targets. Objectives by programmes were defined in a narrative manner without any link to measurable indicators.

### **Information technology**

The Board found weaknesses in security on the network for user access rights, non authorized programmes, and openly disclosed information on programme licence codes, which could jeopardise network security.

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**Internal oversight**

Contrary to the Board's previous recommendations, there was still no internal audit coverage of UNFCCC.

By July 2006, the Administration planned to implement a number of appropriate remedies.

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

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## **A. Introduction**

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Framework Convention on Climate Change (UNFCCC) for the biennium ended December 2005, in accordance with decision 15/CP.1 of the Conference of the Parties (7 April 1995). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the common auditing standards of the Panel of External Auditors of the United Nations, the specialised agencies, the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.
2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements of UNFCCC presented fairly its financial position as at 31 December 2005 and the results of the operations and cash flows for the period then ended in accordance with the United Nations System Accounting Standards (UNSAS). This included an assessment as to whether the expenditures recorded in the financial statements for the period from 1 January 2004 to 31 December 2005 had been incurred for the purposes approved by the governing bodies and whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.
3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under United Nations Financial Regulation 7.5. The reviews primarily focused on procurement management, information and communication technology and results based management.
4. The Board continued its practice of reporting to the Administration the results of specific audits in management letters containing detailed observations and recommendations. The practice allowed for an ongoing dialogue with the Administration.
5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Conference of the Parties. The Board's observations and conclusions were discussed with the Secretariat, whose views have been appropriately reflected in the report.
6. A summary of the Board's main recommendations is contained in paragraph 10 below. The detailed findings are discussed in paragraphs 12 to 130.

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## **1. Previous recommendations not fully implemented**

*Year ended 31 December 2003 (FCCC/SBI/2004/12 from 13 August 2004)*

7. For the year ended 31 December 2003, of a total of 17 recommendations, six (35 per cent) had been implemented by June 2006, nine (53 per cent) were under implementation and two (12 per cent) remained unimplemented. The comments of the Board have been summarized in the Annex to the present chapter.

### *Ageing of previous recommendations*

8. The Board evaluated the ageing of its previous recommendations that were not yet fully implemented (as requested by ACABQ in its report A/59/736, para. 8 and paragraphs 12 and 20 of its report A/60/387).

9. Of the 11 recommendations not yet fully implemented, nine (81 per cent) relate to the 2002-2003-biennium period and two (17 per cent) to the 1998-1999 biennium. The Board's further comments on these specific outstanding recommendations are addressed elsewhere in this report.

## **2. Main recommendations**

10. The Board's main recommendations are that UNFCCC should:

**(a) disclose in its financial statements all of its income and expenditures including those of the Special Account established for the Conference of the Parties (para. );**

**(b) pursue its efforts to obtain full payment of indicative contributions from all Parties (para. );**

**(c) properly disclose accreditation and project registration fees as miscellaneous income and in the future prepare in its budget submission a statement of estimated income relating to this activity (para.);**

**(d) account for deferred expenditure as required by UN financial regulations and rules (para. );**

**(e) review the funding of its annual leave, end-of-service and post-retirement benefits liabilities, in conjunction with the United Nations Secretariat(para. );**

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- (f) disclose the valuation procedure of its non-expendable property and provide details of assets by category (para. );**
  - (g) disclose future in kind contributions as per UNSAS (para. );**
  - (h) issue appropriate delegations of procurement authority to all staff members exercising procurement functions (para. );**
  - (i) enhance its objectives and indicators of its results-based-budgeting process (para. );**
  - (j) establish a more rigorous Information and Communication Technology security policy (para. );**
  - (k) agree with OIOS on a multi-year framework for periodic internal audits (para. ).**

11. The Board's other recommendations appear in paragraphs  
XXXXXXXXXXXXX.

## B. Detailed findings and recommendations

### 1. Financial overview

12. Table 1 reflects income and expenditure and changes in reserves and fund balances over the past six years. During this period, total income for UNFCCC increased faster than expenditures and reached \$69.9 million for the 2004-2005 biennium. Reserves and fund balances at the end of 2005 represented more than five months of expenditures compared to four months of expenditures at the end of 2003.

13. The reserves and fund balances at the end of 2005 amounted to \$25.9 million (Statement I). They comprised \$8.9 million (34 per cent) from the core budget, \$13.2 million from the Trust Fund for Supplementary activities (53 per cent), and \$2.3 million from the Special Account for programme support costs (8.9 per cent). The total amount of \$25.9 million was \$9.5 million over the balance at the end of 2003. This increase was mainly the result of the following:

(a) There was an excess of income over expenditure of \$2.4 million in the core budget, and the reserves of the Trust Fund for the core budget increased by \$2.7 million;

(b) There was an excess of income over expenditure of \$5.9 million for the Trust Fund for Supplementary Activities.

Table 1.  
**Statement of income and expenditure and changes in reserves and fund balances for 2000-2005**

	2000/2001	2002/2003	2004/2005	2001/2005 variance (percentage)
	(millions of United States dollars)			
Total income	42,9	46,9	69,9	63
Total expenditure	39,2	48,1	60,5	54
Excess (shortfall) of income over expenditure	3,7	(1,2)	9,4	154
Prior-year adjustments <sup>a</sup>	0,3	1,2	0,0	(88)
Reserve and fund balances, end of year	16,4	16,4	25,8	58

<sup>a</sup> - Includes adjustments to prior-period contributions and expenditure and cancellations of prior-period obligations.

14. The results of some key financial indicators, as set out in Table 2, show a healthy position with sufficient cash available to settle debts.

Table 2.  
**Ratios of key financial indicators**

	2000/2001	2002/2003	2004/2005
Outstanding indicative contributions/assets <sup>a</sup>	0.15	0.08	0.08
Cash and term deposits/assets <sup>b</sup>	0.76	0.84	0.88
Cash and term deposits/liabilities <sup>c</sup>	2.59	2.93	6.34
Unliquidated obligations/liabilities <sup>d</sup>	0.44	0.28	0.43

a A low indicator depicts a healthy financial position.

b A high indicator depicts a healthy financial position.

c A low indicator is a reflection that insufficient cash is available to settle debts.

d A low indicator is a positive reflection that obligations are being liquidated.

## 2. United Nations System Accounting Standards

15. The Board assessed the extent to which the financial statements of UNFCCC for the biennium ended 31 December 2005 conformed to the United Nations System Accounting Standards (UNSAS). The review indicated that the financial statements were consistent with the standards except for the elements mentioned in the paragraphs 15 to 25 and 46 to 49.

### 3. Presentation of the financial statements

#### *Completeness of the statements*

16. In paragraphs 2 a) and 35 of its previous report<sup>2</sup>, the Board recommended that UNFCCC disclose in the Financial Statements, and in the same manner as the other trust funds, the income and the expenditure of the Special Account established for the Conferences of the Parties. The Board noted that there had been no change and that income and expenditure of the special account were still not disclosed in the financial statements in contrary with UNSAS 25 that states, "*All income and expenditure of the organization, whatever the source of funds, should be reported*" in the statements.

17. UNFCCC explained that the Special Account set for the Conferences of the Parties (ZGA) was a special account for income and expenditure that was not normally reported because it was temporary in nature for one off events, such as for a Conference of the Parties. Because of this status, the special account never closes and was therefore applied as either a payable or receivable against the trust fund for the core budget (FCA). The United Nations Office in Geneva (UNOG), which maintains the account, explained that "the activities which are accounted for under this account are neither the normal programme activities to be financed from the core fund nor the trust fund activities which are financed by voluntary contributions. The expenditures incurred for these types of activities are to be billed and settled by payments from the parties concerned, similarly to billing process. (...) since this is a temporary account for which the final expenditures are

<sup>2</sup> FCCC/SBI/2004/12 from 13 August 2004

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billed to the concerned parties, such accounts are closed at year-end and the net debit or credit balance is recorded as a receivable or payable of the organization under the core fund for reporting purpose. In accordance with the United Nations Financial Regulations, Rules and procedures, transactions related to this kind of activities are recorded under special accounts for “conference and other recoverable costs” (fund type 6 in IMIS). Such accounts are temporary by nature and are not reported separately as a full set of financial statements of the organization, like the individual trust fund”.

18. The Board noted that by not disclosing ZGA in the statements, UNFCCC’s financial statements underestimated in its 2004-2005 statements income by \$3.3 million, expenditures by \$2.9 million and assets by \$1.3 million.

19. Information on financial organisation of the Conference of the Parties was mentioned in note 15 to the financial statements. According to the note 15 to the financial statements, *"in addition to the funds reflected in the above statements, UNFCCC received advances amounting \$3.3 million from Argentina and Canada for conference held at the venue offered by respective governments. The expenditure amounted to \$2.9 million including \$350,360 of unliquidated obligations. As of the 31 December 2005, the UNFCCC was awaiting instructions from Argentina on the remaining balance of funds in the amount of \$153,808"*.

20. However, information disclosed in note 15 might be misleading. Contributions paid by donors generated \$34,435 of interest income that should be added to the funds available during the period. Similarly, income was in excess of expenditure by \$417,679 and reserves and fund balances under fund ZGA at the end of the biennium amounted to \$832,480.

21. Besides, whereas only the balance of funds received from Argentina was mentioned in note 15, the Board noted that the unspent balance in respect of the Canadian contribution for organisation of Conference of Parties (COP) 11 amounted to \$571,085 at the end of 2005, for which UNFCCC was also awaiting instructions from Canada at the time of the closure of the accounts.

22. In addition the Programme support income reported under the Special Account for UNFCCC Programme Support Costs (ZRB) as of 31 December 2005 was only \$6.7 million, in excess of \$403,829 compared to programme support costs. UNFCCC explained the difference mainly related to the amount of Programme support costs recorded under Special Account set for the Conferences of the Parties (ZGA). Again, the absence of disclosure of this special account in the statements led to incomplete information.

**23. The Board reiterate its previous recommendation that UNFCCC disclose in its financial statements all of its income and expenditures including those of the Special Account set for the Conferences of the Parties.**

*Offsetting of Japan’s contribution*

24. The absence of the Special account (ZGA) in the financial statements led to further misstatement. Japan’s 2004 contribution to the core budget was of \$3.2

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million. Following an invoice from UNFCCC on 1 April 2004, the contribution requested from Japan was only to \$ 2.3 million. The difference of \$908,804 was the unspent balance from COP 3. The Board noted the following:

-COP 3 took place in Kyoto from 1 to 10 December 1997. It took seven years to refund this unspent balance;

-This amount does not appear in the line "refund to donors" of the financial statements nor does it appear in note 5 to the financial statements on refund to donors. Therefore the line and the note are understated by \$908,804;

The accounting process to settle this balance was contrary to accounting principles on non-compensation/non-offsetting of income by expenditure. As already mentioned (UNSAS 25 refers) all income and all expenditure should be reflected in the statements. UNFCCC explained that the treatment of the balance of COP 3 in the 2002-2003 statements reflected the information the secretariat had at that time and that this particular transaction was made following Japan's instructions to offset part of its core contribution from this refund.

**25. The Board recommends that UNFCCC disclose all refunds to donors and refrain from offsetting income and expenditures in its accounts.**

*Disclosure of information in the financial statements*

26. In paragraph 43 of its previous report<sup>3</sup>, the Board had recommended that UNFCCC consider the disclosure of information in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. The Secretariat noted that many of these topics were discussed in the UNFCCC's income and budget performance report, which was issued regularly and considered by the Conference of the Parties through its Subsidiary Body for Implementation (document FCCC/SBI/2005/13 for the latest). The secretariat intended to include such information in future financial statements but so far it avoided inclusion of non-financial information in the regular financial statements.

**27. The Board reiterates its recommendation that UNFCCC, reconsider its governance and performance reporting information policy.**

#### **4. Contributions**

*Age analysis of contributions receivable*

28. UNSAS 49 (iii) indicates "An aged analysis of outstanding contributions shall be made in the financial statements or the notes thereto". There was no such aged analysis in UNFCCC's financial statements or notes. UNFCCC secretariat indicated that they "provide the Parties with such an analysis twice a year with the status of contributions report (for the latest information on this issue, see document FCCC/SBI/2006/INF.4)". The Board is in the view that the relevant

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<sup>3</sup> FCCC/SBI/2004/12 from 13 August 2004

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information has to be communicated not only to the Parties but also to the governing bodies.

**29. The Board recommends that UNFCCC disclose an aged analysis of its outstanding contributions in order to monitor their recoverability and to be in line with UNSAS**

*Unpaid indicative contributions*

30. In *paragraph 21* of its previous report<sup>4</sup> on the 2002-2003 accounts, the Board noted that forty-seven Parties did not pay their contribution in 2002-2003. These parties owed \$356,378 at the end of 2003 (compared with \$183,214 at the end of 2001, an increase of 64 per cent). Those receivables represented 19.3 per cent of the contributions receivable as at 31 December 2003 (compared with 10.0 per cent at the end of the previous biennium).

31. At 31 December 2005, 111 parties out of 189 did not pay their contribution in 2004-2005 (101 parties out of 189 parties did not pay their contributions in 2002-2003). These parties owed at 31 December 2005, \$1.5 million or five per cent of all contributions receivable for the core budget of the convention.

32. For the Kyoto protocol interim arrangement (KPIA), the Board noted that 87 countries had not paid their contributions in 2005 for a total amount of \$693,154 or 14.5 per cent of contributions receivable for the KPIA.

**33. The Board reiterates its previous recommendation that UNFCCC pursue its efforts to obtain full payment of indicative contributions from all Parties.**

*Voluntary contributions*

34. In its previous report the Board had recommended<sup>5</sup> that UNFCCC further improve its fund-raising for the Trust Fund for Participation in the UNFCCC process or adjust the expenditure according to actual resources.

35. Overall contributions for UNFCCC have increased by 53.6 per cent: indicative contributions increased by 40 per cent from \$26.5 million at the end of 2003 to \$37.2 million at the end of 2005 which voluntary contributions increased by 79 per cent from \$13.9 million to \$24.9 million.

36. For the Trust Fund for the Participation in the UNFCCC process, voluntary contributions increased by 100 per cent from \$1.97 million at the end of the previous biennium to \$3.9 million at the end of 2005 exceeding the target of \$3.3 million. Compared to the required resources established for the budget (decision 16/CP.9 refers), voluntary contributions to the Trust Fund for supplementary activities (FRA) represented only 81 per cent of the required resources, including accreditation fees collected from industries under the Clean Development Mechanism of the Kyoto Protocol. In 2002-2003 voluntary contributions for this fund exceeded the target.

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<sup>4</sup> *Ibidem*

<sup>5</sup> Para 29 of FCCC/SBI/2004/12 from 13 August 2004

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**37. The Board recommends that UNFCCC improve the fund raising for the Trust fund for supplementary activities (FRA).**

*Long outstanding contributions receivable*

38. As at 31 December 2005, \$2.4 million of indicative contributions were outstanding of which \$1.7 million was outstanding for the Convention and \$0.7 million for the Kyoto Protocol Interim Allocation. For the Convention the amount represented an increase of 33 per cent compared to the amount of contributions receivable at the end of the previous biennium.

39. Out of the \$1.7 million outstanding at the end of 2005, \$76,419 or four per cent had been outstanding for more than five years, \$10,377 going back to more than 10 years. UNFCCC has not considered so far writing off these long outstanding contributions. Although the possibility of collect is remote. UNFCCC explained, "*in accordance with UN practice, indicative contributions are not written off. By approving the scale of assessment and the programme budget, Parties have a responsibility to ensure the timely payment of contributions. Therefore, the secretariat can only inform Parties of the status of contributions and maintain a historical record of all outstanding contributions in the accounts*".

**40. The Board recommends that UNFCCC formulate and implement a write-off policy for long outstanding contributions.**

*Provision for doubtful receivables*

41. UNSAS 33 provides that "the policy regarding provision for delays in the collection of the outstanding contributions shall be stated in the notes to the financial statements". Although, there were no provisions for delays in collecting the contributions as per UNSAS 33, UNFCCC explained "the working capital reserve was one of the provisions for delays in collecting contributions".

42. If UNFCCC considers that the working capital reserve is also a provision they should indicate it in a note to the Financial Statements and also review their financial regulations since according to UNFCCC's financial rules (decision 15/CP.1 refers para 14) "The purpose of the working capital reserve shall be to ensure continuity of operations in the event of a temporary shortfall of cash". Such a provision could cover the delays in collecting contribution but the combination of UNSAS and the financial rules would rather call for a specific policy on a provision for collecting contributions disclosed in a note to the financial statements.

**43. The Board recommends that UNFCCC comply with the UNSAS requirements relating to delay in collecting outstanding contributions.**

**5. Currency exchange gains and losses**

44. At COP 10 the Parties requested the secretariat to "explore options...to protect the funds...against adverse effects of exchange rate fluctuations, and to report to SBI 22...". According to Note 3, there was a loss on currency exchange fluctuations of \$329,450 compared to the gain of \$185,592 incurred in the

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previous biennium. As the result the fluctuations of the United States dollars vs. euro during the 2004-2005 biennium. UNFCCC managed its foreign exchange exposure through “the working capital reserve of USD 300,000 under the Trust Fund FQA in order to mitigate the rate of exchange for income received in euros” but has not considered proactive tools to limit its foreign exchange exposure.

**45. The Board recommends that UNFCCC liaise with UNOG and UNHQ Treasury to consider appropriate tools to mitigate exposure to foreign exchange risk.**

#### **6. Miscellaneous income: classification of accreditation and registration fees**

46. The Executive Board (EB) of the clean development mechanism (CDM) accredits operational entities, which meet the CDM accreditation requirements. Fees are collected at different steps: with the submission of an application form; fees associated with an on-site assessment of the premises of an AOE, and when the EB has decided to conduct a “spot-check”, these fees amounting to \$1.9 million in 2004-2005. They were registered as voluntary contributions.

47. The fees were recorded as voluntary contributions instead of miscellaneous income. UNSAS 31(iv), 36 and Appendix II require that income other than contributions be disclosed as miscellaneous income. In addition UN Financial Rule 103.7 requires that “*proceeds from revenue-producing activities and from the rental of United Nations office space shall be credited as miscellaneous income*”. The fees collected by UNFCCC should be recorded as miscellaneous income in the statements.

48. UNFCCC budget did not contain any information on these revenue producing activities contrary to provisions of financial rules and regulations 102.2. As per these rules, UNFCCC budget should contain “*A statement of estimated income, including (...) information on revenue-producing activities, shall show estimated gross revenue and expenditure for each activity as well as the credit to the income section of the budget in respect of the net revenue from each such activity*”.

**49. The Board recommends that UNFCCC properly disclose accreditation and project registration fees as miscellaneous income and in the future prepare in its budget submission a statement of estimated income relating to this activity.**

#### **7. Accounting for expenditures**

##### *Deferred expenditures*

50. Two contracts for financial commitment of the organisation beyond the biennium 2004-2005 but were accounted for as expenditures for the 2004-2005 biennium: one of \$157,204 for the maintenance of photocopiers signed in February 2005 and for the period from 1 March 2005 through 29 February 2008 and another of \$563,368 for the development and deployment of the CDM registry and related services for the period till 30 November 2007 (the remaining

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balance of the latter after 31 December 2005 was of \$288,024). These contracts should have been reported in the financial statements as deferred expenditure and accounted for accordingly, as required by UN financial rule 106.7.

**51. The Board recommends that UNFCCC account for deferred expenditure as required by UN financial regulations and rules.**

*Cut-off*

52. The Board noted that for a purchase order of - \$137,111 purchase of laptops and thin fin transistors, the obligations were created and approved in 2005, but the contract was dated 3-5 January 2006. The transactions were recorded in 2005 accounts books. Also 2005 expenditures were overestimated by the value of obligations (\$154,819).

53. UNFCCC explained that they “had completed nearly the entire process for this contract during 2005, which involved pre-encumbering 2005 funds, publishing an invitation to bid, evaluating of bids, and presenting the bids to the Contracts Committee for review and selection of the vendor. The obligation was finalized and the hard copy contract forwarded before year-end to the Executive Secretary for signature. However, due to the holiday period, the vendor’s confirmation of PO receipt was received after 1 January within a reasonable time”. However the Board noted that at the end of 2005, there was no legal commitment for this obligation.

**54. The Board recommends that UNFCCC account for expenditures in the proper period.**

**8. Cash and Bank**

*Monitoring of investments*

55. As at 31 December 2005, the value of UNFCCC funds invested was \$26.4 million, against \$19.5 million at the end of the previous biennium, showing a 35.5 per cent increase. This change resulted mainly from the growth in income received by the organisation in 2004 and 2005 and from the subsequent increase in the value of reserves and fund balances at the end of the biennium. UNOG explained “*The average cash and term deposits in 2002-2003 were \$18.7 million and in 2004-2005 were \$21 million. The increase was approx. 10.8 per cent rather than 35 per cent based on the balances as at 31 December 2005. As per (UNOG’s) information, the general interest rate averages earned during the two biennia were 2.1 per cent for 2002-2003 and 1.4 per cent 2004-2005*”.

56. UNFCCC has no delegation of authority to invest its funds, and the United Nations Office at Geneva (UNOG) managed all investments and treasury functions until 31 December 2005. Monthly statements on the status of funds invested on behalf of UNFCCC are provided by UNOG. However, at the time of our audit, only two of the 24 statements issued for the biennium 2004-2005 were made available. Information included in those statements was limited to the value of investments for the organisation and general data pertaining to the

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characteristics of investments (bank, currency, interest rate and interest income during the period). However UNFCCC has not considered requesting additional information, including explanations on the evolution of interest income or treasury management policy defined and applied by UNOG. Beginning 1 January 2006, the UN treasury will take over UNOG's responsibilities in Treasury management.

**57. The Board recommends that UNFCCC obtain from the UN Treasurer all relevant documentation supporting investment and treasury functions and operations performed on its behalf.**

*Imprest accounts - Bonn*

58. In Bonn, UNFCCC maintained two separate imprest accounts with a commercial bank: one for the daily operations of the office (incl. credit cards and local payments), and the other one exclusively for the meetings of the Subsidiary bodies held annually in Bonn, its balance being reduced to zero between events. The Board noted that the latter had never been duly authorized, in contradiction with UN financial rule 104.4.

59. The need for maintaining that second imprest account was questionable. UNFCCC argued that it was justified by the necessity to segregate exceptional transactions related to conference activities from daily operations. However, The Board found instances when conferences-related transactions were incurred against the first imprest account.

**60. The Board recommends that UNFCCC reassess the need for maintaining a second imprest account in Bonn on a continuous basis and, if maintained, ensure that it is managed in full compliance with UN Financial regulations and rules.**

*Direct debit*

61. Based on a sample review, UNFCCC authorized direct debit from its imprest account from its credit cards' and internet services providers. In the latter case, direct debit was justified by the fact that the vendor required prompt payment (or services were discontinued) and direct debit was seen as the optimal solution.

62. Payments by direct debit were monitored by UNFCCC and that errors were corrected. Guidance or approval from the UN Controller for direct debit was not sought by UNFCCC although it is recognized that is an efficient and cost effective means of payment.

**63. The Board recommends that the UN administration review its policy with direct debit payments.**

**9. Amount of the operational reserve in Reserves and Fund balances**

64. According to note 9 to the financial statements, "*Operating reserves are established at 15 per cent (Trust Fund for Supplementary Activities and Trust Fund for the special annual contribution from the Government of Germany) and*

10 per cent (Trust Fund for Participation in the UNFCCC Process) of the total annual expenditure under the voluntary general trust funds, whereas an operating reserve for programme support account (Special account for UNFCCC programme support costs) is maintained at 20 per cent of annual programme support income earned. Working capital reserve is maintained at 8.3 per cent of the total approved budget for 2004-2005 under the core budget (Trust Fund for the Core Budget of UNFCCC). The reserves are to cover unforeseen shortfall, uneven cash flows, and other final contingencies. For the reported period there was no need to draw on the reserves and therefore the levels of reserve were reported as being USD 1,369,444 (operating reserve) and USD 1,864,115 (working capital reserve) (Statement II)". The Board checked if these amounts were consistent with the rule specified earlier in the note applying the percentage mentioned in the note to the last year of expenditures and compared to what had been posted.

65. As shown in table 3 the Board noted some deviations. Therefore, the operating reserve was under funded by \$402,894.

Table 3.

**Calculation of the operational reserve (OR)**

Reserves in united states dollars	Trust Fund for Participation in the UNFCCC Process (FIA)	Trust Fund for Supplementary Activities (FRA)	Trust Fund for the special annual contribution from the Government of Germany (FQA)	Special account for UNFCCC programme support costs (ZRB)	TOTAL
2004 2005 FS operating reserve (A)	116 606	404 893	300 000	547 946	1 369 444
Total 2005 expenditure (B)	1 864 957	3 788 106	2 383 610	3 300 424	
per cent to OR according to Note 9 (C)	10	15	15	20	
Theoretical amount (D=B*C)	186 495	568 215	357 541	660 084	1 772 338
<b>Difference with F/S (=D-A)</b>	<b>69 889</b>	<b>163 322</b>	<b>57 541</b>	<b>112 138</b>	<b>402 894</b>

66. **The Board recommends that UNFCCC reinstate its reserves to the prescribed level.**

67. UNFCCC indicated that they would adjust the reserve in the current biennium.

**10. After service liabilities**

68. Note 12 on liabilities for end of service and post-retirement benefits presents the results of an actuarial valuation of after-services health benefits that was carried out by a private company for all the UN, including UNFCCC. The report estimated the present value of the accrued liability at \$9.9 million. The results of this evaluation showed that UNFCCC, like other UN agencies, has to deal with an important risk that will impact future funding since UNFCCC had no unearmarked reserve to fund this liability. As a matter of comparison, the report indicated that if UNFCCC had followed International Accounting Standards (IAS) 19 from the start of its activities, the annual expense charged in the financial statement would have been \$1.5 million. In addition the Board observed that liabilities for unused leave accumulated to \$1.1 million and liabilities for repatriation grants amounted to \$1.0 million.

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**69. The Board reiterates its recommendation that UNFCCC review the funding of its annual leave, end-of-service and post-retirement benefits liabilities, in conjunction with the United Nations Secretariat.**

**11. Non expendable property**

*Compliance with UNSAS*

70. Note 11 to the financial statements was not in line with UNSAS 50. It did not disclose the valuation procedure of UNFCCC's non-expendable property, nor did it provide details of assets by category.

**71. The Board recommends that UNFCCC disclose its non-expendable property in its financial statements as required by UNSAS.**

72. UNFCCC indicated that it would adopt this recommendation in the 2006-2007 biennium.

*In-kind donation from the German government*

73. An amount of \$692,660 was taken off the inventory value during the biennium. This amount was the current estimated value of in-kind contributions of 1.5 million DM that were received from the German government in 1997 when the organization moved from Geneva to Bonn. This large group of items were identified for the first time as a donation at the end of 2005.

74. According to UNSAS 35, information on the estimated in-kind donation, including the basis for such valuation, should be disclosed and should have been reported in the financial statements, either on the face of the statements or as a Note.

**75. The Board recommends that UNFCCC disclose future in kind contributions as per UNSAS. Without qualifying the audit opinion, the Board draw attention to the in-kind donation disclosure in the financial statements.**

**12. Write offs**

76. UNFCCC reported the write-off of long outstanding receivables for a total of \$9,529. The cases that were investigated by the organisation relate to air travel (\$5,106.91), salary advances from the 1996-97 biennium (\$1,354.20), to unused airline tickets - not refundable (\$2,804.76) and to the abandoned reimbursement of DSA (\$263.41). Supporting documentation provided by UNFCCC showed collection attempts as well as adequate investigation of the cases. The write-off of long-outstanding receivables is in line with recommendation expressed in the previous audit report.

**13. Ex gratia payment**

77. UNFCCC did not report any ex gratia payment in 2004-2005.

#### 14. Geographical distribution of staff

78. In its resolution 59/266, the General Assembly requested the Board of Auditors to conduct an audit of the implementation of the principle of equitable geographic representation in the Secretariat at all levels, as set out in relevant resolutions of the General Assembly. Although UNFCCC is not a unit of the Secretariat, the principles of the Charter and staff rules apply to UNFCCC staff. Article 101 of the Charter of the United Nations and Regulation 4.2 of UN staff rules both provide that due regard shall be paid to the importance of recruiting the staff on as wide a geographical basis as possible. The Board noted that there was room for improvement since staff (P and above categories) originating from European and North American countries alone represented 55 per cent of the staff in this category. For all staff, and not taking in account the host country that provided 32 per cent of the staff, five countries provided 31 per cent of staff.

Table 4.

#### Geographical Distribution of UNFCCC staff

Appointed staff members as at 31 December 2005						
Grade	Africa	Asia and the Pacific	Latin America and the Caribbean	Eastern Europe	Western Europe and Other	Total
P and above	8	19	10	8	37	82
Total	8	19	10	8	37	82
<b>Percentage of total</b>	<b>9.8%</b>	<b>23.2%</b>	<b>12.2%</b>	<b>9.8%</b>	<b>45.1%</b>	<b>100.0%</b>

**79. The Board recommends that UNFCCC strengthen its efforts to achieve a more balanced geographical distribution of staff**

#### 15. Procurement management

##### *Delegation of procurement authority to the Executive Secretary*

80. Since 2 September 2004, the Executive Secretary of UNFCCC has been granted full delegation of procurement authority for a trial period of one year, effective 1 September 2004. On 3 February 2006, the delegation of procurement authority was extended by the UN Controller to 31 March 2006. No delegation existed as at mid September 2006.

**81. The Board recommends that the UN Secretariat renew delegations of authority on a timely manner.**

##### *Delegation of authority to UNFCCC staff members*

82. For 2004 and 2005 expenditures, delegation of procurement authority has not been formally sub-delegated from the Executive Secretary to staff members in charge of procurement, which is contrary to UN regulations and rules in respect of delegation of authority, according to which only duly authorized officials shall perform procurement functions. UNFCCC indicated however that at the time of our audit, in June 2006, it was in the process of finalizing a new delegation of

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procurement authority to the Officer-in-Charge with UNHQ, which contained a draft delegation memo to be issued to staff from the Officer-in-Charge.

83. In addition the Board noted that in some cases, procurement authority was performed beyond financial threshold recommended by the UN Controller. For instance, a G staff had IMIS rights that allowed her to approve procurement up to \$25,000, which corresponded to the authority level usually granted to a P2 procurement officer. In several cases, officers in charge signed purchase orders on behalf of the Executive Secretary but the delegation of authority to them was not documented on file.

**84. The Board recommends that UNFCCC promptly issue appropriate delegations of procurement authority to all staff members exercising procurement functions.**

*Work plan*

85. The procurement unit's work plan was not time bound: all tasks were to be done until the end of the period covered by the plan (2004-2005). There were no intermediate deadlines. The plan included no measurable indicators to monitor its implementation.

**86. UNFCCC agreed with the Board's recommendation to develop clear and measurable timelines and indicators for the implementation of its procurement work plan.**

*Procedure*

87. A purchase of \$36,844 for "network management" for which UNFCCC issued a simple request for quotation, i.e. without publicity. This practice was not compliant with the rule that above \$25,000 an invitation to bid or a request for proposal with public opening must be issued. UNFCCC explained this case by an underestimation of the estimated cost – by over 40% - and the urgency of the delivery.

**88. The Board recommends that UNFCCC comply with the requirements of procurement manual related to the authority limit for the acquisitions of goods and services.**

*Bid reception*

89. For RFP and RFQ up to \$25,000, fax submission was allowed. Fax submissions were received by central registry and then sent by internal mail to the procurement section, in a different building, contrary to the UN procurement manual (" 10.1.2 (1) Facsimile submissions (...) shall be received at a dedicated fax number, located in a secured area, to which only designated procurement personnel have access. (2) The facsimile submission shall be placed in a sealed envelope, etc.)."

**90. UNFCCC agreed with the Board's recommendation to comply with the UN procurement manual on bid reception as it relates to faxed submissions.**

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### *Competitive bidding*

91. Concerning, RFP 2004/002 (\$142,771) for reporting services on side events at UNFCCC meetings in 2004 and 2005 only one non-profit organisation, known to other UN offices, expressed an interest upon a call to do so on the UNFCCC, UNHQ and UNOG websites. UNFCCC did not ask other providers to submit a tender but sent the request for proposal to the only one that had answered to the expression of interest. UNFCCC explained, "*Since the requirement is a specialized service, (UNFCCC) could not identify further qualified companies and the RFP was only sent to one supplier.*"

92. Concerning RFP 2004/14 (\$148,880) "to consolidate multiple services for data communication lines and services ", UNFCCC considered one vendor, A company, as a sole provider per financial rule 105.16 (a) (ii). UNFCCC explained that "*that multiple suppliers managing the different components of the data communication services represents a substantial risk to the secretariat's mission critical network services. Although A company is not a sole source provider for data communication services, at that point of time, A company was the only provider who could provide the technical back-up and support for all data communication lines currently installed between (the two buildings of UNFCCC), as well as IMIS data transfer without having the risk in a loss in services (or overlap)*".

93. In the first case, the fact that the UNFCCC could not identify another company providing reporting services could result from the shortcomings of the vendor roster as well or from the absence, worldwide, of other providers, which was not checked. In the second case, the wish of having a provider for all those services has probably some justifications but it is not an issue. Considering that T-System was not the only company providing such services, the UNFCCC did not prove that it had made sufficient efforts to find out if the A company was actually the more suitable and less expensive company.

#### **94. The Board recommends that UNFCCC ensure competition for its bids.**

##### *Vendor evaluation*

95. Vendors are included in the vendor roster without a formal registration process or performance review. UNFCCC plans to institute a formal vendor application form and a supplier Review Team.

#### **96. UNFCCC agreed with the Board's recommendation to expedite its vendor evaluation process.**

### **16. Results-based budgeting (RBB)**

##### *Overview*

97. In response to a decision by the COP in 2003, the Secretariat undertook an internal review of its activities in 2004. As a result of this review, and building upon recommendations by the Office of Internal Oversight Services (OIOS), it

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developed a new results-based approach to planning, evaluating, and reporting on its activities and use of resources in the biennium 2006-2007. The objective was to provide Parties with a clearer sense of the results that are to be achieved with the resources to be expended. This will also facilitate performance reporting. During the biennium 2006-2007, the secretariat will further develop and test the methodology and indicators.

98. For the current biennium, the document supporting the work programme established a detailed structure to define expenditures. However the framework lacked clear, relevant, comprehensive and quantified indicators or targets. Objectives by programmes were defined in a narrative manner without any link to measurable indicators. There was also a lack of measurable indicators for the 2006-2007 budget.

**99. UNFCCC agreed with the Board's recommendation to further enhance its objectives and indicators of its results-based-budgeting process.**

*RBB training*

100. Training workshops were conducted in 2004 on formulating results and identifying possible indicators. While the ongoing developments would have called for further training in light of the above findings.

**101. The Board recommends that UNFCCC train concerned staff members on Results-base-budgeting tools.**

*Kyoto Protocol funding*

102. The report of Conference of the Parties on its seventh session held in Marrakech (FCCC/COP/2001/13/Add2, 21 January 2002) provided guidelines for the implementation of articles 6 (joint implementation (JI)), 12 (Clean Development Mechanisms (CDM)), 17 (Emissions trading) of the Kyoto Protocol. The Marrakech Accords provide for public and private entities to participate in the three mechanisms. In the wake of the entry-into-force of the Kyoto Protocol, the implementation of the CDM made rapid progress. The CDM Executive Board therefore reported on a number of milestones to the first Conference of the Parties meeting as Parties to the Kyoto Protocol (COP/MOP) late 2005.

103. The most noted indicator was the increase in registrations of CDM project activities: while only one CDM project activity had been registered at the time of COP 10 in 2004, the number of registered CDM project activities rose to 12 within the first six months in 2005 and to 25 by the end of the third quarter, thus doubling within three months. The medium-term goal expectation was 151 such project activities per year.

104. There was also the accreditation of seven additional operational entities (AOE) performing validation of projects, bringing the total accredited since 2003 to 11, the medium-term expectation being 20 cases per annum, and of the first two entities undertaking verification/certification and requesting issuance of certified emission reductions (CER). Project participants proposed six new

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methodologies and four consolidated methodologies, up from two less than a year ago, and approved by the CDM Executive Board. Altogether, there were at the time of the Board's audit 46 methodologies for the use of project participants.

105. The CDM management plan for 2005-2006 was approved only in September 2005. The anticipated activity and output levels until the end of 2006 were estimated by quarterly surveys in 2005.

106. A CDM registry is maintained by the secretariat under the authority of the Clean Development Mechanism (CDM) Executive Board. This CDM registry holds in its accounts certified emission reductions documents (CERs) from project participants. The work on registries systems suffered from the lack of supplementary funding. As a result, the development of the international transaction log (ITL) was only at the stage of a draft request for vendor proposals at the time of the Board's audit.

107. Once there is a critical mass of CDM projects yielding emission reductions, the share of proceeds, calculated on the basis of certified emission reductions (CER) issued, is to eventually contribute to the self-financing of the CDM. Until that is achieved, the CDM relies on voluntary funding. The resource gap was estimated by UNFCCC at \$10.33 million until the end of 2006. Parties were repeatedly informed about the precarious resource situation. The recruitment of staff was delayed until the end of the third quarter 2005. UNFCCC had to revise the project document, reflecting the financial implications of the CDM Management Plan.

**108. The Board recommends that UNFCCC continue to draw the attention of the Parties about the precarious resource situation and the implications for the implementation of mandated activities.**

## **17. Information and Communication Technologies**

### *Expenditures*

109. The total budget for ICT was defined in a fragmented manner: information support, conferences preparations, ICT resources (salaries, consultants and equipment), and information management. There was no single tracking or budgeting all ICT costs. There was no comprehensive overview of IT expenditures, and there were no explicit accountabilities for tracking costs and forecasted benefits.

**110. UNFCCC agreed with the Board's recommendation to further coordinate its Information and Communication Technology expenditures, to establish a budget covering all ICT aspects and to monitor its implementation through an ad hoc steering committee.**

### *ICT Security & Ethics policy*

111. The Board found on the network, with standard user access rights, information on IP addresses used for conference and printer configuration script that should be restricted to selected administrators. It also found, in a shared

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folder that all users could access during working time, music (MP3) and movie (MPEG) files, contrary to ST/SGB 2004/15 on the Use of Information and Communication Technology Resources and Data. There were also non authorized programmes, and a folder openly disclosing programme licence codes, which could jeopardise network security.

112. No restrictions were in place to block access to non work related websites. The Board found on individual workstations unethical documents that were not compliant with the basic UN Code of conduct, but that were shared with other workstations through the UN network. In the wake of widely-publicised issues, this pointed out to the need for more oversight as well as guidance for proper behaviour, integrity, ethical values.

**113. UNFCCC agreed with the Board's recommendation to establish a more rigorous security policy and to improve staff awareness on security and ethics issues.**

*Development methodology and environment*

114. A comprehensive analysis of security and requirements was to be completed prior to the development of the International Transaction Log systems' specifications. Nevertheless, application development and changes were performed without clear development methodologies and without segregated environments (development, test, and production environment) so developers were able to access both application and data in the application. UNFCCC had yet to enforce controls in its development activities and to ensure that developer's access rights are compliant with segregation of duties.

**115. UNFCCC agreed with the Board's recommendation to review the current access rights for developers and establish a formal development methodology for applications.**

*Information architecture plan*

116. The UNFCCC secretariat did not have an in-house systems development standard or policy. Development of specialized systems was undertaken under the responsibility of the Programme concerned. Based on requirements and resource constraints, systems vary in architecture and underlying software. The secretariat took the first step in 2003 to address issues of duplication and look at harmonization with the creation of the "inventory of UNFCCC knowledge management systems, information systems, databases and clearinghouses", followed in 2004 by a more detailed "Review of UNFCCC databases, information systems and clearing houses." In 2005, a further step was taken in the creation of the Systems Maintainers Group within the ITTF. In addition, the self-review of the ITTF will also address the issue of systems development standards and in-house coordination.

117. Despite the implementation of the Kyoto protocol and the critical role played by UNFCCC applications (including ITL project, CDM registry and GHG – Green House Gas) UNFCCC had not prioritised ITTF project on systems

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development standards and in-house coordination, and did not have a full-blown information architecture plan, which should be consistent with the IT Strategic plan.

**118. UNFCCC agreed with the Board's recommendation to prioritise the Information Technology Task Force project on systems development standards and in-house coordination and establish an Information architecture plan consistent with the ICT Strategic plan.**

*Quality assurance and documentation of IT projects*

119. The technical documentation of two major projects, GHG and CDM, was not in line with good practices. The quality review did not include formal requirements for documentation. There were no quality assurance and documentation standards. This presented the risk that applications and systems might not be operated, managed and modified as easily and effectively as with better practices.

**120. UNFCCC agreed with the Board's recommendation to establish quality assurance and documentation standards for all information technology project developments.**

*Backup of data and systems*

121. There was a daily backup of all data for 30 days and a monthly backup of all data for 12 months. Backup tapes were stored within the security perimeter of the UN, but without specific protection (such as a fireproof safe box). The server rooms were not equipped with automatic fire protections, and the Board noted the presence of highly flammable items in these server rooms. However, a project for a Business continuity plan was under implementation. This project did not yet include a review of the adequacy of the servers and back-up facilities.

**122. UNFCCC agreed with the Board's recommendation to include the review of servers and back-up facilities in the Business Continuity Plan.**

## **18. Internal Oversight**

*Internal audit coverage*

123. In paragraph 83 (?) of its 2004 reports on UNFCCC 2002-2003 financial statements (FCCC/SBI/2004/12 from 13 August 2004), the Board had recommended that UNFCCC agree with OIOS on a multi-year framework for periodic internal audits. UNFCCC has agreed to the terms of the Memorandum of Understanding prepared by OIOS and was ready to sign it on January 2006 with OIOS. However, OIOS has decided to delay the signature pending the outcome of the review conducted by an outside firm on OIOS' activities.

**124. The Board reiterates its recommendation that UNFCCC and OIOS agree on a multi-year framework for periodic internal audits.**

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*Audit Committee*

125. For the monitoring of implementation of external and internal audit recommendations, and in line with the World Summit outcome of September 2005, which requested the Secretary-General to submit detailed proposals to the General Assembly at its sixtieth session for its early consideration on the creation of an independent oversight advisory committee, including its mandate, composition, selection process and qualification of experts, UNFCCC may consider the establishment together with other Bonn based UN organizations of an independent audit committee .

**126. The Board recommends that UNFCCC consider establishing an audit committee.**

**19. Cases of fraud and presumptive fraud**

127. UNFCCC reported no cases of fraud or presumptive fraud for the 2004-2005 biennium.

128. The Board noted that no action has been taken on the recommendation to develop a fraud prevention plan. A large portion of UNFCCC's expenditure were dedicated to expertise and consultancy work, and to the purchase of goods and services, all areas that present potential risks. Best practice also prescribe that staff be reminded about definitions of fraud, and about risks of diversion of funds, on a regular basis, and that the organization adopts an ethics plan.

129. UNFCCC reported that they have already taken measures to institute the integrity awareness policy by requiring all staff to take the on-line course and has adopted a policy on how to report misconduct (B/2006/2 based on UN Secretary General's bulletin ST/SGB/2005/01). UNFCCC also indicated that a risk assessment would be concluded by the end of 2006.

**130. The Board recommends that UNFCCC develop, document and implement a fraud prevention plan.**

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## **C. Acknowledgement**

131. The Board of Auditors wishes to express its appreciation for the co-operation extended to its staff by the Executive Secretary and staff of UNFCCC and by the United Nations Secretariat.

**Philippe Séguin**  
First President of the Court of Accounts of France  
(Lead Auditor)

**Guillermo N. Carague**  
Chairman of the Board  
Chairman, Philippine Commission on Audit

**Shauket A. Fakie**  
Auditor-General of the Republic of South Africa

XX September 2006

*Note:* The Philippines and South Africa members of the Board of Auditors have signed only the English version of the Report. The French member of the Board has signed the original French version and the English version of the Report.

## Annex

### Summary of status of implementation of recommendations of the Board for the financial period ended 31 December 2003<sup>6</sup>

Topic	Financial period first reported	Implemented	Under implementation	Not implemented	Total	Relevant paragraphs in the present report
Disclosure of special account	2002-2003			Para 10 a)	1	
Disclosure of best governance principles	2002-2003		Para 43		1	
Report and settlement on conference spending	2002-2003		Para 10 b)		1	
After-service liabilities <sup>a</sup>	2002-2003		Para 10 c)		1	
Segregation of duties	2002-2003		Para 10 (d)		1	
Over graded and under graded staff	2002-2003	Para 10 e)			1	
Accounting back office	2002-2003	Para 10 f)			1	
Anti fraud plan	2002-2003		Para 10 g)		1	
Contributions	1998-1999	Para 20, 29	Para 22		3	
Accounts payable	2002-2003			Para 50	1	
Old outstanding accounts receivable (other than contributions)	2002-2003	Para 55			1	
Unliquidated obligations	1998-1999		Para 58		1	
Deferred charges	2002-2003		Para 60		1	
Fill vacant posts in finance section	2002-2003	Para 72			1	
Internal Audit	2002-2003		Para 83		1	
<b>Total number</b>		<b>6</b>	<b>9</b>	<b>2</b>	<b>17</b>	
<b>Percentage</b>		<b>35</b>	<b>53</b>	<b>12</b>		

<sup>6</sup> FCCC/SBI/2004/12 from 13 August 2004

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## Chapter III

### Audit Opinion

We have audited the accompanying financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) comprising statements numbered I to IV, schedules 1.1 to 2.1 and the supporting notes for the biennium ended 31 December 2005. The financial statements are the responsibility of the Executive Secretary. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Without qualifying our opinions expressed above, we draw attention to our findings on the following matters:

- (a) the income and the expenditure of the Special Account established for the Conferences of the Parties were not disclosed in the financial statements. UNFCCC's financial statements thus understated in its 2004-2005 statements income by \$3.3 million, expenditures by \$2.9 million and assets by \$1.3 million;
- (b) UNFCCC did not disclose the valuation procedure of its non-expendable property, nor did it provide details of assets by category;
- (c) Contrary to UNSAS, UNFCCC did not disclose and report in its financial statements or in note information on the estimated in-kind donation, including the basis for such valuation;
- (d) Fees collected for revenue producing activities in an amount of \$1.9 million were disclosed as contributions instead of miscellaneous income, as discussed in paragraphs 46 to 49 of the long form report.

In our opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements present fairly, in all respects, the financial position as at 31 December 2005

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and the results of operations and cash flows for the biennium then ended, in accordance with the United Nations System Accounting Standards.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements on the United Nations Framework Convention on Climate Change.

**Philippe Séguin**  
First President of the Court of Accounts of France  
(Lead Auditor)

**Guillermo N. Carague**  
Chairman of the Board  
Chairman, Philippine Commission on Audit

**Shauket A. Fakie**  
Auditor-General of the Republic of South Africa

XXX September 2006

*Note:* The Philippines and South Africa members of the Board of Auditors have signed only the English version of the Report. The French member of the Board has signed the original French version and the English version of the Report.

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