



Subsidiary Body for Implementation

Thirty-seventh session

Doha, 26 November to 1 December 2012

Item 20(a) of the provisional agenda

Administrative, financial and institutional matters

Audited financial statements for the biennium 2010–2011

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 that 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 (decision 15/CP.1, annex 1, paras. 18 and 19).

2. The United Nations Board of Auditors has audited the financial statements for the biennium 2010–2011. The full text of the Board's report is attached as an annex and reproduced as received, without formal editing and with the original pagination. The secretariat's response to the audit recommendations has been issued as addendum 1 to this document; the audited financial statements themselves have been issued as addendum 2.

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 Board. 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 eighteenth session and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as its eighth session.

Annex



United Nations

**Report of the United Nations
Board of Auditors**

on the financial statements of the

**United Nations Framework Convention
on Climate Change**

for the biennium ended 31 December 2011

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Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) which comprise the statement of income, expenditure and changes in reserves and fund balances for the biennium ended 31 December 2011 (Statement I); the statement of assets, liabilities and reserves and fund balances (Statement II) as at 31 December 2011; the statement of cash flows (Statement III), and the statement of appropriations (Statement IV) for the biennium then ended; and the schedules and explanatory notes thereto.

Management's responsibility for the financial statements

The Executive Secretary of UNFCCC is responsible for the preparation and fair presentation of these financial statements in accordance with the United Nations system accounting standards and for such internal control as she deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Framework Convention on Climate Change as at 31 December 2011 and its financial performance and cash flows for the biennium then ended in accordance with the United Nations system accounting standards.

Report on Other Legal and Regulatory Requirements

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 Rules of the United Nations and legislative authority.

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

Liu Jiayi
Auditor-General of the People's Republic of China
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

Terence Nombembe
Auditor-General of the Republic of South Africa

Amyas Morse
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Chapter II

Long-form report of the Board of Auditors

Summary

The Board of Auditors (the Board) has audited the financial statements and reviewed the operations of the United Nations Framework Convention on Climate Change (UNFCCC) for the biennium ended 31 December 2011. The audit was carried out at UNFCCC's headquarters in Bonn, Germany.

Audit opinion

The Board issued an unmodified opinion on the financial statements for the period under review, as reflected in Chapter I.

Follow-up of previous recommendations

Of the 10 recommendations made by the Board for the biennium 2008-2009, seven (70 per cent) were fully implemented; three (30 per cent) were under implementation. In this report, the Board reiterates two recommendations to formalize the agreements for management of the cash pool and to eliminate the discrepancy in non-expendable property (NEP) records. The Board encourages the Administration to make further effort to expedite its implementation of recommendations.

Financial overview

Total income for the period under review amounted to \$252 million while total expenditures amounted to \$222 million, giving an excess of income over expenditure of \$30 million.

The assets totaled \$207 million as at 31 December 2011, while total liabilities were \$62 million, giving reserves and fund balances of \$145 million.

Implementation of International Public Sector Accounting Standards (IPSAS)

UNFCCC, along with other UN agencies, planned to adopt IPSAS in 2014; however, UNFCCC lagged behind its planned schedule and did not achieve some of the targets in the implementation plan approved in 2010. At the time of reporting, the Board was informed by the UN IPSAS implementation team that UNFCCC was not in the list of participants which will follow up the instructions given by the UN implementation team. Given the complexity of the implementation of IPSAS, the Board is concerned about the delay in the preparation of IPSAS implementation which could expose UNFCCC to a risk of failure to implement IPSAS in a timely manner.

Non-expendable property management

At the end of the biennium under review, NEP in UNFCCC amounted to \$10 million, including \$5.55 million of ICT hardware and \$3.27 million of software. The Board observed two deficiencies: (a) Delay in the disposal of ICT equipment which was no longer in use; as a result, little residual revenue has been realized from the disposal; and (b) Delay in write-off of obsolete software, which could result in the inaccurate value of NEP disclosed in the notes to the financial statements.

Recommendations

The Board has made a number of recommendations based on its audit. The main recommendations are that UNFCCC :

- (a) Urgently re-evaluate and revise its IPSAS implementation plan; take measures to ensure the preset goals could be achieved according to the timeline; and develop a change plan; and identify its need for change and better prepare for the implementation of IPSAS by developing a change plan;**
- (b) Conduct the disposal of ICT equipment no longer in use on a regular basis to maximize the values realized through asset disposals; and**

(c) Ensure all acquisition of software is aligned with its information technology strategy; and establish a mechanism to regularly identify and write off obsolete software to ensure that its NEP is accurately disclosed in the notes to the financial statements.

A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change (UNFCCC), with 195 member Parties, is an international environmental treaty, which aims to stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. The work under the UNFCCC is facilitated and supported by its secretariat located in Bonn, Germany. The secretariat is institutionally linked to the United Nations and administered under United Nations Financial Regulations and Rules.

2. The Board of Auditors (the Board) has audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) and has reviewed its operations for the biennium ended 31 December 2011 in accordance with General Assembly (GA) resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations (UNFRR) and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the UNFCCC as at 31 December 2011 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations System

Accounting Standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the United Nations Financial Regulations and Rules and financial procedures approved by the Conference of the Parties (COP) in Decision 15/CP.1. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of the UNFCCC operations under UN financial regulation 7.5. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the UNFCCC operations. The Board also followed up on its previous recommendations and these matters are addressed in the relevant sections of this report.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the COP. The Board's observations and conclusions were discussed with the UNFCCC management, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations

6. Of the 10 recommendations made for the biennium 2008-2009, seven (70 per cent) were fully implemented; three (30 per cent) were under implementation. Details of the status of implementation are disclosed in the Annex. The Board noted an improved implementation rate compared with 38 per cent in the previous biennium. The Board welcomes the progress made by the UNFCCC and encourages it to fully implement all the recommendations.

7. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated in the Annex the financial periods in which such recommendations were first made. Of the three recommendations under implementation, one relates to the biennium 2006-2007 and two to the biennium 2008-2009.

8. Regarding the recommendations that were under implementation, the Board noted the continuing effort of UNFCCC and has no major overall concern. The Board reiterates two recommendations to formalize the arrangement for management of cash pool and to eliminate the discrepancy in its non-expendable property (NEP) records. For all recommendations under implementation, the Board encourages the Administration to expedite its implementation of the recommendations.

2. Financial overview

9. For the period under review, total income of UNFCCC amounted to \$252 million, an increase of \$27 million compared with the previous biennium; while total expenditure was \$222 million, giving an excess of income over expenditure of \$30 million. The increase was mainly explained by an increase in the share of proceeds and fees accruing to UNFCCC from the Clean Development Mechanism (CDM).

10. Assets totaled \$207 million as at 31 December 2011 while total liabilities were \$62 million, giving the reserves and fund balances amounting to \$145 million. Of the total assets, \$189 million was cash or cash equivalent deposited in the United Nations Office at Geneva (UNOG) cash pool which was in turn invested by the UN Treasury Department in New York. Of the \$189 million cash assets, some \$120 million come from the accumulated net Trust Fund of CDM¹ which has net revenue every year. For example, the net CDM of this biennium is about \$41 million.

3. Implementation of International Public Sector Accounting Standards (IPSAS)

Progress of implementation

¹ The Trust Fund for CDM is established under the Kyoto Protocol, which supports the administration of the clean development mechanism. It enables Parties of the Convention to meet their emission limitation and reduction commitments by using certified emission reductions (CERs) generated from CDM projects. The Fund receives shares of proceeds from CDM projects and fees related to the management of CDM activities.

11. The General Assembly, in its resolution 60/283, approved the adoption of IPSAS for the presentation of the financial statements within the United Nations system. UNFCCC decided to adopt IPSAS in 2014 following the timeline of the UN Secretariat.

12. During the audit visits to UNFCCC, the Board examined the preparedness for IPSAS implementation and noted the following concerns, which, if not addressed, may delay the implementation of IPSAS:

- **IPSAS Implementation plan.** The Board noted that, although the implementation plan has been in place, several goals were not achieved as scheduled. For example, the implementation plan was not revised and updated in 2011 to track the implementation process; UNFCCC had analyzed possible changes to its accounting policies but no draft accounting policies have been developed.
- **Overall governance.** Whilst it has established an IPSAS implementation team, UNFCCC has not yet established the IPSAS Steering Committee as required in the implementation plan.. Furthermore, the post of IPSAS project manager had been established but still remained unfilled as of the time of audit.
- **Change management.** IPSAS implementation is a major business change programme that will impact on staff, management and those responsible for governance. It is vital to have a change management plan that clearly communicates to all staff and stakeholders the impact

of the new reporting regime on their daily activities, and the range of training and related activities that will need to be undertaken. UNFCCC has not developed a change plan, but informed the Board of its intention to do so by June 2012.

13. At the time of reporting, the Board was informed by the UN IPSAS implementation team that UNFCCC was not in the list of participants which will follow up the instructions given by the UN implementation team. Given the complexity of the implementation of IPSAS, the Board is concerned about the adequacy of the preparation of IPSAS implementation which could expose UNFCCC to a risk of failure to implement IPSAS in a timely manner.

14. The Board recommends that UNFCCC (a) urgently re-evaluate and revise its IPSAS implementation plan; (b) take measures to ensure the preset goals could be achieved according to the timeline; and (c) identify its need for change and better prepare for the implementation of IPSAS by developing a change plan.

4. Financial management

Investment agreement on cash pool

15. The Board noted that at the end of the biennium 2010-2011, \$189 million cash of UNFCCC was invested in the cash pool managed by the UN Treasury, but no agreement was made between the UNFCCC and the Treasury. Lack of such an investment agreement could expose UNFCCC to financial risk. This had been

noted by the Board in its previous audit, and the Board had recommended that UNFCCC formalize an agreement with UN Treasury for its deposit in the cash pool. During the current biennium's audit, the Board was informed that UNFCCC had been in contact with both the UN's Treasury department and legal office to work on an agreement. However, the agreement had not yet been drafted as of 30 April 2012.

16. UNFCCC agreed with the Board's reiterated recommendation to accelerate the formalization of the agreement with the UN Treasury which manages its cash and investment in the cash pool.

Income recognition

17. The Board noted that, during the biennium 2010-2011, \$1.01 million of income was not recognized and included in the financial statements of UNFCCC, which comprises of:

- \$0.95 million of the contribution from Government of Germany for the cost of relocating part of UNFCCC's secretariat; and
- \$0.06 million from provision of procurement services to a UN organization.

18. Subsequent to the Board's observations, UNFCCC made adjustments to the financial statements of 2010-2011 to recognize the income of 1.01 million.

5. Non-expendable property (NEP) management

Disposal of ICT equipment

19. Generally, the value of Information and Communication Technology (ICT) equipment depreciates quickly due to the rapid development of technology. If the ICT equipment has to be written off and disposed of, it should be done quickly otherwise little residual revenue will be realized from the disposal. The Board noted that a number of ICT equipment with a purchasing cost of \$1.13 million in the UNFCCC had been disposed of in 2010 and no residual value income was realized. The Board was informed that most of this equipment had been kept in storage for long time and therefore had very minimal residual value.

20. The Board also observed that UNFCCC had only disposed of its ICT equipment three times since 2001 (in 2001, 2007 and 2010). In addition, the Board noted that at the end of 2011, the ICT equipment kept in stock amounted to \$1.18 million, of which \$0.49 million had been purchased for more than four years.

21. While the Board is aware that there is no specific requirement on the frequency of disposal in current regulations, it holds the view that to maximize the residual revenue from the disposal of ICT equipment, this kind of assets should be disposed in a timely manner if the Administration decides not to use them anymore.

22. UNFCCC agreed with the Board's recommendation to conduct the disposal of ICT equipment on a regular basis to maximize the values realized through asset disposals.

Write-off of obsolete software

23. As of the end of financial period under review, software in UNFCCC amounted to \$3.27 million. An ageing analysis revealed that \$1.59 million of the software was purchased before 2007; \$0.52 million was purchased before 2002.

24. A sampling test indicated that half of the software purchased before 2002 became obsolete and was no longer in use. The Board further noted that UNFCCC had not written off any obsolete software since the establishment of its secretariat.

25. The Board is concerned that the large share of software being obsolete or unused is indicative of its deficiencies in the information technology (IT) strategy. It raised a question whether the software purchased was aligned with its IT strategy. UNFCCC will also need to perform a data clean-up of its inventory of software before the implementation of IPSAS.

26. The Board recommends that UNFCCC: (a) ensure all acquisition of software to is aligned with its information technology strategy; (b) establish a mechanism to regularly identify and write off the obsolete software to ensure that its NEP is accurately disclosed in the notes to the financial statements.

27. UNFCCC commented that it will apply appropriate mechanisms to write-off all software which are not in use by year-end 2012, or as directed by UNHQ Property Survey Board's advisory.

Discrepancy

28. In its previous reports for the biennium 2006-2007 and 2008-2009, the Board noted there was a discrepancy of \$747,644 between the NEP records in the finance section and the inventory tracking system, and recommended that UNFCCC reconcile the records to eliminate the discrepancy. The Board, however, continued to observe that the same discrepancy remained un-reconciled at the end of biennium 2010-2011, but was earmarked for write-off as disclosed in the Notes 13 to the financial statements.

29. UNFCCC explained that it was unable to verify the status of the equipment to complete the write-off process as there was neither formal inventory records of these items nor proper guideline to follow in dealing with such a scenario. The Board is of the view that the assets should be written off if no evidence can be found to confirm its existence. Lack of reconciliation of the discrepancy identified will affect the fair presentation of the financial statements.

30. UNFCCC agreed with the Board's recommendation to expedite the write-off process and eliminate the discrepancies between the records in the finance section and the inventory tracking system in the next biennium.

6. Procurement management

Vendor geographical distribution

31. The Board noted that 662 procurement orders in UNFCCC, amounting to \$15 million were issued during 2011. Of these orders, 621 with a value of \$12 million were awarded to suppliers registered in Europe, in particular 560 (amounting to \$10 million) were awarded to suppliers registered in one member of the European Union.

32. UNFCCC explained that vendors from other regions were limited in offering best value for money in some cases, given the need to provide meeting venues and services locally and the shipment costs for low-value office supplies; in addition, some of the suppliers registered in Europe were in fact representation offices of international companies headquartered elsewhere.

33. Notwithstanding the explanation by the Management, the Board is still concerned that high concentration of vendors in one geographical area might, to a certain extent, impair the principle of effective international competition stipulated by the United Nations Procurement Manual.

34. UNFCCC agreed with the Board's recommendation to widen the geographical distribution of vendors and suppliers, to ensure, to the extent possible, more effective international competition for its procurement needs and the best interests of UNFCCC.

Specification in requisition

35. To achieve effective competition and best value for money, specifications used in requisitions should not refer to brand names, catalogue numbers or specific types of equipment from specific manufacturers. On a sample basis, the Board noted one requisition valued at \$81,191 for procurement of furniture where UNFCCC specified the brand names and catalogue numbers. Whilst the requisition was made under a system contract, the system contractor was actually a furniture agent, concurrently dealing in the products from several furniture suppliers; therefore, it is not appropriate for UNFCCC to directly specify brand names and catalogue numbers of furniture in the first requisition. In the Board's view, UNFCCC can do so after carefully comparing with all the similar furniture products within the system contractor. In doing so, UNFCCC would maximize its chances of getting best value from the procurement.

36. The Board recommends that UNFCCC take measures to ensure the generic specifications are used in requisitions in accordance with the requirements of the United Nations Procurement Manual.

7. Travel management

Travel plan management

37. For the period under review, UNFCCC received in total 1,847 meeting invitations for its staff to attend various events around the world. According to its Travel Plan Procedure, the vast majority of these invitations were directly sent to

related programme departments for their decisions on whether to accept. As a result, 922 invitations or 50 per cent were accepted, incurring most of the \$36 million of travel expenditure in the biennium.

38. The Board noted that there was no official guideline in UNFCCC to regulate its staff on how to make decisions on accepting or declining the meeting invitations. UNFCCC explained that acceptance of meetings was mainly based on its staff's expertise and knowledge on the subject matter of the meeting.

39. The Board is of the view that given the importance of the organization and the large volume of meeting invitations, an official guideline on the principles of accepting meeting invitations would be helpful both in controlling the growing travel expenditures and in delivering its mandate. It would also be useful to have this meeting participation data by Division publicly displayed on their website to have a more effective control.

40. UNFCCC agreed with the Board's recommendation to develop a formal to regulate the acceptance of meeting invitations.

Mission Report

41. Publicizing Mission Reports within an entity is not only an important source for its staff to share information, but also an important means to scrutinize staff's travel activity internally.

42. In the biennium 2010-2011, UNFCCC required its staff to submit 629 Mission Reports within two weeks after returning from official travels. The Board noted that, 108 reports had not been submitted as of 30 April 2012.

43. UNFCCC agreed with the Board's recommendation to take measures to ensure the Mission Reports are submitted in a timely manner.

C. Disclosures by management

1. Write-off of property or assets

44. UNFCCC stated that no write-off of *property or assets* was effected during the period other than losses arising from exchange differences.

2. Ex-gratia payments

45. UNFCCC stated that no ex-gratia payment was made during the biennium 2010-2011.

3. Cases of fraud and presumptive fraud

46. UNFCCC reported that no cases of fraud and presumptive fraud had come to its attention during the biennium 2010-2011.

D. Acknowledgement

47. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary and the UNFCCC staff.

Liu Jiayi
Auditor-General of the People's Republic of China
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

Terence Nombembe
Auditor-General of the Republic of South Africa

Amyas Morse
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Annex

Status of implementation of recommendations for the biennium ended 31 December 2009

	Summary of recommendation	Paragraph Reference	Financial period first made	Implemented	Under implementation	Not implemented	Overtaken by events
1	Consider formulating and implementing a write-off policy for long outstanding contributions.	Par. 16	Board Report 2004/2005	X			
2	Formalize an agreement with UN Treasury for its deposit in the investment pool.	Par. 25.	Board Report 2008/2009		X		
3	Intensify efforts to clear all outstanding advances in a timely manner.	Par. 27.	Board Report 2008/2009	X			
4	Comply with the requirements of the Procurement Manual regarding the minimum time of placing of EOI advertisements.	Par. 39.	Board Report 2008/2009	X			
5	Carry out periodic physical verification of all non-expendable property and reconcile the results with the related records.	Par. 47.	Board Report 2006/2007		X		
6	Comply with the requirements of ST/AI/1999/7 relating to the minimum number of candidates to be considered for assignments.	Par. 47.	Board Report 2008/2009	X			
7	Implement a system for monitoring the issuing of consultants' files.	Par. 50	Board Report 2008/2009	X			
8	Propose that the Executive Board of Clean Development Mechanism establish performance evaluation criteria and conduct performance evaluations.	Par. 53	Board Report 2008/2009		X		
9	Share the information of experts among units/teams.	Par. 55	Board Report 2008/2009	X			
10	Develop a plan to increase the number of the UN official languages used on its website.	Par. 58	Board Report 2008/2009	X			
	Total			7	3	0	0
	Percentage			70	30	0	0