



**UNITED
NATIONS**



**Framework Convention
on Climate Change**

Distr.
GENERAL

FCCC/SBI/2004/12
13 August 2004

Original: ENGLISH

SUBSIDIARY BODY FOR IMPLEMENTATION

Twenty-first session

Buenos Aires, 6–14 December 2004

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

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 2002–2003. The full text of the Board’s report, which was received by the secretariat on 30 July 2004, is attached herewith as received, without editing. 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 to be adopted by the Conference of the Parties at its tenth session.

**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 2003**

CONTENTS

	<u>Paragraphs</u>	<u>Page*</u>
I. Letter of Transmittal		3
II. Report of the Board of Auditors		4-20
Summary		
A. <u>Introduction</u>		5
Previous recommendations not fully implemented	7-9	6
Main recommendations	10-11	6
B. <u>Financial issues</u>		7-14
1. Financial overview	12-30	7-10
2. United Nations System Accounting Standards	31	10-11
3. Presentation of the financial statements	32-43	11-12
4. Accounts Payable	44-50	12-13
5. Liabilities for annual leave, end-of-service and post retirement benefits	51-53	13
6. Other accounts receivable	54-55	13
7. Unliquidated obligations	56-58	13-14
8. Deferred charges	59-60	14
9. Write-off, losses of cash, receivables and property	61	14
10. Ex gratia payments	62	14
C. <u>Management issues</u>		14-17
1. Lack of segregation of duties on financial banking matters	63-67	14-15
2. Human resources management	68-81	15-17
3. Internal audit	82-83	17
4. Cases of fraud and presumptive fraud	84-86	17
D. <u>Acknowledgement</u>	87	18
Annex		19
Follow-up action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 2001		19
III. Audit Opinion		20

* These page numbers have been changed from those in the original report to correspond with pagination in this document.

Chapter I

Letter of Transmittal

UNITED NATIONS  **NATIONS UNIES**
BOARD OF AUDITORS
NEW YORK
Fax (212) 963-3684

9 July 2004

Sir,

I have the honour to transmit to you the financial statements of the United Nations Framework Convention on Climate Change for the biennium 2002–2003 ended 31 December 2003, which ere submitted by the Executive Secretary. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(signed)
Shauket A. FAKIE
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the Conference
of the Parties
United Nations Framework Convention
on Climate Change
Bonn, Germany

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Framework Convention on Climate Change (UNFCCC) in Bonn, for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) For each session away from Bonn of the Conference of the Parties and its subsidiary bodies, a temporary account records income and expenditures for special contributions by the host Government. The amounts of income and expenditure of these accounts are not disclosed in the financial statements, except for their accounts payable balance, while they represent over half of the expenditures of the Fund.

(b) The outstanding payables to donor countries exceeding 12 months reached 57 per cent of the overall balances;

(c) UNFCCC has estimated liabilities at over \$7 million in annual leave, end-of-service and post-retirement benefits, but has not made a provision for this purpose.

(d) The implementation of IMIS revealed a risk in the new distribution of the obligating, certifying and approving functions, and a need for additional training;

(e) There was no detailed anti-fraud plan.

By July 2004, the Administration planned to implement a number of appropriate remedies.

A list of the Board's main recommendations is provided in paragraph 8 of the present report. They are that UNFCCC should improve the accountability on its special accounts, report on conference spending to donor countries and refund them in a timely manner, tighten budgetary and internal controls, arrange for an actuarial valuation and a reserve for after-service benefits, strengthen the recruitment and management of consultants, and implement an anti-fraud plan.

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 2003, 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, 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 expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the governing body; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNFCCC presented fairly its financial position as at 31 December 2003 and the results of the operations for the period then ended. 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 human resources management, information and communication technology, travel management and delegation of authority on financial matters.

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 9 below. The detailed findings are discussed in paragraphs 12 to 86.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999¹

7. The Board has reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 1999. There are no significant outstanding matters.

Biennium ended 31 December 2001²

8. The Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001. Out of a total of 17 recommendations, 10 (59 per cent) were implemented and 7 (31 per cent) were under implementation (see the annex to this report).

9. The Board has reiterated, in paragraphs 22, 29, 53 and 70 of the present report, previous recommendations that had not yet been implemented. The Board invites the Administration to assign specific responsibility and establish an achievable timeframe to implement them.

2. Main recommendations of the Board contained in the present report

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

(a) **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);**

(b) **Report on conference spending to donor countries and refund surplus funding in a timely manner (para. 47);**

(c) **Review in conjunction with the United Nations Secretariat the funding of end-of-service and post-retirement benefits liabilities (para. 53);**

(d) **Comply strictly with the rules governing the segregation of duties (para. 67);**

(e) **Take a decision in respect of the entitlements for staff over-graded or under-graded at the time of their recruitment (para. 70);**

(f) **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);**

(g) **Develop and implement an anti-fraud plan (para. 87).**

11. The Board's other recommendations appear in paragraphs 20, 22, 29, 43, 50, 55, 58, 60, 72, 83.

¹ Report FCCC/SBI/2000/9.

² Report FCCC/SBI/2002/10.

B. Financial issues

1. Financial overview

Overall position

12. The Board performed an analysis of the financial position of UNFCCC as at 31 December 2003. The results of some key financial indicators are set out in Table 1 below:

Table 1

<i>Description of ratio</i>	<i>2000/2001</i>	<i>2002/2003</i>
Outstanding assessed contributions / total assets ⁽¹⁾	0.15	0.08
Cash assets / liabilities ⁽²⁾	2.59	2.93
Overall Cash and available reserves / liabilities ⁽²⁾	4.98	5.37
Unliquidated Obligations / liabilities ⁽³⁾	0.44	0.28
Outstanding assessed contributions / total assessed contribution income	0.15	0.07
Voluntary contribution income / total contribution income	0.39	0.34

(1) UNFCCC used the term "indicative contributions", which are nevertheless assessed. A low indicator indicates a healthy financial position.

(2) A high indicator reflects the extent of cash available to settle debts.

(3) A high ratio indicates that a significant part of liabilities are accounted as expenditures not cleared at the account closure at biennium-end.

13. The reserves and fund balances at the end of 2003 amounted to \$16.4 million (Statement I). They comprised \$6.23 million (38 per cent) from the Core Budget, \$7.12 million from the Trust Fund for Supplementary activities (43.4 per cent), and \$1.68 million from the Special Account for programme support costs (10.2 per cent). The total amount of \$16.4 million was \$0.1 million below the balance at the end of 2001. This decrease was the result of the following trends:

(a) There was a shortfall of income over expenditure of \$1.7 million in the core budget, and the reserves of the Trust Fund for the Core Budget decreased from \$7.2 million to \$6.2 million. This was in accordance with the Conference of the Parties' decision (doc. FCCC/CP/2001/13/Add.4) to cover part of the 2002-2003 budget from the unspent balances or contributions from previous financial periods;

(b) There was a shortfall of income over expenditure of \$0.8 million in the Special Account for Technical co-operation on the "Clean Development Mechanism Project", financed by the United Nations Fund for International Partnership (UNFIP);

(c) There was a shortfall of \$0.8 million in income over expenditure in programme support costs, with the reserves of the Special account (ZRB) having decreased from \$2.4 million to \$1.7 million;

(d) To the contrary, there was a net excess of \$2.7 million of income over expenditure for the Trust Fund for Supplementary activities.

14. The reported income for 2002-2003 amounted to \$47 million. This income comprised \$28.815 million from the Trust Fund for the Core Budget of the UNFCCC (FCA); \$2.035 million from the Trust Fund for Participation in the UNFCCC process (FER); \$7.371 million from the Trust Fund for Supplementary Activities (FRA); \$3.661 million from the Trust Fund for Special Annual Contribution of the Government of Germany (FQA); \$12,000 from the Trust Fund for UNFCCC Technical Co-operation (FUA); \$4.991 million for the Special Account for Support Costs (ZRB).

15. UNFCCC reported no in-kind contributions. The United Nations provided conference services under their Regular Budget. As mentioned in para.36 below, the income related to the Conferences of the Parties was not disclosed, except indirectly through "other accounts payable" to host countries.

16. Statement II displayed assets as at 31 December 2003 of \$23.1 million (\$23.4 million at the end of 2001), and liabilities amounting to \$6.7 million (\$6.9 million at the end of 2001). Cash and term deposits increased by \$1.8 million, from \$17.8 million as at 31 December 2001 to \$19.6 million as at 31 December 2003.

Outstanding contributions receivable and contributions received in advance

17. Less than 70 per cent of the ten highest assessed contributions were received before the last quarter of each year. At the end of the biennium, an amount of \$1.85 million was recorded for contribution receivables from 101 Parties (against \$3.4 million and 117 Parties at the beginning of the biennium). Six Parties that were assessed a contribution of over \$50,000 each owed a total of \$1.32 million at the end of the biennium (against \$2.77 million from seven Parties at the beginning of the biennium).

18. Contributions received in advance amounted to \$2.67 million as at 31 December 2003, i.e. 42.9 per cent of the \$6.23 million in total reserves and fund balances of the Core Budget. This was ten times more than at the end of the previous biennium. This was a consequence of incorporating a contingency budget for conference servicing in determining the assessed contributions; for 2002-2003, this budget of \$5,661,800 represented a significant part of the Core budget. The Conference of the Parties approved this budget (decision 38/CP.7 §6) in the event that the General Assembly of the United Nations decided not to provide resources for conference services from the United Nations regular budget.

19. The Board notes that such a decision not to provide conference services has never happened. These contributions received in advance for a purpose for which they are not used contributed in fact to UNFCCC's healthy cash situation. Unused balances are returned to the Parties before the end of the biennium.

20. 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.

21. 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). These receivables represent 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).

22. The Board reiterates its recommendation that UNFCCC pursue its efforts to obtain full payment of assessed contributions from all Parties.

Core budget implementation

23. At its seventh session, the Conference of the parties approved a programme budget for 2002-2003 of \$32.8 million (\$28.8 million for Programmes expenditure, \$3.7 million for overhead charges and \$0.3 million for the working capital reserve).

24. The Conference of the Parties also approved "*a drawing of US\$5 million for the unspent balances or contributions (carry-over) from previous financial periods to cover part of the 2002-2003 budget*". Without this carry-over, the assessed contributions called would have been higher.

25. As shown in the table below, programme expenditures amounted to 94.1 per cent of the approved budget. Only one programme was overspent, by 3.6 per cent; this was in line with the authorization given to the Executive Secretary to make transfers between appropriations up to 15 per cent, provided that the appropriation of any programme is not reduced below 25 per cent. Three programmes (Executive Direction and Management, Intergovernmental and Conference Affairs and Co-operative Mechanisms) were significantly under-spent.

Table 2

Implementation of the programme budget for the biennium 2002-2003

(in thousands of United States dollars)

Expenditures	Budget	Expenditure as at 31 December 2003	
		Amount	Percentage
I. Executive Direction			
Executive Direction and Management	3 349.0	2 828	84.4
Intergovernmental and Conference Affairs	1 386.9	1 181	85.2
II. Technical Programmes			
Methods, Inventories and Science	5 711.8	5 466	95.7
Sustainable Development	2 464.7	2 553	103.6
Co-operative Mechanisms	1 925.6	1 520	79.0
Implementation	5 086.0	4 969	97.7
III. Support Services			
Conference Affairs Services	2 171.6	2 075	95.5
Information Services	3 698.8	3 620	97.9
Administrative Services and support costs	3 030.0	2 910	96.0
Subtotal (I + II + III) programme activities	28 824.4	27 122	94.1

Trust Funds for participation in the UNFCCC process (FIA) supplementary activities (FRA)

26. In addition to the programme budget expenditure of \$27.1 million, the two Trust funds' expenditures, funded exclusively from voluntary contributions, amounted to \$2.5 million and \$4.9 million respectively:

Table 3
Implementation of the Trust Funds estimated requirements
For the biennium 2002-2003

(in thousands of United States dollars)

	Trust Fund for Participation in the UNFCCC process	Trust Fund for Supplementary Activities
Estimated requirements (a)	3 356	7 299
Income ¹	2 035	7 373
<i>Per cent of estimate</i>	60.6	101
Expenditure (b)	2 499	4 869
<i>Per cent of estimate</i>	74.5	66.7
Net excess (short fall) (c)	(444)	2 673
<i>Per cent of estimate</i>	13.2	36.6

- (a) There is no approved "budget" for these trust funds, only "estimated requirements" notified to the Parties.
 (b) As per statement I.
 (c) The difference between income and expenditure is corrected by prior period adjustments.

27. The "Trust Fund for Supplementary Activities" finances *inter alia* the implementation of the Convention on Climate Change (workshops, greenhouse gas information system) and of Kyoto Protocol components (the Clean Development Mechanism). Its income exceeded the target set initially by one per cent, while expenditures reached only 66.7 per cent of the budget. Contributions income grew from \$5,456,000 to \$6,930,000, while interest income was \$425,536. The Trust Fund's other resources amounted to \$357,412, of which \$307,412 represented accreditation fees collected from industries under the Clean Development Mechanism of the Kyoto Protocol. The resulting net excess of \$2.7 million increased the reserves and fund balances, contributing to maintain the overall financial position of the Secretariat.

28. The "Trust Fund for Participation in the UNFCCC process" (FIA) pays for travel and allowances of some 200 participants at every session of the Conference of the Parties and of over 100 participants at the subsidiary body meetings. The contribution income of \$2.035 million was significantly below target (68.6 per cent), while expenditures exceeded income by \$444,000.

29. 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.

Cash flow

30. Statement III shows that UNFCCC had \$19.6 million in cash and term deposits at the end of the biennium, an increase of 10 per cent over the previous biennium. The net increase of \$1.7 million was half of that of the previous biennium.

2 United Nations System Accounting Standards

31. The Board assessed the extent to which the financial statements of UNFCCC for the biennium ended 31 December 2003 conformed to the United Nations System

Accounting Standards (UNSAS). The review indicated that the financial statements were consistent with the standards.

3 Presentation of the financial statements

32. The General Assembly resolution 55/220 dated 23 December 2000 requested "The Secretary General and executive heads of funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in the annexes".

33. The Board continued to evaluate the financial information that should be presented in the financial statements, schedules and in annexes to the statements in accordance with the United Nations System Accounting Standards.

34. UNOG has maintained since 1996-1997 a UNFCCC Special Account ("ZZB" then "ZGA") to record the income and expenditures for servicing the two-week sessions of the conferences of the parties and of its subsidiary bodies outside the Bonn duty station. The income (\$9.3 million in 2002-2003) and expenditure (\$8.4 million) are not included in Statement II, but indicated in notes 8 and 14 to the financial statements. Only the surplus payables to be reimbursed to the host governments were reflected under the Trust Fund for the Core Budget, or, for the COP3, in the Trust Fund for Supplementary Activities. This presentation is inconsistent with that of the trust funds in Statements I to III.

35. The Board recommends that UNFCCC 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.

36. The General Assembly A/RES/57/278, paragraph 6, requested "the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system".

37. In terms of accountability, UNFCCC provides in a separate report on the "Financial Performance for the Biennium", an income and expenditure report, data on programme delivery and human resources. However, there is no financial report (equivalent to the "Chapter 1" usually presented with the audited financial statements) with information on assets and liabilities, cash-flow and performance report against appropriations. Furthermore, UNFCCC does neither present a summary of the financial statements, nor key indicators or ratios, such as current liabilities as a percentage of total liabilities, either in the above-mentioned Financial Performance or in another document.

Performance reporting and non-financial information

38. Non-financial information is scarce. There is no mention of key objectives and related performance. Such information and other non-financial information disclosures could be of value to the stakeholders.

“Social accounting” issues

39. “Social accounting” includes such issues as environmental reporting; human resources reporting (composition of staff, current skills compared to skills needed; future staff requirements, including continuity plan and rotation policy); health and safety issues; and social reporting, i.e. the organization’s external impact or influence on social issues. UNFCCC does not include such data in its “Financial Performance” report.

Risk management, continuity and internal control

40. Continued performance is dependent *inter alia* on the constant identification of risks and development of systems and controls to address those risks. As such, risk information disclosures are relevant to the needs of financial statement users: measures in place to address financial risks, to safeguard assets and financial records, and to ensure continuity in the event of a disaster. UNFCCC does not include such data in its financial report or related documents.

41. Reporting would also be useful on issues such as the internal audit function and its oversight, the ethics infrastructure and measures put in place to safeguard the integrity of management and financial information.

42. Some of these issues are included in other documents issued to the Conference of Parties as part of the normal reporting process.

43. 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.

4. Accounts payable

44. The liabilities in “other accounts payable” decreased from \$2,636,383 to \$1,988,389 between the end of 2001 and the end of 2003 (a decrease by 32.6 per cent). This was mainly due to the decreasing amount to be refunded to conference host countries, from \$1,314,036 to \$815,159, as mentioned in note 8 to the financial statements.

45. Notes 8 (Other Accounts Payable) and 14 (Other financial implications) provide no ageing information. Note 8 reports an unspent \$908,804 balance for the December 1997 Conference of Parties 3, due to the host country since the end of 1998. UNFCCC had not succeeded in providing an appropriate back-up documentation: as noted during an audit of the Board at that time, participants had not signed for cash receipts totalling \$15,003; payment vouchers were missing, including one for \$188,751 in daily subsistence allowances; neither the Certifying Officer nor the Approving Officer had signed to validate the transactions, etc. UNFCCC did provide to the host country in April 2003 a breakdown of incurred expenditures, but the reporting format was different from that of the initial cost estimate, and it did not explain the reported under-expenditure amounting to 62 per cent of the initial estimate.

46. UNFCCC has improved the processing of the accounts of more recent conferences. Note 14 mentions, however, a balance payable to three other host countries for a total amount of \$815,159, of which 28 per cent have been due for over 12 months. This figure has yet to be reconciled with the payable amounts (\$715,792).

47. 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.

48. Note 14 does not mention the net balance as of 31 December 2003 of the relocation budget which was funded by the German government (\$99,367 payable to Germany).

49. Notes 8 and 14 do not disclose to which trust funds the mentioned payable amounts pertain. The liability balances toward host countries are posted to the FCA Core budget trust fund, except for the balance of COP 3, which was posted to the FRA Supplementary activities trust fund. The outstanding payables to donor countries exceeding 12 months reached 57 per cent of the overall balance.

50. 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.

5 Liabilities for annual leave, end-of-service benefits and post-retirement benefits

51. Note 12 shows for the first time the liabilities for annual leave, end-of-service, repatriation and post-retirement health insurance benefits. They have been valued at \$7 million. This included the accrued liability for post-retirement health insurance benefits (reported at \$5 million as at 31 December 2003, out of a total projected value of \$10.9 million as recently calculated by the United Nations Headquarters), unused annual leave (\$1 million), and repatriation costs (\$1 million).

52. These liabilities are not covered by any reserve, although they amount to less than the cumulative surplus. Organisations such as UNFCCC, depending on voluntary contributions, are vulnerable to the risk of a downturn in income, which could lead to significant expenditures in this matter while no funds are set aside to cover them.

53. 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.

6 Other accounts receivable

54. Out of \$321,881 in other accounts receivable detailed under Note 7, \$14,766 (4.6 per cent) had been receivable since 1997, including travel and salary advances for \$ 1,354 and \$5,107 respectively.

55. The Board recommends that UNFCCC clear in a timely manner its accounts receivable.

7 Unliquidated obligations

56. According to UN Financial rule 105.9, "an obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognised by the United Nations. All obligations must be supported by an appropriate

obligating document". A small number of obligations were based on internal documents only. They amounted to \$151,000 (representing 9 per cent of the shortfall of the core budget).

57. This amount corresponds to the expected payables to UNDP, which manages the United Nations premises in Bonn, for the enhancement of security and logistical arrangements. The corresponding obligations were supported only by preliminary cost estimates, instead of an appropriate obligating document, such as a purchase order at an agreed cost, as called for by United Nations Financial rule 105.9.

58. The Board reiterates its recommendation that UNFCCC (i) thoroughly review unliquidated obligations at year-end, and (ii) raise them only against appropriate obligating documents.

8 Deferred charges

59. Deferred charges (\$227,635) included only the education grant advances made to staff members. Two operations carried out directly by UNOG for \$56,449 were not documented.

60. The Board recommends that UNFCCC obtain from UNOG the timely transmission of adequate supporting documents.

9 Write-off, losses of cash, receivables and property

61. UNFCCC reported the write-off of long outstanding receivables for \$67.04.

10 Ex gratia payment

62. Due to re-scheduling of the 2001 conference, a Bonn hotel claimed a "cancellation fee" of Euro 179,000, afterwards reduced by half, and "technical costs" of some Euro 32,000. UNFCCC paid Euro 60,000 in February 2003 (\$65,862) as a "*full and final settlement of any claim*".

C. Management Issues

1 Lack of segregation of duties in financial and banking procedures

63. In June 2003, the Bulletin FCCC/B/2003/1 formalised the delegation of financial authority (DOA) to "programme budget-approving", certifying and alternate certifying officers, but did not provide for the function of approving officer as described under United Nations Financial Rule 105.6. The function of "programme budget approving officer" is mainly empowered with budget-approval capacities, which does not comply with United Nations Financial Rule 105.6. Approving officers should be designated to approve obligations and expenditures relating to contracts, agreements, purchase orders and other forms of undertaking after verifying that they are in order and have been certified by a duly designated certifying officer. After the audit, UNFCCC planned to seek the United Nations Secretariat's advice on this matter.

64. Certifying Officers have clearly-defined and individualised functions. They have been trained, but without being provided with working procedures and instructions.

65. An imprest fund was authorised by UNOG in 2001 and set by UNHQ at \$450,000. One temporary Bank Account was opened in November 2003, to provide banking service during COP 9 in Milan. The authority to disburse funds was delegated to 14 certifying and 9 approving officers, without any centralized control. This weakness in the internal control system induces a risk as illustrated by five vouchers totalling \$2,382 paid without certification.

66. The certifying officers and the bank signatories were the same in two cases. One approving officer was also a bank payment signatory. This was not in compliance with United Nations Financial rule 104.5 (*“Bank signatory authority and responsibility is assigned on a personal basis and cannot be delegated. Bank signatories cannot exercise the approving functions assigned in accordance with the rule 105.6”*).

67. 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.

2 Human resources management

Staff selection and management system

68. By April 2004, UNFCCC had yet to fully implement Administrative Instruction ST/AI/2002/4 (1 May 2002) on a new staff selection system, and measures to improve mobility of staff members remained to be taken. UNFCCC opted, due to its nature and size, for not implementing fully this Instruction. At the time of the Board’s audit, internal guidelines were under review.

Under-graded and over-graded Staff

69. By October 2003, the accumulated over-expenditure for 10 over-graded staff members was estimated at \$112,461 over a period of 3 years. UNFCCC was of the opinion that no administrative action should be taken (neither downgrade, nor freeze salaries of staff), in order not to penalise staff for an administrative error. Regarding 29 under-graded staff members, the Secretariat valued the amount due to them by October 2003 at \$187,749 over the same period. For this purpose, \$200,000 was obligated, but yet to be paid.

70. 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.

Vacancies

71. By April 2004, the Finance Section had no senior accountant and the sole staff member with accounting experience had also resigned. Considering the size of UNFCCC and the recent transfer of accounting management from UNOG through the implementation of the Integrated Management Information System (IMIS), the Finance Section is clearly

understaffed at the professional accounting level. The risk of such lack of skills and expertise is that proper controls in the administrative and financial process can not be ensured.

72. UNFCCC agreed with the Board's recommendation that qualified staff be recruited to fill the vacant positions in its Finance Section.

Training

73. The training of the Finance Section staff in IMIS involved some trainers that were not informed about UNFCCC financial and accounting procedures. UNFCCC conducted no evaluation of the training delivered, and was therefore unable to assess its effectiveness and the satisfaction of the trainees.

74. At the time of the Board's audit, the staff in charge of processing and accounting expenditures had not been properly trained in accounting matters relating to the use of IMIS.

75. UNFCCC agreed with the Board's recommendation to (i) base training sessions on its actual requirements and procedures; (ii) include accounting and financial issues in its training plans; and (iii) conduct post-training evaluations.

Consultants

76. UNFCCC provided information relating to consultants in a report on "Administrative and financial matters – interim financial performance for the biennium 2002-2003" as of June 2003. For a 45-day contract signed in 2003, to prepare a "request for proposal" for the development of an environmental transaction log, a consultant was paid \$25,000. During the same period, another consultant was paid \$14,000 to work for 22 days on the same subject.

77. A contract of an expert on emissions trading and its potential application to greenhouse gases was signed in 1998 for about twenty days of work every year. There was no competitive selection in six years. In line with instruction ST/AI/1999/7, the normal maximum salary (D 1 level) would be less than \$500 per working day. Since 1998, the above-mentioned consultant has received \$167,100 in fees, a daily average of \$668, plus \$81,726 in travel and DSA expenses.

78. UNFCCC established after the Board's audit a procedure by which the selection of a consultant, the corresponding terms of reference, fees and the required output are to be monitored before approval.

Travel

79. Travel represents some 30 per cent of the total expenditures in the trust funds and special accounts. Participants' travel to attend conferences represents approximately two-thirds of expenditures. Due to the recent implementation of IMIS and to the decentralisation of administrative functions to the programmes, standard operating procedures on the matter were not yet approved one year after they had been drafted (May 2003). The previous backlog of travel advances has, except for a few cases, been cleared.

80. In several cases, the arrival date for one meeting could be authorised for up to three days before the starting date of the meeting and the departure date for up to four days after the closure of the meeting - without any explanation on the travel authorisation forms and approved plans.

81. Daily Subsistence Allowance amounts were only mentioned as a lump sum, while they should normally represent the multiplication of a daily rate by a number of days. UNFCCC indicated after the Board's audit that it would train staff on travel procedures and include all pertinent information in the Travel Authorisation.

3 Internal Audit

82. The last internal audit by the Office of Internal Oversight Services took place in 1997. OIOS has included UNFCCC in its 2004 audit plan.

83. The Board recommends that UNFCCC and OIOS agree on a multi-year framework for periodic internal audits.

4 Cases of fraud and presumptive fraud

84. UNFCCC did not report any case of fraud or presumptive fraud during the 2002-2003 biennium. Fraud prevention policies were prescribed in the delegation of authority to the approving officers of the UNFCCC, but the fraud-awareness policy established by UNFCCC was limited. In particular, UNFCCC did neither have a comprehensive internal anti-fraud and corruption infrastructure, nor a proactive anti-fraud and corruption strategy and plan, which means that internal risks may not be properly addressed. Due to this lack of a comprehensive anti-fraud plan, UNFCCC had:

(a) No effective framework for internal fraud prevention, detection, resolution and reporting;

(b) No formal internal corruption and fraud risk assessment mechanism; and no internal corruption and fraud-prevention committee;

(c) Reported no ethics, anti-corruption and fraud-awareness training sessions and workshops held during the biennium;

(d) No specific resolution mechanisms for reported and detected internal incidents and allegations of corruption and fraud (although it relies on OIOS to do so).

85. The Board also noted that the UNFCCC was not contacted by the OIOS to respond to the request of the General Assembly (resolution 57/282 of 29 January 2003) for a review of the practices involving programme managers in investigative processes.

86. 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.

D. Acknowledgement

87. 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

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

(signed) **Guillermo N. Carague**
Chairman, Philippine Commission on Audit

(signed) **François Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the Report.

ANNEX

Follow-up action taken to the recommendations of the Board of auditors in its report for the biennium ended 31 December 2001

Topic	Implemented	Under implementation	Not implemented	Total	In this report
3. Interest on imprest account in Bonn	Para. 14			1	
7. Outstanding contributions from Parties/provision for doubtful receivables		Para. 15		1	Para. 22
8. Improve the fund-raising or adjust the expenditure according to actual resources (TF for Participation in the UNFCCC process)	Para. 21			1	Para. 26-29
9. Disclosure of after-service liabilities	Para. 24			1	Para. 51-53
10. Write-off of non-expendable property		Para. 26		1	
11. Improvement of accounting and internal controls	Para. 29			1	
12. Review of unliquidated obligations		Para. 31		1	Para. 56-58
13. Clearing of travel advances	Para. 33			1	
14. Renegotiate bank conditions of the imprest account Bonn	Para. 37			1	
15. Review of administrative arrangements	Para. 42			1	
16. Co-operation with UNCCD		Para. 48		1	
17. Introducing a long term IT strategy		Para. 51		1	
18. Implementation of an off-site back-up procedure and developing a disaster recovery plan		Para. 53		1	
19. Improve procedures to register, track and control UNOG based operations	Para. 55			1	
20. Implementation of the financial module of IMIS	Para. 58			1	
21. Improve communication with UNOG to ensure that human resources action are exactly implemented by UNOG	Para. 62			1	
22. Value precisely the costs incurred on the over-graded staff-members and take steps to prevent over-expenditure		Para. 66		1	Para. 69-70
TOTAL	10	7		17	
TOTAL %	59 %	41 %		100 %	

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 1.2 and the supporting notes for the biennium ended 31 December 2003. 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 conforming 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, and as considered by the auditor to be necessary in the circumstances, 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.

In our opinion, the financial statements present fairly, in all respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the biennium then ended in accordance with the United Nations Framework Convention on Climate Change stated accounting policies set out in note 2 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Furthermore, in our opinion, the transactions of the United Nations Framework Convention on Climate Change that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Legislative Authority.

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.

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

(signed) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(signed) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the Audit opinion.
