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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**

### **Addendum**

### **Comments by the secretariat**

#### *Summary*

The report of the United Nations Board of Auditors for 2021 (FCCC/SBI/2022/INF.10) includes recommendations relating to the financial audit of the UNFCCC. This addendum, which should be read in conjunction with that report, has been prepared to provide the secretariat's comments on those recommendations and to specify the initial actions taken to implement them. In the "status of implementation" column of the five tables that comprise this document, "under implementation" indicates that the secretariat has started undertaking the recommended action.



## Abbreviations and acronyms

Board	United Nations Board of Auditors
CDM	clean development mechanism
COP	Conference of the Parties
ERM	enterprise risk management
ODO	Organizational Development and Oversight unit of the secretariat
OLA	United Nations Office of Legal Affairs
RPG	Recommended Practice Guideline
SBI	Subsidiary Body for Implementation
SIC	statement on internal control

Table 1

**Recommendations of the United Nations Board of Auditors for the year ended 31 December 2021**

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 1, paragraph 24		
The Board recommends that UNFCCC formalize alternative kinds of inventories such as permanent inventory of property, plant and equipment as alternatives to annual inventory.	The secretariat accepts the recommendation.	Under implementation
Recommendation 2, paragraph 28		
The Board recommends that UNFCCC enhance the quality assurance for drafting the financial statements and the financial report.	The secretariat accepts the recommendation.	Under implementation
Recommendations 3–4, paragraphs 33–34		
The Board recommends that UNFCCC continue to closely monitor developments in financial accounting standards and briefly analyse which upcoming changes may affect the entity.	The secretariat accepts the recommendation. Arrangements are now in place whereby its Financial Resources Management unit will continuously monitor developments in International Public Sector Accounting Standards and assess their impacts, develop an implementation plan and engage with stakeholders as required.	Under implementation
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.		
Recommendation 5, paragraph 40		
The Board recommends that UNFCCC reconsider introducing a SIC based on the SIC signed by the Secretary-General in 2021.	The secretariat accepts the recommendation. It agrees that a SIC forms part of a comprehensive accountability and ERM framework. The SIC signed by the Secretary-General can serve as a basis in this regard, as well as the SICs of comparable organizations. The workplan of ODO for 2022 includes reviewing and revamping the UNFCCC ERM framework, which constitutes a response to the relevant open recommendations from previous audits (see recommendations 15 in table 3 and 6 in table 5). Developing a SIC will be integrated into the workplan in consultation with internal stakeholders.	Under implementation
Recommendation 6, paragraph 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.	The secretariat accepts the recommendation. It agrees to revise the project descriptions for projects financed by transfer from the CDM Trust Fund by adding an annex with a medium-term high-level annual forecast of estimated staff and non-staff costs. The forecast of medium-term activities and costs relating to the mechanism established by Article 6, paragraph 4, of the Paris Agreement will include an estimation of when the mechanism will start earning income. The	Under implementation

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 7, paragraph 65	funding transferred to the Trust Fund for Supplementary Activities will enable the secretariat to implement the decisions of the Supervisory Body for the mechanism as soon as it convenes and agrees on activities to undertake.	
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.	The secretariat accepts the recommendation. It has drafted a UNFCCC policy compendium, dated 8 April 2022, which specifies which administrative instructions of the United Nations are applicable to the secretariat and lists them together with the corresponding UNFCCC administrative instructions. Since United Nations rules are subject to regular change, the secretariat will have to adjust the policy compendium as applicable.	Under implementation
Recommendation 8, paragraph 67	The secretariat accepts the recommendation. It has introduced a hierarchy of norms, included in the draft UNFCCC policy compendium, with the staff and financial rules being at the top, and included a clause stating that, in case of doubt, the staff and financial rules prevail.	Under implementation
The Board recommends that UNFCCC add an overarching clause to each of its own policies that the financial rules and the staff rules take precedence.	The secretariat accepts the recommendation. Of the 36 policies that the Board found to have weaknesses, 1 was later agreed to have no conflict, for 23 the secretariat submitted a revised version in April 2022 and for the remaining 12 the review and revision process is under way.	Under implementation
Recommendation 9, paragraph 69	The secretariat accepts the recommendations. It agrees that there should be a UNFCCC administrative instruction regarding programme support costs. Such instruction is under development and will refer to the relevant provisions of the financial rules.	Under implementation
The Board recommends that UNFCCC eliminate all shortcomings in UNFCCC policies that were identified in the policy review as soon as possible.	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.  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.	Under implementation
Recommendation 12, paragraph 96	The secretariat accepts the recommendation. It will seek clarification from OLA, specifically as to whether it is bound by the 20 per cent maximum reserve stipulated in United Nations administrative instruction ST/AI/286.	Under implementation
The Board recommends that UNFCCC seek clarification from OLA in how far UNFCCC is bound by United Nations administrative issuances in financial matters.		

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 13, paragraph 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.	The secretariat accepts the recommendation.	Under implementation
Recommendations 14–15, paragraphs 111 and 116		
The Board recommends that UNFCCC officially launch its crowdfunding platform and publish the donation web page as soon as possible.	The secretariat accepts the recommendations. It takes them seriously as they have fiduciary implications and intends to address them as soon as possible. The Manager of the Resource Mobilization and Partnerships subdivision of Operations Coordination joined the secretariat in September 2021. The subdivision has been tasked with developing the secretariat’s resource mobilization and partnerships strategy, which will present a holistic approach to its fundraising and partnership efforts, including the crowdfunding platform. Meanwhile, the secretariat will ensure that there is a link to the donation web page on the UNFCCC website. In the medium and longer term, the secretariat will launch the crowdfunding platform with a campaign in the lead-up to COP 27 and analyse the feasibility of the existing platform against similar platforms.	Under implementation
The Board recommends that UNFCCC publish summary information about donations from non-Party stakeholders and members of the public at large on its website.		
Recommendation 16, paragraph 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.	The secretariat accepts the recommendation. Establishing an environmental management system based on an internationally recognized standard is included in the draft 2022–2023 workplan.	Under implementation

<sup>a</sup> Reproduced as received from the Board.

Table 2

**Open recommendations of the United Nations Board of Auditors for the year ended 31 December 2020**

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 1, paragraph 33		
The Board recommends that UNFCCC review its financial statement discussion and analysis (chapter IV) to improve adherence to RPG 2.	The secretariat updated the financial statements for 2020 to cover most of the RPG 2 requirements. It was not able to implement the risk management requirement for 2020 owing to the lack of a focal point for risk management. The secretariat included additional elements on risk management in the financial statements for 2021.	Under implementation

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 3, paragraph 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 should include potential measures in case of excessive surpluses or deficits from the cost recovery scheme.	In progress.	Under implementation
Recommendation 4, paragraph 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.	Under implementation
Recommendation 6, paragraph 81		
The Board recommends that UNFCCC comply with the Procurement Manual in further low value acquisition processes.	The secretariat follows the United Nations Procurement Manual with regard to low-value acquisition processes with due consideration of its institutional and operational setting. In particular, information and communication technology requirements undergo a technical review by the Information and Communication Technology subdivision of the Administrative Services, Human Resources, and Information and Communication Technology division. Following the clarification received from OLA regarding institutional linkage and delegation of authority, the secretariat holds that its information and communication technology operations are not subject to the authority of the United Nations Secretariat Office of Information and Communications Technology.	Under implementation

<sup>a</sup> Reproduced as received from the Board.

Table 3

**Open recommendations of the United Nations Board of Auditors for the year ended 31 December 2019**

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 12, paragraph 145		
The Board recommends that UNFCCC ensure that the intended results of the restructuring such as efficiency gains	The summary report was received from Fitch Consulting on 9 February 2021. The secretariat is fully aware of the need to establish key performance indicators for evaluating the effectiveness of its new organizational structure. The Manager of	Under implementation

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
and “being fit for purpose” are measured, tracked and evaluated.	ODO assumed office on 20 September 2021 and was fully briefed. As a first step towards addressing this recommendation, a draft concept note was developed that includes the objectives of the restructuring, a potential set of key outputs and performance indicators for monitoring, and a methodology for measuring the efficiency gains from the restructuring and evaluating whether the organization is fit for purpose. The concept note has been translated into a results framework with a fixed set of key outputs and performance indicators (with appropriate baselines). The results of the restructuring are planned to be measured, monitored and evaluated throughout 2022–2023.	
Recommendation 15, paragraph 188		
The Board recommends that UNFCCC address the risks it is exposed to through an up-to-date ERM that includes owners and due dates and a documentation.	The Manager of ODO is responsible for ERM and was briefed on progress and the pending audit recommendation upon assuming office. Reviewing and revamping the UNFCCC ERM framework is included in the workplan of ODO for 2022.	Under implementation

<sup>a</sup> Reproduced as received from the Board.

Table 4

**Open recommendations of the United Nations Board of Auditors for the year ended 31 December 2018**

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 2, paragraph 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 on after-service health insurance funding has been developed and discussed by secretariat management. Once cleared, a corresponding discussion will be facilitated with the COP. This will be addressed at SBI 56.	Under implementation
Recommendation 3, paragraph 55		
The Board recommends that, in consultation with United Nations Treasury, 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.	The secretariat is consulting/assessing with the United Nations Treasury the long-term investment possibilities within the cash pool for the reserves set aside to cover for the after-service health insurance liabilities.	Under implementation
Recommendation 4, paragraph 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.	The secretariat will provide data as requested by the actuary, in alignment with data requested by the actuary through the United Nations Secretariat because UNFCCC benefits and entitlements are aligned. During each valuation, the secretariat will provide data in a timely fashion to ensure that any problems can be identified and rectified.	Under implementation

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 5, paragraph 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.	The secretariat will bring this matter to the attention of the appropriate United Nations forum, namely the Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination.	Under implementation
Recommendation 9, paragraph 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 end of December 2019.	The secretariat has drafted an administrative instruction on the staff selection system. It is of the opinion that it is legitimate to enact its own policy.	Under implementation

<sup>a</sup> Reproduced as received from the Board.

#### Table 5

#### **Open recommendations of the United Nations Board of Auditors for the year ended 31 December 2017**

<i>Recommendation<sup>a</sup></i>	<i>Comments of the secretariat as at 31 May 2022</i>	<i>Status of implementation as at 31 May 2022</i>
Recommendation 1, paragraph 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 on after-service health insurance funding has been developed. A funding mechanism will be considered at SBI 56. A corresponding memo, containing a proposal to be shared with Parties, has been sent to the Deputy Executive Secretary for consideration.	Under implementation
Recommendation 5, paragraph 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. A new draft policy has been under discussion between the secretariat and the Board for a few months. The secretariat has shared the latest version of the draft policy with experts in the United Nations Secretariat for a comprehensive review and advice. The secretariat seeks to operationalize the new procurement policy by the third quarter of 2022.	Under implementation
Recommendation 6, paragraph 138		
The Board recommends that UNFCCC perform a fraud risk assessment in line with or embedded in the ERM.	The Manager of ODO oversees the UNFCCC ERM framework and is to include a fraud risk assessment as part thereof in line with paragraph 20 of United Nations administrative instruction ST/IC/2016/25.	Under implementation

<sup>a</sup> Reproduced as received from the Board.