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## Subsidiary Body for Implementation

### Fifty-seventh session

Sharm el-Sheikh, 6–12 November 2022

Item 23 of the provisional agenda

**Administrative, financial and institutional matters**

## **Financial report and audited financial statements for 2021 and report of the United Nations Board of Auditors**

### **Note by the secretariat**

1. The UNFCCC financial procedures require that a final audited statement of accounts for the full financial period be provided to the Conference of the Parties as soon as possible after the accounts for the financial period have been closed. They also stipulate that the accounts and financial management of all funds governed by the financial procedures shall be subject to the internal and external audit process of the United Nations.
2. The United Nations Board of Auditors has audited the financial statements for 2021. The full text of the Board's report and of the audited financial statements is included in the annex and reproduced as received, with the original pagination. The secretariat's response to the audit recommendations is contained in the addendum 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 Board. It may also wish to recommend appropriate actions in draft decisions on administrative and financial matters for consideration and adoption by the Conference of the Parties at its twenty-seventh session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventeenth session and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session.



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## Annex

United Nations Framework Convention on Climate Change



**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 year ended 31 December 2021**

*Note*

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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## Chapter I

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

#### *Opinion*

We have audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) which comprise the statement of financial position (statement I) as at 31 December 2021, the statement of financial performance (statement II), the statement of changes in net assets (statement III), the cash flow statement (statement IV) and the statement of comparison of budgets to actual amounts (statement V) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNFCCC as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of UNFCCC in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Information other than the Financial Statements and Auditor's Report thereon*

Management is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2021 included in chapter IV, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing UNFCCC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless

Management either intends to liquidate UNFCCC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UNFCCC's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- (b) Obtain an understanding of internal control relevant to the audit 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 UNFCCC's internal control;
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- (d) Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UNFCCC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNFCCC to cease to continue as a going concern; and
- (e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

United Nations Framework Convention on Climate Change

***Report on other legal and regulatory requirements***

Furthermore, in our opinion, the transactions of UNFCCC that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of UNFCCC and legislative authority.

In accordance with Article VII of the United Nations Financial Regulations and Rules, we have also issued a long-form report on our audit of UNFCCC.



**Jorge Bermúdez**  
Comptroller General of the Republic of Chile  
Chair of the Board of Auditors



**Kay Scheller**  
President of the German Federal Court of Auditors  
(Lead Auditor)



**Hou Kai**  
Auditor General of the People's Republic of China

21 July 2022

## Chapter II

### Long-form Report of the Board of Auditors

#### *Summary*

The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty adopted in 1992 that entered into force in 1994. Its objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2021. The Board conducted the audit of the financial statements partly remotely due to the COVID-19 pandemic.

#### *Audit opinion*

The Board has issued an unqualified audit opinion on the financial statements for the period under review as reflected in chapter I.

#### *Overall conclusion*

UNFCCC is mainly funded through contributions and service fees. In 2021, total contributions amounted to \$67.8 million (in 2020: \$51.8 million) of total revenue of \$92.8 million (in 2020: \$72.7 million). The contributions included \$37.1 million (in 2020: \$33.7 million) of indicative assessed contributions and \$30.7 million (in 2020: \$18.1 million) of voluntary contributions.

The 2021 financial statements were presented for audit on 31 March 2022. The Board did not identify significant errors, omissions or misstatements when reviewing the financial records of UNFCCC for the year ended 31 December 2021.

The Board found certain areas for further improvement such as for the review of UNFCCC policies, the crowdfunding process and the development of a Statement on Internal Control that merit attention. Further clarity is required on the question of UNFCCC following the administrative issuances below the UN financial rules and regulations.

#### *Key findings*

##### *Transfer of \$55 million from CDM fund to Supplementary Activities fund*

The Trust Fund for Supplementary Activities has a surplus of \$56.7 million as at 31 December 2021. The surplus originated mainly from a transfer of \$55 million from the Trust Fund for the Clean Development Mechanism (CDM) as per CMP decision 2/CMP.16. The transferred money will be used for two projects. For the Board, the project descriptions do not provide a comprehensible justification for required additional funding. The CDM transfers were early and overstated. It is far above the stated need. In addition, the staff costs are overstated because the posts have not yet been filled and we hold that the chances are low that they will be filled until 2023.

##### *Statement on Internal Control*

A Statement on Internal Control (SIC) is a public accountability document. By June 2021, a 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. UNFCCC decided to prepare a SIC with immediate effect.



*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 Conference of the Parties (COP) in 2005, UNFCCC regulated which administrative issuances of the United Nations apply to UNFCCC and which additional directives can be issued by UNFCCC.

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

UNFCCC has been in consultation with the United Nations Office of Legal Affairs (OLA) since late 2020 to seek clarity on institutional linkage and delegation of authority. While this process was ongoing, UNFCCC has focused on strengthening UNFCCC's policies and 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. Out of the 35 policies identified as deficient by the Board during the "Policy Review", 23 have already been revised by UNFCCC.

*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 (PSC) with a volume of more than \$10 million 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 PSC apply in the same way to the management of the cost recovery fund.

*Crowdfunding*

Pending the official launch of the crowdfunding platform due to the COVID-19 pandemic, the UNFCCC secretariat removed its donation web page in August 2020 after it had already been online for nine months and generating revenue of almost \$800,000. It follows that the official launch of the crowdfunding platform was not a prerequisite for publishing the web page. The Board is of the view that the web page could have remained online after August 2020 even if the COVID-19 pandemic delayed the official launch. Under these circumstances, the Board assumes that many potential donors did not find the United Nations Foundation's web page and therefore UNFCCC probably received less revenue from crowdfunding as a result.

There was no specific information for crowdfunding donors on UNFCCC's website, other than the budget management report and annual report, 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.

*Implementing 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, it 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, it would appear more committed and credible and would strengthen its role model character towards other United Nations entities.

#### **Key recommendations**

The Board recommends that UNFCCC:

##### *Statement on Internal Control*

- (a) **Reconsider introducing a SIC based on the SIC signed by the Secretary-General in 2021;**

##### *Transfer of \$55 million from CDM fund to Supplementary Activities fund*

- (b) **Revise the project descriptions for projects financed by the CDM transfer so that the amount and timing of the transfer can be reasonably justified;**

##### *Review of the UNFCCC policies and guidelines for applicability*

- (c) **Have a catalogue of all rules, including those rules to which applicable rules refer, irrespective of whether they are UNFCCC's own rules or United Nations rules. This catalogue would need to be maintained on a regular basis;**
- (d) **Add an overarching clause to each of its own policies that the financial rules (FRR) and the staff rules (SRR) take precedence;**
- (e) **Eliminate all shortcomings in UNFCCC policies that were identified in the policy review as soon as possible;**

##### *Management of the special account of Programme Support Costs without Instruction*

- (f) **Liase with OLA to clarify to what extent the COP can approve a reserve that is supposed to be significantly higher than specified in the United Nations instructions;**
- (g) **In case UNFCCC may deviate from United Nations administrative instruction ST/AI/286, revise the administrative instruction in order to comply with 15/CP.1;**
- (h) **Seek clarification from OLA in how far UNFCCC is bound by United Nations administrative issuances in financial matters;**
- (i) **Should bring important changes to UNFCCC administrative issuances to the attention of the COP as the governing body of the UNFCCC;**

##### *Crowdfunding*

- (j) **Officially launch the crowdfunding platform and publish the donation web page as soon as possible;**
- (k) **Publish summary information about donations from non-Party stakeholders and members of the public at large on its website;**

*Implementing sustainability in the administration and operations of UNFCCC*

- (1) **Include the project of establishing an environmental management system based on an internationally recognized standard in the next workplan.**

*Previous recommendations*

Out of the 21 outstanding recommendations up to the financial year ended 31 December 2020, 6 (28 per cent) had been implemented, 14 (67 per cent) were under implementation and 1 (5 per cent) was overtaken by events. Details of the status of implementation of the outstanding recommendations are provided in the Annex to this report.

The Board noted that improvements were made i.e. by UNFCCC creating an Organizational Development and Oversight (ODO) function and also by UNFCCC making a priority list for filling vacancies.

Nevertheless, actions need to be taken by Management to address 67 per cent of recommendations which are yet to be implemented. 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.

*Key facts*

<b>\$92.8 million</b>	Revenue
<b>\$93.5 million</b>	Expenses
<b>\$0.7 million</b>	Deficit for the year
<b>\$276.8 million</b>	Assets
<b>\$205.8 million</b>	Liabilities
<b>\$71.0 million</b>	Total net assets

## A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty that entered into force in 1994. Its objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. In 1997, the Kyoto Protocol was concluded. It established legally binding obligations for developed countries to reduce their greenhouse gas emissions. In 2015, the Paris Agreement was adopted governing emission reductions as from 2020 by means of countries committing to Nationally Determined Contributions. The work of UNFCCC is facilitated by its secretariat located in Bonn, Germany.
2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2021 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations and the annex thereto and in accordance with the International Standards on Auditing (ISAs). These 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 UNFCCC as at 31 December 2021 and the results of its operations, changes in net assets and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the bodies and whether revenue and expenses 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 and IPSAS. The audit included a general review of the 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 auditing accounts and financial transactions, the Board carried out reviews of the UNFCCC operations under United Nations Financial Regulation 7.5. This enables the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNFCCC operations. The Board also followed up on its previous recommendations. These matters are addressed in the relevant sections of this report.
5. The audit was carried out at the premises and remotely from 6 to 10 December 2021 and from 4 to 29 April 2022. This included the final audit of the financial statements. The examination of UNFCCC included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of our examination.
6. The findings and observations should not be regarded as representing a comprehensive statement of all the weaknesses which may exist in the financial and management systems at UNFCCC, or as identifying all improvements which could be made to the systems and procedures.
7. The Board's observations and conclusions were discussed with the UNFCCC secretariat whose views are appropriately reflected in the report.

## **B. Follow-up of previous recommendations and findings**

### **1. Previous recommendations**

8. Out of the 21 outstanding recommendations up to the financial year ended 31 December 2020, 6 (28 per cent) had been implemented, 14 (67 per cent) were under implementation and 1 (5 per cent) was overtaken by events. Details of the status of implementation of the outstanding recommendations are provided in the Annex to this report.

9. 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 are still pending. As a priority, actions need to be taken by Management to address the 67 per cent of recommendations which are yet to be implemented.

10. 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 are also cause of concern in regard of the institutional linkage of UNFCCC to United Nations Headquarters. UNFCCC should take that as a priority issue. Once all pending issues are resolved, a final assessment of these recommendations can be made.

### **2. Impact of COVID-19**

11. Since the outbreak of the COVID-19 pandemic has been declared a global pandemic by the World Health Organization on 11 March 2020, it has shaken the world and has not yet come to an end. This unprecedented global public health crisis has required and continues to require significant adjustments to the operations of the United Nations common system organizations worldwide.

12. UNFCCC follows the guidance of the Designated Official for Germany and the Crisis Response Team (CRT), which comprises United Nations representatives in Bonn, namely the head of WHO, the Chair of the Representatives of Agencies (UNFCCC), United Nations Volunteers as Designated Official and UNCCD. It was developed to make decisions regarding the United Nations Campus in Bonn, including how best to maintain a safe environment for staff working on the Campus. The guidelines have been updated regularly, based on the local evolution of the pandemic and on policies of local authorities. The UNFCCC Deputy Executive Secretary is a member of the CRT and has been actively contributing to the work of the CRT and has been updating all UNFCCC staff on CRT guidance regularly. Furthermore, the Deputy Executive Secretary assigned a staff member to ensure that the respective thresholds of physical occupancy on the campus is in compliance with the guidelines. In addition, a dedicated intranet page was established that has been regularly updated to provide UNFCCC staff with the latest relevant information and decisions on the pandemic. The COP Bureau has also been informed about COVID-19 implications and measures. Additionally, the secretariat also undertook efforts in favour of staff well-being; e.g. in line with the United Nations Secretariat, the secretariat offered 7 additional days of uncertified sick leave, and the Executive Secretary reached out to staff members who were in difficult personal situations and encouraged directors to do the same.

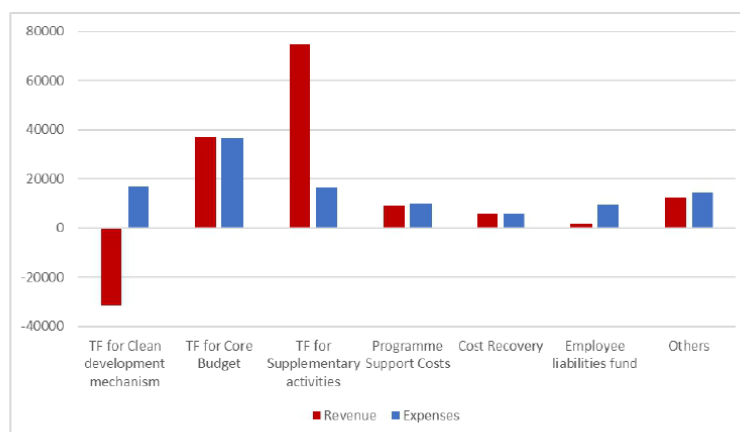
**3. Financial overview**

13. UNFCCC is mainly funded through contributions and service fees. In 2020, total contributions amounted to \$67.8 million (in 2020: \$51.8 million) of total revenue of \$92.8 million (in 2020: \$72.7 million). The contributions included \$37.1 million (in 2020: \$33.7 million) of indicative assessed contributions and \$30.7 million (in 2020: \$18.0 million) of voluntary contributions. UNFCCC collected clean development mechanism (CDM) and joint implementation (JI) service fees of \$22.9 million (in 2020: \$14.4 million). Other revenue of \$2.1 million (in 2020: \$6.5 million) mainly consisted of investment revenue and miscellaneous revenue.

14. Expenses for the year amounted to \$93.5 million (in 2020: \$73.2 million), resulting in a deficit of \$0.7 million (in 2020: \$0.5 million).

**Table 1: Revenue and expenses for the main funds and special accounts**

(thousands of United States Dollars)



Source: Analysis made by the Board of the UNFCCC financial statements for the year ended 31 December 2021 in thousands of USD

15. The figure shows revenue and expenses before elimination of internal transactions and sums are thus higher than shown in statement II.

16. The negative revenue at the Trust Funds for the Clean Development Mechanism and the comparatively high revenue at the Trust Funds for Supplementary Activities result from a decision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) to transfer \$55 million between the trust funds.

17. The Board’s analysis of capital structure ratios (table 2) demonstrates that, despite the competitive environment for donor funds, the current financial position of UNFCCC remains sound and stays at similar levels compared to 2020, with an assets to liabilities ratio of 1.34. The analysis of ratios shows relative consistency over the last financial years.

**Table 2: Capital structure ratios**

Description of ratio	31 December 2021	31 December 2020	31 December 2019
Total assets : total liabilities <sup>a</sup>	1.34	1.31	1.37
Assets : liabilities			
<b>Current ratio<sup>b</sup></b>	5.61	6.20	6.16
Current assets : current liabilities			
<b>Quick ratio<sup>c</sup></b>	5.49	6.10	6.02
Cash + short-term investments + accounts receivable : current liabilities			
<b>Cash ratio<sup>d</sup></b>	5.01	5.36	5.20
Cash + short-term investments : current liabilities			

*Source:* Calculations based on the UNFCCC financial statements for 2021, 2020 and 2019

a A high ratio is a good indicator of solvency.

b A high ratio indicates an entity's ability to pay off its current liabilities.

c The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

d The cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

18. The two major components of the UNFCCC asset base are cash and investment balances, which totalled \$248.0 million (in 2020: \$230.3 million) and contributions receivable of \$21.8 million (in 2020: \$24.0 million). Cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNFCCC cash balances and investments totalled \$1.0 million (in 2020: \$2.5 million). Contributions receivable represent amounts already due and the remaining sums due over the lifetime of current agreements with donors, of which an amount of \$2.4 million (in 2020: \$0.3 million) is due in more than one year's time.

19. The most significant element of UNFCCC liabilities results from employee benefits of \$165.8 million (in 2020: \$166.5 million). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate for the cost of after-service health insurance (ASHI) of \$152.9 million (in 2020: \$150.7 million). The effect of a decreased discount rate resulted in an overall net actuarial valuation gain of \$6.2 million (in 2020: loss of \$4.7 million) on the ASHI liability; as disclosed in note 12 to the financial statements.

20. UNFCCC's second most significant liability is for the advance receipt of conditional voluntary contributions of \$18.2 million (in 2020: \$14.1 million). The advance receipts represent agreements where the revenue will be recognized as the conditions set down in the agreements are met in future financial periods. Seen from UNFCCC's perspective, these advance receipts represent commitments to donors for providing future services. The amount recognized represents UNFCCC's best estimate that would be required to settle the obligations set down in the conditions of the agreements.

#### 4. Physical verification of ICT assets

21. The Board requested the records for the physical verification exercise for the audited year for ICT assets. UNFCCC stated that they did not have a complete physical inventory for ICT assets in 2021 due to the COVID-19 situation and working from home. Instead of physical verification, UNFCCC used a survey, which had a response rate of about 50 per cent.

22. The Board holds that UNFCCC could have performed the physical verification at any other point during or after the financial year and roll the data forward or back to the closing date. The Board wanted to highlight that, in case of difficult circumstances, UNFCCC might substitute the annual inventory at a specific date by a permanent inventory to get assurance over the property, plant and equipment (PP&E). UNFCCC's standard operating procedures do not include such possibilities.

23. UNFCCC also stated that, as part of the move, UNFCCC was upgrading the asset inventory system and would soon be capable of remotely verifying most of the ICT assets. This would enable UNFCCC to adopt the suggested permanent inventory approach, if necessary.

**24. The Board recommends that UNFCCC formalize alternative kinds of inventories such as permanent inventory of PP&E as alternatives to annual inventory.**

25. UNFCCC accepts the recommendation.

#### 5. Pre-audit financial statements

26. In the course of the audit of UNFCCC's financial report and financial statements for the year ended 31 December 2021, the Board reviewed the issued financial statements in the version submitted to the Board on 31 March 2022. The Board noted numerous cases where numbers were not coherent with statements I to III, with the financial statements for the year ended 31 December 2020 or with the provided documentation.

27. The Board understands the resource and time constraints under which UNFCCC produces the financial statements. However, the Board holds that most of the errors should have been easy to avoid by a sound quality assurance procedure. For example, private accounting firms use the tools of formal and substantial reviews. The formal review is proofreading for spelling, grammar and other formal requirements. The substantial review is to ensure the mathematical correctness of the figures contained in the financial report, the completeness of the information, the individual information among the report themselves as well as prior-year reports. Both reviews should ideally be performed by skilled staff who have not been involved in writing the report.

**28. The Board recommends that UNFCCC enhance the quality assurance for drafting the financial statements and the financial report.**

29. UNFCCC accepts the recommendation.

#### 6. Readiness for future International Public Sector Accounting Standards

30. UNFCCC will be affected by upcoming changes to IPSAS. In particular, any changes to the accounting for non-exchange revenue may significantly alter the picture of its financial positions and financial performance. Like the United Nations Secretariat, UNFCCC needs to pay close attention to these changes to



enable proper adoption in due time.

31. The Board welcomes the attention UNFCCC pays to current developments in accounting standards. However, the Board noted that the IPSAS Board works on numerous potentially far-reaching adjustments to established accounting practices could be required in a short period of time. Together with existing resource constraints, this may make it difficult to implement adapted accounting processes. The Board noted that UNFCCC did not present the complete set of future IPSAS changes in their pre-audit financial statements.

32. The Board therefore believes that UNFCCC shall proactively prepare for upcoming changes to accounting standards. This would enable the entity to identify any challenges well in advance and to discuss them with stakeholders, thus effectively avoiding misunderstandings and unnecessary work. Also, the entity would gain clarity on the resources required to implement any of the changes and therefore could minimize impacts on day-to-day business.

**33. The Board recommends that UNFCCC continue to closely monitor developments in financial accounting standards and briefly analyse which upcoming changes may affect the entity.**

**34. For the changes that have potentially far-reaching impacts, the Board further recommends that UNFCCC analyse these impacts in detail, develop implementation plans and discuss them with stakeholders.**

35. UNFCCC accepts the recommendation and would highlight the fact that an arrangement is now in place where FRMU will continuously monitor IPSAS developments, assess impact and develop an implementation plan and engagement with immediate effect.

#### 7. Statement on Internal Control

36. A Statement on Internal Control (SIC) is a public accountability document that provides reasonable assurance that an organization operates under an effective system of internal control. It is a systematic approach to managing control and risk as well as to increasing the effectiveness of an organization. The United Nations Department of Management Strategy, Policy and Compliance (DMSPC) briefed the Audit Operations Committee on 2 June 2021 on the introduction of a SIC in the United Nations Secretariat. United Nations Management had pursued the implementation of a SIC since 2015 and chose to use the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as the conceptual basis. By June 2021, a SIC had already been implemented in numerous other UN organizations. The Secretary-General also signed the first SIC for all operations of the United Nations Secretariat for 2020, marking an important milestone towards achieving greater accountability for results.<sup>1</sup>

37. The Board understands from its discussions with UNFCCC Management that it has decided not to prepare a SIC. Given the relative scope of UNFCCC operations, the less complex control environment compared to the United Nations Secretariat and the limited resources, the potential benefits would not justify the considerable effort required.

38. Even though the preparation of a SIC is not required, the Board believes it is a critical accountability document, enhancing the transparency of the control environment and risks faced by the organization. Its preparation directs

<sup>1</sup> <https://reform.un.org/news/secretary-general-signs-first-statement-internal-controls>;  
[https://reform.un.org/sites/reform.un.org/files/2107156e\\_sic\\_en.pdf](https://reform.un.org/sites/reform.un.org/files/2107156e_sic_en.pdf).

Management's attention to risks and controls.

39. The Board holds that also UNFCCC would benefit from the implementation of a SIC as a systematic approach to manage risks and controls. Furthermore, a SIC aligned with those prepared by other organizations of the United Nations system increases comparability which would lead to more overall transparency.

**40. The Board recommends that UNFCCC reconsider introducing a SIC based on the SIC signed by the Secretary-General in 2021.**

41. UNFCCC accepts the recommendation and agrees that a SIC forms part of a comprehensive accountability and enterprise risk management framework. The SIC signed by the Secretary-General can serve as a basis in this regard, as well as other SICs in comparable organizations. ODO's workplan for 2022 includes a review and revamping of the UNFCCC Enterprise Risk Management framework, which will also respond to the pending audit recommendations in this regard (Board report 2019, para. 188 and Board report 2018, para. 138). The development of a SIC will be integrated into the workplan in consultation with internal stakeholders (in particular with the incoming UNFCCC Chief Accountant) and assessment of best practices.

## **8. Transfer of \$55 million from CDM fund to Supplementary Activities fund**

### *Background*

42. The Board noted that the Trust Fund for Supplementary Activities had a surplus of \$56.7 million as at 31 December 2021. The surplus originated mainly from a transfer of \$55 million from the Trust Fund for the Clean Development Mechanism as per CMP decision 2/CMP.16.<sup>2</sup>

43. UNFCCC summarizes the action taken in response to the requests contained in paras. 17 to 20 of [decision 2/CMP.16](#) (Guidance relating to the clean development mechanism). The CMP decided to authorize transfers of \$55,372,551.98 from the CDM Trust Fund to the Trust Fund for Supplementary Activities comprising of:

- \$15,372,551.98 released to project SB-014990.12 for capacity-building to enhance regional climate action (para. 17 of the CMP decision);
- \$30 million released to project SB-019082 for the work of the Supervisory Board to facilitate the expedited implementation of the mechanism established by Article 6, para. 4, of the Paris Agreement (Article 6.4 mechanism, para. 18 of the CMP decision). Funding should be temporary until the mechanism is self-funding; and
- \$10 million released to project SB-019083 for the work of the Supervisory Body to provide, through the regional collaboration centres, capacity-building in developing countries for applying the Article 6.4 mechanism, and support for the transition of CDM project activities and programmes of activities to the Article 6.4 mechanism if they are eligible for transition (para. 19 of the CMP decision).

44. The transfer was posted in financial year 2021 with posting date 31 December 2021 as the relevant CMP decision did not include any information on when to make the transfer. From the secretariat point of view, the decision was effective upon its adoption at COP 26 in Glasgow in November 2021.<sup>3</sup> The

<sup>2</sup> UNFCCC financial statements 2021 (Version 31 March 2022), para. 6.

<sup>3</sup> Note to File Transfers from the CDM Trust Fund to the Trust Fund for Supplementary Activities and to the Adaptation Fund.

secretariat stressed that the timing of the relevant transfer of funds was fully in line with decision 2/CMP.16.

45. UNFCCC presented two project descriptions. The analysis showed:

- Both projects cover the period from 1 January 2022 to 31 December 2023;
- The costs are given by cost category without further cost breakdown;
- The project SB-014990.12 is expected to cost \$19 million. Out of this amount, \$5.4 million is spent on staff costs for 16 additional posts in the Mitigation Division. The expenses are offset by income of \$15.4 million from the CDM transfer and \$3.1 million from other donors;
- The project SB-019082 also includes project SB-019083 and is expected to cost \$14.5 million. Out of this amount, \$5.2 million is spent on staff costs for 20 additional posts in the Mitigation Division. The expenses are offset by income of \$40 million from the CDM transfer and \$0.6 million from other donors. There are no indications that the aim of the project is to develop a self-financing process. Essentially, the final result should be revised CDM methodologies;
- With the 36 additional posts, the Mitigation Division grows from 104 to 140 posts. The number of vacancies increases from 29 to 65;<sup>4</sup> and
- Although the project descriptions contain lists of activities and outputs, these are not assigned to staff and consultant requirements or operating costs.

46. The Executive Secretary approved the projects and thereby provided authorization to start relevant activities and incur related expenditures. UNFCCC stated that projects in the Trust Fund for Supplementary Activities would be regularly approved for a biennium. This would be in line with the UNFCCC core budget cycle. Any longer-term activities would also be incorporated in the projects of subsequent bienniums.

*Project descriptions do not justify the fund transfer sufficiently*

47. For the Board, the project descriptions do not provide a comprehensive justification for required additional funding. For this purpose, the costs would have to be allocated to the activities and outputs. The total costs would then be the sum of the costs for activities and outputs. Furthermore, the Board finds it necessary to describe how the additional funding (and the activities funded) will facilitate the mechanism from Article 6.4 of the Paris Agreement. The project description should thus be structured in such a way that activities and outputs ultimately lead to the aim of a self-financing mechanism.

48. The CDM transfers were early and overstated. In addition, the staff costs are overstated because the posts have not yet been filled and the Board holds that the chances are low that they will be filled until 2023.

**49. The Board recommends that UNFCCC revise the project descriptions for projects financed by the CDM transfer so that the amount and timing of the transfer can be reasonably justified.**

50. UNFCCC accepts the recommendation and agrees to revise the project descriptions for projects financed by the transfer from the CDM Trust Fund by adding an annex with a medium-term high-level annual forecast of estimated staff and non-staff cost. The forecast of medium-term activities and costs relating to the

<sup>4</sup> Budget performance for the biennium 2020–2021 as at 31 December 2021, FCCC/SBI/2022/3, 28 March 2022, Annex IV.

mechanism established under Article 6.4 of the Paris Agreement will include an approximate estimation as to the point in time when the mechanism will start earning income. The funding transferred to the Trust Fund for Supplementary Activities will enable the secretariat to implement the decisions of Article 6.4 Supervisory Body (the body responsible for supervising the mechanism) as soon as it convenes and agrees on activities to be undertaken.

## 9. Review of the UNFCCC policies and guidelines for applicability

### *Background*

51. In 2005, the Conference of the Parties approved “the continuation of the current institutional linkage of the secretariat to the United Nations and related administrative arrangements until such time as a review is deemed necessary by either the Conference of the Parties or the General Assembly”.

52. Based on this institutional linkage, UNFCCC issued a bulletin in 2014, regulating which United Nations administrative issuances apply to UNFCCC and which additional regulations might be issued by UNFCCC.

53. The Board found that, over many years, UNFCCC had established many entity-specific policies, which had not been aligned with United Nations policies. By 2020, the Board had issued six recommendations that addressed the alignment of the UNFCCC policies and its oversight.

54. The Board requested that UNFCCC either adopted the United Nations policies or sought to obtain the Secretary-General’s agreement where a deviation was not avoidable or deemed suitable. The Board was of the opinion that these were legal gaps that should be addressed as a high priority.

55. UNFCCC has sought advice from the OLA on institutional linkage and delegation of authority in a letter from the Executive Secretary (ES) dated 4 December 2020.

56. On 7 January 2021 and 8 April 2021, UNFCCC received clarification from OLA.

57. In April 2021, UNFCCC provided the Board with a summary of the response from OLA to the letter of the ES in which UNFCCC presented, inter alia, the following conclusions drawn from the letter:

- “The ES has broad authority over the personnel and financial administration of the UNFCCC secretariat and can thus decide upon policies and procedures for such administration.
- Policies and procedures decided by the ES only have to be consistent with the United Nations Staff Regulations and Rules (Staff rules) and FRR.”

### *Policy review exercise*

58. On 9 July 2021, UNFCCC informed the Board that it had decided to shift the focus of the policy review to strengthen the [UNFCCC] secretariat’s policies and [...] that the detailed review and revision of these policies had already started. The Board appreciated this effort, in part because there was still uncertainty about which UNFCCC policies are in line with United Nations regulations and which are not. As part of this effort, the Board began the process of reviewing all of the policies issued by UNFCCC.

59. The Board reviewed 66 policies provided by UNFCCC, focusing on the

question of whether they contradict the FRR, the staff rules or the Procurement Manual. The Board also considered the extent to which United Nations guidelines cover the same or similar regulatory areas and how the UNFCCC policies relate to them. In doing so, the Board evaluated whether individual policies needed revision or were redundant or had other shortcomings. In total, the Board found 36 policies with weaknesses.

60. The Board found that 16 out of 66 UNFCCC policies needed revision. Often, they were outdated for technical reasons, although they might not contradict the FRR, the staff rules and the Procurement Manual. The Board found that another 6 policies might need to be revised. Furthermore, the Board holds that 6 policies might have been dispensable.

61. The Board further found three policies with regulatory gaps. Six other policies might also have had regulatory gaps. In addition, the Board found nine policies with a lack of quality.

62. The Board found three policies that conflicted with the staff rules and another five that might also have contradicted the staff rules. Four were found to conflict with the Procurement Manual.

63. The Board did not find any policy that would obviously have contradicted the FRR. The UNFCCC Procurement Policy and Procedures (AG/2011/4) included a clause to address potential conflicts: "In the event of any conflict between any provision of these policies and procedures and any provision of the UN regulations, rules and guidelines, including the United Nations Procurement Manual, the UN regulations, rules and guidelines shall prevail".

64. The Board considers it of key importance that UNFCCC has an overview of the relevant rules at all times. Many policies refer to other policies, and those policies may refer to other policies again.

**65. The Board recommends that UNFCCC have a catalogue of all rules, including those rules to which applicable rules refer, irrespective of whether they are UNFCCC's own rules or United Nations rules. This catalogue would need to be maintained on a regular basis.**

66. UNFCCC accepts the recommendation and drafted a UNFCCC Policy Compendium dated 8 April 2022, which determines which administrative issuances of the United Nations apply at the UNFCCC secretariat and lists them together with the applicable UNFCCC administrative issuances. Since the United Nations rules are also subject to regular change, uncertainty might arise in the event of changes if UNFCCC did not adjust the Policy Compendium at the same time.

**67. The Board recommends that UNFCCC add an overarching clause to each of its own policies that the financial rules (FRR) and the staff rules (SRR) take precedence.**

68. UNFCCC accepts the recommendation. UNFCCC introduced a hierarchy of norms included in the draft UNFCCC Policy Compendium with the staff rules and the financial rules having top priority. UNFCCC also included a clause that states that, in case of doubt, the staff rules and the financial rules always prevail.

**69. In addition, the Board recommends that UNFCCC eliminate all shortcomings in UNFCCC policies that were identified in the policy review as soon as possible.**

70. UNFCCC accepts the recommendation. Out of the total 36 guidelines in which the Board found weaknesses, one was agreed to have no conflict and 23 were revised. UNFCCC has submitted a revised version for these 23 guidelines in

April 2022. So, this recommendation is already under implementation. For the remaining 12 guidelines, the process is still pending.

#### 10. Management of the special account of Programme Support Costs without Instruction

71. UNFCCC secretariat has not yet issued an instruction for managing Programme Support Costs (PSC) with a volume of more than \$10 million 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 following remarks on the management of PSC apply in the same way to the management of the cost recovery fund (see annex, Nos. 5 and 17).

##### *Former audit observations and recommendations*

72. The special account for PSC was established to manage income and expenditures related to the administrative overhead of UNFCCC. Income is generated through a 3 to 13 per cent charge on expenditures under the various UNFCCC trust funds.

73. In its report on the financial statements 2019, the Board noted that UNFCCC accrued net assets in the special account for PSC of \$12.7 million as at 31 December 2019. The United Nations administrative instruction on "Procedures for the approval and management of programme support accounts" (ST/AI/286) stipulates that an operating reserve of 20 per cent of the annual programme support income should be held to finance unpredictable issues. In 2019, UNFCCC accounted for net assets at a level of 130 per cent of revenue from PSC. The Board recommended that UNFCCC analyse the net assets of the special account for PSC and act on the results of this analysis. In addition, the Board recommended that UNFCCC establish annual plans and a reconciliation with the actual figures to monitor the level of the reserve (see annex, No. 11).

74. In 2020, net assets decreased to \$12.4 million. Due to reduced revenue compared to 2019, net assets increased to 154 per cent of revenue from PSC.

75. Last year, UNFCCC started to draft an administrative instruction for the periodic financial review of the special account for PSC with an overview of potential measures to be taken in case of excessive surpluses or deficits.

76. UNFCCC agreed to enhance the financial planning model in the financial plan. UNFCCC will add 2016-2019 actuals, update 2020 actuals and the 2021-2025 forecast and break down the expenditures into expenditure categories as shown in the statement of financial performance.

77. The Board held that the administrative instruction should refer to the relevant regulations and rules. The instruction should refer to the planning model and define responsibilities. The Board held that the guideline should define "excessive surpluses or deficits" and demanded that justifications be provided for deviations from the specified 20 per cent reserve.

78. In its audit report<sup>5</sup>, the Board recommended that UNFCCC describe the annual process and management of PSC in an administrative instruction approved by the Executive Secretary. Based on further analysis of prior years, the instruction should include potential measures in case of excessive surpluses or deficits from PSC and incorporate them into the procedural guideline (see annex 1, No. 18). UNFCCC accepted the recommendation.

<sup>5</sup> FCCC/SBI/2021/INF.

79. In 2021, the net assets decreased to \$11.4 million and to 129 per cent of revenue from PSC. However, the net assets are still more than six times higher than permitted under ST/AI/286.

*Guidance on PSC within the financial rules*

80. UNFCCC provided several draft versions of the instruction and incorporated the editorial remarks of the Board. In its current version of the draft administrative instruction (5/4/2022), UNFCCC stated that both the UNFCCC financial procedures and the financial rules did not include any specific guidance on PSC.<sup>6</sup>

81. The Board considers it necessary that the secretariat explain in its instruction the link to the staff rules and the financial rules. Despite the secretariat's statement, the Board sees a link to the financial rules. The establishment of trust funds, reserves and special accounts is specified in Regulations 4.13 and 4.14 and Rule 104.3 of the financial rules. All three may be established by the Secretary-General and shall be reported to the Advisory Committee. Their purpose and limits shall be clearly defined by the appropriate authority. In its letter of 8 April 2021, OLA underlines that "In particular, the Executive Secretary, as authorized by the COP, may request the Secretary-General 'to establish new trust funds required to support the Convention process,' and is authorized to manage those trust funds and to certify expenditures from the UNFCCC trust funds".<sup>7</sup> The financial rules therefore make specifications for PSC because PSC are managed via a special account. The UNFCCC secretariat should also make this reference in its administrative instruction.

*Guidance on PSC within United Nations bulletins, instructions etc.*

82. The current draft instruction refers to the relevant regulations and rules, defines responsibilities and describes the management processes. Para. 8 of the draft instruction states that UNFCCC secretariat's approach to PSC was in line with the established practice at the United Nations Secretariat and followed relevant guidance given in various documents, including ST/SGB/188, ST/AI284, ST/AI/285, ST/AI/286, ST/AI/342 and the PSC policy contained in the memo by the Controller of the United Nations Secretariat, dated 8 June 2012.

83. The Board considers it necessary that the secretariat list the applicable instructions of the United Nations. The Board holds that the current draft of the instruction in this regard is a good step forward. The instruction translates the relevant United Nations regulations to the processes and responsibilities within the UNFCCC secretariat.

*Justification of the operational reserve*

84. The draft administrative instruction does not define "excessive surpluses or deficits" and does not justify deviations from the 20 per cent reserve as stipulated in ST/AI/286. However, the term "reserve" is not used. The draft instruction requires that the target level of unspent balances at the end of every financial year shall be the amount required to enable the allotment of the budget for the following full year.

85. For the Board, a "target level of unspent balances at the end of every financial year" is equivalent to an operating reserve. The provided draft instruction is

<sup>6</sup> Pursuant to para. paragraph 20 of the financial procedures "the Conference of the Parties shall reimburse the United Nations for services provided by that organization to the Conference of the Parties and its secretariat, at such rates as may from time to time be agreed upon for that purpose by both organizations".. This requirement reflects the initial arrangement for the provision of programme support by the United Nations to UNFCCC.

<sup>7</sup> OLA letter to ES concerning the Authority of the Executive Secretary, UNFCCC, over the Personnel and Financial Administration of the secretariat of UNFCCC, 8 April 2021.

therefore not in line with ST/AI/286. The Board considers ST/AI/286 to be more specific than the financial rules in terms of a special account for managing PSC. ST/AI/286 refers to ST/SGB/188 which in turn refers to the financial rules.

86. OLA emphasized that the only limitation on UNFCCC's special policies and procedures would be that they had to be in line with the staff rules and the financial rules. FRR. Only under this condition does OLA concede that consultation with the Management of the United Nations Secretariat on any of the UNFCCC's special policies and procedures may be desirable. Furthermore, OLA does not see it as legally required for the exercise of the broad authority of the Executive Secretary of UNFCCC over such matters.<sup>8</sup> However, the Board holds that the current UNFCCC draft instruction does not meet the condition of consistency in regard of the operating reserve.

87. The COP stated that the financial procedures should govern the financial administration of the COP to UNFCCC, its subsidiary bodies and its permanent secretariat. In so far as not specifically provided under these procedures, the FRR shall apply.<sup>9</sup> Any amendments to these procedures shall be adopted by the COP by consensus.<sup>10</sup>

88. In its administrative instruction, the UNFCCC secretariat wants to set a reserve that is up to five times higher than the 20 per cent permitted under United Nations administrative instruction ST/AI/286. The Board holds that such deviation requires a COP decision by which the COP accepts a higher reserve and thus the deviation from the United Nations instructions.

**89. The Board recommends that UNFCCC liaise with OLA to clarify to what extent the COP can approve a reserve that is supposed to be significantly higher than specified in the United Nations instructions.**

**90. The Board also recommends that UNFCCC, in case UNFCCC may deviate from the United Nations administrative instruction ST/AI/286, revise the administrative instruction in order to comply with 15/CP.1.**

91. UNFCCC accepts the recommendations and the UNFCCC secretariat agrees that there should be a UNFCCC secretariat administrative instruction that regulates PSC in the future. The instruction is currently under development. The new instruction will refer to the relevant provisions in the financial rules as the Board recommends.

*Clarification of OLA and COP ("those charged with governance")*

92. The Board holds that the questions raised above for the PSC are examples for numerous existing or planned policies or instructions in financial matters. Uncertainty arises from the questions to what extent UNFCCC is bound by administrative issuances below the financial rules and whether UNFCCC policies and instructions are in line with the financial rules if they contradict related United Nations administrative issuances.

93. For UNFCCC, it is clear that the UNFCCC secretariat is only bound by the financial rules referring to the clarification from OLA received on 7 January 2021 and 8 April 2021. UNFCCC secretariat provided an answer<sup>11</sup>.

<sup>8</sup> OLA letter to ES concerning the Authority of the Executive Secretary, UNFCCC, over the Personnel and Financial Administration of the secretariat of UNFCCC, 8 April 2021.

<sup>9</sup> 15/CP.1, annexAnnex I, para. Para 1.

<sup>10</sup> 15/CP.1, annexAnnex I, para. Para 22.

<sup>11</sup> "Lastly, you mentioned that while it generally follows the policies of the UN secretariat laid out in administrative issuances, the UNFCCC secretariat over the years has adopted certain of its own administrative policies and procedures befitting the



94. The UNFCCC secretariat reiterated its view that under the institutional linkage with the United Nations, it is only bound by the financial rules, but not by all administrative issuances of the United Nations Secretariat in financial matters. ST/AI/286 is not a part of the financial rules. The fact that ST/AI/286 refers to the financial rules does neither make it an integral part of the financial rules, nor does the reference make the ST/AI applicable beyond its scope. ST/AI/286 has also not been applied by UNFCCC secretariat bulletin B/2014/1 as ST/AI/286 is clearly only applicable to the United Nations Secretariat. Furthermore, the provisions of ST/AI/286, and specifically the 20 per cent maximum reserve, are also not applicable by analogy as the approach taken for funding differs significantly from the approach taken by the United Nations Secretariat.

95. To avoid legal uncertainty, the Board holds that UNFCCC should seek clarification from OLA in how far UNFCCC is bound by United Nations administrative issuances in financial matters.

**96. The Board recommends that UNFCCC seek clarification from OLA in how far UNFCCC is bound by United Nations administrative issuances in financial matters.**

97. UNFCCC accepts the recommendation and will seek clarification from OLA in how far it is bound by United Nations administrative issuances in financial matters. The secretariat will specifically inquire whether it is bound by the 20 per cent maximum reserve stipulated in ST/AI/286.

**98. The Board further recommends that UNFCCC should bring important changes to UNFCCC administrative issuances to the attention of the COP as the governing body of the UNFCCC.**

99. UNFCCC accepts the recommendation and will in the future bring important changes in UNFCCC administrative issuances in the area of finance to the attention of the COP.

## 11. Crowdfunding

100. Resource mobilization is an important activity of UNFCCC. Parties 'shall seek to mobilize financial resources' to 'promote the effective implementation of the Convention'. The secretariat's predominant resource mobilization modality is through the grant arrangements with a wide array of donors, including the governments, UN organizations and other international organizations, the private sector entities and foundations, think tanks and the civil society organizations.

101. In addition, the UNFCCC secretariat started to work on a crowdfunding platform to collect contributions from non-Party stakeholders and the general public through an agreement with the United Nations Fund for International Partnerships in 2018. The United Nations Fund for International Partnerships holds a fiduciary agreement with the United Nations Foundation for collecting and disbursing project-specific funds on behalf of the secretariat. The United Nations

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UNFCCC's mandates and circumstances. You made clear that all such special policies and procedures were in line with the UN Staff and Financial Regulations and Rules. You also mentioned that early on, such special policies and procedures were shared with the Department of Management of the UN Secretariat for endorsement, but that since then, no such endorsement has been sought. For all the reasons discussed above, the broad authority of the Executive Secretary of the UNFCCC over the personnel and financial administration of the secretariat of the UNFCCC includes the authority to decide upon the policies and procedures for such administration, provided the policies and procedures are consistent with the UN Staff and Financial Regulations and Rules. Moreover, in matters of financial administration, the Institutional Arrangements Paper specifically recognized that the COP could establish financial procedures for Executive Secretary to follow in the administration of the UNFCCC."

Foundation provides financial and other support to exclusively charitable activities of the United Nations entities.

102. The United Nations Foundation provided a platform for screening and collecting donations with donations received and held by the United Nations Foundation on behalf of UNFCCC. A United Nations Foundation web page briefly informed about UNFCCC's mission and fundraising purposes, such as raising awareness, training professionals, promoting public participation, improving education and mainstreaming gender into the climate agenda, particularly in developing countries, under the heading "Support us in our global response to climate change" and the UNFCCC logo. Donors could select predefined amounts on this web page starting at \$20 or an amount of their choice.

103. In parallel, UNFCCC developed its own donation web page with a button linked to the United Nations Foundation's web page. At the end of November 2019, the UNFCCC's donation web page and a redirect to the donation web page managed by the United Nations Foundation went live.

104. In August 2020, UNFCCC's Management Team discussed a note on the crowdfunding strategy which addressed key aspects such as the legal framework, platform, administration of donations, campaign and risk analysis, endorsed the initiative and requested to move forward. Nevertheless, at that time, UNFCCC removed its donation web page and planned to republish it after the official launch of the crowdfunding platform, which was postponed due to the COVID-19 pandemic. The United Nations Foundation donation web page for UNFCCC remained online.

105. In December 2020, UNFCCC concluded a cooperation agreement with the United Nations Foundation and the United Nations Fund for International Partnerships for fundraising by non-Party stakeholders.

106. The Board learned that from December 2019 to the first quarter of 2021, with 50 payment transactions via the United Nations Foundation web page, the donations totalled \$799,459.87.

107. At the time of the audit, UNFCCC's donation web page had not yet been officially launched. After reviewing UNFCCC's website, the Board noted that a potential donor would not have found any indication on the website that donations could be made to UNFCCC.

108. UNFCCC removed its donation web page in August 2020, which was at a time when public interest in global warming and pollution was already huge. The Board holds that potential donors could no longer donate unless they already knew of the United Nations Foundation web page for UNFCCC or they might have found it through an internet search.

109. As UNFCCC's web page had already been online for nine months with resulting revenue of almost \$800,000, it follows that the official launch of the crowdfunding platform was not a prerequisite for publishing the web page. Accordingly, the web page could have remained online after August 2020 even if the COVID-19 pandemic delayed the official launch.

110. Under these circumstances, the Board assumes that many potential donors did not find the United Nations Foundation's web page which might have resulted in UNFCCC receiving less revenue from crowdfunding.

**111. The Board recommends that UNFCCC officially launch its crowdfunding platform and publish the donation web page as soon as possible.**

112. Activities funded from supplementary resources are divided into projects,

grouped according to the overarching objective that they support. The resources stemming from the collaboration on crowdfunding with the United Nations Foundation will be allocated to such supplementary projects, based on a priority list of projects defined by UNFCCC's Executive Secretary and allocation recommendations made by the Management Team Sub-Committee on Financial Management.

113. According to the fiduciary project document of 2 February 2021, signed by UNFCCC and the United Nations Fund for International Partnerships, UNFCCC requested United Nations Foundation funds in the amount of \$207,776.12 for the project 'Catalyzing climate action and enhanced engagement by non-Party stakeholders' to begin on 8 February and end on 31 December 2021. The Board noted that UNFCCC received \$207,776.12 in April 2021.

114. In order to ensure transparency and accountability to donors, UNFCCC annually discloses all activities implemented using the funds received under this project through the following reports: (i) Budget performance report, which reports on the income and budget performance of the trust funds administered by UNFCCC, and (ii) through its annual report, which illustrates the key achievements of the UNFCCC process and its activities. The Board noted that no specific information for crowdfunding donors was available on UNFCCC's website, other than the budget management report and the annual report, about how much had been donated or how UNFCCC planned to use or had used the funds.

115. The Board is of the opinion that donors might be interested in learning 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.

**116. The Board recommends that UNFCCC publish summary information about donations from non-Party stakeholders and members of the public at large on its website.**

117. UNFCCC accepts the recommendations and takes them seriously as they have fiduciary implications and intends to address them as soon as possible. In September 2021, the new manager of the Resource Mobilization and Partnerships (RMP) subdivision joined the secretariat. This subdivision was allocated to the newly established Operations Coordination (OC) Department. OC/RMP has been tasked with developing the overall corporate Resource Mobilization and Partnerships Strategy which will provide a holistic approach to the fundraising and partnership efforts of the secretariat. This holistic approach will also include the crowdfunding platform. As an immediate action, the secretariat will ensure linking the UNFCCC website with the web page. As medium-term/longer-term actions, the secretariat will (1) launch the crowdfunding platform with a campaign in the lead-up to COP27 and (2) analyse the feasibility of the existing platform for crowdfunding as compared to other similar platforms.

## **12. Implementing sustainability in the administration and operations of UNFCCC**

### *Background*

118. In 2007, the United Nations System embarked on a journey to integrate environmental sustainability in its facilities and operations. Since then, the United Nations Environment Programme (UNEP) has been gathering and analysing information provided by the United Nations entities on their environmental impact on an annual basis. The first report (about its greenhouse gas emissions) was published in 2009. In December 2018, the Secretary-General of the United Nations

asked the system to raise the level of its internal ambitions and intensify its efforts to combat climate change from within. Consequently, in May 2019, the Environment Management Group and UNEP proposed a strategy for sustainability management in the United Nations system for the period from 2020 to 2030.

119. The need for sustainable development guides the mission of UNFCCC, the Kyoto Protocol and the Paris Agreement, and their bodies, institutional arrangements and organs, including the UNFCCC secretariat. Since 2016, UNFCCC has made references to work relating to Sustainable Development Goals (SDGs) in its annual budget performance and programme delivery reports, even before the SDGs were initiated. Already since 2000, greenhouse gas emissions of UNFCCC have been tracked according to a common methodology used by about 60 agencies networked through an inter-agency group which is accommodated by UNEP. Since 2012, UNFCCC has claimed climate neutrality for its own entity. UNFCCC also offers support to offset residual greenhouse gas emissions through Adaptation Fund certified emission reductions (CERs). Entities can purchase CER credits to achieve climate neutrality by paying emission-reduction projects in developing countries to surrender their emission reduction shares.

120. According to the UNFCCC draft workplan, the Executive division ensures that the work should be in line with the SDGs. The Executive division will also coordinate with the Executive Office of the Secretary-General and other United Nations entities on system-wide strategic approaches to implementing the SDGs.

121. Through the regional collaboration centres, the UNFCCC secretariat has joined the new regional virtual platform of the United Nations established to ensure greater regional coordination and coherence in activities and better cooperation among United Nations and non-United Nations entities. This central platform helps to ensure the effective deployment of resources and capacities in support of national actions on the SDGs.

122. UNFCCC has drafted an “Environmental Sustainability Policy” (policy), which is currently in the internal review process. The UNFCCC secretariat intends to establish an environmental management system to implement the policy.

123. UNFCCC has also issued guidelines on environmentally sustainable procurement as part of the UNFCCC Procurement Policy and Procedures.

124. UNFCCC told the Board that when goods and services were procured, sustainable procurement criteria were included in the procurement process and were subject to mandatory review by the procurement staff. However, sustainable criteria were not systematically applied in low value acquisitions.

125. The person holding the position of Management of Organizational Development and Oversight which was created in 2021 also has the task to monitor performance in achieving the SDG targets.

126. There is a Green Team in the workforce which is affiliated with the staff association. It carries out a variety of projects to make everyday work and commuting more sustainable and involves staff on a voluntary basis.

*Next level: internationally recognized standard*

127. ISO 14001 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance. ISO 14001 is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability. The current version is ISO 14001:2015.

128. ISO 14001 helps an organization achieve the intended outcomes of its

environmental management system, which provide value for the environment, the organization itself and interested parties. Consistent with the organization's environmental policy, the intended outcomes of an environmental management system include: enhancement of environmental performance; fulfilment of compliance obligations and achievement of environmental objectives.

129. ISO 14001 is applicable to any organization, regardless of the size, type and nature. ISO 14001 applies to the environmental aspects of the activities, products and services that the organization determines it can either control or influence considering a life cycle perspective. ISO 14001 does not state specific environmental performance criteria.

130. ISO 14001 can be used in whole or in part to systematically improve environmental management. Claims of conformity to ISO 14001:2015, however, are not acceptable unless all its requirements are incorporated into an organization's environmental management system and fulfilled without exclusion.

131. UNFCCC strives to implement sustainability more systematically. In its policy, UNFCCC has already committed to establishing an environmental management system. Still, it has not committed itself to establishing an environmental management system based on an internationally recognized standard.

132. The Board is of the opinion that UNFCCC has already been undertaking a significant amount of work on the implementation of the SDGs. All of these activities are systematically coordinated, recorded and tracked. The commitment to introduce an environmental management system was a step in the right direction. With an environmental management system that would meet an international standard such as ISO 14001, UNFCCC would also appear more committed and credible and strengthen its role model character towards other United Nations entities.

**133. The Board recommends that UNFCCC include the project of establishing an environmental management system based on an internationally recognized standard in the next workplan.**

134. UNFCCC accepts the recommendation. The establishment of an environmental management system based on an internationally recognized standard is part of the draft 2022-2023 workplan.

## **C. Disclosures by Management**

### **1. Write-off of losses of cash, receivables and non-expendable property**

135. UNFCCC reported to the Board that a pledge of \$1,500 was deemed uncollectible and subsequently written off during the year ended 31 December 2021. No write-offs of losses of property were reported. Respective supporting documents were available for all cases. The write-offs were conducted in accordance with Financial Rule 106.7 (a).

### **2. Ex gratia payments**

136. UNFCCC stated that *ex gratia* payments were not made in 2021.

### 3. Cases of fraud and presumptive fraud

137. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The Board's audit, however, should not be relied upon to identify all misstatements or irregularities. Primary responsibility for preventing and detecting fraud rests with Management.

138. During the audit, the Board made enquiries of Management regarding the oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that Management has identified or that have been brought to Management's attention. The Board also enquired whether Management had any knowledge of any actual, suspected or alleged fraud. This includes enquiries of the Office of Internal Oversight Services. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

139. UNFCCC stated that there was no case of fraud or presumptive fraud for the financial year ended 31 December 2021.

140. The Board has not identified any instances of fraud in its audit, and no cases have come to the Board's attention as a result of the review.

### D. Acknowledgement

141. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary and staff members of her office.



Jorge **Bermúdez**  
Comptroller General of the Republic of Chile  
Chair of the Board of Auditors



Kay **Scheller**  
President of the German Federal Court of Auditors  
(Lead Auditor)



**Hou Kai**  
Auditor General of the People's Republic of China

21 July 2022

**Annex****Status of implementation of recommendations up to the financial year ended 31 December 2020**

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1	2017	FCCC/SBI/2018/INF.11 chap. II, para. 60	The Board recommends that UNFCCC review its funding policy for after-service health insurance and repatriation liabilities, in particular the duration of the accumulation phase, and seek a COP decision on the funding plan.	A policy paper for after-service health insurance funding has been developed. A funding mechanism will be considered at the next meeting of the SBI in May/June 2022. A corresponding memo, containing a proposal to be eventually be shared with Parties, has been sent to the DES for further consideration.	The recommendation is considered to be under implementation.		X		
2	2017	FCCC/SBI/2018/INF.11 chap. II, para. 117	The Board recommends that UNFCCC expedite the revision process of its procurement policy and procedures in order to provide an up-to-date basis for its procurement activities.	The secretariat agrees that the policy needs to be revised and a new draft policy has been under discussion between the secretariat and the BoA during the past few months. UNFCCC decided to share the last draft policy with experts in the UN Secretariat for a comprehensive review and advice. The secretariat seeks to put in place the new procurement policy by the third quarter of 2022.	The recommendation is considered to be under implementation. Although the Board conducted a preliminary review of the new draft, the Board welcomes the fact that UNFCCC is seeking advice from the United Nations Secretariat on this policy.		X		
3	2017	FCCC/SBI/2018/INF.11 chap. II, para. 138	The Board recommends that UNFCCC perform a fraud risk assessment in line with or embedded in the enterprise risk management.	The Head of Organizational Development and Oversight (ODO) oversees the secretariat enterprise risk management framework and,	The recommendation is considered to be under implementation. According to the ODO workplan 2022/2023,		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				in this function, is tasked to include a fraud risk assessment as part of the enterprise risk management in line with para. 20 of ST/IC/2016/25.	the performance of a fraud-risk assessment is scheduled for the second quarter of 2023.				
4	2017	FCCC/SBI/2018/INF.11 chap. II, para. 139	The Board recommends that UNFCCC dedicate an organizational function which coordinates, implements and monitors the implementation of the anti-fraud and anti-corruption framework (focal point).	UNFCCC created an ODO in its new structure. This function is a focal point for anti-fraud and anti-corruption. The ODO Manager assumed office on 20 September 2021, so that UNFCCC Secretariat has a dedicated organizational function which coordinates, implements and monitors the implementation of the framework (focal point).	The recommendation is considered to be implemented.	X			
5	2018	FCCC/SBI/2019/INF.9 chap. II, para. 37	The Board recommends that UNFCCC analyse the net assets of the cost recovery fund and act on the results of this analysis.	Service rates for 2021 were approved by the DES including a reasonable reserve level of 25% of the budgeted cost recovery requirements.	The recommendation is considered to be implemented. For FY 2021, UNFCCC achieved its planned reduction of the Total Cost of Ownership (TCO) share of net assets by \$578,000. As at 31 December 2021, the total net assets of the cost recovery fund were \$2.784 million (FS 2021, table 38) of which 902,688 were in	X			



United Nations Framework Convention on Climate Change										
No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	
6	2018	FCCC/SBI/2019/INF.9 chap. II, para. 47	The Board recommends that UNFCCC incorporate the liabilities incurred by staff financed from indicative contributions in its funding policy review for employee benefits and seek a COP decision.	A policy paper for after-service health insurance funding has been developed and was discussed by UNFCCC management. Once cleared, a corresponding discussion will be facilitated with the COP. UNFCCC will address this at the next SBI session in May/June 2022.	the TCO share. UNFCCC re-performed the analysis procedure from last year. The TCO service rates were again approved by the DES (Memo 15 February 2022).  The recommendation is considered to be under implementation.		X			
7	2018	FCCC/SBI/2019/INF.9 chap. II, para. 55	The Board recommends that UNFCCC assess the possibilities of investment approaches within the cash pool for the reserves set aside to cover for the after-service health insurance liabilities, in consultation with United Nations Treasury.	UNFCCC is assessing possibilities with United Nations Treasury to check on available options on how to separate and funds set aside for financing the after-service health insurance liabilities.	The recommendation is considered to be under implementation.		X			
8	2018	FCCC/SBI/2019/INF.9 chap. II, para. 65	The Board recommends that UNFCCC consult with the actuary and United Nations Headquarters on the data basis for the actuarial valuation of employee benefits liabilities to enhance the accuracy of the actuarial valuation.	UNFCCC will provide data as requested by the actuary, in alignment with requested data by the actuary through the United Nations Secretariat since UNFCCC's benefits and entitlements are aligned. During each valuation, UNFCCC will provide data in	The recommendation is considered to be under implementation.		X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				a timely fashion to ensure that any data problems can be identified and rectified before the data final due date.					
9	2018	FCCC/SBI/2019/INF.9 chap. II, para. 70	The Board recommends that UNFCCC assess, in consultation with United Nations Headquarters, whether it is beneficial to conclude agreements with the organizations of incoming and leaving UNFCCC staff to gain legal assurance on the employee benefit liabilities incurred for those staff members.	UNFCCC stated it would bring this topic again to the attention of the appropriate United Nations forum, i.e. Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination.	The recommendation is considered to be under implementation.		X		
10	2018	FCCC/SBI/2019/INF.9 chap. II, para. 135	The Board recommends that UNFCCC adopt the United Nations staff selection policies system in the then applicable version or request approval of deviations by the end of December 2019.	UNFCCC drafted an Administrative Instruction "Staff Selection System". UNFCCC is of the opinion that the enactment of its own policy is legitimate.	The recommendation is considered to be under implementation.  The Board holds that there are still some areas of concern in regard of the institutional linkage of UNFCCC to United Nations Headquarters. Once all pending issues are resolved, a final assessment of the recommendation can be made.			X	
11	2019	FCCC/SBI/2020/INF.9 chap. II, para. 55	The Board recommends that UNFCCC establish annual plans and a reconciliation with the actual figures for the special account for programme	A financial plan for the PSC fund for 2021-2023 has been prepared.	The recommendation is considered to be implemented.  An updated financial plan was provided.	X			

United Nations Framework Convention on Climate Change

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
12	2019	FCCC/SBI/2020/INF.9 chap. II, para. 145	<p>support costs to monitor the level of the reserve.</p> <p>The Board recommends that UNFCCC ensure that the intended results of the restructuring such as efficiency gains and "being fit for purpose" are measured, tracked and evaluated.</p>	<p>The summary report has been received from Fitch Consulting on 09 February 2021. The secretariat is fully aware of the need for establishing KPIs to evaluate the effectiveness of the new organizational structure. The Manager ODO assumed office on 20 September 2021 and was fully briefed. As a first step towards addressing the recommendation, a draft concept note was developed that contains a formulation and operationalisation of the reform objectives, a potential set of key outputs and KPIs to monitor, and a methodology to measure and evaluate the fit-for-purposeness and efficiency gains of the reform. The concept note has been translated into a results framework with a fixed set of key outputs and indicators (with appropriate baselines). It is intended to measure, monitor and evaluate the reform throughout 2022 and 2023.</p>	<p>The Board has pointed out some continuing inconsistencies.</p> <p>A draft paper on "Measuring the intended results of the UNFCCC restructuring" as at April 2022 has been provided and was last updated as of 5 May 2022. Although there is room for improvement in the proposed framework, UNFCCC is well on its way to measuring changes in efficiency. However, a collection of current data according to the concept and a comparison with values before the restructuring is still pending.</p> <p>The Board considers this recommendation to be under implementation.</p>		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
13	2019	FCCC/SBI/2020/INF.9 chap. II, para. 162	The Board recommends that UNFCCC draw a realistic timetable and a priority list for filling vacancies.	UNFCCC announced all of the identified priority posts (120 in total) and finalized 65 (more almost finalized).	The recommendation is considered to be implemented.  UNFCCC drew a timetable and a priority list for filling vacancies. 84 vacancies were filled during 2021. Other 22 candidates were selected to fill vacancies in 2022. 51 out of 106 were internal candidates. Relating to Annex IV of the Budget Performance Report, 115.5 out of 498 budgeted posts were vacant as at 31/12/2021.  For the 2022/23 biennium the updated work programme requires 547 posts.	X			
14	2019	FCCC/SBI/2020/INF.9 chap. II, para. 188	The Board recommends that UNFCCC address the risks it is exposed to through an up-to-date enterprise risk management that includes owners and due dates and a documentation.	The enterprise risk management has been taken up by the Manager of the new function 'Organizational Development and Oversight' (ODO).  Manager ODO assumed office on 20 September 2021 and was briefed about progress made	The recommendation is considered to be under implementation.  ODO provided the 2022/2023 workplan, in which the implementation is scheduled for the third quarter of 2023.			X	

United Nations Framework Convention on Climate Change									
No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
15	2020	FCCC/SBI/2021/INF.4 chap. II, para.33	The Board recommends that UNFCCC review its financial statement discussion and analysis (chapter IV) to improve adherence to RPG 2.	and pending audit recommendation. There has been no change to the available version of UNFCCC's ERM. A review and enhancement of ERM will form part of the 2022 ODO work plan.  UNFCCC updated the Financial Statements already for 2020 to cover most of the RPG 2 requirements.  There is only the risk management piece missing which UNFCCC could not implement for 2020 due to the absence of a responsible focal point for risk management.  With the focal point now available UNFCCC included additional elements on risk management in the 2021 financial statements.	The recommendation is considered to be under implementation.		X		
16	2020	FCCC/SBI/2021/INF.4 chap. II, para.43	The Board recommends that UNFCCC enhance the financial reporting process with RCC partners in order to ensure relevant information for actual expenditures to be available at the time of financial statements preparation.	Implementation of enhanced process in progress.	The recommendation is considered to be implemented.	X			
17	2020	FCCC/SBI/2021/INF.4 chap. II, para.51	The Board recommends that UNFCCC describe the annual process and management of cost recovery in a procedural guideline approved by the Executive Secretary. This guideline	In progress.	The recommendation is considered to be under implementation.  UNFCCC provided several draft versions		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			should include potential measures in case of excessive surpluses or deficits from the cost recovery scheme.		of the instruction and incorporated the editorial remarks of the Board.  The Board holds that there are still some areas of concern in regard of the institutional linkage of UNFCCC to United Nations Headquarters. Once all pending issues are resolved, a final assessment of the recommendation can be made.				
18	2020	FCCC/SBI/2021/INF.4 chap. II, para.61	The Board recommends that UNFCCC describe the annual process and management of programme support costs in a procedural guideline approved by the Executive Secretary. Based on further analysis of prior years – the guideline should include potential measures in case of excessive surpluses or deficits from programme support costs and incorporate them into the procedural guideline.	In progress.	The recommendation is considered to be under implementation.  UNFCCC provided several draft versions of the instruction and incorporated the editorial remarks of the Board.  The Board holds that there are still some areas of concern in regard of the institutional linkage of UNFCCC to United Nations Headquarters. Once all pending issues are resolved, a final assessment of the			X	

United Nations Framework Convention on Climate Change										
No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	
19	2020	FCCC/SBI/2021/INF.4 chap. II, para.69	The Board recommends that UNFCCC evaluate if that specific videoconferencing software is considered indispensable and either apply an appropriate risk treatment or terminate the contractual relationship immediately.	MS Teams is UNFCCC's standard software for virtual meetings. However, given the diversity of the secretariat's stakeholders and the numerous virtual meeting platforms in use, when invited by a stakeholder using a third party software other than Teams e.g. Zoom, approval to use may be considered on an exception basis.	recommendation can be made.  The recommendation is considered to be overtaken by events. OICT has included specific videoconferencing software in the list of United Nations standards (No. 2021-297-ARB in current list <a href="https://iseek.un.org/system/files/current_standards_8.pdf">https://iseek.un.org/system/files/current_standards_8.pdf</a> ). In this respect, the Board sees no longer any reason not to use it.				X	
20	2020	FCCC/SBI/2021/INF.4 chap. II, para.81	The Board recommends that UNFCCC comply with the Procurement Manual in further low value acquisition processes.	The secretariat applies the Procurement Manual with regard to low value acquisition processes with due consideration of its institutional and operational setting. In particular, ICT requirements are technically reviewed by the ICT subdivision, AS/HR/ICT division. Following the clarification received from UN OLA regarding the institutional linkage and delegation of authority, the secretariat holds that its ICT	The recommendation is considered to be under implementation. The Board holds that there are still some areas of concern in regard of the institutional linkage of UNFCCC to United Nations Headquarters. Once all pending issues are resolved, a final assessment of the recommendation can be made.		X			

United Nations Framework Convention on Climate Change									
No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
21	2020	FCCC/SBI/2021/INF.4 chap. II, para.91	The Board recommends that UNFCCC improve internal controls to ensure that contracts with consultants and individual contractors that overlap in time with other contracts comply with ST/AI/2013/4.	operations are not subject to the authority of UN Secretariat OICT. Implemented.	The Board advises UNFCCC to ask consultants to self-disclose any contractual obligations that may cause conflict in time or interest.  With this measure, the Board would consider the recommendation to be implemented.	X			
<b>Total number of recommendations</b>				<b>21</b>		<b>6</b>	<b>14</b>	<b>0</b>	<b>1</b>
<b>Percentage of the total number of recommendations</b>				<b>100</b>		<b>28</b>	<b>67</b>	<b>0</b>	<b>5</b>



## Chapter III

### Certification of the Financial Statements

The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the year ending 31 December 2021 have been prepared in accordance with financial rule 106.1. They include all trust funds and special accounts operated by UNFCCC.

A summary of significant accounting policies applied in the preparation of these statements is included as a note to the financial statements. The notes to the financial statements provide additional information and clarification on the financial activities undertaken by UNFCCC during the period covered by the statements, for which the Executive Secretary had administrative responsibility.

I certify that the appended financial statements of the United Nations Framework Convention on Climate Change for the year ending 31 December 2021 are correct.

*(Signed)* Patricia **Espinosa**  
Executive Secretary  
16 June 2022

## Chapter IV

### Financial report for the year ended 31 December 2021

#### A. Introduction

1. The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) are prepared in accordance with International Public Sector Accounting Standards (IPSAS) and are submitted to the Conference of Parties (COP) in accordance with the financial procedures. The financial statements include all operations under the direct authority of the Executive Secretary including the core budget, extra-budgetary financed activities, and activities under the Clean Development Mechanism.

#### B. 2021 Financial Highlights

##### Total revenue:

2. Revenue in 2021 totalled USD 92.8 million as follows:
- (a) The indicative contributions to the core budget of USD 35.8 million and USD 1.3 million to the budget of the International transaction log;
  - (b) Voluntary contributions from donors totalled USD 30.7 million;
  - (c) Fees for the CDM and JI mechanisms USD 22.9 million.

##### Total expenses:

3. Expenses in 2021 totalled USD 93.6 million mainly consisting of:
- (a) Personnel expenses amounting to USD 56.3 million,
  - (b) Travel USD 5.7 million,
  - (c) Contractual services for USD 20.7 million,
  - (d) Operating and other expenses for USD 7.1 million.

4. **Revenue** of indicative and voluntary contributions as well as fees for the Clean Development Mechanism (CDM) and the Joint Implementation (JI) saw an increase in 2021. Indicative contributions revenue increased moderately to USD 37.1 million (USD 33.7 million in 2020) due to the indicative contributions in EUR valuing higher in USD in 2021 compared to 2020. Voluntary contributions revenue had a significant rise to USD 30.7 million (USD 18.1 million in 2020) as the result of more effective fundraising. There was also a significant increase in fees for the CDM to USD 22.9 million (USD 14.4 million in 2020) attributed to higher volumes of Certified Emission Reduction issuances for emission reduction projects and programmes in 2021 compared to 2020.

5. **Total Expenses** have increased to USD 93.6 million in 2021 (USD 73.2 million in 2020) mainly due to an increase of contractual services to USD 20.7 million (USD 10.7 million in 2020) and Travel to USD 5.7 million (USD 0.6 million in 2020). Both are reflection of the increased activities and travel in 2021, increased costs for virtual meeting platforms and the in-person conference of COP 26 held in 2021.

6. **Operating result:** In 2021 there was a deficit of revenue over expenditure of USD 0.7 million (compared to a deficit of USD 0.5 million in 2020). The large surplus in the Trust Fund for Supplementary Activities (USD 58.2 million) originated from a transfer of USD 55 million from the Trust fund for the Clean Development Mechanism as per COP decision 2/CMP.16 and was mainly offset by the resulting deficit under Trust fund for the Clean Development Mechanism amounting to USD 48.7 million as well as a deficit in the employee liabilities fund of USD 7.3 million and an overall loss of USD 2.9 million in other funds of which 1.4 million loss relating to the Special account for conferences and other recoverable costs.

7. **Assets:** Total assets as at 31 December 2021 increased by USD 17.0 million to USD 276.8 million compared to the balance on 31 December 2020 of USD 259.8 million. The major components of UNFCCC's assets are as follows (thousands of United States dollars).

Table 1  
**Summary of assets as at 31 December 2021**  
(Thousands of United States dollars)

	2021	2020
Cash and cash equivalents	27 236	25 199
Investments	220 766	205 077
Indicative contributions receivable	14 247	15 011
Voluntary contributions receivable	7 507	9 011
Other accounts receivable	1 012	1 104
Other assets	5 143	3 351
Property, plant, and equipment	444	349
Intangible assets	495	743
<b>Total assets</b>	<b>276 849</b>	<b>259 845</b>

8. The major assets at 31 December 2021 are cash, cash equivalents and investments totalling USD 248.0 million, representing 89.6 per cent of the total assets, and outstanding indicative contributions from Parties of USD 14.2 million, or 5.1 per cent. The remaining assets consist of other accounts receivable, other assets (primarily advances), equipment and software.

9. **Cash, cash equivalents and investments:** Cash and cash equivalents as well as investments of USD 248.0 million are held in the UN Treasury main cash pool. The overall levels of these assets have increased by USD 17.7 million compared to 31 December 2020 of which USD 15.7 million relate to investments.

10. **Accounts receivable:** Under IPSAS, accounts receivable from indicative contributions are recognized net of a provision of 50 per cent for all amounts receivable for three years and 100 per cent for all amounts receivable for four or more years. There continue to be delays in receiving contributions. In 2021 the situation has improved resulting in a decrease of indicative contributions outstanding of USD 0.8 million or 5.0 per cent compared to amounts outstanding as at 31 December 2020. The decrease in indicative contributions receivable is resulting from the timely payment of amounts due from Parties.

11. **Other assets** amounting to a total of USD 5.1 million mainly consist of prepayments of USD 2.5 million and education grant advances of USD 1.1 million.

12. **Liabilities:** Liabilities as at 31 December 2021, totalled USD 205.8 million (USD 197.7 million as at 31 December 2020) as follows.

Table 2  
**Summary of liabilities as at 31 December 2021**  
(Thousands of United States dollars)

	2021	2020
Accounts payable and accruals	5 074	4 067
Advance receipts	34 185	27 087
Employee benefit liabilities	165 812	166 538
Other liabilities	746	0
<b>Total liabilities</b>	<b>205 817</b>	<b>197 692</b>

13. The most significant liability are the employee benefits earned by staff members and retirees but not paid at the reporting date, primarily the liability for After Service Health Insurance (ASHI). The ASHI liabilities total USD 152.4 million, representing 74.4 per cent of

UNFCCC's total liabilities and are explained in detail in the respective note to the financial statements:

14. The other significant liability are advance receipts mainly comprising of indicative contributions received in advance of the start of the year to which they are relating to, voluntary contribution provided by donors that contain conditions requiring the return of funds (if not spent in accordance with the terms of the agreement), and CDM fees received in advance but not yet earned by UNFCCC. The balance represents the portion of the contributions as at 31<sup>st</sup> December that have not been recognized as revenue as they are not yet earned by UNFCCC by performing the services covered by the respective agreements.

15. **Net assets:** The movements in net assets during the year shows an overall increase of USD 8.9 million, from USD 62.2 million in 2020 to USD 71 million at the end of 2021. This is mainly due to the actuarial gains of USD 9.6 million which is partly offset by the operating deficit of USD 0.7 million. Net assets include the operating reserves which amount to USD 49.5 million at the reporting date.

#### **Comparison of budgets to actual amounts**

16. The Conference of the Parties (COP) approved a Core expenditure budget for biennium 2020–2021, amounting to EUR 59.8 million. The approved budget for the International transaction log for biennium 2020–21 amounted to EUR 4.6 million.

17. Total expenditure as at 31 December 2021 under the core budget in biennium 2020–2021 represented 88.0 per cent of the approved core budget. The low level of expenditure for staff (86% implementation rate) are attributed to unfilled core budget posts due to a high level of late and outstanding core budget contributions. More detailed information on budget implementation is available in the budget performance report presented to the Subsidiary Body for Implementation.

18. The overall expenditure rate under the Trust Fund for the International Transaction Log (ITL) was 53 per cent for the biennium 2020–2021 as at 31 December 2021. Owing to several staff departures, the restructuring of the secretariat and the decrease in operational activities, the staffing level of the ITL during the reporting period was below the requirements included in its budget.

19. The core budget as well as the budget for the international transaction log continues to be prepared on a modified accrual basis in accordance with the UN Financial Regulations. The overall budgetary results of the 2021 financial period are summarized in Statement V-A to V-C. The differences between the net results on the IPSAS (full accrual) basis and those in accordance with the adopted budget are explained in the respective note to the financial statements.

#### **Impact of the COVID-19 pandemic**

20. In its 2020 financial statements, UNFCCC indicated that the extent of the impact of the Covid-19 pandemic on the financial performance of the UN agency will depend on future developments, including (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the global economy, all of which continue to be highly uncertain and cannot be reliably predicted.

21. Throughout 2021, in which the COVID-19 pandemic significantly affected the UNFCCC calendar of meetings, the secretariat worked closely with the Presidencies of COP 25 and 26, the presiding officers of the subsidiary bodies and the Bureau of the COP, the CMP and the CMA to minimize disruption to and maximize progress in the UNFCCC process. In lieu of in-person negotiations, the secretariat supported the presiding officers and the high-level champions in organizing several virtual UNFCCC events.

22. Based on the availability and quick distribution of COVID-19 vaccines in 2021, UNFCCC was able to partially resume travel and in-person events including the twenty-sixth session of the Conference of the Parties (COP 26) from 31 October to 13 November 2021.

23. No additional material impact on indicative and voluntary contribution income was identified as a direct result of the pandemic. Throughout 2021, resulting from travel bans and restrictions travel expenses were less than budgeted while facilitation of virtual working

environments and virtual meetings resulted in increased ICT expenditure. The reduced utilisation of office space throughout the pandemic had no financial impact as office space including utilities are provided and paid for by the host country government. More detailed information on budget performance is available in the budget performance report presented to the Subsidiary Body for Implementation.

#### **Managing (financial) risk and uncertainties**

24. The secretariat's main income sources are the indicative contributions from Parties, voluntary contributions from donors as well as fee-based income from the mechanisms supported by the secretariat, mainly the Clean Development Mechanism (CDM).

25. Indicative contributions have been steadily received in the past years and there is no expectation of a significant change in the coming years. The secretariat is following up regularly on outstanding contributions and does not expect a significant change in the levels of contributions to be received. Expenditure under the core budget are controlled by the appropriations at the entity level as per the financial rules and regulations

26. While fluctuating over time, voluntary contributions have been received at insufficient levels to cover the budgeted requirements for supplementary activities in line with the mandates given from the different bodies of the Conference of the Parties. Similar to the core budget, expenditure is limited to funding received and budgets are developed and implemented to ensure full cost recovery, taking into consideration all direct and indirect costs.

27. Although the CDM mechanism is still producing significant levels of income, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided at COP 26 to start the development of new mechanisms under Article 6 of the Paris Agreement. The secretariat is foreseen as the supporting entity to the new mechanism (similar to the CDM process). While the respective budgets to support the CDM mechanism have been adjusted to the necessary resource levels in biennium 2022–2023, sufficient reserves in the CDM trust fund are available to cover the needs for the remaining service period and the CMP has allocated significant resources to the development of the new mechanisms under Article 6.

28. The financing of the long-term employee benefit liabilities has been addressed by the secretariat by introducing a surcharge on the salary costs to set aside funds to cover the respective liabilities under non-core activities following the UN secretariat strategy. Under the core budget, these liabilities are currently unfunded and covered under a pay-as-you-go arrangement financed from the current core budget. Regarding the long-term financing of these liabilities, the secretariat is in discussion with the Parties on possible financing options.

#### **Strategic Plan and Objectives**

29. The secretariat provides the foundation for global cooperation to address climate change. It is an authoritative, recognized UN body that empowers all actors to achieve the objective of the Convention. In doing so, it puts the well-being of humanity and sustainable development at the centre of climate action in pursuing the full implementation of the Convention, the Kyoto Protocol and the Paris Agreement.

30. The secretariat in its 2020–2021 and 2022–2023 budget proposals presented the budgetary requirements along organization-wide strategic objectives and priorities, provided a comprehensive reference for all stakeholders and a single source for departmental and divisional budgets, as well as for monitoring and evaluation. The budgets were developed from the ground up through a comprehensive and participatory secretariat-wide effort and consider all mandated work regardless of the date of adoption of the respective mandate.

31. Directors of divisions are responsible for their division's key objectives. The divisional and organizational performance as well as the performance of the directors are being monitored and reported to the Management Team on a regular basis. The secretariat also reports the budgetary and work programme performance to Parties annually.

32. In 2022–2023 the secretariat's work continues to be guided by the following strategic objectives:

- (a) Facilitate intergovernmental engagement on responding to the threat of climate change by providing effective organizational, process, technical and substantive support for:
  - i. Ongoing intergovernmental oversight of established processes and negotiation of new, revised or enhanced processes, as appropriate;
  - ii. Operating established processes arising from the decisions of the COP, the CMP and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA);
- (b) Enable the constituted bodies to fulfil their mandates, including by providing effective organizational, process, technical and substantive support;
- (c) Manage a trusted repository of data and information in support of the intergovernmental response to the threat of climate change
- (d) Facilitate engagement in the UNFCCC process in order to promote action towards the achievement of the objectives and goals of the Convention, the Kyoto Protocol and the Paris Agreement;
- (e) Oversee and manage the secretariat effectively.

## Chapter V

### Financial statements for the year 2021

#### A. Statement I: Statement of Financial Position as at 31 December 2021

(Thousands of United States dollars)

	<i>Note</i>	<i>2021</i>	<i>2020</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	27 236	25 199
Short-term investments	5	185 961	154 191
Indicative contributions receivable	6	14 247	15 011
Voluntary contributions receivable	6	5 130	8 741
Other receivables	6	1 012	1 104
Other current assets	7	5 143	3 351
<b>Total current assets</b>		<b>238 729</b>	<b>207 597</b>
<b>Non-current assets</b>			
Voluntary contributions receivable	6	2 377	270
Long-term investments	5	34 804	50 886
Property, plant and equipment	8	444	349
Intangible assets	9	495	743
<b>Total non-current assets</b>		<b>38 119</b>	<b>52 248</b>
<b>TOTAL ASSETS</b>		<b>276 849</b>	<b>259 845</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables and accruals	10	5 074	4 067
Advance receipts	11	34 185	27 087
Employee benefits	12	2 557	2 332
Other current liabilities	14	746	0
<b>Total current liabilities</b>		<b>42 562</b>	<b>33 486</b>
<b>Non-current liabilities</b>			
Employee benefits	12	163 255	164 206
<b>Total non-current liabilities</b>		<b>163 255</b>	<b>164 206</b>
<b>TOTAL LIABILITIES</b>		<b>205 817</b>	<b>197 692</b>
<b>NET ASSETS</b>			
Accumulated surpluses/(deficits)		21 527	12 405
Reserves	17	49 504	49 748
<b>TOTAL NET ASSETS</b>		<b>71 032</b>	<b>62 153</b>
<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>		<b>276 849</b>	<b>259 845</b>

.Note: The accompanying notes form an integral part of these financial statements.

**B. Statement II: Statement of Financial Performance for the year ended  
31 December 2021**

(Thousands of United States dollars)

	<i>Note</i>	<i>2021</i>	<i>2020</i>
<b>REVENUE</b>	15		
Indicative contributions		37 076	33 714
Voluntary contributions		30 733	18 051
CDM and JI service fees		22 894	14 448
Interest Revenue		1 030	2 537
Gain on foreign exchange		0	3 745
Other/miscellaneous revenue		1 077	220
<b>TOTAL REVENUE</b>		<b>92 809</b>	<b>72 716</b>
<b>EXPENSES</b>	16		
Personnel expenditure		56 309	55 624
Travel		5 721	635
Contractual services		20 733	10 721
Operating expenses		2 159	2 049
Other expenses		4 915	2 961
Depreciation of equipment		110	68
Amortization of intangible assets		276	489
Return/transfer of donor funding		664	681
Loss on foreign exchange		2 663	0
<b>TOTAL EXPENSES</b>		<b>93 551</b>	<b>73 229</b>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>(742)</b>	<b>(513)</b>

*Note:* The accompanying notes form an integral part of these financial statements.



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**C. Statement III: Statement of Changes in Net Assets for the year ended 31 December 2021**

(Thousands of United States dollars)

	<i>Accumulated Surplus</i>	<i>Reserves</i>	<i>Total Net Assets</i>
Balance as at 01 January 2021	12 405	49 748	62 153
Surplus/(Deficit) for the current period	(742)		(742)
Adjustment Appendix D reserve			0
Actuarial gains (losses) on employee benefits liabilities	9 621		9 621
Adjustment to operating reverses amounts against accumulated surplus	244	(244)	
<b>Balance as at 31 December 2021</b>	<b>21 527</b>	<b>49 504</b>	<b>71 032</b>

*Note:* The accompanying notes form an integral part of these financial statements.

**D. Statement IV: Cash Flow Statement for the year ended 31 December 2021**

(Thousands of United States dollars)

	2021	2020
<b>Cash flows from operating activities</b>		
Surplus/(deficit) for the period	( 742)	(513)
Depreciation expense	110	68
Amortization of intangible assets	276	489
(Increase)/decrease in accounts receivable	2 360	5 795
(Increase)/decrease in other assets	(1 792)	1 360
Increase/(decrease) in payables and accruals	1 006	314
Increase/(decrease) in advance receipts	7 098	(964)
Increase/(decrease) in employee benefit liabilities	8 896	9 254
Increase/(decrease) in other liabilities	746	(2)
<b>Net cash flows from operating activities</b>	<b>17 957</b>	<b>15 802</b>
<b>Cash flows from investing activities</b>		
(Increase)/decrease in equipment	( 204)	(204)
(Increase)/decrease in intangible assets	( 28)	0
(Increase)/Decrease in short-term investments	(31 770)	(34 702)
(Increase)/Decrease in long-term investments	16 082	(13 394)
<b>Net cash flows from investing activities</b>	<b>(15 920)</b>	<b>(48 300)</b>
<b>Cash flows from financing activities</b>		
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 036</b>	<b>(32 498)</b>
Cash and cash equivalents at the beginning of the year	25 199	57 698
Cash and cash equivalents at the end of the year	27 236	25 199
<b>Overall increase/(decrease)</b>	<b>2 036</b>	<b>(32 498)</b>

	2021	2020
<b>Cash flows from operating activities</b>		
Surplus/(deficit) for the period	( 742)	( 513)
Depreciation expense	110	68
Amortization of intangible assets	276	489
(Increase)/decrease in accounts receivable	2 360	5 795
(Increase)/decrease in other assets	(1 792)	1 360
Increase/(decrease) in payables and accruals	1 006	314
Increase/(decrease) in advance receipts	7 098	( 964)
Increase/(decrease) in employee benefit liabilities	8 896	9 254
Increase/(decrease) in other liabilities	746	( 2)
<b>Net cash flows from operating activities</b>	<b>17 957</b>	<b>15 802</b>
<b>Cash flows from investing activities</b>		
(Increase)/decrease in equipment	( 204)	( 204)
(Increase)/decrease in intangible assets	( 28)	0
(Increase)/Decrease in short-term investments	(31 770)	(34 702)
(Increase)/Decrease in long-term investments	16 082	(13 394)
<b>Net cash flows from investing activities</b>	<b>(15 920)</b>	<b>(48 300)</b>
<b>Cash flows from financing activities</b>	<b>0</b>	<b>0</b>

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<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 036</b>	<b>(32 498)</b>
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*Note:* The accompanying notes form an integral part of these financial statements.

## E. Statements V: Statements of Comparison of Budgets to Actual Amounts

### 1. Budget to Actual Comparison Core Budget for the year 2021 and the biennium 2020–2021

2021*	Original	Final	Actual Difference		Original	Final	Actual Difference	
	Budget (EUR)	Budget (EUR)	(EUR)	(EUR)	Budget (USD)	Budget (USD)	(USD)	(USD)
Executive	1 667 860	1 439 920	1 468 461	( 28 541)	2 046 454	1 766 772	1 732 255	34 518
Programmes Coordination	256 940	256 940	265 390	( 8 450)	315 264	315 264	311 029	4 235
Adaptation	3 261 940	3 017 691	3 350 054	( 332 363)	4 002 380	3 702 688	3 925 617	( 222 929)
Mitigation	2 049 500	1 790 780	1 260 476	530 304	2 514 724	2 197 276	1 470 159	727 117
Means of Implementation	3 018 600	3 018 600	2 525 470	493 130	3 703 804	3 703 804	2 983 779	720 024
Transparency	6 159 920	6 177 560	5 228 573	948 987	7 558 184	7 579 828	6 186 203	1 393 625
Operation Coordination	588 980	588 980	883 885	( 294 905)	722 675	722 675	1 044 821	( 322 147)
Secretariat-wide costs	1 293 335	1 453 335	1 731 871	( 278 536)	1 586 914	1 783 233	1 999 712	( 216 479)
AS/HR/ICT	2 115 905	2 684 374	2 999 544	( 315 169)	2 596 202	3 293 711	3 541 558	( 247 847)
Conference Affairs	1 324 120	1 462 600	1 653 153	( 190 553)	1 624 687	1 794 601	1 958 650	( 164 048)
Legal Affairs	1 160 680	1 143 040	933 793	209 247	1 424 147	1 402 503	1 099 652	302 851
Intergovernmental Support and Collective Progress	1 676 840	1 606 089	1 832 982	( 226 893)	2 057 472	1 970 662	2 172 629	( 201 967)
Communications and Engagement	1 664 740	1 599 451	1 857 111	( 257 660)	2 042 626	1 962 517	2 173 718	( 211 202)
IPCC	244 755	244 755	244 755	0	300 313	300 313	297 033	3 280
<b>Total appropriation</b>	<b>26 484 115</b>	<b>26 484 115</b>	<b>26 235 519</b>	<b>248 596 32</b>	<b>495 847</b>	<b>32 495 847</b>	<b>30 896 815</b>	<b>1 599 032</b>
Programme support costs	3 442 935	3 442 935	3 440 276	2 658	4 224 460	4 224 460	4 036 723	187 737
Adjustment to working capital reserve	1 047	1 047			1 285	1 285		
<b>Grand TOTAL</b>	<b>29 928 097</b>	<b>29 928 097</b>	<b>29 675 795</b>	<b>251 255 36</b>	<b>721 591</b>	<b>36 721 591</b>	<b>34 933 538</b>	<b>1 786 769</b>
Contribution from the Host Government	766 938	766 938	766 938		941 028	941 028	941 028	
Income from Indicative Contributions	29 161 159	29 161 159	29 161 159		35 780 563	35 780 563	35 780 563	
<b>Net result (budgetary)</b>			<b>252 302</b>				<b>1 788 054</b>	

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<i>2020-2021</i>	Original Budget (EUR)	Final Budget (EUR)	Actual Difference (EUR)		Original Budget (USD)	Final Budget (USD)	Actual Difference (USD)	
Executive	3 335 720	3 251 840	3 004 199	247 641	3 907 905	3 789 005	3 483 569	305 436
Programmes Coordination	513 880	513 880	415 103	98 777	602 027	602 027	478 953	123 074
Adaptation	6 523 880	6 035 381	5 580 484	454 897	7 642 938	7 070 646	6 478 235	592 411
Mitigation	4 099 000	3 581 560	2 631 813	949 747	4 802 112	4 195 914	3 030 573	1 165 341
Means of Implementation	6 037 200	6 037 200	5 081 511	955 689	7 072 777	7 072 777	5 900 291	1 172 486
Transparency	12 319 840	12 355 120	10 327 569	2 027 551	14 433 095	14 474 426	12 007 532	2 466 894
Operation Coordination	1 177 960	1 177 960	1 163 614	14 346	1 380 019	1 380 019	1 365 939	14 080
Secretariat-wide costs	2 586 670	2 746 670	2 694 514	52 156	3 030 368	3 226 687	3 134 014	92 674
AS/HR/ICT	4 231 810	4 688 748	4 650 314	38 434	4 957 704	5 530 735	5 427 376	103 359
Conference Affairs	2 648 240	2 763 200	2 725 677	37 523	3 102 500	3 246 164	3 182 947	63 216
Legal Affairs	2 321 360	2 286 080	1 829 056	457 024	2 719 549	2 678 217	2 126 268	551 949
Intergovernmental Support and Collective Progress	3 256 660	3 430 159	3 277 514	152 645	3 820 664	4 006 454	3 821 545	184 909
Communications and Engagement	3 329 480	3 513 902	3 051 184	462 718	3 900 595	4 099 181	3 540 443	558 737
IPCC	489 510	489 510	489 510	( 0)	573 477	573 477	566 884	6 593
<b>Total appropriation</b>	<b>52 871 210</b>	<b>52 871 210</b>	<b>46 922 062</b>	<b>5 949 148</b>	<b>61 945 729</b>	<b>61 945 729</b>	<b>54 544 569</b>	<b>7 401 160</b>
Programme support costs	6 873 257	6 873 257	6 039 199	834 059	8 052 945	8 052 945	7 071 063	981 882
Adjustment to working capital reserve	103 317	103 317			115 426	115 426		
<b>Grand TOTAL</b>	<b>59 847 785</b>	<b>59 847 785</b>	<b>52 961 261</b>	<b>6 783 206</b>	<b>70 114 100</b>	<b>70 114 100</b>	<b>61 615 632</b>	<b>8 383 042</b>
Contribution from the Host Government	1 533 876	1 533 876	1 533 876		1 796 986	1 796 986	1 796 986	
Income from Indicative Contributions	58 313 909	58 313 909	58 313 909		68 317 115	68 317 115	68 317 115	
<b>Net result (budgetary)</b>			<b>6 886 524</b>				<b>8 498 468</b>	

**2. Budget to Actual Comparison International Transaction Log Budget for the year 2021 and the biennium 2020–2021**

	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
<i>2021*</i>						
Staff costs	769 400	465 146	304 254	944 049	551 492	392 557
Consultants	49 833		49 833	61 145		61 145
Travel of staff	15 000		15 000	18 405		18 405
Experts and expert groups						
Training	10 000		10 000	12 270		12 270
General operating expenses	1 102 509	431 304	671 205	1 352 771	656 709	696 062
Contributions to common services	104 000	48 979	55 021	127 607	58 240	69 367
<b>TOTAL</b>	<b>2 050 742</b>	<b>945 429</b>	<b>1 105 313</b>	<b>2 516 247</b>	<b>1 266 441</b>	<b>1 249 806</b>
Programme support costs (overheads)	266 596	123 059	143 537	327 112	-	327 112
Adjustment to working capital reserve	( 11 951)			( 14 663)		
<b>Grand TOTAL</b>	<b>2 305 387</b>	<b>1 068 488</b>	<b>1 248 850</b>	<b>2 828 696</b>	<b>1 266 441</b>	<b>1 576 918</b>
Income from indicative contributions	1 055 388	1 055 388		1 294 955	1 294 955	
<b>Net result (budgetary)</b>					<b>28 514</b>	
* Further information is contained in notes 19 and 20.						
	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
<i>2020-2021</i>						
Staff costs	1 538 800	932 821	605 979	1 802 754	1 085 731	717 023
Consultants	99 666		99 666	116 762		116 762
Travel of staff	30 000		30 000	35 146		35 146
Experts and expert groups				-		
Training	20 000		20 000	23 431		23 431
General operating expenses	2 205 017	1 122 432	1 082 585	2 583 249	1 321 397	1 261 852
Contributions to common services	208 000	102 446	105 554	243 679	118 766	124 913
<b>TOTAL</b>	<b>4 101 483</b>	<b>2 157 699</b>	<b>1 943 784</b>	<b>4 805 021</b>	<b>2 525 894</b>	<b>2 279 127</b>
Programme support costs (overheads)	533 193	268 709	264 484	624 653	315 085	309 568
Adjustment to working capital reserve	( 23 901)			( 28 001)		
<b>Grand TOTAL</b>	<b>4 610 775</b>	<b>2 426 408</b>	<b>2 208 268</b>	<b>5 401 673</b>	<b>2 840 979</b>	<b>2 588 695</b>
Income from indicative contributions	2 110 776	2 110 776		2 472 843	2 472 843	
<b>Net result (budgetary)</b>					<b>( 368 136)</b>	

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**3. Budget to Actual Comparison Conference Services Contingency Budget for the year 2021**

<i>2021</i>	<i>Original and Final Budget (EUR)</i>	<i>Actual (EUR)</i>	<i>Difference (EUR)</i>	<i>Original and Final Budget (EUR)</i>	<i>Actual (EUR)</i>	<i>Difference (EUR)</i>
<b>Object of expenditure</b>						
Interpretation	1 235 500		1 235 500	1 515 951		1 515 951
Documentation						
Translation	1 106 700		1 106 700	1 357 914		1 357 914
Reproduction and distribution	644 000		644 000	790 184		790 184
Meetings service support	246 200		246 200	302 086		302 086
<b>Subtotal</b>	<b>3 232 400</b>		<b>3 232 400</b>	<b>3 966 135</b>		<b>3 966 135</b>
Programme support costs	420 200		420 200	515 583		515 583
Working capital reserve	8 800		8 800	10 798		10 798
<b>Total</b>	<b>3 661 400</b>		<b>3 661 400</b>	<b>4 492 515</b>		<b>4 492 515</b>

\*Further information is contained in notes 19 and 20.

## F. Notes to the Financial Statements

### Note 1: The Reporting Entity

33. The permanent secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) was established in January 1996 for the following purposes:
- (a) To arrange for sessions of the Conference of the Parties and its subsidiary bodies established under the Convention, the Kyoto Protocol and the Paris Agreement and to provide them with services as required;
  - (b) To compile and transmit reports submitted to it;
  - (c) To facilitate assistance to Parties particularly developing country Parties on request in the compilation and communication of information required in accordance with the provisions of the Convention, the Kyoto Protocol and the Paris Agreement;
  - (d) To prepare reports on its activities and present them to the Conference of the Parties;
  - (e) To ensure the necessary coordination with the secretariats of other relevant international bodies;
  - (f) To enter, under the overall guidance of the Conference of the Parties, into such administrative and contractual arrangements as may be required for the effective discharge of its functions;
  - (g) To perform other secretariat functions specified in the Convention and in any of its protocols; and
  - (h) To undertake any other functions as may be determined by the Conference of the Parties.
34. UNFCCC is governed by the following constituent bodies:
- (a) **The Conference of the Parties (COP)** is the supreme decision-making body of the Convention. All States that are Parties to the Convention are represented at the COP, at which they review the implementation of the Convention and any other legal instruments that the COP adopts and take decisions necessary to promote the effective implementation of the Convention, including institutional and administrative arrangements.
  - (b) **The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP)**: All States that are Parties to the Kyoto Protocol are represented at the CMP, while States that are not Parties participate as observers. The CMP reviews the implementation of the Kyoto Protocol and takes decisions to promote its effective implementation.
  - (c) **The Subsidiary Body for Implementation (SBI)** is one of two permanent subsidiary bodies to the Convention established by the COP/CMP. It supports the work of the COP and the CMP through the assessment and review of the effective implementation of the Convention and its Kyoto Protocol. A particularly important task in this respect is to examine the information in the national communications and emission inventories submitted by Parties in order to assess the Convention's overall effectiveness. The SBI reviews the financial assistance given to non-Annex I Parties to help them implement their Convention commitments and provides advice to the COP on guidance to the financial mechanism (operated by the Global Environment Facility - GEF). The SBI also advises the COP on budgetary and administrative matters.
  - (d) The Conference of the Parties, the supreme body of the Convention, shall serve as **the meeting of the Parties to the Paris Agreement (CMA)**. All States that are Parties to the Paris Agreement are represented at the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), while States that are not Parties participate as observers. The CMA oversees the implementation of the Paris Agreement and takes decisions to promote its effective implementation.
  - (e) **The Bureau of the COP and CMP** supports the COP, CMP and the CMA through the provision of advice and guidance regarding the on-going work under the



Convention and its Kyoto Protocol, the organization of their sessions and the operation of the secretariat, especially at times when the COP and the CMP are not in session. The Bureau is elected from representatives of Parties nominated by each of the five United Nations regional groups and small island developing States. The Bureau is mainly responsible for questions of process management. It assists the President in the performance of his or her duties by providing advice and by helping with various tasks (e.g. members undertake consultations on behalf of the President). The Bureau is responsible for examining the credentials of Parties, reviewing the list of intergovernmental and non-governmental organizations, seeking accreditation and submitting a report thereon to the Conference.

35. UNFCCC is financed by indicative contributions paid by Parties to the Convention, fees derived from services provided by the Organization and voluntary contributions from Parties to the Convention and the Kyoto Protocol and other donors.

36. The Organization enjoys privileges and immunities as granted under the 1947 Convention on Privileges and Immunities of the United Nations and the 1996 Headquarters agreement with the Federal Government of Germany, notably being exempt from most forms of direct and indirect taxation.

#### **Note 2: Basis of Preparation**

37. The financial statements of the UNFCCC have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention. The statements are prepared on a going concern basis given the approval by the Conference of Parties of the programme budget appropriations for the biennium 2022-2023, the historical trend of collection of indicative and voluntary contributions over the past years and that the Conference of Parties has not made any decision to cease operation of UNFCCC.

38. In accordance with IPSAS, the 2021 financial statements are presented on an annual basis covering the period 1 January 2021 to 31 December 2021. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 March 2022. Sequentially, the report of the Board of Auditors together with the audited financial statements are submitted to the Conference of the Parties.

39. The cash flow statement is prepared using the indirect method.

40. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

#### **2.1 Functional and Presentation Currency**

41. The financial statements are presented in United States dollars, which is the functional and presentation currency of UNFCCC.

#### **2.2 Foreign Currency Translation**

42. Transactions in currencies other than United States dollar are translated into United States dollar at the prevailing United Nations Operational Rates of Exchange (UNORE) which represents the prevailing rate at the time of transaction<sup>12</sup>. Assets and liabilities in currencies other than United States dollar are translated into United States dollar at the UNORE year-end closing rate. Resulting gains and losses are accounted for in the Statements of Financial Performance.

43. The Core budget and the budget for the International transaction log are approved and assessed in euros. The contingency budget for conference services of UNFCCC is approved by the COP. However, funds are not accessed unless required. Information on the Statements of Budget to Actual Comparisons for each budget are presented on both euros and United States dollars.

44. For statements V, euro amounts from the approved budgets for the original and final budget are converted to USD using the UNORE as at 1 January 2021 while the euro amounts for

<sup>12</sup> <https://treasury.un.org/operationalrates/OperationalRates.php>

the actuals are converted to USD using the applicable monthly UNORE rate at the time of the transaction.

### **2.3 Materiality and the use of judgement and estimates**

45. Materiality is central to the UNFCCC financial statements. The financial statements necessarily include amounts based on judgments, estimates and assumptions by management. Actual results may differ from these estimates. Changes in estimates are reflected in the period in which they become known. Accruals, equipment depreciation and employee benefit liabilities are the most significant items for which estimates are utilized.

## **Note 3: Significant Accounting Policies**

### **3.1 Cash and Cash Equivalents**

46. Cash and Cash equivalents are held at fair value and comprise cash on hand, cash at banks, money market and short-term deposits. Investment revenue is recognized as it accrues taking into account the effective yield.

### **3.2 Financial Instruments**

47. Financial instruments are initially measured at fair value. Subsequent measurement of all financial instruments is at fair value except for accounts receivable and accounts payable, which are measured at amortized cost using the effective interest method except for indicative and voluntary contributions balances which are recognized at nominal value (proxy to fair value at the time of recognition).

48. Financial instruments are recognized when UNFCCC becomes a party to the contractual provisions of the instrument until the rights to receive cash flows from those assets have expired or have been transferred and UNFCCC has transferred substantially all the risks and rewards of ownership.

49. The Main cash pool comprises participating entity shares of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed by the UN Treasury. UNFCCC's share of the cash pool is disclosed in the notes to the financial statements and on the Statement of Financial Position categorized as cash and cash equivalents, short-term and long-term investments.

50. Gains or losses arising from changes in the fair value of financial instruments are included within the statement of financial performance in the period in which they arise. Gains or losses arising from a change in the fair value of the financial assets held in the Main Cash Pool are presented in the Statement of Financial Performance in the period in which they arise as finance costs if net loss or investment revenue if net gain.

51. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. UNFCCC's receivables comprise indicative contributions receivable from member countries (Parties) and other accounts receivable recognized on the Statement of Financial Position. Receivables are measured at amortized cost taking into account a provision for impairment.

### **3.3 Inventories**

52. UNFCCC does not maintain an inventory of tangible assets that are held for resale or consumed in the distribution in rendering of its services. Should inventories be recognized in future financial statements, these inventories would be recognized at the lower of cost and net realizable value or at the lower of cost and current replacement cost.

### **3.4 Property, Plant and Equipment**

53. Equipment with a cost above USD 5,000 is stated at historical cost less accumulated depreciation and any impairment losses. UNFCCC is deemed to control equipment if it can use or otherwise benefit from the asset in the pursuit of its objectives and if UNFCCC can exclude or regulate the access of third parties to the asset.

54. Depreciation is calculated over their estimated useful life of the equipment using the straight-line method.

Table 3  
The estimated useful life for equipment classes

<i>Class of equipment</i>	<i>Estimated useful life (in years)</i>
Computer equipment	5
Communication and audio equipment	5
Furniture and fittings	10
Vehicles	10
Leasehold improvements	10 (or lease term, whichever is shorter)

**3.5 Intangible Assets**

55. Intangible assets are valued at historical cost less accumulated amortization and any impairment losses. Intangible assets acquired externally are capitalised if their costs exceed the threshold of USD 5,000. Internally developed software is capitalized if its cost exceeded a threshold of USD 100,000 excluding research and maintenance costs and including directly attributable costs such as staff assigned full time to a development projects, sub-contractors, and consultants.

56. Amortization is provided over the estimated useful life of the intangible asset using the straight-line method.

Table 4  
The estimated useful lives for intangible asset classes

<i>Class of intangible assets</i>	<i>Estimated useful life (in years)</i>
Software acquired externally	3
Internally developed software	3–5
Copyrights	Set 8 years or period of copyright, whichever is shorter

57. Impairment is assessed at each reporting date for all intangible assets based on indications that an asset may be impaired, and any impairment losses are recognized in the Statement of Financial Performance.

**3.6 Payables, advance receipts, and accruals**

58. Accounts payable are financial liabilities in respect of either goods or services that have been acquired and received by UNFCCC and for which the invoices have been received from the suppliers. They are initially recognized at fair value and, when applicable, subsequently measured at amortized cost using the effective interest method. As the accounts payable of UNFCCC generally fall due within 12 months, the impact of discounting is immaterial, and nominal values are applied to initial recognition and subsequent measurement.

59. Accruals are liabilities for goods and services that have been received or provided to UNFCCC during the year and have not been invoiced by suppliers as at the reporting date.

60. Advance receipts are prepayments from customers, parties, or donors for subsequent periods.

**3.7 Employee Benefits**

61. UNFCCC provides the following employee benefits:

(a) Short-term employee benefits comprise first-time employee benefits (assignment grants), regular monthly benefits (wages, salaries, allowances), compensated absences (annual and paid sick leave, maternity/paternity leave) and other short-term benefits (education grant, reimbursement of taxes) which fall due wholly within twelve months after the end of the accounting period in which employees render the related service.

(b) Post-Employment benefits including ASHI, repatriation grant, separation related travel and shipping costs;

(c) Other long-term employee benefits including accumulated annual leave payable on separation; and

(d) Termination benefits include indemnities for voluntary redundancy payable once a plan has been formally approved.

62. The liability recognized for post-employment benefits is the present value of the defined benefit obligations at the reporting date. An independent actuary using the projected unit credit method calculates the defined benefit obligations. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-grade corporate bonds with maturity dates approximating those of the individual plans.

63. Employee benefits including payments to staff members on separation from service such as repatriation grant, accrued annual leave, repatriation travel and removal on repatriation are expensed on an accrual basis.

64. Actuarial gains and losses related to post-employment benefits for after service health insurance are recognised in the period in which they occur on the statement of changes in net assets as a separate item in net assets/equity.

65. UNFCCC is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF, the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability, and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances, and other conditions of service of the United Nations and the specialized agencies.

66. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the Fund. UNFCCC and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify UNFCCC's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UNFCCC has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee Benefits. UNFCCC's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

### 3.8 Provisions

67. Provision are made for future liabilities and charges where UNFCCC has a present legal or constructive obligation as a result of past events and is probable that UNFCCC will be required to settle the obligation, and the value can be reliably measured.

### 3.9 Contingent liabilities and contingent assets

68. Contingent liabilities where their existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNFCCC or where the value cannot be reliably estimated are disclosed in the Notes to the financial statements. Contingent liabilities are assessed continually to determine whether an outflow of resources has become probable. If an outflow becomes probable, a provision is recognized in the financial statements in the period in which probability occurs. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### 3.10 Leases

69. Leases, where the lessor retains a significant portion of the risks and rewards inherent in ownership, are classified as operating leases. Payments made under operating leases are charged on the Statement of Financial Performance as an expense on a straight-line basis over the period of the lease.

### 3.11 Non-exchange revenue and receivables

70. **Indicative contributions** to the Core budget and to the Trust Fund for the International transaction log from Parties to the Convention are recognised at the beginning of the year to which the assessment relates. The revenue amount is determined based on the approved budgets and the scale of assessment approved by the General Assembly as adopted by the Conference of the Parties.

71. **Voluntary contributions** are recognised upon the signing of a binding agreement with the donor. Revenue is recognised immediately if no condition is attached. If conditions are attached, including a requirement that funds not utilized in accordance with the agreement must be returned to the contributing entity, revenue is recognised only upon satisfying the conditions. Until such conditions are met a liability (deferred revenue) is recognised. Voluntary contributions such as pledges and other promised donations which are not supported by binding agreements are considered contingent assets and are recognised as revenue when received and disclosed in the Notes to the financial statements if receipt is considered probable.

72. Multi-year voluntary conditional **contributions** due in future financial periods are recognized as receivables on the signing of the agreement along with a liability (deferred revenue) until the conditions are met.

73. **Goods in kind** are recognised at their fair value, measured as of the date the donated assets are received or acquired. **Services in kind** are not recognized on the face of the financial statements but instead disclosing the nature and type of services in-kind in the notes.

74. Receivables are stated at amortized cost less allowances for estimated irrecoverable amounts.

### 3.12 Exchange revenue

75. Revenue from the fees charged in connection with the Clean Development Mechanism (CDM) and the Joint Implementation Determination (JI) is recognized upon completion of the underlying service for which the fee has been charged. A liability is established covering the estimated amount of fees reimbursable to the applicant. Interest income is recognized on a time proportion basis as it accrues, considering the effective yield.

### 3.13 Expenses

76. Expenses arising from the purchase of goods and services are recognized when the services or goods have been received and accepted by UNFCCC. Service are considered received on the date when the service is certified as rendered. For some service contracts this process may occur in stages.

### 3.14 Segment reporting

77. UNFCCC is a single purpose entity with a mandate to assist the signatories of the UN Framework Convention on Climate Change to limit average global temperature increases and the resulting climate change, and to cope with whatever impacts are inevitable in part through enforcing the legally binding emission reduction targets established in the Kyoto Protocol. Its operations, therefore, consist of a single segment. However, to provide additional information for use to senior management and Parties to the Convention and Kyoto Protocol, supplemental disclosures are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all UNFCCC funds. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Fund balances represent the accumulated residual of revenue and expenses.

78. UNFCCC classifies all projects, operations, and activities into the following ten funds and special accounts:

- (a) Trust fund for the Core Budget of UNFCCC financed from indicative contributions (or general-purpose contributions from donors);
- (b) Trust fund for Supplementary Activities financed from voluntary contributions;
- (c) Trust fund for the Participation in the UNFCCC process financed from voluntary contributions;

(d) Trust fund for the Clean Development Mechanism financed from fees charged for registration of projects and issuance of certificates;

(e) Trust fund for the International Transactions Log financed from indicative contributions (or general-purpose contributions from donors);

(f) Trust fund for the Special Annual Contribution from the Government of Germany financed from a voluntary contribution from the government in which the UNFCCC headquarters is located;

(g) Special account for Programme Support Costs financed from charges made to the activities financed from indicative and voluntary contributions as well as fee financed activities;

(h) Special account for conferences and other recoverable costs financed from voluntary contributions; and

(i) Cost recovery fund financed from charges made to the activities financed from indicative and voluntary contributions;

(j) End of service and post employee benefits fund currently not fully funded.

79. Transactions occurring between funds are accounted for at cost and eliminated on consolidation.

80. UNFCCC reports on the transactions of each fund during the financial period, and the balances held at the end of the period.

### 3.15 Budget comparison

81. UNFCCC's budget is prepared on a modified accrual basis as per the applicable financial regulations and rules whereas the financial statements are prepared on a full accrual basis. Under the modified accrual basis, expenses are recognized on the obligation principle, i.e. when the organization enters into a financial commitment to obtain goods or services. Costs of equipment acquisition are expensed when the equipment has been delivered. On the other hand, the budget expenses does not include costs related to changes in provisions for employee benefits liabilities. Income is recognized as per para 70 ff. also for statement V.

82. The budget is adopted on a biennial basis and presented in annual estimates in the financial statements. Unexpended balances at the end of the first year of the biennium are carried forward and added to the annual budget estimate for the second year of the biennium.

83. Statements V-1 to V-3, Comparison of budget and Actual amounts, compare the final budget to actual amounts calculated on the same basis as the corresponding approved budget.

84. As the basis used to prepare the budget and financial statements differ, note 19 provides a reconciliation between the actual amounts presented in statement V-1 to V-3 and the actual amounts presented on the Statement of Financial Performance.

85. The COP approves the biennial Core budget and the contingent budget for Conference Services. The CMP approves the budget for the International transaction log. Budgets may be subsequently amended by the COP or CMP, as applicable, or through the exercise of delegated authority.

### 3.16 Update on IPSAS standards

86. IPSAS 41 :Financial instruments was issued in 2018 with an initial effective date of 1 January 2022 which was postponed to 1 January 2023 due to the Covid-19 pandemic. Its impact on the financial statements of UNFCCC upon adoption is currently being assessed in conjunction with United Nations Secretariat treasury which manages the UNFCCC cash pool and investments. UNFCCC aims to complete its assessment and implementation plan in the third quarter of 2022 and implement the standard effective 1 January 2023.

87. IPSAS 42: Social benefits was issued in 2020 with an effective date of 1 January 2022 which was postponed to 1 January 2023 due to the Covid-19 pandemic. The standard is not expected to be applicable to UNFCCC in the foreseeable future.

88. IPSAS 43 (Leases) was issued in January 2022 with an effective date of 1 January 2025. Its impact on the financial statements of UNFCCC upon adoption is currently being assessed. UNFCCC aims to complete its initial assessment of this standard in 2022. The IPSAS board indicated that entities will benefit from a further assessment following the implementation of IPSAS 41 and also finalisation of other IPSAS currently under development, including revenue, which may result in further amendments to IPSAS 43. Therefore, UNFCCC will adopt IPSAS 43 with effect of 1 January 2025.

#### **Note 4: Financial Risks**

##### **4.1 Financial risk factors**

89. UNFCCC's operations may expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

##### **4.2 Market risk**

###### *Foreign exchange risk*

90. UNFCCC operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. Foreign exchange risk arises from operating revenue and expenses and recognized assets and liabilities. Management requires that the Organization manage its currency risk against its functional currency by structuring contributions from its owner organizations and its technical cooperation project donors to correspond to the foreign currency needed for operational purposes.

91. As at 31 December 2021, if the US dollar had weakened/strengthened by 5 per cent against the euro with all other variables held constant, the impact on net assets would have been USD 0.7 million higher/lower due to the change in the asset value of receivables denominated in euro.

###### *Price risk*

92. The Organization may be exposed to price risk because of investments held in the Main cash pool which are classified in the Statement of Financial Position at fair value through surplus or deficit. The share of any realized loss or gain on the Organization's holdings in the Main cash pool is recognized in surplus or deficit.

###### *Interest rate risk*

93. The organization earns interest revenue derived from surplus balances that it maintains in operational and non-operational cash holdings throughout the year. The implementation of UNFCCC's programme and budget is not directly dependent on interest earnings.

##### **4.3 Credit risk**

94. Credit risk refers to the risk that counterparty to a financial instrument will default on its contractual obligations resulting in a financial loss to the Institute. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date. The Organization does not hold any collateral as security.

###### *Other credit risk disclosure*

95. Voluntary contributions from governments representing the Parties of the Organization comprise the majority of the Organization's voluntary contributions receivable. Credit risk is considered minimal since most of its donors are sovereign entities.

##### **4.4 Liquidity risk**

96. Cash flow forecasting is performed by the Organization in conjunction with the United Nations Office at Geneva (UNOG) which monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. There are no restrictions on the amount that UNFCCC may withdraw at any time after providing the UN Treasury with several days' notice.

##### **4.5 Cash Pools**

97. In addition to directly held cash and cash equivalents and investments, the United Nations Framework Convention on Climate Change (“UNFCCC”) participates in the United Nations Treasury main pool. The main pool comprises of operational bank account balances in a number of currencies and investments in United States dollars.

98. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity’s principal balance.

99. As at 31 December 2021, UNFCCC participated in the main pool that held total assets of USD 11,799.7 million (2020: USD 10,652.4 million), of which USD 248.0 million was due to the Organization (2020: \$230.3 million), and its share of revenue from the main pools in 2021 was USD 0.234 million (2020: \$3.7 million).

Table 5  
**Summary of assets and liabilities of the Cash Pools**  
(Thousands of United States dollars)

	<i>as at</i>	<i>as at</i>
	<i>31 December 2021</i>	<i>31 December 2020</i>
<b>Fair value through the surplus or deficit</b>		
Short-term investments	8 839 722	7 120 427
Long-term investments	1 654 439	2 348 880
<b>Total fair value through the surplus or deficit investments</b>	<b>10 494 161</b>	<b>9 470 307</b>
<b>Loans and receivables</b>		
Cash and cash equivalents	1 294 660	1 163 683
Accrued investment revenue	10 903	18 398
<b>Total loans and receivables</b>	<b>1 305 563</b>	<b>1 182 082</b>
<b>Total carrying amount of financial assets</b>	<b>11 799 724</b>	<b>10 652 389</b>
<b>Cash pool liabilities</b>		
Payable to UNFCCC	248 231	230 675
Payable to other cash pool participants	11 551 493	10 421 714
<b>Total liabilities</b>	<b>11 799 724</b>	<b>10 652 389</b>
<b>Net assets</b>	<b>-</b>	<b>-</b>

Table 6  
**Summary of revenue and expenses of the Cash Pools**  
(Thousands of United States dollars)

	<i>For the year ended</i>	<i>For the year ended</i>
	<i>31 December 2021</i>	<i>31 December 2020</i>
Investment revenue	46 322	113 031
Unrealized gains / (losses)	(37 495)	54 145
<b>Investment revenue from main pool</b>	<b>8 827</b>	<b>167 176</b>
Foreign exchange gains / (losses)	(1 626)	5 837
Bank fees	(1 805)	(578)
<b>Operating gains (losses) from main pool</b>	<b>(3 431)</b>	<b>5 259</b>
<b>Revenue and expenses from main pool</b>	<b>5 396</b>	<b>172 435</b>

*Financial risk management*

100. The United Nations Treasury is responsible for investment and risk management for the Cash Pools, including conducting investment activities in accordance with the Guidelines.

101. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.



102. An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

*Financial risk management: credit risk*

103. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible Cash Pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The Cash Pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

104. The Guidelines require that investments are not to be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

105. The credit ratings used for the Cash Pools are those determined by major credit-rating agencies; Standard & Poor's and Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Table 7  
Investments of the cash pools by credit ratings as at 31 December  
(Percentage)

Main pool	Ratings as at 31 December 2021				Ratings as at 31 December 2020			
<b>Bonds (long-term ratings)</b>					<b>Bonds (long-term ratings)</b>			
	<i>AAA/AA+u</i>	<i>AA+u/AA+/AA</i>	<i>A+</i>	<i>NA</i>				<i>Not rated/WD</i>
S&P	47.8%	48.1%	0.4%	3.7%	S&P	44.0%	53.2%	2.8%
	<i>AAA</i>	<i>AA+/AA/AA-</i>		<i>NA/NR</i>	Fitch	61.4%	15.5%	23.1%
Fitch	61.3%	15.7%		23.0%				
	<i>Aaa</i>	<i>Aa1/Aa2/Aa3</i>	<i>A1</i>	<i>NA</i>	Moody's	61.1%	34.9%	0.4%
Moody's	61.1%	34.9%	0.4%	3.6%				
<b>Commercial papers/certificates of deposit (short-term ratings)</b>					<b>Commercial papers/certificates of deposit (short-term ratings)</b>			
	<i>A-1+/A-1</i>					<i>A-1+/A-1</i>		
S&P	100.0%				S&P	100.0%		
	<i>F1+/F1</i>		<i>NR</i>			<i>F1+/F1</i>		<i>NR</i>
Fitch	96.7%		3.3%		Fitch	98.0%		2.0%
	<i>P-1/P2</i>					<i>P-1</i>		
Moody's	100.0%				Moody's	100.0%		
<b>Reverse repurchase agreement (short-term ratings)</b>								
	<i>A-1+u</i>							
S&P	100.0							
	<i>F1+</i>							
Fitch	100.0							
	<i>WR</i>							
Moody's	100.0							
<b>Term deposits/demand deposit account (Fitch viability ratings)</b>					<b>Term deposits demand deposit account (Fitch viability ratings)</b>			
	<i>aa-</i>	<i>a+/a/a-</i>		<i>NA</i>		<i>aaa</i>	<i>aa/aa-</i>	<i>a+/a</i>
Fitch	34.1%	65.9%			Fitch	-	27.5%	72.5%

106. The United Nations Treasury actively monitors credit ratings and, given that the Organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

*Financial risk management: liquidity risk*

107. The main pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. The main pool liquidity risk is therefore considered to be low.

*Financial risk management: interest rate risk*

108. The main pool comprises the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2020: four years). The average duration of the main pool was 0.72 years (2020: 0.72 years), which is considered to be an indicator of low risk.

*Cash Pool interest rate risk sensitivity analysis*

109. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. The investments, being accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 8  
**Cash Pools interest rate risk sensitivity analysis as at 31 December 2021**

Shift in yield curve (basis points)	-200	-150	-100	-50	0	+50	+100	+150	+200
Increase/(decrease) in fair value (Millions of United States dollars):									
Main pool total	113.63	85.22	56.81	28.40	0	(28.40)	(56.80)	(85.19)	(113.58)

Table 9  
**Cash Pools interest rate risk sensitivity analysis as at 31 December 2020**

Shift in yield curve (basis points)	-200	-150	-100	-50	0	+50	+100	+150	+200
Increase/(decrease) in fair value (Millions of United States dollars):									
Main pool total	148.41	111.30	74.20	37.10	0	(37.10)	(74.18)	(111.26)	(148.34)

*Other market price risk*

110. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

*Accounting classifications and fair value – Cash Pool*

111. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

112. The levels are defined as:

- (a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (i.e. derived from prices);

(c) Level 3: Inputs for the asset or liabilities that are not based on observable market data (that is, unobservable inputs).

113. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian based on valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held in the main pool is the current bid price.

114. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques which maximise the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

115. The following fair value hierarchy presents the cash pool assets that are measured at fair value at the reporting date. There were no Level 3 financial assets, nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 10  
Fair value hierarchy as at 31 December: main pool  
(Thousands of United States dollars)

	31 December 2021			31 December 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial assets at fair value through surplus or deficit</b>						
Bonds – corporate	29 997	–	29 997	15 379	–	15 379
Bonds – non-United States agencies	1 595 405	–	1 595 405	1 368 666	–	1 368 666
Bonds – supranational	812 539	–	812 539	847 288	–	847 288
Bonds – United States treasuries	197 390	–	197 390	502 462	–	502 462
Bonds – non-United States sovereigns	90 163	–	90 163	90 910	–	90 910
Main pool – commercial papers	–	3 033 880	3 033 880	–	2 062 987	2 062 987
Main pool – certificates of deposit	–	2 824 787	2 824 787	–	2 762 615	2 762 615
Main pool – term deposits	–	1 910 000	1 910 000	–	1 820 000	1 820 000
<b>Total</b>	<b>2 725 494</b>	<b>7 768 667</b>	<b>10 494 161</b>	<b>2 824 705</b>	<b>6 645 602</b>	<b>9 470 307</b>
<b>Euro pool</b>						
Bonds – corporate	963	–	963	1 194	–	1 194
Bonds – non-United States sovereigns	458	–	458	570	–	570
<b>Subtotal, euro pool</b>	<b>1 421</b>	<b>–</b>	<b>1 421</b>	<b>1 764</b>	<b>–</b>	<b>1 764</b>
<b>Total</b>	<b>2 726 915</b>	<b>7 768 667</b>	<b>10 495 582</b>	<b>2 826 469</b>	<b>6 645 602</b>	<b>9 472 071</b>

Table 11  
Summary Financial Instruments  
(Thousands of United States dollars)

	31 December 2021	31 December 2020
Cash and cash equivalents	27 236	25 199
Short-term investments	185 961	154 191

	<i>31 December 2021</i>	<i>31 December 2020</i>
Long-term investments	34 804	50 886
Accounts receivable	22 766	25 126
Accounts payable	( 1 347)	( 2 048)
<b>Total financial instruments</b>	<b>269 420</b>	<b>253 354</b>

Table 12  
**Carrying amounts of the contributions receivable**  
(Thousands of United States dollars)

	<i>Indicative Contributions</i>	<i>Voluntary Contributions</i>
EUR and other currencies	14 107	6 131
USD	140	1 376
<b>Total contributions receivable as at 31 December 2021</b>	<b>14 247</b>	<b>7 507</b>

Table 13  
**Indicative contributions past due as at 31 December 2021**  
(Thousands of United States dollars)

<i>Indicative contributions past due</i>	<i>Indicative Contributions</i>
Up to 1 year	9 694
1 to 2 year	3 258
2 to 3 years	704
Above 3 years	3 049
<b>Total indicative contributions past due as at 31 December 2021</b>	<b>16 705</b>

Table 14  
**Provision for impaired indicative receivables as at 31 December 2021**  
(Thousands of United States dollars)

<i>Provision for impaired receivables</i>	<i>Indicative Contributions</i>
As at 1 Jan 2021	2 178
Increase in provision during 2021	279
<b>Total as at 31 December 2021</b>	<b>2 457</b>

**Note 5: Cash and cash equivalents, short-term and long-term investments**

Table 15  
**Cash and cash equivalents**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Cash held in cash pools	27 236	25 199
<b>Total cash and cash equivalents</b>	<b>27 236</b>	<b>25 199</b>

Table 16  
**Breakdown of short-term and long-term investments**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Short-term investments (cash pool)	185 961	154 191
Long-term investments (cash pool)	34 804	50 886
<b>Total investments</b>	<b>220 765</b>	<b>205 077</b>

116. UNFCCC cash forms part of a cash pools that are maintained and managed by the UN Treasury. The cash pools comprise UNFCCC's participating share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pool.

117. UNFCCC cash and investments include USD 34.2 million that are subject to general stipulations which did not meet the requirements of conditionality under IPSAS 23. These stipulations include earmarking on the use of funding, mostly regarding their programmatic use and eligible expenditure periods. Historically, UNFCCC has had positive experiences with regard to receiving payment tranches from donors in accordance with the agreement and did not have cases where breach of stipulations prompted donors to demand refunds or reimbursement.

**Note 6: Accounts receivable**

Table 17

**Accounts receivable**

(Thousands of United States dollars)

<i>Accounts receivable</i>	<i>31 December 2021</i>	<i>31 December 2020</i>
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International transaction log		
Current	16 705	17 189
Less provision for doubtful debts	(2 457)	(2 178)
<b>Subtotal for indicative contributions</b>	<b>14 247</b>	<b>15 011</b>
Voluntary contributions		
Current	5 130	8 741
Non-current	2 377	270
<b>Subtotal voluntary contributions</b>	<b>7 507</b>	<b>9 011</b>
Other receivables (current)	1 012	1 104
<b>Total accounts receivable</b>	<b>22 766</b>	<b>25 126</b>

118. Indicative contributions reflect the contributions receivable from Parties to the Convention, the Kyoto Protocol and the Paris Agreement to fund the core budget and the International Transactions log in accordance with the Financial Procedures adopted by the COP. Current voluntary contributions receivables are confirmed contributions that are due within twelve months from the reporting date. Other receivables represent amounts invoiced to Parties, other UN agencies and individuals for services provided. Provisions for doubtful receivables have been established covering indicative contributions receivables and other receivables equal to 50 per cent of amounts outstanding for more than three but less than four years and 100 per cent of amounts outstanding for more than four years.

119. The full amount of voluntary contributions receivable are subject to general stipulations in donor agreements which did not meet the requirements of conditionality under IPSAS 23. These stipulations include earmarking on the use of funding, mostly regarding their programmatic use and eligible expenditure periods. Historically, UNFCCC has had positive experiences with regard to receiving payments tranches from donors in accordance with the agreement and did not have cases where breach of stipulations prompted donors to demand refunds or reimbursement

**Note 7: Other current assets**

120. Other current assets consist of the following:

Table 18

**Other current assets**

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Prepayments	3 222	2 016
Project Clearing	654	194
Travel Advances	190	54
Education Grant Advances	1 077	1 087
<b>Total</b>	<b>5 143</b>	<b>3 351</b>

121. Prepayments include advances to vendors and other UN agencies.

122. The project clearing accounts is the current account balance with the United Nations Development Programme.

#### **Note 8: Property, plant and equipment**

Table 19

#### **Property, plant and equipment**

(Thousands of United States dollars)

	<i>Vehicles</i>	<i>Communication and IT equipment</i>	<i>Furniture and machinery</i>	<i>Total</i>
<b>Cost</b>				
At 1 January 2021	77	3 284	45	3 406
Additions		204		0
Disposal				0
<b>At 31 December 2021</b>	<b>77</b>	<b>3 488</b>	<b>45</b>	<b>3 610</b>
<b>Accumulated depreciation</b>				
At 1 January 2021	26	2 986	45	3 057
Depreciation during the year	8	102	0	110
Disposal				
<b>At 31 December 2021</b>	<b>34</b>	<b>3 088</b>	<b>45</b>	<b>3 167</b>
<b>Net Book Value</b>				
At 31 December 2021	43	400	0	444
At 31 December 2020	51	298	0	349

123. Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2021 there was no indication for any equipment being impaired.

#### **Note 9: Intangible assets**

Table 20

#### **Intangible assets**

(Thousands of United States dollars)

	<i>Internally developed software</i>
<b>Opening balance 1 Jan 2021</b>	<b>3 128</b>
Additions	28
Disposal	0
<b>Total as at 31 Dec 2021</b>	<b>3 156</b>
<b>Accumulated Amortization 1 Jan 2021</b>	<b>2 385</b>
Amortization during the year	276
Disposal	0
<b>Total as at 31 Dec 2021</b>	<b>2 661</b>
<b>Net Book Value</b>	
Net book Value 31 Dec 2021	495

	<i>Internally developed software</i>
Net book Value 31 Dec 2020	743

124. UNFCCC has utilized the transition provision in IPSAS 31, and the value of intangibles assets has been recognized prospectively beginning with costs incurred on or after 1 January 2014.

**Note 10: Payables and Accruals**

Table 21  
**Payables and Accruals**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Vendor payables	625	704
Other payables	722	1 344
Accruals for goods and services	3 727	2 019
<b>Total payables and accruals</b>	<b>5 074</b>	<b>4 067</b>

125. Payables to vendors relate to amounts due for goods received and services rendered for which payment has not yet been made.

126. Accruals are liabilities for goods and services that have been received or provided to UNFCCC during the year which have not yet been invoiced by suppliers.

**Note 11: Advance receipts**

Table 22  
**Advance receipts**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Conditional voluntary contributions	18 208	14 092
Indicative contributions received in advance	9 097	8 030
Voluntary contribution received in advance	0	0
CDM fees received in advance	6 879	4 965
<b>Total</b>	<b>34 185</b>	<b>27 087</b>

127. UNFCCC recognizes a liability in cases where conditions are attached to voluntary contributions. Conditions are imposed by donors on the use of contributions and include both an obligation to use the donation in a specified manner and an obligation to return any amount not expended in accordance with performance specified by the donation. The amount recognized as a liability is the best estimate of the amount that would be required to settle the obligation at the reporting date. As UNFCCC satisfies the conditions on voluntary contributions through performance in the specified manner, the carrying amount of the liability is reduced and an amount of revenue equal to that reduction is recognized.

128. Indicative contributions received in advance include amounts received before the actual due date established by the Financial Procedures.

129. CDM and JI fees unearned represent fees received for which UNFCCC has not completed the delivery of all the services for which fees have been charged.

**Note 12: Employee Benefits**

130. The employee benefits liabilities outstanding at the reporting date are as follows:

Table 23  
**Employee benefit liabilities**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Current employee benefit liabilities		
After service health insurance	492	425
Repatriation grant	772	830
Annual leave	451	203
Home leave travel	801	832
US tax reimbursement	41	42
<b>Total current employee benefit liabilities</b>	<b>2 557</b>	<b>2 332</b>
After service health insurance	152 387	150 229
Repatriation grant	6 373	10 367
Annual leave	4 474	3 587
Home leave travel	21	23
<b>Total non-current employee benefit liabilities</b>	<b>163 255</b>	<b>164 206</b>
<b>Total employee benefit liabilities</b>	<b>165 812</b>	<b>166 538</b>

131. The methodology for estimating the amounts of each liability is as follows:

132. Education grant: Internationally recruited staff members are eligible for partial reimbursement of the amounts paid for the education of dependent children up to maximum allowances established by the International Civil Service Commission (ICSC). The liability relates to the amount earned but not claimed at the reporting date. In case of education grants advances, 40 per cent of the advance is expensed in the current year while the balance of 60 per cent is recorded as staff advances under other current assets.

133. After Service Health Insurance (ASHI): Staff members (and their spouses, dependent children and survivors) retiring from service at the age of 55 or later are eligible for ASHI coverage if they have contributory health insurance coverage prior to retirement for at least five years of service for staff hired before 1 July 2007 and ten years of service for staff hired after 1 July 2007. Staff hired before 1 July 2007 who retire with less than ten years but more than 5 years of covered receive unsubsidized coverage until enrolled for 10 years at which time the coverage is subsidized. UNFCCC's liability for ASHI is calculated as the residual liability after deducting contributions from retirees and a portion of the contribution from active staff.

134. After-service health insurance for retired staff members and their survivors and dependents of UNFCCC is provided by the United Nations Staff Mutual Insurance Society against Sickness and Accident (UNSMIS) established under article 6.2 of the United Nations Staff Regulation. UNSMIS is governed by its General Assembly consisting of its members which includes, in addition to UNFCCC, UNOG (UNCTAD, OCHA, ECE and OHCHR) as well as ICT, UNHCR, UNDP, UNICEF, WMO, UNV, UNCCD, UNSCC and UNCC. The General Assembly approves amendments to the Statutes. An Executive Committee consisting of three members appointed by the Director-General of the United Nations Office at Geneva, three members appointed by the Co-ordinating Council of the United Nations at Geneva in consultation with corresponding bodies of the specialized agencies affiliated to the UNSMIS and one member appointed by the other six members, is responsible for approving the UNSMIS accounts and management report.

135. In accordance with Article 11 of the Statute, persons insured by UNSMIS shall pay monthly contributions, the amount of which shall be fixed by its Internal Rules. The UNFCCC, or other UNSMIS affiliated organizations, shall contribute to the UNSMIS funds through the payment of a subsidy, the proportion of which in relation to staff member contributions shall be fixed by the Director-General of the United Nations Office at Geneva within the limits of the relevant credited voted by the General Assembly of the United Nations. The ASHI liability calculation also include staff members who contribute to other United Nations insurance plans and accrue eligibility for after-service health insurance.

136. **Repatriation grant and travel:** In accordance with UN Staff Rules and Staff Regulations, non-locally recruited UNFCCC staff are entitled to a grant calculated based on length of services and family status on separation from service if they have completed at least



one year of service outside their home country. In addition, non-locally recruited UNFCCC staff are entitled to reimbursement of travel and transport of personal effects on separation for themselves, their spouse and their dependent children.

137. **Annual leave:** In accordance with UN Staff Rules and Staff Regulations, UNFCCC staff may accumulate annual leave of up to 60 working days which is payable on separation from service.

138. **Death benefit** includes lump-sum benefits to be paid in the event of the death in service of an official with a long-term contract who left a dependent spouse or child. In line with the accounting practice of the UN secretariat, this liability is no longer recorded as a long-term employee benefit liability.

139. **Home leave:** Non-locally recruited UNFCCC staff is entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter, every second year. The liability recorded has been calculated proportionately reflecting the number of months relates to the value of home leave entitlements that have been earned by officials since their last entitlement but not taken at the reporting date.

140. **US taxes:** American citizens that are UNFCCC staff members are reimbursed for the amount of income taxes payable on the compensation they earn from the organization.

141. An actuarial valuation as at 31 December 2021 carried out in 2022 has been utilized to determine the UNFCCC's estimated liability and expenses recognized on the Statements of Financial Performance and Financial Position for repatriation grants and travel, accumulated annual leave and after-service health insurance at the reporting date. For 2020, the actuarial study was conducted as a roll-forward of the actuarial valuation of the End-of-Service schemes as at 31 December 2020.

142. Each year, the UNFCCC reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the UNFCCC's after-service medical care plans and separation benefit plans. The discount rate is determined by calculating the expected benefit payments for each future year attributable to past service as of the valuation date and then discounting these benefit payments using spot rates for high quality corporate bonds. A single equivalent discount rate was then determined that resulted in the same past service obligation.

143. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2021.

Table 24  
**Key financial assumptions**

	<i>ASHI</i>	<i>Repatriation Grant &amp; Travel</i>	<i>Annual Leave</i>
Discount rate at beginning of period	0.05%	2.25%	2.29%
Discount rate at end of period	0.19%	2.68%	2.70%
General inflation rate at beginning of period		2.20%	
General inflation rate at end of period		2.20%	
Salary increases rate at beginning and end of period	Based on the age of staff member calculated separately for professional and general service staff		
Healthcare cost trend rate at beginning of period	3.91% decreasing to 3.65% in four years		
Healthcare cost trend rate at end of period	3.83% decreasing to 3.65% in three years		

144. The following assumptions were utilized by the actuary in determining the maturity profile of the defined benefit obligations at 31 December 2021:

145. **ASHI scheme:** full eligibility is achieved once the staff member's period of service reaches 10 years in duration (5 years if hired before 01.07.2007) and once he/she reaches 55 years old.

146. **Repatriation benefits:** historically, for disclosure purposes it has been assumed that full eligibility is achieved from the time when the staff member's period of service reaches 12 years.

147. Annual leave: historically, for disclosure purpose it has been assumed that full eligibility is achieved from the time when the staff member has accumulated 60 days of leave, i.e. once the maximum of benefits has been accumulated.

148. The principal financial assumptions in the valuation of the defined benefit obligations are the rate at which medical costs are expected to increase in the future and the discount rate curve, which is calculated on the basis of corporate bonds. The sensitivity analysis looks at the change in liability due to changes in the medical cost trend rates and discount rate. The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognized in the statement of financial position. Should the discount rate or the medical cost trend assumption vary by 0.5 per cent, this would affect the measurement of the defined-benefit obligations as follows:

Table 25  
**Impact of change in medical health care cost trend rate**  
(Thousands of United States dollars)

	<i>Change</i>	<i>After service health insurance</i>
On total defined benefit obligation	0.50%	22 969
	(0.50)%	(19 381)
On current service cost and interest cost component of liability	0.50%	1 654
	(0.50)%	(1 369)

Table 26  
**Impact of change in discount rates assumptions and duration**  
(Thousands of United States dollars)

	Liability change	ASHI Change in %	Repatriation Grant Liability change	Repatriation Grant Change in %	Liability change	Annual Leave Change in %
Increase of discount rate by 0.5%	(17 324)	(15)	(277)	(4)	(195)	(4)
Decrease of discount rate by 0.5%	21 011	18	296	4	209	4
Duration	33		10		11	

149. The liabilities established for defined benefit obligations and the net service costs for 2021 are as follows:

Table 27  
**Liabilities established for defined benefit obligations and the net service costs for 2021**  
(Thousands of United States dollars)

	<i>ASHI</i>	<i>Repatriation Grant &amp; Travel</i>	<i>Annual Leave</i>
<b>Reconciliation of defined benefit obligation</b>			
Defined benefit obligation, beginning of year	150 654	11 067	3 790
Current service cost	8 870	677	329
Interest cost	77	241	84
Benefits paid (net of participant contribution)	(425)	(721)	(208)
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	(6 297)	(4 254)	930
<b>Total liability recognized on Statement of Financial Position</b>	<b>152 879</b>	<b>7 010</b>	<b>4 925</b>
<b>Annual expense for calendar year</b>			
Current service cost	8 870	677	329
Interest cost	77	241	84
Benefits paid (net of participant contribution)	(425)	(721)	(208)

	<i>ASHI</i>	<i>Repatriation Grant &amp; Travel</i>	<i>Annual Leave</i>
<b>Total charge/(credit) recognized on statement of financial performance</b>	<b>8 522</b>	<b>197</b>	<b>205</b>
Estimated benefit payments net of participant contributions payable in 2022	493	654	463
<b>Cumulative amount of actuarial (gain)/loss recognized in net assets</b>			
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	6 297	4 254	( 930)
<b>Total portion of cumulative liability recognized in net assets at end of year</b>	<b>6 297</b>	<b>4 254</b>	<b>( 930)</b>

150. Effective 1 January 2018, a monthly accrual has been implemented to start funding after-service health insurance liabilities relating to extra budgetary activities. For this purpose, an accrual rate of 3 per cent is applied on the sum of gross salary and post adjustment.

151. Under IPSAS 39: Employee benefit, the liabilities for ASHI, repatriation grant and travel and accumulated annual leave are considered unfunded and, therefore, no fair value of plan assets has been recognized and the entire ASHI liability is recognized as a liability of the UNFCCC.

152. Beginning in 2014 with the adoption of IPSAS, interest cost and current service cost related to the defined benefit obligation for ASHI liability, repatriation grant and travel and accumulated annual leave are recognized on the statement of financial performance as a component of personnel expenditure. Actuarial gains or losses for defined benefits plan results from changes in actuarial assumptions or experience adjustments including experience adjustments are directly recognized in the consolidated statement of changes in net assets. The balance of each provision is reviewed annually and adjusted to reflect actual experience.

153. Short-term employee benefit liabilities for education grants and home leave are recognized at an undiscounted amount. Short-term compensated absences are recognized, as employees earn their entitlement to future compensated absences through rendering a service to the UNFCCC. For non-accumulating compensating absences an expense is recognized when the absence occurs.

154. During 2021, UNFCCC accrued USD 0.6 million for repatriation grant and travel and USD 1.35 million for ASHI from all funds except the core budget and the international transaction. These amounts are collected in the fund for employee benefits and will be used to (partially) fund future payment for ASHI and repatriation grants relating to the funds participating in the accrual. Based on the total liability for ASHI of USD 152.9 million and USD 7.0 million for repatriation grant and the overall accrued amounts of USD 5.2 million for ASHI and USD 2.6 million for repatriation, the current funding ratio amounts to 3 per cent for the ASHI and 37 per cent for repatriation grant liability. For 2022, the estimated amounts for accrual under ASHI and repatriation are USD 1.3 million and USD 0.5 million respectively.

155. As at 31 Dec 2021, 39.6 per cent of the total ASHI and repatriation liability equalling USD 63.3 million relates to core budget funded positions while 60.4 per cent of the ASHI and repatriation liability corresponding to USD 96.6 million relates to non-core funded positions.

#### **United Nations Joint Staff Pension Fund (UNJSPF)**

156. UNFCCC is a member organization participating in the United Nations Joint Staff Pension Fund (the "Fund"), which was established by the United Nations General Assembly to provide retirement, death, disability, and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

157. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. UNFCCC and the Fund, in line with the other

participating organizations in the Fund, are not in a position to identify UNFCCC's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNFCCC has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39, Employee Benefits. UNFCCC's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

158. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

159. UNFCCC's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

160. The latest actuarial valuation for the Fund was completed as at 31 December 2019, and a roll forward of the participation data as at 31 December 2020 to 31 December 2020 will be used by the Fund for its 2021 financial statements.

161. The actuarial valuation as at 31 December 2020 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2% (139.2% in the 2017 valuation). The funded ratio was 107.1 (102.7% in the 2017 valuation) when the current system of pension adjustments was taken into account.

162. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2020, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

163. Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2017, 2018 and 2021) amounted to USD 7,993 million, of which 0.43 per cent was contributed by UNFCCC.

164. During 2021, UNFCCC's contributions paid to UNJSPF amounted to 7.8 million (2020 7.6 million). Expected contributions due in 2022 are 7.8 million.

165. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount

166. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at [www.unjspf.org](http://www.unjspf.org).

**Note 13: Provisions**

Table 28

**Provisions**

(Thousands of United States dollars)

	<i>31 December-2021</i>	<i>31 December 2020</i>
Provision for legal cases	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

167. At year end, UNFCCC had no pending cases with the United Nations Administrative Tribunal.

**Note 14: Other current liabilities**

Table 29

**Other current liabilities**

(Thousands of United States dollars)

	<i>31 December-2021</i>	<i>31 December 2020</i>
Other Liabilities	746	0
<b>Total</b>	<b>746</b>	<b>0</b>

**Note 15: Revenue**

168. Indicative contributions are contributions received from Parties to the Convention, the Kyoto Protocol and the Paris Agreement to fund the core budget and the International transaction log under the Financial Procedures, based on the United Nations scale of assessment adjusted for differences in membership. The contributions are based on a biennium budget and are recognized as of the first day of the year to which they relate. Indicative contributions are considered to be without conditions.

Table 30

**Indicative contributions**

(Thousands of United States dollars)

	<i>2021</i>	<i>2020</i>
Core budget to the convention	35 781	32 537
International transaction log	1 295	1 178
<b>Total</b>	<b>37 076</b>	<b>33 714</b>

169. The above amount of USD 37.1 million includes the contributions from the following top ten countries which represents 58.6 per cent of the total amounts.

Table 31

**Top ten parties contributing to the core budget**

(Thousands of United States dollars)

	<i>2021</i>	<i>Per cent</i>
United States of America	6 907	18.63
China	3 769	10.17
Japan	2 689	7.25
Germany	1 912	5.16
United Kingdom of Great Britain and NI	1 434	3.87

	<i>2021</i>	<i>Per cent</i>
France	1 390	3.75
Italy	1 038	2.80
Brazil	925	2.50
Canada	858	2.32
European Union	805	2.17
<b>Total</b>	<b>21 721</b>	<b>58.60</b>

170. Voluntary contributions are recognized as revenue at the point of signature except where such agreement contains a condition in which case recognition as revenue is deferred until the conditions specified in the donor agreement have been satisfied.

Table 32  
**Voluntary contributions**  
(Thousands of United States dollars)

	<i>2021</i>	<i>2020</i>
Voluntary contribution to the core budget	1 002	856
Participation trust fund	3 509	24
Trust fund for supplementary activities	19 138	13 056
Special annual contribution from the host country	2 196	1 997
Special account for activities for conferences	4 888	2 117
<b>Total</b>	<b>30 733</b>	<b>18 051</b>

171. Fee income includes charges for the Clean Development Mechanism (CDM) and Joint Implementation (JI).

Table 33  
**Fee Income**  
(Thousands of United States dollars)

	<i>2021</i>	<i>2020</i>
CDM fees	22 894	14 448
<b>Total</b>	<b>22 894</b>	<b>14 448</b>

172. Income from the Clean Development Mechanism and Joint Implementation includes fee-based income to finance CDM activities consisting of:

(a) Accreditation and related fees from commercial bodies to become designated operational entities to validate CDM project activities. The fee is calculated based on the estimated average cost per application. Entities from non-Annex I Parties may have the possibility of paying 50 per cent of the non-reimbursable fee when they apply for accreditation, provided that they state their inability to pay the full fee at application. The remaining 50 per cent of the fee should be paid at a later stage once and if the applicant entity is accredited and designated and starts operation. The non-reimbursable application fee is USD 15,000 per application. In addition, fees are received to cover the costs for the work provided by CDM accreditation team (daily fee of USD 400);

(b) Registration fees charged for the formal acceptance by the CDM Executive Board of a validated project as CDM project activity. It is based on the expected average annual Certified Emission Reductions for the proposed project activity over its crediting period. No registration fee shall be payable for activities and programmes of activities hosted in least developed countries. No registration fee shall be payable until after the date of the first issuance of CERs in countries with fewer than 10 registered CDM project activities. The registration fee is a) USD 0.10 per CER issued for the first 15,000 tonnes of CO<sub>2</sub> of the expected annual CERs; b) USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO<sub>2</sub> equivalent of the expected annual CERs. The maximum registration fee is USD 350,000;

- (c) Share of proceeds to cover administrative expenses is:
- (i) USD 0.10 per CER issued for the first 15,000 tonnes of CO<sub>2</sub> equivalent for which issuance is requested in a given year;
  - (ii) (USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO<sub>2</sub> equivalent for which issuance is requested in a given year;
  - (iii) No share of proceeds shall be due for project activities and programme of activities hosted in least developed countries. The registration fee shall be deducted from the share of proceeds due for the issuance of CERs. In effect, the registration fee is an advance payment of the share of proceeds due for the issuance of CERs likely to be achieved during the first year.

Table 34  
**Interest revenue**

	<i>31 December 2021</i>	<i>31 December 2020</i>
Investment income – Interest earned	1 030	2 537
<b>Total</b>	<b>1 030</b>	<b>2 537</b>

173. Services in kind are not recognised in the face of the financial statements.
174. Gain/loss on foreign exchange represent gains realized on transactions occurring in currencies other than United States dollars and unrealized losses resulting from revaluation of monetary assets.

**Note 16: Expenses**

Table 35  
**Expenses**  
(Thousands of United States dollars)

	<i>2021</i>	<i>2020</i>
Personnel expenditure	56 309	55 624
Travel	5 721	635
Contractual services	20 733	10 721
Operating expenses	2 159	2 049
Other expenses	4 915	2 961
Depreciation of equipment	110	68
Amortization of intangible assets	276	489
Return/transfer of donor funding	664	681
Loss on foreign exchange	2 663	0
<b>Total</b>	<b>93 551</b>	<b>73 229</b>

175. Personnel expenditure includes all international and national staff expenses such as salaries, post adjustments, entitlements, pension, and health plan contributions for professional and general service category staff. It also includes temporary staff expenses such as costs relating to the employment of temporaries and supernumeraries. Pension and insurance benefits also include the service and interest cost as per the actuarial valuation.

Table 36  
**Personnel expenditure**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Salary and wages	33 909	33 517
Pension and insurance benefits	18 284	17 366
Other benefits	4 116	4 742
<b>Total</b>	<b>56 309</b>	<b>55 624</b>

176. Travel covers the cost of airfare and other transport cost, daily support allowances and terminal allowances.
177. Contractual services include cost of acquiring goods and services from commercial providers, mainly for IT related and consultancy services for different service periods.
178. Operating expenses include cost of maintenance, rent, communications, joint activities and other operating expenses.
179. Other expenses include allowances for doubtful debts, cost for inter-agency and meeting related expenses as well as write-offs.
180. Pursuant to rule 106.7(a) of the financial Regulations of the United Nations, one write-off case totalling USD 1,500 was processed for the year 2021 for an uncollectible pledged voluntary contribution.
181. Returns of donor funding includes the amounts of unspent funds returned to donors upon completion of voluntary funded projects in accordance with the respective donor agreement.

**Note 17: Reserves**

182. A reserve is established for the core budget and the budget of the International transaction log as part of the adoption of the budget by the COP. For the CDM trust fund, a reserve of USD 45.0 million has been established. The total reserves at the reporting date amount to USD 49.5 million. The Appendix D to the Staff Rules covers staff members for work related death, injury or illness attributable to the performance of official duties on behalf of the United Nations for which UNFCCC maintains a corresponding reserve.

Table 37  
**Reserves as at 31 December 2021**

	<i>Thousand USD</i>
Reserves for core budget and ITL	3 029
CDM trust fund reserve	45 000
Reserve for Appendix D	1 476
<b>Total reserves</b>	<b>49 504</b>

**Note 18: Fund Accounting and Segment Reporting**

183. The UNFCCC is a single purpose entity established by the Parties to the Convention and the United Nations as the joint technical cooperation agency for business aspects of trade development. The UNFCCC has one major mandate to assist the signatories of the UN Framework Convention on Climate Change to limit average global temperature increases and the resulting climate change, and to cope with whatever impacts are inevitable in part through enforcing the legally binding emission reduction targets established in the Kyoto Protocol. It, therefore, does not have segments as defined under IPSAS.

184. However, to provide essential information to senior management and owners on the utilization of resources by funding source, separate funds have been established to reflect the major funding sources of UNFCCC as follows:

- (a) Trust fund for the Core Budget of UNFCCC financed from indicative contributions (or general-purpose contributions from donors) supports the core functions of the secretariat;
- (b) Trust fund for the Participation in the UNFCCC process financed from voluntary contributions supports participation of representatives from eligible developing country Parties and Parties with economies in transition in the sessions of the Conference of the Parties and its subsidiary bodies;
- (c) Trust fund for Supplementary activities financed from voluntary contributions including both bilateral funds involving the UNFCCC, a donor and often a recipient government and programmes to which multiple donors make voluntary



contributions supports mandated activities for which provisions are not made under the Core budget;

(d) Trust fund for the Clean Development Mechanism financed from fees charged for registration of projects support the administration of the clean development mechanism enabling parties to meet their emission limitation and reduction commitments by using certified emission reductions (CERs) generated from CDM projects;

(e) Trust fund for the International transactions log (ITL) financed from indicative contributions (or general-purpose contributions from donors). The ITL to verify the validity of transactions undertaken by national registries of Parties of Annex B of the Convention and CDM registry. The ITL takes a central role between registries and is an essential component of the settlement infrastructure for emissions trading under the Kyoto Protocol;

(f) Trust fund for the Special Annual Contribution from the Government of Germany financed from a voluntary contribution from the government in which the UNFCCC headquarters is located. Funds are used to finance the logistical arrangements of events taking place in Germany including workshops and sessions of the subsidiary bodies;

(g) Special account for Programme Support Costs financed from charges made to the activities under all operational funds used to manage the overhead charges payable on all trust funds to cover costs relating to administrative services;

(h) Special account for conferences and other recoverable costs financed from voluntary contributions used to finance costs associated with the hosting of the Conference of the Parties under the host country agreement. Balances in this account are refunded to the host country;

(i) Cost recovery fund financed from charges made to the activities financed from indicative and voluntary contributions;

(j) End of service and post employee benefits fund not currently financed.

185. Programme Support Revenue is charged in line with the UN financial procedures where UNFCCC charges a standard programme support cost rate of 13 per cent on expenditures incurred. For associate experts and European Commission funded projects, the rate varies from 7 per cent to 13 per cent.

186. All funds elimination includes revenue and expense arising from transfers between funds which are accounted for at cost and are eliminated on consolidation.

Table 38  
Statement of financial position by fund  
(Thousands of United States dollars)

	<i>Trust fund for the Clean development mechanism</i>	<i>Trust fund for the core budget of UNFCCC</i>	<i>Trust fund for participation in the UNFCCC process</i>	<i>Trust fund for the Special Annual Contribution from the Government of Germany</i>	<i>Trust fund for Supplementary Activities</i>	<i>Trust fund for the International Transaction Log</i>	<i>Special accounts for conferences and other recoverable costs</i>	<i>Special account for UNFCCC programme support costs</i>	<i>Cost Recovery</i>	<i>UNFCCC Employee liabilities fund</i>	<b>TOTAL</b>
<b>ASSETS</b>											
<b>Current Assets</b>											
Cash and cash equivalents	9 341	2 444	453	29	11 531	939	236	1 172	248	843	27 236
Short-term investments	63 782	16 684	3 096	198	78 735	6 408	1 610	7 993	1 696	5 759	185 961
Indicative contributions receivable		14 217					30				14 247
Voluntary contributions receivable					5 129		1				5 130
Other receivables	377	77	4	5	194	21	279	39	9	7	1 012
Other current assets	515	715	( 8)	14	2 347	49	65	775	672		5 143
<b>Total current assets</b>	<b>74 015</b>	<b>34 136</b>	<b>3 544</b>	<b>245</b>	<b>97 935</b>	<b>7 447</b>	<b>2 191</b>	<b>9 979</b>	<b>2 627</b>	<b>6 610</b>	<b>238 729</b>
<b>Non-current assets</b>											
Other receivables					2 377						2 377
Long-term investments	11 937	3 123	579	37	14 736	1 199	301	1 496	317	1 078	34 804
Property, plant and equipment		59		128	37		174	45			444
Intangible assets					472		23				495
<b>Total non-current assets</b>	<b>11 937</b>	<b>3 182</b>	<b>579</b>	<b>165</b>	<b>17 622</b>	<b>1 199</b>	<b>498</b>	<b>1 541</b>	<b>317</b>	<b>1 078</b>	<b>38 119</b>
<b>TOTAL ASSETS</b>	<b>85 952</b>	<b>37 318</b>	<b>4 124</b>	<b>410</b>	<b>115 558</b>	<b>8 647</b>	<b>2 688</b>	<b>11 520</b>	<b>2 944</b>	<b>7 687</b>	<b>276 849</b>
<b>LIABILITIES</b>											
<b>Current Liabilities</b>											
Payables and accruals	1 263	1 370	( 243)	24	1 384	112	1 001	66	97		5 074
Advance receipts	6 879	8 704	394		17 814	393					34 185
Employee benefits	219	503		4	124	19	4	42	63	1 580	2 557
Provisions											0
Other current liabilities					746						746
<b>Total current liabilities</b>	<b>8 361</b>	<b>10 577</b>	<b>150</b>	<b>28</b>	<b>20 068</b>	<b>524</b>	<b>1 005</b>	<b>108</b>	<b>160</b>	<b>1 580</b>	<b>42 562</b>
<b>Non-current liabilities</b>											
Employee benefits	7	7			4			4		163 234	163 255
Advance receipts											
<b>Total non-current liabilities</b>	<b>7</b>	<b>7</b>			<b>4</b>			<b>4</b>		<b>163 234</b>	<b>163 255</b>
<b>TOTAL LIABILITIES</b>	<b>8 367</b>	<b>10 585</b>	<b>150</b>	<b>28</b>	<b>20 072</b>	<b>524</b>	<b>1 005</b>	<b>112</b>	<b>160</b>	<b>164 814</b>	<b>205 817</b>
<b>NET ASSETS</b>											
Accumulated surpluses/(deficits)	32 585	22 448	3 973	382	95 486	7 905	1 683	11 408	2 784	(157 127)	21 527
Reserves	45 000	4 286				218					49 504
<b>TOTAL NET ASSETS</b>	<b>77 585</b>	<b>26 734</b>	<b>3 973</b>	<b>382</b>	<b>95 486</b>	<b>8 123</b>	<b>1 683</b>	<b>11 408</b>	<b>2 784</b>	<b>(157 127)</b>	<b>71 032</b>

United Nations Framework Convention on Climate Change

Notes to the Financial Statements

<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>	<b>85 952</b>	<b>37 318</b>	<b>4 124</b>	<b>410</b>	<b>115 558</b>	<b>8 647</b>	<b>2 688</b>	<b>11 520</b>	<b>2 944</b>	<b>7 687</b>	<b>276 849</b>
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Table 39  
Statement of financial performance by fund  
(Thousands of United States dollars)

	Trust fund for the Clean development mechanism	Trust fund for the core budget of UNFCCC	Trust fund for participation in the UNFCCC process	Trust fund for the Special Annual Contribution from the Government of Germany	Trust fund for Supplementar y Activities	Trust fund for the International Transaction Log	Special account for conferences and other recoverable costs	Special account for UNFCCC programme support costs	UNFCCC Cost Recovery	UNFCCC Employee liabilities fund Elimination	TOTAL
<b>REVENUE</b>											
Indicative contributions		35 781				1 295					37 076
Voluntary contributions	61	941	3 509	2 196	19 138		4 888				30 733
CDM and JI service fees	22 892							2			22 894
Interest Revenue	604	100	26	6	148	39	16	48	13	30	1 030
Gain on foreign exchange											
Other/miscellaneous revenue	( 55 335)	11			55 275		390	70	5 656	1 939	( 6 946)
Programme support income								8 740			( 8 724)
<b>TOTAL REVENUE</b>	<b>( 31 778)</b>	<b>36 832</b>	<b>3 534</b>	<b>2 202</b>	<b>74 562</b>	<b>1 334</b>	<b>5 294</b>	<b>8 860</b>	<b>5 669</b>	<b>1 969</b>	<b>( 15 669)</b>
<b>EXPENSES</b>											
Personnel expenditure	9 536	20 678		694	7 191	548	441	6 872	3 275	9 013	( 1 938)
Travel	422	206	2 863		350		1 878	2			5 721
Contractual services	1 745	8 334	184	1 093	5 176	616	2 404	486	2 086	187	( 1 578)
Operating expenses	78	764		73	659	2	367	7	208		2 159
Other expenses	3 006	294	411	160	855	60	955	2 437	164	1	( 3 429)
Depreciation of equipment		20		32	10		48	1			110
Amortization of intangible assets					271		5				276
Return/transfer of donor funding				159	272		233				664
Loss on foreign exchange	386	2 237	30	29	( 182)	61	26	43	10	23	2 663
Programme support	1 775	4 037	404	261	1 774	146	327				( 8 724)
<b>TOTAL EXPENSES</b>	<b>16 949</b>	<b>36 569</b>	<b>3 893</b>	<b>2 500</b>	<b>16 376</b>	<b>1 433</b>	<b>6 685</b>	<b>9 848</b>	<b>5 743</b>	<b>9 224</b>	<b>( 15 669)</b>
<b>TOTAL SURPLUS/(DEFICIT)</b>	<b>( 48 728)</b>	<b>264</b>	<b>( 359)</b>	<b>( 298)</b>	<b>58 186</b>	<b>( 99)</b>	<b>( 1 391)</b>	<b>( 987)</b>	<b>( 75)</b>	<b>( 7 255)</b>	<b>( 742)</b>

**Note 19: Budget Comparison and Reconciliation**

187. UNFCCC's budget is prepared on a modified accrual accounting basis and the financial statements are prepared on a full accrual basis in accordance with IPSAS. The budgets are adopted on a biennial basis and divided into annual amounts for presentation in the financial statement. Comparison of budget and actual amounts compares the final budget to actual amounts calculated on the same basis as the corresponding budgetary appropriations. The comparison is only made in respect of budgets adopted by the COP and CMP as per IPSAS 24.

188. The actual amounts presented on a comparable basis to the budget are not prepared on a comparable basis to the Statement of Financial Performance. A reconciliation of the budgetary amounts to the amounts presented on the financial statements, identifying separately any basis and entity differences is presented in table 38. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

189. Basis differences capture the differences resulting from preparing the budget on a modified accrual basis. In order to reconcile the budgetary results to the net results on an IPSAS basis the non-cash elements such as un-liquidated obligations, payments against prior year obligations and outstanding indicative contributions are included as basis differences.

190. Presentation differences are differences in the format and classification schemes in the Statement of Financial Performance and the Statement of Comparison of Budget and Actual Amounts.

191. Entity differences represent funds other than Core budget, International Transactions Log and Contingent budget for conference services that are reported in the Statement of Financial Performance.

192. The reconciliation between the actual amounts presented in statements V-A, V-B and V-C and the actual amounts presented on the Statement of Financial Performance is as follows.

Table 40

**Reconciliation of net result on budgetary and IPSAS basis**

<i>Reconciliation of net result on budgetary and IPSAS basis</i>	<i>Thousand USD</i>
<b>Actual net result on the Statement of budgets to actual comparison</b>	
Statement V-A Core Budget	1 788
Statement V-B International Transaction Log	29
Statement V-C Contingent budget of conference services	
<b>Actual net result on budgetary basis</b>	<b>1 817</b>
<b>Basis differences</b>	
Additional income components under IPSAS	150
Exchange gains/losses	(2 296)
Conversion of unliquidated obligations to delivery principle	793
Capitalization of equipment & intangible assets	( 19)
Changes in provision for doubtful debts	( 279)
<b>Sub-total basis differences</b>	<b>(1 652)</b>
<b>Entity differences on IPSAS Basis</b>	
Trust fund for participation in UNFCCC process	( 359)
Trust fund for supplementary activities	58 186
Trust fund for the Clean development mechanism	(48 728)
Trust fund for the Special Annual Contribution from the Government of Germany	( 298)

<i>Reconciliation of net result on budgetary and IPSAS basis</i>	<i>Thousand USD</i>
Special account for conferences and other recoverable costs	(1 391)
Special account for UNFCCC programme support costs	( 987)
Cost Recovery	( 75)
UNFCCC employee liabilities fund	(7 255)
<b>Sub-total entity differences</b>	<b>( 907)</b>
<b>Actual net result on the Statement of Financial Performance</b>	<b>( 742)</b>

**Note 20: Budget to Actual variance analysis**

193. Explanations of material differences between the original budget and final budget and the actual amounts are presented in the budget performance report for biennium 2020–2021 by the Executive Secretary accompanying these statements. See paragraph 16-19 for further details.

**Note 21: Related Parties**

194. Except otherwise noted in these statements for revenue from non-exchange transactions including contributions in kind, all transactions made with 3rd parties occur within a normal supplier or client/recipient relationship or at arm's length terms and conditions.

195. The Organization reimburses the United Nations for the cost of all services provided at such rates as may from time to time be agreed upon for that purpose by both organizations.

196. The charges paid to the United Nations (UN Office at Geneva – UNOG) of USD 0.4 million for services related to security, payroll, treasury and other services are considered to be provided on a normal supplier basis. The United Nations Secretariat also provides support services on a normal supplier basis such as translation and editing of documents related to the meetings of the Conference of Parties to the Organization from its core budget at a value of EUR 3.8 million budget for 2021.

197. The authority to establish funds is vested in the Secretary General of the United Nations with the approval of the Conference of the Parties. All such funds must be consistent with the objectives of the UN Convention on Climate Change. The termination of any existing fund by the Conference of the Parties and the distribution of any remaining fund balance is subject to consultation with the Secretary General of the United Nations.

Table 41  
**Summary of senior management and related compensation**

<i>Number of individuals</i>	<i>Aggregate remuneration (in thousands of USD)</i>	<i>Outstanding advances at 31 Dec 2021 (in thousands of USD)</i>
14	2 792	178

198. During 2021, two individuals of senior management left the organization and five joined.

199. The senior management personnel of UNFCCC are the Executive Secretary, Deputy Executive Secretary, Senior Directors of the departments and Directors of divisions, who have the authority and responsibility for planning, directing, and controlling the activities of UNFCCC and influencing its strategic direction.

200. Advances are those made against entitlements in accordance with the staff rules and regulations. There were no loans granted to key management personnel.

**Note 22: Leases, commitments, and contingencies**

201. Commitments relating to acquisition of goods and services contracted for, but not delivered as at 31 December 2021 amount to USD 6.3 million (USD 6.1 million in 2020). Details are shown in the table below.

Table 42  
**Contractual Commitments by Category**  
(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Goods and services	5 590	5 369
Travel related commitments	712	710
<b>Total</b>	<b>6 302</b>	<b>6 079</b>

202. There are no contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to UNFCCC.

203. There are no contingent assets of which relate to official pledges made by donors to UNFCCC for future contributions at the reporting date.

**Note 23: Events after the reporting date**

204. UNFCCC's reporting date is 31 December 2021. The financial statements were authorized for issue on 31 March 2022, the date at which they were submitted to the External Auditor. On the date of signing these accounts, there have been no material events, favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issue that would have impacted these statements.

**Note 24: In-kind contributions of services**

205. The UNFCCC receives in-kind contributions from the government of the Federal Republic of Germany of the right to use land, office space and other facilities in its operations. The Organization has not received title to these properties which remain with the government. The facilities are provided to UNFCCC without charge. The agreement under which the facilities are provided does not entail formal cancellation policies or timelines. UNFCCC does not recognize the value of in-kind contributions of services including the financial value of the donated right to use the facilities provided by the Federal Republic of Germany on the financial statements. In addition, UNFCCC receives conference services (interpretation and document preparation) as in-kind contribution for the UN secretariat for meeting of the COP and the subsidiary bodies.