



BOARD OF AUDITORS

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Statement made to the COP 27 on the Report of the Board of Auditors on the Financial Statements of the United Nations Framework Convention on Climate Change [November 2022]

Audit report and financial statements for 2021

Thank you, Chair;
Distinguished Delegates,

On behalf of the Board of Auditors, I have the honour to present to you the key findings from the audit report on the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the year 2021.

We audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2021. Due to the COVID-19 pandemic, some audit work was carried out remotely. We duly considered the secretariat's responses to the draft report and adequately reflected them in the final report.

Audit opinion

The Board has issued an unqualified opinion on the financial statements for the period under review. They fairly present the organization's financial position, its financial performance and cash flows.

Overall conclusion

In 2021, UNFCCC recognized a deficit of 0.7 million USD compared with 0.5 million USD in 2020. UNFCCC is mainly funded through contributions and service fees. In 2021, total contributions amounted to 67.8 million USD, including 37.1 million USD of indicative assessed contributions and 30.7 million USD of voluntary contributions.

Let me turn to the

Implementation of previous recommendations made by the Board of Auditors

The secretariat has pursued its efforts to implement the recommendations made by the Board. The Board noted that out of a total of 21 recommendations that remained outstanding, 6 (28 per cent) had been implemented, 14 (67 per cent) were under implementation and 1 had been overtaken by events. The Board is concerned about the decrease in the implementation rate. The Board noted that almost two-third of the recommendations made in prior years were still pending.¹

Some recommendations which were still marked as ‘Under Implementation’ covered important topics such as reviewing the funding policy for after-service health insurance and repatriation liabilities. Some were also a cause of concern in regard of the institutional linkage of UNFCCC to United Nations Headquarters. The Board recommended that UNFCCC make that issue a priority.

After this status update on the implementation of the recommendations from previous reports, I now wish to turn to:

The key findings in the long-form report

As a result of the financial and performance audit work, the Board has found some weaknesses that merit attention. Let me focus on certain areas for further improvement. Thus, I wish to present the key findings of the review of the financial statements for the year ended 31 December 2021 in more detail:

I would like to start the presentation of key findings with the review of the

Transfer of 55 million USD from the Clean Development Mechanism fund to the Supplementary Activities fund

The Trust Fund for Supplementary Activities has a surplus that originated mainly from a transfer of 55 million USD from the Trust Fund for the Clean Development Mechanism as per decision 2/CMP.16 of the Conference of the Parties (COP) serving as the meeting of the Parties to the Kyoto Protocol. The transferred money will be used for two projects. However, the Board holds that the project descriptions do not provide a reasonable justification for required additional funding. The Clean Development Mechanism transfers were early and overstated. In addition, the staff costs are overstated because the posts have not yet been filled. The Board holds that the chances are low that they will be filled until 2023.

¹ In 2020: 53 per cent were fully implemented.

The Board recommended that UNFCCC revise the project descriptions for projects financed by the Clean Development Mechanism transfer so that the amount and timing of the transfer could be reasonably justified.

Now, I wish to continue with the
Statement on Internal Control

which is a public accountability document. By June 2021, a Statement on Internal Control (SIC) had been implemented in numerous other United Nations organizations. The Secretary-General also signed the first SIC for all operations of the United Nations Secretariat. The Board recommended that UNFCCC reconsider introducing a SIC based on the SIC signed by the Secretary-General in 2021.

Now, I would like to turn to another important topic:

The review of the UNFCCC policies and guidelines for applicability

Due to the institutional linkage of the UNFCCC secretariat to the United Nations, which is to continue as was decided by the COP in 2005, UNFCCC specified which administrative issuances of the United Nations applied to UNFCCC and which additional directives could be issued by UNFCCC.

Since 2017, the Board has issued six recommendations addressing the alignment of the UNFCCC policies and its oversight.

Since late 2020, UNFCCC has been in consultation with the United Nations Office of Legal Affairs to seek clarity on institutional linkage and delegation of authority. While this process was ongoing, UNFCCC has focused on strengthening UNFCCC's policies and on moving forward with a detailed review and update of those policies since July 2021. The Board has supported UNFCCC in doing so and conducted a review of its 66 policies, informally called "Policy Review". The Board also made clear the importance of UNFCCC having an overview of the relevant regulations at all times. Any ambiguities that may arise must also be prevented in the event of changes to United Nations regulations.

UNFCCC agreed and drafted a UNFCCC Policy Compendium in April 2022. The Compendium specifies which administrative issuances of the United Nations apply to the UNFCCC secretariat and lists them together with the applicable UNFCCC administrative issuances. UNFCCC also included a clause stating that, in case of doubt, the United Nations Financial Regulations and Rules and the United Nations Staff Regulations and Rules prevail. The majority of the 35 policies identified as deficient by the Board during the "Policy Review" have already been revised by UNFCCC.

Next, I would like to draw your attention to the following finding:

Management of the special account of Programme Support Costs without Instruction

The UNFCCC secretariat has not yet issued an instruction for managing Programme Support Costs with a volume of more than 10 million USD annually, although it has been deviating from the United Nations Secretariat's regulations for years. The Board has drawn the UNFCCC secretariat's attention to the regulatory gap and commented on initial drafts of an administrative instruction. The remarks on the management of Programme Support Costs apply in the same way to the management of the cost recovery fund.

The Board issued four recommendations in this regard, including one stating that major changes to UNFCCC administrative issuances be brought to the attention of the COP as the governing body of UNFCCC.

May I now turn to **crowdfunding**

UNCCC had a donation website that had already generated revenue of 0.8 million USD, before it was removed in August 2020 in order to officially launch a fundraising campaign. The launch was delayed due to the COVID-19 pandemic. As a consequence, many potential donors might not have found the United Nations Foundation website. This most likely resulted in UNFCCC receiving less crowdfunding revenue.

Apart from the budget management report and the annual report, UNFCCC's website did not contain any specific information for crowdfunding donors about how much had been donated or how UNFCCC planned to use or had used the funds. The Board is of the opinion that donors might be interested in how their crowdfunding donations were used. An easily accessible summary feedback on UNFCCC's website about the amount and use of the donations could fulfil this need for transparency and could be an incentive to donate or donate again.

The Board recommended that UNFCCC officially launch the crowdfunding platform and publish the donation web page as soon as possible and also to publish summary information about donations from non-Party stakeholders and members of the public at large on its website.

Finally, I would like to draw your attention to the

Implementation of sustainability in the administration and operations of UNFCCC

The United Nations system has integrated environmental sustainability into its facilities and operations with increasing intensity. As the mandate of UNFCCC has always been guided by the need for sustainable development, it has been referring to work related to the Sustainable Development Goals in its annual budget performance and programme delivery reports since 2016. UNFCCC strives to implement sustainability more systematically and has already committed to establishing an environmental management system. However, UNFCCC has not made the commitment to implement an environmental management system based on an internationally recognized standard.

The Board is of the opinion that, if UNFCCC had an environmental management system that complied with an international standard such as ISO 14001, UNFCCC would appear more committed and credible and would strengthen its role model character towards other United Nations entities. Consequently, the Board recommended that UNFCCC include the project of establishing an environmental management system based on an internationally recognized standard in the next workplan.

Ladies and Gentlemen,

Before I conclude my statement, please let me point out the following:

The German Supreme Audit Institution, the United Nations Board of Auditors and I feel honoured to have contributed to the objectives of this esteemed organization during the past six years.

Now that our mandate has come to an end, I hope that UNFCCC also believes that we were not only here to review and audit but also to help enhance the secretariat's work. On a broader scale, our mission was to support your mission. Hence, I wish the organization, the secretariat and the COP every success in meeting the challenges ahead.

Please welcome our successors from the French Supreme Audit Institution (Cour des Comptes) with open arms as you did with us.

Honourable Chair, Distinguished delegates, Mr Executive Secretary, Mr Deputy Executive Secretary, this concludes my statement.

I will be happy to respond to any questions you may have.

Thank you very much for your kind attention.

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Germany