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## **Subsidiary Body for Implementation**

**Forty-fifth session**

**Marrakech, 7–14 November 2016**

Item 17(b) of the provisional agenda

**Administrative, financial and institutional matters**

**Audit report and financial statements for 2015**

## **Financial report and audited financial statements for the year 2015 and report of the United Nations Board of Auditors**

**Note by the Executive Secretary**

**Addendum**

**Comments by the secretariat**

### *Summary*

The report of the United Nations Board of Auditors for the year 2015 (FCCC/SBI/2016/INF.12) includes recommendations relating to the financial audit for the UNFCCC. This addendum, which should be read in conjunction with the 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 two tables that comprise this document, "Implemented" indicates that no further action is required, while "Under implementation" indicates that the secretariat has started undertaking the recommended action.

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Table 1

**Recommendations of the United Nations Board of Auditors for the year ended 31 December 2015**

<i>Recommendation of the United Nations Board of Auditors for the year ended 31 December 2015</i>	<i>Comments by the secretariat</i>	<i>Status of implementation</i>
Recommendation 1, paragraph 13:  The Board recommends that the UNFCCC work on provisioning for the unfunded liabilities in order to mitigate the risk of failure to pay these liabilities	The secretariat welcomes the recommendation, and has been closely following the deliberations of the Finance and Budget Network of the United Nations on this matter, which affects other United Nations agencies	Implementation is subject to the outcome of the finance and budget network discussions
Recommendation 2, paragraph 20:  The Board recommends that the UNFCCC (i) reconcile the differences of balance with the United Nations Office for Project Services and (ii) disclose the design and performance of the clean development mechanism (CDM) Loan Scheme in the notes to the financial statements	The secretariat agrees with part (i) but disagrees with part (ii) of the recommendation  Financial statements inform the user of the financial situation of an organization. As the International Public Sector Accounting Standards (IPSAS) standard IPSAS 1, paragraph 15, states: “Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources”.  Financial statements do not have the purpose of providing detailed information about the design and performance of a particular business operation. In this case, such information is covered by regular reports from the secretariat to the CDM Executive Board and from the Board to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. (Evidence that this reporting occurs was provided to the auditors and can be resubmitted upon request)	Part (i) of the recommendation is under implementation
Recommendation 3, paragraph 28:  The Board recommends that the UNFCCC speed up the measures to streamline the CDM	The secretariat welcomes the recommendation and is taking measures to revise the regulatory documents by the end of 2016	Under implementation

Recommendation 4, paragraph 32:

The Board recommends that the UNFCCC devise a suitable mechanism to ensure timely recovery of the fees and other claims from designated operational entities (DOEs)

The secretariat welcomes the recommendation and is following up with DOEs for overdue payments

Under implementation

Recommendation 5, paragraph 40:

The Board recommends that the UNFCCC make suitable disclosure in the notes to the financial statements on the unissued certified emission reductions (CERs) which were lying in the stock of the UNFCCC and the total potential revenue unrealized for the CER certificates

The secretariat disagrees with the recommendation as such disclosure is not required or even encouraged by IPSAS. IPSAS 19, paragraphs 105 and 106, state the requirement for a note of disclosure if the revenue is probable:

“105. Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 44–62.

“106. The disclosure requirements in paragraph 105 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets...It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising...”

It was discussed and agreed with the auditors that it is very unlikely that revenue will be realized from CER certificates

Recommendation 6, paragraph 44:

The Board recommends that the UNFCCC ensure bank reconciliation of accounts is done within 15 days of the end of each month

The secretariat agrees with the recommendation

Implemented

Recommendation 7, paragraph 48:

<i>Recommendation of the United Nations Board of Auditors for the year ended 31 December 2015</i>	<i>Comments by the secretariat</i>	<i>Status of implementation</i>
The Board recommends that the UNFCCC ensure the achievement of training targets	The secretariat welcomes the recommendation and will look at planning training events to ensure that they are better aligned with unit and team workplans	Under implementation
Recommendation 8, paragraph 52:		
The Board recommends that the UNFCCC enforce compliance with its advance purchase policy for air tickets	The secretariat agrees with the recommendation and is striving to ensure compliance with the policy	Under implementation
Recommendation 9, paragraph 57:		
The Board recommends that the UNFCCC ensure all recruitment exercises in future are conducted by interview panel members who have successfully completed competency-based interview courses	The secretariat agrees with the recommendation. Measures have been put in place to ensure that from March 2017, all eligible members of future recruiting panels will complete competency-based interview training	Under implementation

Table 2

**Recommendations of the United Nations Board of Auditors for the year ended 31 December 2014**

<i>Recommendation of the United Nations Board of Auditors for the year ended 31 December 2014</i>	<i>Comments by the secretariat</i>	<i>Status of implementation</i>
Recommendation 1, paragraph 15:		
The Board recommends that the UNFCCC strengthen its internal mechanisms to eliminate the possibility of such errors in its future financial statements and ensure their accuracy	The secretariat has established a review team of professional finance staff to check the draft financial statements for accuracy before their submission to the United Nations Board of Auditors. After the review team's work, the financial statements are also checked by the Chief of Finance and the Chief of Administrative Services. The review has proven useful in finding errors and enabling their correction before inclusion of the statements in the audit report. With continuous refinement in the use of the Umoja central administrative system, which has subledger accounting and other features, the accuracy of the draft financial statements is foreseen to further improve	Under implementation

Recommendation 3, paragraph 27:

The Board recommends that the UNFCCC ascertain the reasons for non-adherence to the advance purchase policy [for tickets for travel] and take effective measures to improve adherence

This recommendation is to be implemented in two parts:

Implemented

(i) Measures to improve compliance with the advance purchase policy (the '16 day rule'): programme directors must endorse justification in all cases on mission objective forms (MOFs) or via e-mail in case the deadline is missed, and the MOF or e-mail must be attached to the travel request in Umoja, along with the justification being entered in the appropriate field. The travel team reviews all justifications for relevance, and follows up accordingly

(ii) A report summarizing the reasons for non-adherence to the advance purchase policy and recommending action will be submitted to the Executive Secretary on an annual basis. The first report is under preparation and will be submitted by 31 December 2016

Under implementation

Recommendation 4, paragraph 32:

The Board recommends that the UNFCCC develop a monitoring and recovery mechanism to ensure recovery of outstanding travel claims

The secretariat agrees with the recommendation and has intensified its monitoring and recovery of outstanding travel claims

Under implementation

Paragraph 13, United Nations Board of Auditors report for 2012–2013:

The Board recommends that the UNFCCC expedite the settlement of the outstanding balance of the accounts in respect of the Conference of the Parties at its sixteenth and seventeenth sessions

The secretariat continues to follow up with the Government of Mexico regarding settlement of the outstanding balance of the accounts with regard to the Conference of the Parties (COP) at its sixteenth session. Options have been provided to Mexico for use of the remaining funding at Mexico's request, but as at October 2016, no response had been received (COP 17 – settled)

Under implementation