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Item 9 (a) of the provisional agenda

Administrative and financial matters

Audited financial statements for the biennium 2002–2003

Report of the United Nations Board of Auditors

Note by the Executive Secretary

Addendum

Comments by the secretariat

Summary

This document should be read in conjunction with the report of the United Nations Board of Auditors (FCCC/SBI/2004/12) and the audited financial statements for the biennium 2002–2003 (FCCC/SBI/2004/12/Add.2). It has been prepared to provide the Subsidiary Body for Implementation with comments by the secretariat on the recommendation made by the Board and an account of the initial actions taken in response to those recommendations.

Some of the recommendations had already been implemented by the time this report was prepared, whereas others will require the establishment of processes that should be maintained for the preparation of future financial statements and reports.

Recommendations of the United Nations Board of Auditors	Comments and actions by the secretariat	Status of implementation
Main recommendations		
a) UNFCCC should disclose in the Financial Statements and in the same manner as the other trust funds the income and the expenditures of the Special Account set for the Conferences of the Parties (para. 35)	The secretariat has taken note of this recommendation, and will start including special accounts in the financial statements for the biennium 2004–2005 in a more detailed manner. It should, however, be recognized that such special accounts are of a different character. They are normally established for a short period to organize events, and are not part of the trust funds through which the secretariat conducts its normal operations	Pending
b) UNFCCC should report on conference spending to donor countries and refund surplus funding in a timely manner (para. 47)	The secretariat had provided financial reports, and was awaiting instructions from the donor Parties. The two main issues that make up most of the payables have been settled. In connection with the thirteenth session of the subsidiary bodies, the due amount was reimbursed to the Government of France in April 2004. For the third session of the Conference of the Parties, the Government of Japan has decided to shift the amount to the core budget as part of its contribution for 2004	Partially implemented
c) UNFCCC should review in conjunction with the United Nations Secretariat the funding of end-of-service and post-retirement benefits liabilities (para. 53)	Liabilities for after-service health insurance have been estimated in cooperation with United Nations Headquarters. Other liabilities have been calculated and are reflected in the notes to the current financial statements. The secretariat recognizes that no reserve has been set aside to cover these liabilities. This will be addressed in the proposal for the programme budget for the next biennium	Partially implemented
d) UNFCCC should comply strictly with the rules governing the segregation of duties (para. 67)	The secretariat has reviewed and updated its roster of certifying officers, approving officers and cheque signatories to segregate responsibilities	Fully implemented

Recommendations of the United Nations Board of Auditors	Comments and actions by the secretariat	Status of implementation
e) UNFCCC should take a decision in respect of the entitlements for staff over-graded or under-graded at the time of their recruitment (para. 70)	After a broad consultation with the management and staff, the Executive Secretary decided to maintain the current grading, and communicated her decision to all staff on 19 August 2004	Fully implemented
f) UNFCCC should implement a sustained policy as regards accounting, provide proper training to staff members on accounting, and ensure that accounting procedures are documented prior to training sessions relating to them (para. 75)	The secretariat appointed a new Chief of Financial Resources Management on 1 May 2004. The Finance Officer's position was upgraded from P-2 to P-3, and a qualified accountant has been appointed to this position. Formal and informal training sessions have been planned and some started in the first half of 2004	Partially implemented
g) UNFCCC should develop and implement an anti-fraud plan (para. 87)	The plan will be developed in the second half of 2004	Pending
Additional recommendations		
1) The Board recommends that UNFCCC reassess the need for contributions to a contingency budget on the conference services, in coordination with the United Nations Secretariat	The conference budget will continue to be treated as a contingency until it is confirmed that the General Assembly has agreed to include the costs in the United Nations regular budget. In the meantime, the secretariat will work closely with the Programme Planning and Budget Division of the United Nations on this issue	Continuously implemented.
2) The Board reiterates its recommendation that UNFCCC pursue its efforts to obtain full payment of assessed contributions from all Parties	The secretariat prepares a report on the status of contributions at every session of the Convention bodies. In that report Parties are listed according to the number of years they are in arrears; this has proven to be an effective reminder for them to pay their contributions. Special reminders are sent to the top 20 contributors if their contributions are not received during the first half of the year. Regular bilateral contacts are also used to remind Parties of the need for timely payment of their contributions	Fully implemented and the process is maintained

Recommendations of the United Nations Board of Auditors	Comments and actions by the secretariat	Status of implementation
3) The Board reiterates its recommendation 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	The secretariat has strengthened fund-raising efforts for the participation fund, but notes a trend of reduced income and more earmarking by contributing Parties. In managing the Trust Fund, priority is given to promoting participation, even at the expense of reducing fund reserves	Fully implemented
4) The Board recommends 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 agrees with this recommendation, which reflects new approaches to reporting in the United Nations. It has started incorporating these matters in its financial and performance reports	Action initiated
5) The Board recommends that UNFCCC (i) report on conference spending to donor countries in a timely manner and in a format consistent with the initial budget; and (ii) process refunds in compliance with the deadlines set in signed agreements	The secretariat agrees with these recommendations. Good progress was made in 2003–2004 as indicated in the secretariat’s response to main recommendation (b) above	Partially implemented
6) The Board recommends that UNFCCC (i) review the processing of accounts payable, and (ii) merge notes 8 and 14 into a single and comprehensive note on payables	In preparing the financial statements for 2002–2003, the secretariat followed the process introduced by the United Nations Office in Geneva (UNOG). In the statements for 2004–2005, all payables, irrespective of the source of funding, will be shown under the same note, as recommended	Action initiated
7) 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	The liabilities have been calculated and the information is reflected in the notes to the financial statements for the biennium 2002–2003 (note 12 on page 24 of FCCC/SBI/2004/12/Add.2)	Fully implemented.

Recommendations of the United Nations Board of Auditors	Comments and actions by the secretariat	Status of implementation
8) The Board recommends that UNFCCC clear in a timely manner its accounts receivable	Most of the receivables are in connection with outstanding contributions. As at 30 June 2004, 22 Parties had contributions outstanding since 1996. A regular reconciliation process of checking receivables is in place. Enhanced efforts are being made to clear travel and salary advances and good progress has been made	Continuously implemented
9) The Board reiterates its recommendation that UNFCCC (i) thoroughly review unliquidated obligations at year-end, and (ii) raise them only against appropriate obligating documents	The secretariat agrees with these recommendations, and it continues to review unliquidated obligations on a regular basis. Obligations are raised only when appropriate documentation is available	Continuously implemented
10) The Board recommends that UNFCCC obtain from UNOG the timely transmission of adequate supporting documents	This recommendation is relevant on very rare occasions when UNOG directly records in UNFCCC's accounts financial transactions on behalf of the secretariat. UNOG has been reminded to provide the secretariat with the necessary documentation before entering any transaction in UNFCCC's accounts	Implemented
11) The Board recommends that UNFCCC (i) review and document its internal controls; (ii) update its bank signatory panel; and (iii) ensure that all required authorisations and delegations comply with the principle of segregation of duties	The secretariat agrees with these recommendations, and has initiated the following actions: (i) a central internal control to check financial activities performed in different programmes is being set up in the Financial Resources Management Unit; (ii) the bank signatory list has been updated; (iii) financial delegation has been reviewed to ensure compliance with the principle of segregation of duties	Partially implemented and maintained
12) The Board reiterates its recommendation that UNFCCC take a decision in respect of entitlements for staff over-graded and under-graded at the time of their recruitment	Please see the response to main recommendation (e) above	Fully implemented

Recommendations of the United Nations Board of Auditors	Comments and actions by the secretariat	Status of implementation
13) The Board recommends that UNFCCC and OIOS agree on a multi-year framework for periodic internal audits	The secretariat appreciates this recommendation and has initiated discussions with the Office of Internal Oversight Services (OIOS) on a number of issues. As a result of these discussions, one staff member from United Nations New York visited the secretariat in June and made a presentation on results-based budgeting, and two are scheduled to visit in August 2004 to help with setting up internal evaluation procedures. Discussions continue with OIOS to assist the secretariat in establishing a strengthened internal control system and in scheduling their ongoing internal audits	Partially implemented and maintained
14) The Board recommends that UNFCCC develop, document and implement a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in co-ordination with the Administration of the United Nations and the other funds and programmes to obtain the benefit of best practices, where available	The secretariat is developing an anti-fraud policy in consultation with UNOG and OIOS. The policy is expected to be in place at the end of 2004	Pending
