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Subsidiary Body for Implementation
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Item 16(b) of the provisional agenda
Administrative, financial and institutional matters
Other financial and budgetary matters

Financial report and audited financial statements for 2019 and report of the United Nations Board of Auditors

Note by the secretariat

1. The financial procedures for the Conference of the Parties, its subsidiary bodies and the secretariat 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 these 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 2019. 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 (FCCC/SBI/2020/INF.9/Add.1).

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-sixth session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its sixteenth session and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its third session.

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Annex

United Nations

Report of the United Nations Board of Auditors

on the financial statements of the

United Nations Framework Convention on Climate Change

for the year ended 31 December 2019

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 2019, the statement of financial performance (statement II), statement of changes in net assets (statement III), 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 2019, 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

The Executive Secretary is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2019 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 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:

- 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.

- 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- 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.

- 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.

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.

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

Rajiv **Mehrishi**
Comptroller and Auditor General of India

Mr. Jorge **Bermúdez**
Comptroller General of the Republic of Chile

21 July 2020

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 that entered into force in 1994. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2019. An early part of the audit was carried out at the UNFCCC headquarters in Bonn, Germany. Since 6 April 2020, the Board conducted the audit remotely due to the coronavirus disease 2019 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 accumulated surplus and reserves of $67.4 million. In 2019, UNFCCC recognized a deficit of $6.4 million. Only 70 per cent of indicative contributions of the parties were received for 2019.

The 2019 financial statements were presented for audit on 31 March 2020. The Board noted that the actuary calculated the liabilities for after-service health insurance with an erroneously low contribution rate for the employer. The Board pointed out that this error of $21.0 million materially affected 2018 and qualified for a restatement. In 2019, the error amounted to $1.7 million. UNFCCC rectified these errors.

The Board found certain areas for further improvement, including the surplus on the special account for programme support costs, the institutional linkage to the United Nations and the delegation of authority to the current Executive Secretary, the implementation of the restructuring and coverage by internal audit.

Implementation of recommendations of previous years

The Board noted that out of the total of 30 recommendations that remained outstanding, 13 (43 per cent) were implemented, 16 were under implementation and 1 was overtaken by events. The Board is concerned about the decrease in the implementation rate.

Five recommendations pertain to the alignment of the UNFCCC-specific policies. The authority delegated to the Executive Secretary requires a formal approval by the Secretary-General in these cases. The Board requested that UNFCCC either adopt the United Nations policies or seek to obtain the Secretary-General's agreement where a deviation is deemed suitable. UNFCCC did that in two cases. The Board emphasizes that UNFCCC should close the remaining legal gaps with high priority.

Key findings and recommendations

The Board's main findings are as follows:

Accumulated surplus on the special account for programme support costs

UNFCCC accrued $12.7 million net assets on the special account for programme support costs that was established to manage income and expenditures related to the administrative overhead. While a United Nations administrative instruction stipulates that an operating reserve at the level of 20 per cent of the annual programme support income should be held to finance

unpredictable issues, UNFCCC held 130 per cent. The Board was not able to trace back when the excessive net assets started to occur.

Institutional linkage and delegation of authority

In 2001, the institutional linkage from 1995/1996 was reviewed by the Secretary-General. In 2007, the General Assembly endorsed the continuation of the institutional linkage until a review was deemed necessary. Since then, no further review has been documented, although both UNFCCC and the United Nations underwent major changes.

The procedure of delegating authority for human resources, finance and budget, procurement and property management to the current head of UNFCCC was inconsistent. While, in 2016, the authority on procurement and property management was delegated in a memorandum to the current Executive Secretary, this is not the case for the authorities for finance and budget and human resources. The scope of the delegation of authority on human resources to the head of UNFCCC was included in the original institutional linkage memorandum on personnel arrangements for the biennium 1996-1997. The delegation of authority in personnel matters has not been renewed since then. The delegation of authority for finance and budget to the function of the Executive Secretary derives from Decision 15/CP.1, which stipulates that UNFCCC apply the United Nations Financial Regulations and Rules. In order to enhance accountability, the Board considers it necessary that the current Executive Secretary receive and accept the delegations of authority from the Secretary-General, especially for the ability of further subdelegating authorities.

Implementation of the restructuring of the secretariat

In order to adapt to its evolving mandates, UNFCCC reviewed its structure, operations and allocation of resources in 2018. The review led to a revision of the organizational structure of the secretariat. On 1 April 2020, UNFCCC started using the new structure.

The Conference of the Parties (COP) requested the secretariat to strive for efficiency gains in the new structure. UNFCCC did not have a clear set of criteria to assess whether the restructuring has achieved its objectives. UNFCCC stated that the process was still at an early stage and that the new Organizational Development and Oversight (ODO) unit would monitor target achievement. The job descriptions for the posts for ODO, however, were in draft status only and the posts would be filled by the end of 2020.

The budget proposal for the biennium 2020-2021 reflected the new structure. The work programme covered core and all supplementary funding and was part of the budget proposal. It reflected 471 posts.

While the posts funded by the core budget increased by 3 per cent, the number of posts with the P5 grade and above increased by 15 per cent. The Board found that UNFCCC determined the indicative grade of posts under the new structure without job classifications and without job descriptions at the time of the budget proposal.

UNFCCC created 491 posts in Umoja for the implementation, i.e. 20 more than included in the work programme. The variances differed considerably by organizational units. UNFCCC explained that synergies should be achieved by shifting posts within the units. The Board noted that due to the changes, the proposed work programme was no longer suitable for reporting on budget performance.

Coverage by internal audit

Decision 15/CP.1 stipulates that the accounts and financial management of all funds governed by UNFCCC shall be subject to the internal audit process of the United Nations. The United Nations Financial Regulation 5.15 stipulates that the Office of Internal Oversight Services (OIOS) shall conduct independent internal audits. OIOS provided UNFCCC with audit services equivalent to 75 per cent of a full-time auditor until the end of 2008. Since 2009, a resident auditor has audited UNFCCC on a full-time basis.

In April 2019, UNFCCC requested OIOS to explore options of adjusting the audit arrangements as from 2020. OIOS and UNFCCC could not agree on a new arrangement. OIOS removed the resident auditor in December 2019. In January 2020, UNFCCC asked OIOS to consider other options than a resident auditor. The Board is concerned that UNFCCC is no longer covered by internal audits.

Recommendations

Based on the key findings above, the Board recommends that UNFCCC:

Accumulated surplus on the special account for programme support costs

a) Analyse the net assets of the special account for programme support costs and act on the results of this analysis.

Institutional linkage and delegation of authority

b) Liaise with the United Nations Secretariat to review the institutional linkage and update it as appropriate, including a transparent and consistent issuance and acceptance of a delegation of authority to the Executive Secretary regarding human resources and finance and budget.

Implementation of the restructuring of the secretariat

c) Ensure that the intended results of the restructuring such as efficiency gains and "being fit for purpose" are measured, tracked and evaluated.

d) Explain deviations between its structure as per the budget decision and the implemented structure of posts, and ensure adequate reporting on budget performance.

Coverage by internal audit

e) In coordination with the Office of Internal Oversight Services, take steps to re-establish internal audit coverage and prepare an internal audit plan for the biennium 2020-2021.

Key Facts

$85.2 million	Revenue
$91.7 million	Expenses
($6.4) million	Deficit for the year
$67.4 million	Accumulated Surpluses and Reserves
$251.8 million	Assets
$184.4 million	Liabilities
$32.9 million	Core budget
390	Staff

A. Mandate, scope and methodology

1. 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. 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. Currently, the Convention has 197 parties. The work of UNFCCC is facilitated by its secretariat located in Bonn, Germany. The secretariat is institutionally linked to the United Nations without being integrated into any programmes.

2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2019 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. 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 2019 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 from 10 to 14 February 2020 in Bonn, and from 6 April to 8 May 2020 remotely due to the coronavirus disease 2019 pandemic. 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 auditors have engaged in discussions with UNFCCC Management to continuously assess the impacts of the coronavirus disease 2019 pandemic on the entity. UNFCCC disclosed the coronavirus disease 2019 pandemic as a non-adjusting event after the reporting date, briefly describing its main impacts, in note 24 to the financial statements.

7. 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.

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

B. Findings and recommendations

1. Follow-up of previous recommendations

Overview

9. The Board noted that out of a total of 30 recommendations that remained outstanding up to 31 December 2018, 13 (43 per cent) were implemented, 16 (54 per cent) were under implementation and 1 (3 per cent) was overtaken by events. Details of the status of the implementation of the recommendations are presented in the annex 1. The Board is concerned about the decrease in the implementation rate: While the Board found that UNFCCC implemented 74 per cent of the recommendations in 2017, this rate dropped to 50 per cent in 2018 and declined further to 43 per cent in 2019.

10. The Board holds that UNFCCC should increase its efforts to implement the recommendations of the Board. As part of the work programme, UNFCCC monitors the following performance indicator: "Rate of implementation of audit recommendations relating to financial and administrative matters." This indicator has a baseline of 80 per cent and a target of 90 per cent. The Board wishes to highlight the recommendations on aligning entity-specific policies that are dealt with in paras. 11 ff:, on the area of fraud prevention (see annex 1, No. 6 and 7, and paras. 182 f), and on surpluses of the cost recovery fund (see annex 1, No. 9, and paras. 43 ff.) that are under implementation and require adequate attention of UNFCCC.

Entity-specific policies not aligned with United Nations policies

11. Six recommendations pertain to the alignment of the UNFCCC policies and its oversight (see annex 1, No. 3, 4, 5, 8, 25, 26). The Board found that, over many years, UNFCCC had established its own policies. The authority delegated to the Executive Secretary requires a formal approval by the Secretary-General in these cases (see paras. 93 ff.). 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 emphasized that UNFCCC should close the legal gaps with high priority.

12. The COP asked UNFCCC to implement the recommendations, in particular those related to the consultants and individual contractors' policy (FCCC/SBI/2018/L.24/Add.2).

13. The consultant that performed the structure review in 2018 suggested urgently resolving this situation of non-compliance and listed 36 administrative issuances that deviated from the United Nations policies. In August 2018, UNFCCC prioritized seven issuances with which to start the alignment process. UNFCCC established a task force to undertake the review of the policies. The task force again initiated a review of policies with the help of a consultant. The UNFCCC legal affairs programme advised Management to abolish all deviating issuances with immediate effect and apply the standard regulatory framework of the United Nations Secretariat. In some of the cases, the unit responsible for the respective policy had a different view. The task force considered that a more detailed analysis was necessary, especially in relation to human resources policies that concern staff well-being.

14. UNFCCC stated that it considered staff well-being especially important in light of the restructuring (see paras. 135 ff.) and that policy changes in that context could be seen as disadvantageous to staff. UNFCCC further highlighted that it therefore felt the policy review process should be undertaken in close consultation with the staff association.

15. The Board found that, for all of the cases, the management decision on how to proceed was pending during the final audit and until 15 April 2020. All issuances which Management had

prioritized for the alignment process were still in place. Also, UNFCCC had not requested the United Nations Secretariat to approve deviations. Finally, and after the Board had highlighted the issue again, Management made some decisions or requested the clarification by the United Nations Secretariat (see annex 1, No. 3 and 25).

16. Table 1 below illustrates the status of the review of selected policies as of May 2020 with a focus on the Board's recommendations and the policies that UNFCCC prioritized in August 2018.

Table 1 Status of the review of the policies prioritized by UNFCCC and progress on the implementation of the Board's recommendations

UNFCCC policy	Examples for areas that deviate	Status
Administration of consultants and individual contractors AG/2012/2	In accordance with ST/AI/2013/4, United Nations retirees and former staff can only be hired if there is no qualified candidate. However, based on the UNFCCC policy, retirees can be hired even without a selection process. Further differences in fee categories and duration of contract applied.	The recommendation to critically examine policies on hiring consultants and individual contractors and whether there is still reason for maintaining them (annex 1, No. 3) was still pending in mid-April 2020. The speed of the progress was not satisfactory, although the importance was emphasized by the parties (FCCC/SBI/2018/L.24/Add.2). On 6 May 2020, UNFCCC Management made the decision to adopt the United Nations policy with immediate effect. Therefore, the recommendation was implemented during the audit mission.
Staff selection system AG/2014/4 with standard operating procedure	The policies vary, for example, in respect to the recruitment requirements from the general service staff to the professional staff category; and for lateral moves before promotions to P4/P5. The United Nations Staff Regulations and Rules (ST/SGB/2018/1) are complemented with ST/AI/2010/3 (latest amendment in 2017). The United Nations is drafting new policies.	The recommendation to adopt the United Nations staff selection policies system in the then applicable version or request approval of deviations by the end of December 2019 (annex 1, No. 26) was not implemented in May 2020. While UNFCCC undertook an initial analysis, no management decision as to whether the United Nations staff selection system shall be adopted or approval should be sought was undertaken. The progress is not sufficient; the due date set in the recommendation was not met. The deviating policy is still in place without the United Nations Secretariat's approval. As long as the legal gap exists, UNFCCC is exposed to the risk of reputational and financial loss, as well as to potential legal action by staff. UNFCCC should close the legal gap with high priority, especially during the restructuring phase.
Internship policy AG/2019/1 with standard operating procedure	UNFCCC offers a lunch voucher, whereas any support is forbidden for interns of the United Nations (ST/AI/2014/1).	UNFCCC had neither sought for approval by DMSPC for the exception of providing voucher-based support to interns nor adjusted its policy including the standard operating procedure accordingly as recommended by the Board (annex 1, No. 25) at the start of the audit mission in April 2020. However, the Deputy Executive Secretary informed the COP bureau. Based on this, the secretariat had extended the provision of meal vouchers into 2020. The provision was to be reviewed in June 2020. This action taken by UNFCCC was not connected to the recommendation. During the audit mission, UNFCCC requested and obtained the approval from the United Nations Secretariat for the deviating policy. Therefore, the recommendation was implemented.
Performance appraisal system	The differences relate to how to address and act on performance shortcomings.	The deviating policy is still in place. No approval has been sought from the United Nations Secretariat. The advice provided by legal affairs and human resources deviate from

	The United Nations Staff Regulations and Rules (ST/SGB/2018/1) are complemented with ST/AI/2010/5, ST/SGB/1999/8 and ST/SGB/2013/2.	each other; no management decision was made and no due date was set. The speed of progress is not satisfactory. The policy was prioritized in August 2018 as one out of seven to start the alignment process with.
Travel policy AG/2018/3	The thresholds for business class travel vary in comparison to ST/IC/2019/16 and ST/AI/2013/3. Also, staff can downgrade transportation on a voluntary basis. A reduced daily subsistence allowance is paid in case the accommodation is provided.	The deviating policy is still in place. No approval has been sought from the United Nations Secretariat. The advice provided by legal affairs and administrative services deviate from each other; no management decision was made and no due date was set. The speed of progress is not satisfactory. The policy was prioritized in August 2018 as one out of seven to start the alignment process with.
Procurement policy AG/2011/4	The deviations to the United Nations Procurement and the Financial Regulations and Rules (ST/SGB/2014/4) refer to the interpretation of valid reasons for exceptions from formal solicitation and in terms of green procurement policy.	Two years ago, the Board recommended to expedite the revision process of its procurement policy and procedures (annex 1, No. 5). In 2019, UNFCCC stated that consultations with the United Nations Secretariat were under way and UNFCCC scheduled completion for 30 September 2019. In 2020, UNFCCC stated again that a new draft policy was prepared and ready for internal review and subsequent endorsement. The deviating policy is still in place. No approval has been sought from the United Nations Secretariat. The advice provided by legal affairs and administrative services deviate from each other; no management decision was made and no due date was set. The speed of progress is not satisfactory. The policy was prioritized in August 2018 as one out of seven to start the alignment process with. The recommendation remains under implementation.

Source: Own presentation.

17. UNFCCC highlighted reasons for the delay, including the complex structure review project, additional stress created by the short-notice relocation of COP 25 from Chile to Spain, as well as the fact that the United Nations system was also undergoing a comprehensive policy reform which has not yet been concluded.

18. The Board holds that although UNFCCC analysed the policy deviations thoroughly, no decisions have been made for a long time. This leads to a legal gap which poses a risk, especially with the ongoing restructuring that requires many decisions based on human resources policies.

2. General information and financial overview

Restructuring of the UNFCCC secretariat

19. In 2018, UNFCCC carried out a review of its structure, operations and allocation of resources. UNFCCC stated that the reasons for the review were the Paris Agreement in 2015 and the outcomes of COP 24 in Katowice, Poland, that brought the climate change regime and the work of UNFCCC into a new phase. The number of constituted bodies which UNFCCC serves increased to 13, reflecting the mandates that have increased over time. UNFCCC mandated a consultancy company to assist in the review and to provide options and recommendations for changes in the secretariat structure or operations in response to the changed demands. The final report, presented in January 2019, encompassed various conclusions and recommendations.

20. The review highlighted the necessity to revise the organizational structure of the secretariat as the main outcome and to implement further non-structural changes. The non-structural changes comprise enhancement of performance measurement, leadership development, staff development and cultural and behavioural changes. The new organizational structure consists of three departments (Executive, Programmes and Operations) with nine divisions. Two cross-cutting divisions (Communications and Engagement, Intergovernmental Support and Collective Progress) shall ensure a better alignment of the tasks carried out by the secretariat. On 1 April 2020, the UNFCCC secretariat started using the new structure.

21. General practice has shown that such major organizational changes need a clear set of criteria to assess whether the restructuring has achieved its objectives (see paras. 138 ff.). The current staffing situation and vacancy rates are covered in paras. 147 ff.

22. While UNFCCC evaluated the options for implementing the structure review, UNFCCC simultaneously developed the budget proposal for the biennium 2020-2021 in the new structure (FCCC/SBI/2019/4). Decision 17/CP.25 granted an increase of the core budget of 5.3 per cent (€3.0 million). The variance between budget decision and implementation plans are covered in paras. 164 ff.

Financial overview

23. The revenue of UNFCCC for the year ended 31 December 2019 amounted to $85.2 million (in 2018: $99.1 million) while expenses amounted to $91.7 million (in 2018: $91.2 million) resulting in a deficit of $6.4 million (in 2018: surplus of $7.9 million). Out of the 10 funds, 6 realized a surplus and 4 a deficit. The assets totalled $251.8 million (in 2018: $236.0 million) while the liabilities were $184.4 million as at 31 December 2019 (in 2018 (restated): $113.9 million), leaving net assets of $67.4 million (in 2018 (restated): $122.1 million). This decrease of the net assets was in addition to the 2019 deficit due to actuarial losses ($48.4 million). The financial ratios are presented in Table 2.

Table 2 Ratio analysis

Ratio	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2017*
Total assets : total liabilities[a]			
Total assets : total liabilities	1.37	2.07	2.30
Current ratio[b]			
Current assets : current liabilities	6.16	12.81	7.53
Quick ratio[c]			
(Cash + short-term investments + accounts receivable): current liabilities	6.02	12.29	6.87
Cash ratio[d]			
(Cash + short-term investments) : current liabilities	5.2	11.37	6.41

Source: Calculated on the basis of the UNFCCC financial statements for 2019.

Note:

[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.

24. Compared to the previous year, the Board found a significant decrease in the total assets to total liabilities ratio as at 31 December 2019. The decrease is mainly caused by significantly higher employee benefit liabilities (see note 13 to the financial statements, and para. 38). There was also a significant decrease in current ratio, quick ratio and cash ratio. The ability of UNFCCC to cover its

current liabilities decreased compared to the previous financial year. This mainly resulted from higher advance receipts (in 2019: $28.1 million, in 2018: $10.4 million) and from shifting short-term investments (in 2019: $119.5 million, in 2018: $172.1 million) to long-term investments (in 2019: $37.5 million, in 2018: $13.4 million). This was a decision made by United Nations Treasury.

25. Out of the total assets of $251.8 million, $214.7 million were cash and cash equivalents, short-term investments and long-term investments deposited in the United Nations Office at Geneva cash pool which was in turn invested by United Nations Treasury in New York. On the linkage to United Nations Treasury, see paras. 78ff.

26. Compared to the previous year, revenues decreased significantly by $13.9 million. The main reasons were the decreasing indicative contributions (by $2.1 million) and voluntary contributions (by $10.6 million). The decrease in indicative contributions has mainly been caused by exchange rate effects. The decrease in voluntary contributions has been caused by lower revenues in the trust fund for supplementary activities of $5.8 million and in the trust fund for the participation in the UNFCCC process of $4.1 million. For voluntary contributions, it is important to consider that revenue recognition is volatile since revenues are recognized at the time a donor agreement becomes binding for most agreements. Obligations that are connected with the agreements often materialize in subsequent periods.

27. For 2019, total expenses amounted to $91.7 million (in 2018: $91.2 million). Staff expenses constituted the major expenditure item and decreased by $1.4 million. Staff numbers were stable with 390 staff (in 2018: 391) as at 31 December of the respective year. UNFCCC used 94 consultants and 176 individual contractors in 2019 (in 2018: 73 and 178). The other expenditure categories show opposing trends: Expenses for contractual services increased significantly by $4.8 million, travel expenditures increased slightly by $0.2 million and other expenses by $1.6 million. UNFCCC had to return donor funding of $1.2 million (in 2018: $5.1 million).

Outstanding indicative contributions

28. UNFCCC receives indicative contributions from parties that are the equivalent of assessed contributions received for the United Nations.

29. Only 70 per cent of indicative contributions of the parties were received for 2019 (in 2018: 86 per cent). The Board noted that outstanding indicative contributions from the parties from 1996 to 2018 amounted to €14.7 million or $16.4 million as at 31 December 2019 (31 December 2018: €9.0 million, or $10.2 million). Table 3 shows the portions across the individual years.

Table 3 Outstanding indicative contributions to the Convention and to the Kyoto Protocol and the trust fund for the International Transaction Log

	2019	2018	2010-2017	1996-2009	Total as at 31 December 2019
Outstanding indicative contributions	€8.3 million	€3.9 million	€2.3 million	€0.2 million	€14.7 million

Source: Calculated on the basis of Umoja data.

30. The Board noted that 56 per cent of the outstanding contributions as at 31 December 2019 pertained to the financial year 2019, 27 per cent to the financial year 2018 and 16 per cent to the financial years from 2010 to 2017. 90 per cent of the outstanding contributions are owed by 10 parties. The remaining arrears of 10 per cent are spread across 106 parties.

31. The Board noted with concern the growth of uncollected indicative contributions and impaired indicative contributions (see note 7 to the financial statements). However, the Board acknowledges that UNFCCC has taken several steps to address the issue of outstanding indicative contributions.

Net assets by fund when reallocating the employee benefit liabilities

32. The Board recognized a considerable decrease of net assets at year-end 2019 compared to the prior year. The decrease by $54.7 million to $67.4 million was primarily driven by an increase of employee benefit liabilities, in particular for after-service health insurance (see note 13 to the financial statements).

33. UNFCCC discloses the employee benefit liabilities in a separate fund. UNFCCC started funding the employee benefit liabilities for all funds except the core budget as at 1 January 2018 with a 3 per cent charge on all staff salaries. UNFCCC had accumulated $4.1 million to fund employee benefit liabilities as at 31 December 2019. The Board recommended that UNFCCC seek a COP decision on funding these liabilities, both related to staff financed from indicative contributions and supplementary funding (see annex 1, Nos. 1 and 10).

34. The Board aimed to determine the fair view of the net assets per trust fund, including their shares of the employee benefit liabilities. The Board therefore distributed the share of the employee benefit liabilities fund to the funds which would bear the costs. Table 4 shows the accumulation of the net assets/net liabilities by fund, taking into account the employee benefit liabilities:

Table 4 Net assets or (net liabilities) by fund including the share of the employee liabilities

Amounts in $ million	**Net assets or (net liabilities) with fair share of employee benefit liabilities** as at 31 Dec 2019
Trust fund for the core budget of UNFCCC (40FCA)	**(54.4)**
Trust fund for the International Transactions Log (ITL) (40TLI)	**6.4**
Special account for programme support costs (62ZRB)	**(20.1)**
Cost recovery fund (64ZCR)	**(5.1)**
Trust fund for the participation in the UNFCCC process (32FIA)	**3.9**
Trust fund for supplementary activities (32FRA)	**39.6**
Trust fund for the Clean Development Mechanism (40CDM)	**100.9**
Trust fund for the special annual contribution from the Government of Germany (40FQA)	**(0.9)**
Special account for conferences and other recoverable costs (32ZHF)	**(2.9)**
Total	**67.4**

Source: Own calculation based on the UNFCCC financial statements for 2019; note 19 to the financial statements and actuarial valuation report as at 31 December 2019.

35. The trust fund for the core budget, the special account for programme support costs and the cost recovery fund bear a large portion of the entity's employee benefit liabilities. As the after-service health insurance liability is generally not funded, these funds would show high net liabilities when distributing the fair share of employee liabilities to them.

36. On the other hand, the trust fund for supplementary activities, which is primarily financed from voluntary contributions, shows high net assets. IPSAS 23 stipulates that revenue from voluntary contributions is recognized upon signing of donor agreements. A liability is only recognized if the requirements for UNFCCC under these agreements meet certain criteria (see note 3.11 to the financial statements), so there is a timing difference. The trust fund for the Clean

Development Mechanism also shows high net assets. These net assets mainly stem from fees related to the issuance of Certified Emission Reductions certificates in previous years and are therefore related to staff costs to a minor extent only.

Issues identified by the Board in the 2019 financial statements

37. The Board identified issues in the financial statements and the related notes as submitted on 31 March 2020, which it communicated to UNFCCC.

38. The Board noted that the actuary calculated the liabilities for after-service health insurance with an erroneously low contribution rate for the employer. The Board pointed out that this error of $21.0 million materially affected the 2018 financial statements and qualified for a restatement. In 2019, the error amounted to $1.7 million. This means that the liabilities were understated, leading to an overstatement of net assets of the same amount in both financial statements. UNFCCC rectified these errors and restated the liabilities for the previous year (2018) in its revised financial statements. UNFCCC also revised the financial statements and notes for the liabilities for 2019 (see note 4 to the financial statements).

39. The Board pointed out that IPSAS 39 required the disclosure of a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. The discount rate is defined as one of the significant actuarial assumptions in IPSAS 39. Based on the comment of the Board, UNFCCC complemented the disclosure in note 13 to the financial statements by the inclusion of a sensitivity analysis for health care cost trends of the after-service health insurance and for the discount rates for the repatriation benefits liability.

40. UNFCCC identified one donor agreement amounting to $3.4 million as a conditional agreement. However, an advance receipt was recorded only for parts of this agreement; only $1.1 million was recorded as deferred revenue. Another donor agreement had revenues of $2.5 million, of which $0.4 million were a prepayment for value added taxes (VAT). While VAT needs to be refunded to the donor, UNFCCC assessed the full amount of this donor agreement as an unconditional agreement. Therefore, the entire amount of the agreement was recorded as an asset and revenue. No advance receipt was recorded for the VAT. Regarding the VAT refunds in donor reports, the Board is of the view that these funds are only transferred temporarily to UNFCCC. Therefore, they do not meet the revenue recognition criteria. In the case identified, this part of the funds should be refunded to the donor and should hence be recorded as a liability as from the effective date of the agreement. Following these findings, UNFCCC adjusted the financial statements accordingly.

41. The Board also found that some minor disclosures were lacking.

42. UNFCCC adjusted the financial statements and notes accordingly to the findings of the Board. UNFCCC submitted revised financial statements on 5 June 2020.

3. Accumulated surplus on the accounts for cost recovery and programme support costs

Increased surplus on the special account for cost recovery and last year's recommendation

43. The special account for cost recovery is primarily used for Information and Communications Technology and administrative expenditure, which is financed by internal charges. In accordance with the United Nations Controller, a cost recovery fund should not be used to collect significant amounts of accumulated surpluses. Furthermore, all cost recovery schemes should have periodic rate card adjustments and cost plans, prior to the provision of services within the entity.

44. Last year, the Board noted that UNFCCC accrued net assets of $2.0 million as at 31 December 2018. As the cost recovery fund should not be used to accumulate surplus, the Board recommended that UNFCCC analyse the reasons for the surplus accumulated and act on the results of the analysis (see annex 1, No. 9).

45. The recommendation is still under implementation. UNFCCC has not provided an analysis so far. In 2019, the net assets increased further to $2.8 million. Thus, the cost charges were overrecovered until the end of 2019. Also, the Board holds that the calculation scheme should be improved; the guidance provided by the United Nations Controller could be used as best practice.

46. UNFCCC stated that it planned to analyse the cost recovery schemes over a period of at least four years and make appropriate adjustments. Any balance would be used for a subsequent reduction of the rates under the same mechanism resulting in a reduction in the net assets for the cost recovery fund, in line with standard procedures.

47. The Board found that UNFCCC used $0.3 million of net assets of the cost recovery to fund a part of the implementation of the structure review.

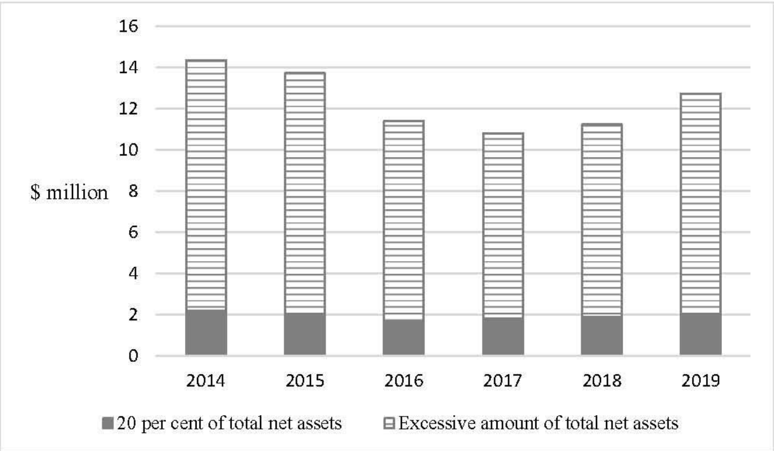
Exceeding net assets on the special Account for programme support costs

48. Similar to the surplus on the cost recovery account, the Board noted that the special account for programme support costs also had accumulated surpluses. The special account for programme support costs was established to manage income and expenditures related to the administrative overhead of UNFCCC. Income is generated through a 13 per cent charge on expenditures under the various UNFCCC trust funds. As at 31 December 2019, UNFCCC accrued net assets in the programme support costs of $12.7 million (see note 18 to the financial statements). The net assets predominantly comprised cash and investments.

49. The United Nations administrative instruction on "Procedures for the approval and management of programme support accounts" (ST/AI/286) stipulates that an operating reserve at the level of 20 per cent of the annual programme support income should be held to finance unpredictable issues.

50. The Board found that during the last years, the net assets of the special account for programme support costs amounted to more than 100 per cent (in 2019: 130 per cent) of the income of the programme support costs account. The permitted reserve was always exceeded by far. The Board was not able to trace back when the excessive net assets started to occur. Figure 1 shows the permitted reserve of the net assets of 20 per cent and the actual part in excess of the reserve.

Figure 1 Total net assets differentiated by the permitted part and the excess part of the special account for programme support costs



Source: Own calculation on the basis of the UNFCCC financial statements.

51. The Board found that no plans (such as budget proposals) were available that included both expenses and revenue. Also, no reports were prepared that compared planned figures with actual

figures for this special account.

52. UNFCCC started analysing the programme support costs net assets in the course of the audit. UNFCCC stated that it would share the outcome including a concrete plan before the next audit mission. After a brief analysis, UNFCCC did not consider a reserve of 20 per cent of the income to be adequate.

53. The Board holds that the total net assets of the special account for programme support costs were significantly too high. UNFCCC should manage programme support costs through cost and revenue plans and regular reconciliations of actual and planned figures in order to avoid this. The Board holds that it is important to know the reason for the generation of the surpluses. Therefore, UNFCCC should analyse the reasons for the excessive net assets and should assess how to use any residual of the net assets.

54. **The Board recommends that UNFCCC analyse the net assets of the special account for programme support costs and act on the results of this analysis.**

55. **The Board recommends that UNFCCC establish annual plans and a reconciliation with the actual figures for the special account for programme support costs to monitor the level of the reserve.**

56. UNFCCC agreed with the recommendations.

4. Financial management

Recording of voluntary contributions

57. Approximately 40 per cent of UNFCCC activities are financed through voluntary contributions. UNFCCC recognized revenues from voluntary contributions of $39.0 million, voluntary contributions receivables of $14.6 million and liabilities from conditional agreements of $12.1 million as at 31 December 2019. The Board reviewed a sample of voluntary contribution agreements that amounted to $28.5 million of revenues, $11.0 million of receivables and $1.1 million of advance receipts.

58. The Board found inaccurate master data of donor agreements: Due to a recommendation from last year (see annex 1, No. 18), UNFCCC reviewed all the donor agreements that were signed in 2019 on a case-by-case basis at the end of the financial year 2019. The aim of the review was to identify which agreements should be treated as conditional agreements and to record an advance receipt for these cases. The Board noted that three of the sampled donor agreements were assessed as conditional agreements. However, the grants created for these donor agreements in the grants management module of Umoja were set up as unconditional.

59. The Board holds that the review of the asset and revenue recognition criteria should be clearly documented. The Board acknowledges that progress was made in the area of donor agreements. However, the Board holds that the process is still not working properly as the outcome of the case-by-case analysis was not recorded in Umoja with the correct information right from the start. This would enhance data quality of the grants in Umoja and at the same time would reduce the workload. The Board holds that the Umoja grants management module should be used to the widest extent possible and had issued a respective recommendation in the past (see annex 1, No. 21).

60. UNFCCC stated that it planned to prepare a guideline to support the correct categorization of donor agreements for IPSAS conditionality. This would be the basis for all newly created grants in the financial year 2020 and all open conditional grants not fully spent by 31 December 2019 to be updated in the grants management module.

61. **The Board recommends that UNFCCC document the case-by-case analysis of the asset and revenue recognition criteria in the grant management module in Umoja.**

62. UNFCCC agreed with the recommendation.

Guideline on interfund cash transfer

63. The Board reviewed the internal borrowings between trust funds posted on the interfund borrowing account. UNFCCC issued two administrative guidelines (AG/2012/3 „Policy for advancing funds to projects/activities funded from voluntary contributions and the special account for conferences and other recoverable costs" and AG/2017/2 „Guideline on inter-fund cash transfer (Internal borrowing between trust funds)") to cover the topic of internal borrowings between trust funds. The 2012 guideline covers internal borrowings to finance supplementary activities, and the 2017 guideline covers internal borrowings for outstanding indicative contributions.

64. Paragraph 1.8 of the guideline AG/2017/2 specifies how the internal borrowings and the reimbursements of the borrowings should be processed in Umoja. Since the guideline AG/2012/3 was issued before conversion to Umoja, it does not mention how the borrowings should be recorded in Umoja. The Board noted that even though the guideline AG/2012/3 did not mention how the borrowings should be recorded in Umoja, UNFCCC used the same recording methodology as specified in the guideline AG/2017/2.

65. The Board holds that the recording methodology mentioned in guideline AG/2017/2 should be included in guideline AG/2012/3. This would ensure that the guideline issued in 2012 is in line with Umoja.

66. **The Board recommends that UNFCCC change its guideline AG/2012/3 on the policy for advancing funds to projects to reflect the methodology for recording of internal borrowings between trust funds as mentioned in paragraph 1.8 of guideline AG/2017/2.**

67. UNFCCC agreed with the recommendation.

Internal borrowings between funds related to COP 25

68. The Board noted that during the financial year 2019, the special account for conferences and other recoverable costs (32ZHF) borrowed $10.0 million to cover for COP 25 from the trust funds for supplementary activities (32FRA) and for the Clean Development Mechanism (40CDM) and from the special account for programme support costs (62ZRB). In accordance with paragraph 1.8 of AG/2017/2, the borrowings shall be reimbursed upon receipt of the outstanding contributions. The Board found that at the end of 2019, the special account 32ZHF did not reimburse the full amount; only $5.4 million was reimbursed to the trust fund 40CDM and to the special account 62RPS. This reimbursement of a part of the borrowing led to a negative balance of the cash account of the special account 32ZHF of ($2.0) million as at 31 December 2019.

69. A negative cash balance of the special account 32ZHF, as a component of the United Nations Treasury cash pool, means that this special account borrowed money from the cash pool to cover these reimbursements. Additionally, if the cash balance of a fund -trust funds or special accounts- is negative, Umoja does not allow payments out of the respective fund.

70. The Board noted that the special account 32ZHF had the highest negative cash balance among the trust funds having negative balances as at 31 December 2019 under the purview of United Nations Treasury.

71. UNFCCC stated that due to the pending receipt of the contribution from the host country for COP 25, the special account 32ZHF had to borrow cash from other trust funds to proceed with hotel bookings for staff members servicing the meeting. When COP 25 was relocated, UNFCCC raised funds from other donors. UNFCCC further stated that sufficient funds were raised for COP 25, but the allocation of the incurred costs to the respective contributions received from different donors was not completed by the end of 2019. Due to last-minute arrangements of the COP 25, the allocation of costs was more complex resulting in a substantial delay. Therefore, not all of the borrowings of the special account 32ZHF could be reimbursed at year-end.

72. As to the negative cash balance of the special account 32ZHF, UNFCCC indicated that this should normally not occur. The partial reimbursement of borrowings was prepared in February 2020

with a posting date for the end of 2019. The processing of the reimbursement was delayed and this resulted in a temporary deficit in the cash balance. In 2020, the cash balance was positive again. For the relationship with United Nations Treasury, see paras. 78 ff.

73. The Board holds that UNFCCC should have completed the allocation of the costs incurred for the COP 25 to the respective donor contributions before submission of the 2019 financial statements on 31 March 2020. This would have enabled UNFCCC to get an overview of the costs incurred for COP 25 and refund the internal borrowings made from the other funds.

74. Furthermore, a negative cash balance of a fund could be seen as an "unapproved liability" which has to be paid back to the cash pool. Therefore, the Board holds that the cash account of a fund should never have a negative balance. However, if this case occurred, it would be part of a sound management of the respective fund to follow up and clarify this issue speedily, before submission of the financial statements.

75. **The Board recommends that UNFCCC complete the allocation of the total cost incurred for the COP 25 to the respective donors and refund the internal borrowings made from other trust funds to cover for these costs.**

76. **The Board recommends that UNFCCC implement an internal control function to prevent a situation that a trust fund has a negative cash balance.**

77. UNFCCC agreed with the recommendations.

Services provided by United Nations Treasury

78. As at 31 December 2019, UNFCCC assets comprise $184.7 million of cash, cash equivalents and investments. These amount to more than 73 per cent of UNFCCC total assets and are held in the United Nations Treasury cash pools. United Nations Treasury is responsible for all cash and investment related services such as monetary transactions, risk management for the cash pools and investment activities in accordance with its guidelines (see notes 5 and 6 to the financial statements).

79. While the Executive Secretary is charged with managing funds, most administrative services were, in the early years, provided by the United Nations Secretariat. In 1996, a memorandum on "financial and common services arrangements for administrative support to the UNFCCC secretariat", initially for the biennium 1996-1997, required the United Nations to open bank accounts for UNFCCC monies and invest amounts not immediately required. In the following years, UNFCCC built administrative capacity and took over many administrative functions (on the institutional linkage, see paras. 93 ff.). At that time, the administrative support of the United Nations Secretariat mainly comprised treasury and payroll services, which is comparable to the status as of today.

80. While a memorandum of understanding between UNFCCC and the United Nations Office at Geneva was concluded on payroll, payment services and various other services provided by the United Nations Office at Geneva, services provided by United Nations Treasury were not covered by the agreement. UNFCCC stated that no further formal agreements were in place regarding the services provided by United Nations Treasury. UNFCCC provided a document confirming the investment principles for UNFCCC funds as part of its participation in the cash pool.

81. The management of funds, liquidity and investments is a professional service that, by its nature, may benefit from economies of scale. Efficient treasury management offers opportunities and mitigates risks. The knowledge of short-term cash requirements allows for the timely provision of funds. It further enables long-term investments that typically yield higher returns. UNFCCC may well continue to engage United Nations Treasury to manage its funds.

82. However, the availability of funds is a prerequisite to the functioning of UNFCCC. This makes treasury management a key function. The 1996 memorandum did not specify the respective responsibilities of UNFCCC and United Nations Treasury. Key processes, such as determining the monies available for longer term investments, are executed without formal descriptions. The Board found no indication of any flawed treasury process. However, ambiguity regarding the

responsibilities discharged to United Nations Treasury may negatively impact on transparency and accountability.

83. UNFCCC stated that it did not see a significant risk in this area, in view of its long experience and the close organizational relationship with the United Nations Secretariat and the United Nations Office at Geneva in general and in particular on treasury operations and principles. UNFCCC further stated that cash pool operations and investments were supervised by the United Nations Controller and ultimately by the United Nations Secretary-General. Given that the United Nations Secretariat is not a third-party entity such as a commercial bank, UNFCCC considers the current administrative setting appropriate both from an operational and also from a risk management perspective.

84. In 2018, the Board recommended that United Nations Treasury formalize the participation of different entities in the main cash pool by way of written agreements (see A/73/5 (Vol. I), para. 81).

85. The Board holds that responsibility for tasks performed by United Nations Treasury should be formalized: UNFCCC should communicate its service requirements to allow for efficient management of funds, which would help to assure that United Nations Treasury continues to meet UNFCCC's needs. Therefore, as part of reviewing the institutional linkage, the Board holds that UNFCCC should formalize the provision of treasury services (see paras. 96 and 104).

Actuarial assumptions in the valuation of after-service health insurance liabilities

86. After-service health insurance liabilities have a large impact on the financial situation of UNFCCC. Amounting to \$138.0 million, they account for 75 per cent of total liabilities as at 31 December 2019. The after-service health insurance liabilities rose by \$53.3 million compared to the previous financial year. The main reasons for the increase were actuarial losses of \$48.2 million, including the effects of lower discount rates.

87. In order to measure the after-service health insurance liabilities, actuarial assumptions such as demographic variables (e.g. employee turnover or mortality) and financial variables (e.g. medical cost trends, discount rates) are used. The actuarial assumptions have a significant impact on measuring liabilities. For example, a 0.5 per cent increase in the health care cost trends would have an increasing effect on the liabilities of \$22.3 million (see note 13 to the financial statements).

88. The actuarial assumptions to calculate such liabilities differed among United Nations entities. The Secretary-General commissioned an inter-agency Task Force on Accounting Standards to harmonize the principles guiding liability valuation. The Task Force agreed on harmonizing a number of assumptions. Those include discount rates, inflation rates and health care cost trends, currency exchange rates and United Nations Joint Staff Pension Fund projections (A/73/662). The Task Force informed all United Nations organizations on the harmonized assumptions for 2019.

89. UNFCCC stated that it applied the same assumptions for the after-service health insurance liabilities than the United Nations Secretariat in the 2019 financial statements.

90. The Board noted that one of the objectives of implementing IPSAS was to improve comparability of financial reporting across the United Nations system. The Board also noted that a harmonized approach for actuarial assumptions led to better comparability of actuarial liabilities and their management among United Nations entities. The United Nations entities should discuss the topic of harmonized assumptions again in the Task Force.

91. UNFCCC stated that it agreed in principle that actuarial assumptions should be harmonized to the extent possible. However, the Board should address the topic at a United Nations-wide level. Smaller organizations such as UNFCCC should not be responsible for addressing system-related weaknesses.

92. While the Board acknowledges the concerns of UNFCCC, it is of the view that organizations in which the system-wide issues are recognized should address such weaknesses. The Board holds that it is neither labour intensive nor binds major capacities for UNFCCC to bring the topic of harmonized assumptions to the attention of the Task Force on Accounting Standards.

5. Institutional linkage and delegation of authority

Institutional linkage and delegation of authority to the Executive Secretary

93. The COP decides on the work programme of UNFCCC. The work of UNFCCC is facilitated by its secretariat. Pursuant to COP Decision 14/CP.1, the secretariat is institutionally linked to the United Nations without being integrated into the work programme and management structure of any particular department or programme. This institutional linkage encompassed the arrangements for administrative support especially for the set-up phase: With a memorandum dated 19 April 1996, a financial and common services arrangement was set between the Under-Secretary-General for Administration and Management and the head of UNFCCC; and with a memorandum dated 28 December 1995, a personnel arrangement for the biennium 1996-1997 was set between the Under-Secretary-General for Administration and Management and the head of UNFCCC. The institutional linkage was endorsed by the United Nations General Assembly (A/RES/50/115) and reconfirmed in subsequent decisions by the COP and the General Assembly. The Secretary-General was requested to review the functioning of this institutional linkage not later than 31 December 1999, in consultation with the COP, with a view to making such modifications as may be considered desirable by both parties and to report on that matter to the General Assembly.

94. In the review of the institutional linkage (A/56/385) in 2001, the Secretary-General noted that the Executive Secretary, in agreement with the United Nations Secretariat, had gradually taken over most of the responsibility for financial and personnel administration of the UNFCCC secretariat. The review led to a General Assembly decision in February 2007 that endorsed the continuation of the institutional linkage until a review is deemed necessary by the COP or the General Assembly (see A/RES/61/201 and Decision 11/CP.11). Since then, no further review through the Secretary-General in consultation with the COP has been documented.

95. The delegation of authority to the Executive Secretary of UNFCCC was included in the original institutional linkage memorandum on personnel arrangements for the biennium 1996-1997 dated 28 December 1995. Decision 15/CP.1 refers to the financial procedures to which UNFCCC has to adhere, i.e. the United Nations Financial Regulations and Rules.

96. Since 2007, the United Nations have gone through major changes, for example, the implementation of Umoja or the United Nations reform. Some inconsistencies apply, for example, in the arrangements with United Nations Treasury (see paras. 78 ff.). Also, UNFCCC underwent major changes, for example, enlarged mandates and additional trust funds. However, the exact scope and the functioning of the institutional linkage has not been reviewed for almost 20 years. Therefore, the Board considers the institutional linkage to be outdated.

97. As one part of the United Nations management reform, ST/SGB/2019/2 outlined a new framework for delegation of authority (framework) with the aim to improve transparency and accountability. The delegations cover the four functional areas of human resources, budget and finance, procurement, and property management. All delegations of authority, including any limitations, are issued and managed through an online portal. In accordance with the framework, all previous delegations of authority were rescinded and new delegations were assigned with the exception of some entities such as UNFCCC. The existing delegations of authority remained effective. Although UNFCCC is exempt from the framework, UNFCCC is mentioned twice in the annex II on procurement.

98. The status quo of the delegation of authority with its four pillars –finance and budget, property management, procurement and human resources– is as follows:

- An authority for finance and budget has not been delegated to the current Executive Secretary. UNFCCC stated that the delegation of authority for finance and budget to the function of the Executive Secretary as head of entity derives from the COP Decision 15/CP.1, which stipulates that UNFCCC applies the United Nations Financial Regulations and Rules to the financial administration of the UNFCCC secretariat.
- The authority for property management and procurement is also governed by the United Nations Financial Regulations and Rules. In contrast to the delegation on finance and

budget, the Assistant Secretary-General of the Office of Central Support Services in the Department of Management delegated the authority for property management and procurement to the current Executive Secretary with a memorandum dated 26 July 2016. According to the memorandum, the Executive Secretary does not possess the authority solely by virtue of her office.

- With the memorandum dated 28 December 1995, an authority for personnel arrangements was delegated to the head of UNFCCC for the biennium 1996-1997. With memorandum dated 18 March 1996, the Under-Secretary-General for Administration and Management confirmed that the Executive Secretary had the authority to administer the staff of UNFCCC in accordance with the United Nations Staff Regulations and Rules and such special rules as may be established by the head of the UNFCCC secretariat in agreement with the Secretary-General of the United Nations during the biennium 1996-1997. The delegation of authority in personnel matters has not been renewed since then.

99. The Board noted that the procedure of delegating authority for finance and budget, procurement and property management was inconsistent: While all these functional areas were governed by the United Nations Financial Regulations and Rules, the Executive Secretary received a delegation of authority for procurement and property management only.

100. As the chief administrative officer of the Organization under the Charter of the United Nations, the Secretary-General holds the primary authority and accountability for the administration of the Financial Regulations and Rules and the Staff Regulations and Rules. In order to enhance accountability, the Board considers it necessary that the Executive Secretary receive a delegation of authority for finance and budget from the Secretary-General, especially for the ability of further subdelegating certifying, approving and procurement authorities. Similar consideration may apply to the area of human resources.

101. UNFCCC clarified that there was no United Nations policy or administrative guideline which stated that the human resources delegation was to be issued to the Executive Secretary.

102. ST/SGB/2019/2 stated that all delegations and subdelegations were functional. The only personal delegations as per the United Nations Financial Regulations and Rules are the certifying and approving officer authority.

103. The Board holds that the Executive Secretary should receive delegations of authority in all four areas from the Secretary-General with the description of the authority being delegated, any specific limitations, restrictions on further subdelegation and essential segregation of duty. Also, the acceptance of the delegations through the Executive Secretary should be documented. When the term of office of the Executive Secretary ends, all subdelegations will remain in effect. However, the successor will receive a new delegation of authority which needs to be accepted although the successor will be granted the same level of delegation.

104. **The Board recommends that UNFCCC liaise with the United Nations Secretariat to review the institutional linkage and update it as appropriate, including a transparent and consistent issuance and acceptance of a delegation of authority to the Executive Secretary regarding human resources and finance and budget.**

105. UNFCCC agreed with the recommendation.

Subdelegations of authority

106. Basis for the subdelegation of authority are the authorities of the Executive Secretary. The Executive Secretary as head of entity shall subdelegate selected authorities to her staff, in accordance with any limitation set out in the individual delegation of authority. These subdelegated authorities should be aligned with the staff's responsibilities while ensuring segregation of duties. The subdelegations should be clear as to scope and limits and the effective date of delegation.

107. UNFCCC manages the subdelegations through lists of approving officers, certifying officers

and bank signatories.

108. According to the UNFCCC Bulletin B/2014/2 on financial matters, delegations are in general attached to the position occupied and not to the individual except for certifying obligations and expenditures, approving obligations and payments, bank signatory functions and procurement. Therefore, the Executive Secretary has subdelegated authorities to staff members although she has not received a delegation of authority in financial matters.

109. The Board found that human resources subdelegations were not submitted to the staff members of UNFCCC. B/2018/2 sets the subdelegations on human resources matters on the functions such as Executive Secretary, Deputy Executive Secretary, human resources officer. However, according to the security liaison officer workbook (workbook), the security liaison officer needs to verify that the user has the correct delegation of authority for the related roles which encompasses also the human resources partner role PA.01. The Umoja role request is not to be submitted until the delegation of authority is issued and accepted in the delegation of authority portal (see para. 125). The United Nations Secretariat confirmed that the functional delegation was correct but the security liaison officer would need the proof of a staff member's appointment under the functional role (such as human resources officer, or finance).

110. The Board considers it necessary that subdelegations in human resources matters be issued to the staff members. Since UNFCCC does not use the delegation of authority portal, the Board considers it necessary that a written memorandum be in place to be signed by the staff member.

111. UNFCCC stated that the workbook was no binding document that determined when a delegation of authority was to be issued.

112. UNFCCC further stated that the delegated authority to administer the Staff Regulations and Rules and the Financial Regulations and Rules to heads of entity through the Secretary-General should be understood to be on a functional basis. UNFCCC further stated that the United Nations did not require issuing subdelegations on human resources authority to staff members. However, to provide clarity to staff on the responsibilities delegated to them, it is useful to have a mechanism to provide such information to relevant staff. UNFCCC will consider reviewing this matter in the context of the internal tracking mechanism of delegations of authority (see para. 118).

113. The Board agrees that the authorities delegated are specific to the function and are not in personal nature. However, the authorities delegated shall be clearly stated and accepted by both the delegator and the delegatee.

114. **The Board recommends that UNFCCC issue the lacking human resources subdelegations to its staff members.**

115. UNFCCC agreed with the recommendation.

Use of the portal

116. UNFCCC manages the subdelegations through lists. Since UNFCCC is exempt from ST/SGB/2019/2, in contrast to United Nations Secretariat entities, UNFCCC cannot use the electronic delegation of authority portal for its own subdelegations. However, UNFCCC staff received the Bank Signatory Authority centrally from the United Nations Secretariat via the delegation of authority portal.

117. In April 2020, the United Nations Secretariat confirmed that a further use of the delegation of authority portal was not possible since UNFCCC was not subject to ST/SGB/2019/2.

118. Nevertheless, UNFCCC confirmed that they would liaise again with the United Nations Secretariat and determine a way forward, including the alternative option of establishing a UNFCCC-specific internal solution to track issuance and acceptance of delegations, should the delegation of authority portal not be an option.

119. The Board considers it inconsistent to delegate the Bank Signatory Authority centrally through the delegation of authority portal without permitting the further use for those entities

excluded from ST/SGB/2019/2 to the tool that has already been developed. The Board holds that it is important to track the acceptance through staff of all delegations issued. UNFCCC would need resources for developing an own delegation of authority monitoring tool while a central tool is available. Therefore, UNFCCC should liaise again with the United Nations Secretariat to find a solution.

120. **The Board recommends that UNFCCC raise the issue of the inconsistencies in using the delegation of authority portal with the United Nations Secretariat.**

121. UNFCCC agreed with the recommendation.

6. Provisioning of Umoja roles

Provisioning of Umoja roles linked to authorities delegated

122. The Board reviewed the provisioned Umoja roles that require a delegation of authority for all staff with the authorities delegated as at 31 December 2019. UNFCCC staff members were provisioned with a total of 116 roles that require delegation of authority.

123. The Board found 13 staff members for which the required authority was not delegated. Out of these, 9 cases were related to the human resources subdelegations which were issued on a functional basis in accordance with B/2018/2. One staff member did not receive any delegation of authority. The remaining delegations of authority related to the Umoja roles OM.07 (certifying officer), SA.07 (certifying officer for procurement), TV.08 (travel shipment processor) and TV.10 (travel processing officer). In these cases, the staff members held a valid delegation of authority but not in relation to the mentioned Umoja roles.

124. The Board considers it important that the roles requiring delegation of authority be only provisioned to staff with such delegation.

125. UNFCCC stated that the subdelegations for human resources were to be seen on a functional basis as outlined in B/2018/2. This document provided the required delegation of authority for the human resources partner role to human resources officers. Therefore, UNFCCC saw no requirement to issue human resources subdelegations to its staff members. Nevertheless, UNFCCC confirmed that they would take appropriate steps for the Umoja roles for which discrepancies exist with the respective delegation of authority.

126. **The Board recommends that UNFCCC align the provisioned Umoja roles with the authorities delegated.**

127. UNFCCC agreed with the recommendation.

Provisioning of Umoja roles and segregation of duties

128. The Board reviewed the role combinations of Umoja users last year and found a case of an Umoja user mapped to a role combination seen as a risk for segregation of duty (see annex 1, No. 22). This case was fixed and the recommendation therefore implemented. Due to the importance of accurate provisioning of Umoja roles, the Board reviewed the current situation again.

129. As stated in the workbook and in the Umoja roles guide, the procurement roles SA.03 (procurement buyer), SA.06 (buyer supervisor) and SA.16 (approver) are not to be combined with the finance role FM.06 (Approver GL) that manages fund commitments. However, the Board found five staff members for whom those conflicting Umoja roles were provisioned.

130. The Board considers it important that no conflicting roles be assigned and that the segregation of duties be respected.

131. UNFCCC stated that the United Nations Secretariat did not introduce this segregation of duty rule until the second half of 2019. The workbook shows a conflict from the procurement perspective but not from the financial perspective. However, the procurement manual did not specify the

requirement for segregating these roles. UNFCCC further stated that the workflows did not overlap. Therefore, UNFCCC sees no financial or reputational risk in combining the respective roles. UNFCCC rather sees a risk in combining the role of the fund commitments approver with other finance roles which is the approach in line with the workbook. UNFCCC emphasized that payment approvers should not perform the function of the fund commitment approver, as this increases the risk of fraud. As a result, UNFCCC would require hiring additional staff members in the finance team to avoid the additional risk described. However, this would not be appropriate considering the low volume of fund commitments processed at UNFCCC.

132. The Board holds that the instructions of the workbook and the Umoja roles guide should be adhered to, regardless of the individual reasoning at the entity level. Nevertheless, the Board welcomes if UNFCCC raises the issue of the potential risk of combining the Umoja role FM.06 with other finance roles with the United Nations Secretariat. UNFCCC should either correct the current conflict of roles or at least seek for an exception regarding the current segregation of duties violation.

133. **The Board recommends that UNFCCC liaise with the United Nations Secretariat for an exception of the segregation of duties violation and raise the issue of the potential risk of combining the Umoja role FM.06 with other finance roles.**

134. UNFCCC agreed with the recommendation.

7. Implementation of the restructuring of the secretariat

New organizational structure

135. While UNFCCC performed the structure review, UNFCCC simultaneously developed the budget proposal for the biennium 2020-2021 using the new structure (FCCC/SBI/2019/4). UNFCCC requested the parties inter alia to strengthen their core resources, but also presented a zero nominal growth scenario for the core budget. Decision 17/CP.25 granted an increase of the core budget of €3.0 million for the biennium 2020-2021. The variations between budget decision and implementation plans are covered in paras. 164 ff.

136. The new organizational structure of UNFCCC consists of two departments (Programmes and Operations) with 10 divisions. Two of them are cross-cutting divisions (Communications and Engagement, Intergovernmental Support and Collective Progress) to better align tasks carried out by the secretariat. As of 1 April 2020, the UNFCCC secretariat started using the new structure.

137. UNFCCC implemented the restructuring in a phased approach. The new structure includes an Organizational Development and Oversight (ODO) function. ODO will be implemented in the second half of 2020 together with other functions of the new structure, following the established process of mapping posts and subsequently filling positions (see paras. 151 ff). The Board found that only draft job descriptions for ODO staff were available in May 2020. Management stated that the respective posts in ODO were currently vacant and would be filled possibly by the end of 2020.

Efficiency gains of the restructuring

138. The budget proposal aimed at efficiency gains (FCCC/SBI/2019/4, para. 40). Decision 17/CP.25 requested the secretariat to continue to seek efficiencies and streamline administrative services in order to save costs, and to report on them at the next Subsidiary Body for Implementation (SBI) meeting.

139. The structure review guideline of 12 November 2019 stipulated that during the consultation on the organizational chart of the new structure, explanations were provided on the benefits to be achieved by the changes, such as: reallocation of resources, reduced cost, enhanced efficiency or a combination of these and other factors.

140. The Board requested further documentation of evidence on the assessment carried out by UNFCCC on the efficiency gains (both material and immaterial), in addition to the overview of posts. UNFCCC could not provide any written information and stated that it was too early in the

process to provide such data.

141. UNFCCC stated that one of the functions of ODO would be overseeing the efficient use and allocation of resources. ODO would be tasked with designing and implementing a system to monitor secretariat performance against strategic goals and objectives, and with maintaining and overseeing a secretariat-wide internal control framework.

142. As the Board already pointed out last year, such major organizational changes need a clear set of criteria against which to assess whether the restructuring has achieved its objectives. The Board acknowledges that it is not possible to evaluate the efficiency gains of the new structure already at the beginning. However, the Board holds that UNFCCC should be already in the position to have measurable objectives of efficiency gains of the restructuring and to define its baseline. A strategy on how to track and measure efficiency gains should be developed as soon as possible. This is also true for the overall target of UNFCCC being "fit for purpose". Without collecting data and defining quantitative and qualitative indicators right from the start, a meaningful report to the parties would not be possible.

143. The Board also acknowledges the function of ODO. However, UNFCCC planned to fill the respective posts only later in 2020. The Board notes with concern that oversight is not a priority in the timeline of implementing the restructuring.

144. UNFCCC stated that it would like to clarify that recruitment related to ODO would receive priority in filling new posts in the course of 2020.

145. **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.**

146. UNFCCC agreed with the recommendation. UNFCCC confirmed that this would be one of the functions of the new ODO unit.

Determination of posts level in the new structure and provisional allocation of staff to posts

147. The Board found that while the core budget increased by +6 posts (from 173.5 to 179.5 posts) or 3 per cent, the number of posts with the grade P5 and above increased by 15 per cent (or +4 posts; from 26 to 30 posts).

148. The Board found that UNFCCC determined the indicative grade of new posts or downgraded/upgraded posts under the new structure without job classifications and without job descriptions at the time of the budget proposal. UNFCCC could not provide a comparison of the changes in tasks or functions that the determined post grades were based on.

149. Pursuant to ST/SGB/2018/1, rule 2.1, in conjunction with ST/AI/1998/9, posts shall be classified related to the nature of the duties, the level of responsibilities and the qualifications required. The classification is based on job descriptions. Job descriptions for new posts and for the reclassification of existing posts shall be submitted for classification advice with the budget request of the entity.

150. UNFCCC stated that the need for the additional core posts was related to two new functions defined in the new structure and the need for strengthening two other functions. UNFCCC further stated that the job descriptions were being established as of April 2020. UNFCCC further stated that the changes in tasks were compared once the new job description was sent for classification. Old job description and new job description would be assessed by OneHR (shared human resources services unit) when doing the classification, and upgrade/downgrade would be confirmed. UNFCCC confirmed that no job descriptions for new posts were sent to OneHR for classification as of April 2020.

151. When UNFCCC started using the new structure, not all staff and posts were moved right away. The Board found that many posts were filled for a transitional period. Approximately 40 staff members were placed from abolished or upgraded or downgraded posts to general temporary posts

in the new structure ad interim. The Management Team communicated to all staff that this provisional allocation was not to be seen as a precedent to the selection processes which would be conducted later on.

152. UNFCCC stated that this assignment was done strictly for payroll purposes, given the change to the new biennium, in order to maintain staffing levels and business continuity while the implementation process was ongoing. This was communicated to all staff on various occasions. UNFCCC stated further that this was independent of – and should not have any impact upon – the mapping process. The regular staff selection process will be applied to ensure that the best candidates are selected for the new functions. The selection process is subject to funding availability. UNFCCC stated that it was in the process of mapping existing staff into the new structure and of drafting job descriptions for new and significantly modified posts.

153. Since only a few job descriptions were available at the time of the audit visit, the Board holds that a transparent evidence was lacking at this stage for the required new posts and reclassifications of existing posts. The Board is of the view that the provisional allocation does not encourage other staff to apply for the positions in the new structure after a colleague has been already mapped to this position.

Vacancies due to restructuring

154. Last year, the Board found that 18 per cent of the planned posts remained vacant, while the budget proposal calculated with an expected vacancy rate of 2 per cent. The Board concluded that the difference between the expected and the actual vacancy rate, without further analysis, might permit conclusions on any excess personnel expenditures budgeted. The Board therefore recommended that UNFCCC include an analysis of the reasons for the differences between budgeted and actual vacancy rate and its impact in its budget performance report (see annex 1, No. 30). The recommendation remains under implementation.

155. With the ongoing restructuring, the Board reviewed the vacancy rate again. As at 31 December 2019, the vacancy rate was 18 per cent (77.6 vacant posts of 426.5 approved posts) for all sources of funding (budget performance report, FCCC/SBI/2020/3, Add. 1). For the core budget specifically, UNFCCC reported a 16 per cent vacancy rate (28.1 vacant posts of 173.5 approved posts).

156. The budget performance report (FCCC/SBI/2020/3, Add. 1) presented the vacancies linked to funds, while the performance on objectives and expected results is linked to programmes. The Board found that UNFCCC did not achieve a total of 16 out of 91 expected results. This non-achievement was not due to vacancies. For six expected results, performance data were not available due to "capacity constraints". When UNFCCC moved to the new structure, the number of vacant posts increased from 77.6 posts to 175.5 posts created in Umoja (biennium 2020-2021) for all sources of funding. This led to a vacancy rate of 36 per cent.

157. The percentage of vacant posts varies considerably among the 12 units (see para. 168 and figure 2). The lowest vacancy rate with 25 per cent occurs in the Mitigation Division (including the Clean Development Mechanism (CDM)) and the Administrative Division. Five organizational units have a vacancy rate of 50 per cent or above.

158. UNFCCC stated that it had reported on approved (budgeted) and filled posts in the biennium 2018-2019 and in prior bienniums only for the core budget. For all other funds, posts are only approved upon availability of sufficient funding. Therefore, not all approved posts are created in Umoja but only those funded. In the future, UNFCCC stated that it would report on the number of budgeted, funded and filled posts.

159. UNFCCC advised that the additional posts established reflected real requirements based on a careful analysis before presenting these to the parties in the budget proposal. Vacancies are filled subject to resource availability. Under the core budget, UNFCCC needs to consider the high rate of outstanding contributions and their impact on the sustainability of longer-term funding of posts. Meanwhile, in a number of instances, UNFCCC has relied on consultants, contractors and temporary assistance, where possible, to deliver on mandated activities.

160. The Board holds that there is a contradiction between a high vacancy rate over years and additional established posts. Therefore, it might be questionable whether additional posts were necessary to meet UNFCCC operational requirements. Furthermore, since only a few job descriptions are available, the Board holds that transparent evidence is lacking for the required new posts that are mainly of a high level and reclassifications of existing posts. Since the funding situation will not change in the medium term, in both the budget proposal and the budget performance report, UNFCCC should describe the extent to which it intends to use or used consultants, contractors and temporary support.

161. The Board further holds that it will take some time to fill the large number of vacant posts. The Board sees the risk that some of the expected results of the work programme, including the work of ODO, could not be delivered. In order to prevent that, UNFCCC should carefully plan and manage the filling of these posts.

162. **The Board recommends that UNFCCC draw a realistic timetable and a priority list for filling vacancies.**

163. UNFCCC agreed with this recommendation. As soon as UNFCCC has a complete list of vacant posts and a clear picture of the impact of COVID-19 on the resources of the secretariat, a priority list and timetable for filling the vacancies will be developed.

Variations between implementation plans and budget proposal

164. When the COP approved the core budget for the biennium 2020-2021 (Decision 17/CP.25, FCCC/CP/2019/13, Add.2), it had considered the budget proposal. The work programme (FCCC/SBI/2019/4/Add.1) outlined the core budget, supplementary fund and all other resources required to achieve UNFCCC's objectives and expected results. The work programme presented a fully integrated budget across all funding sources by division and objective, and all outputs and results expected to be delivered.

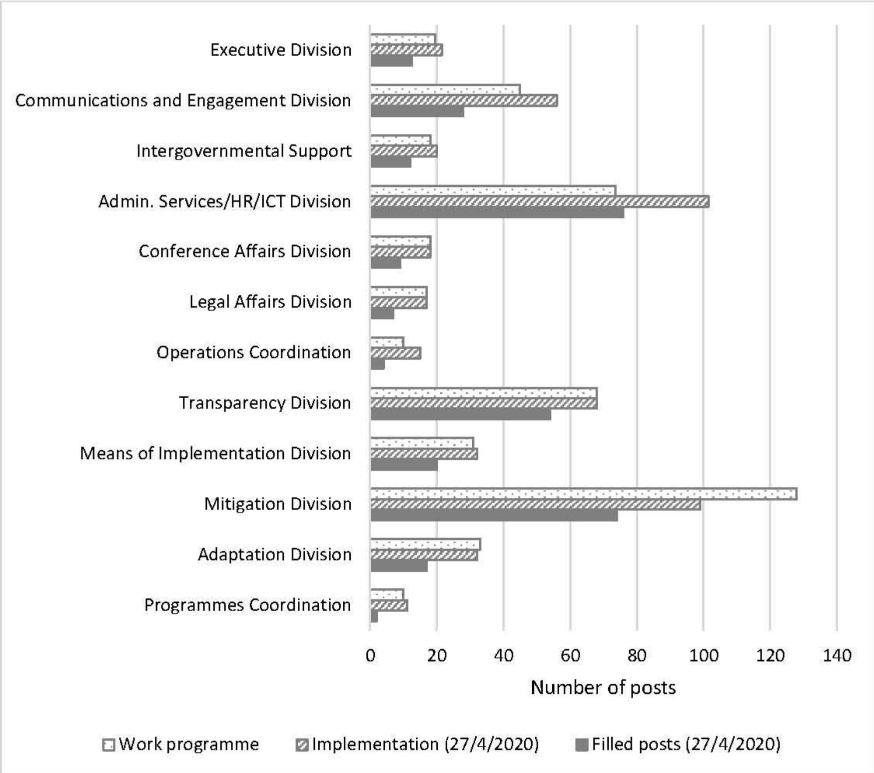
165. The new structure consists of 12 units (10 divisions and 2 departments). Out of these units, 5 are solely financed from the core budget and the trust fund for supplementary activities. All other units need resources from six supplementary funds.

166. UNFCCC's budget proposal contained an initial growth scenario and a zero nominal growth scenario for the core budget. In both scenarios, the total number of 471 posts and the distribution to the organizational units was the same when looking at all funds. Only the allocation to the funds was different.

167. The Board found that UNFCCC planned the implementation in Umoja with 491 posts. This led to a gap of 20 posts between the implementation as planned in Umoja and the work programme as considered by the COP.

168. The Board compared the posts by organizational unit as implemented in Umoja, in accordance with the work programme, and with the current number of occupied posts (figure 2). The 12 units were affected differently: While for 3 units the number of posts remained unchanged, it varied up to +/- 10 per cent for 5 units. For 4 units, the number of posts varied by more than +/- 10 per cent.

Figure 2 Number of posts by division or department; comparison of work programme, implementation and filled posts, in 2020



Source: Own calculation on the basis of the work programme and implementation table provided by UNFCCC.

169. The Board noted that regardless of these variances, the expected results and resources as per the work programme remained unchanged. The Board also noted that the long-term strategic framework was not linked to the new structure.

170. UNFCCC stated that during the transitional period, filled posts should not be used as an indicator for allocated resources.

171. UNFCCC confirmed that the number of posts in the work programme was 471. However, UNFCCC explained that there were an additional 28 cost recovery posts from ICT that were intentionally not included to avoid double counting. The funds for these posts, but not the posts itself were already considered in the units where the respective service was received. UNFCCC further stated that there were an additional 3 posts of the Records Management Team in the Operations Coordination department that were inadvertently omitted by mistake in the work programme. Also, 2 posts from the Legal Affairs Division and the Transparency Division were removed during the negotiations with the parties in the final stages of budget finalization but still reflected in the work programme. Furthermore, the original work programme did not include the post numbers for CDM and Joint Implementation (JI) approved in September 2019, which both were reduced by 1. Therefore, the total revised count of posts should be 498 (471 plus 28 plus 3 minus 2 minus 2). Out of these, 491 have been implemented in Umoja. UNFCCC stated that it intended to reflect these post adjustments in the next budget performance report.

172. During the audit, UNFCCC provided more of its rationale of these changes. The number of posts decreased from 128 to 99 in the Mitigation Division that includes CDM and increased from 45 to 56 in the Communications and Engagement Division. UNFCCC stated that similar functions should be clustered in order to achieve synergies and efficiencies. This is particularly the case for the two cross-cutting divisions, which adopt a more matrix-like approach. During the implementation process, UNFCCC realized that the organization would benefit from placing certain CDM posts related to communications, engagement and knowledge management alongside non-CDM posts that were performing similar functions for other divisions. The budget represented most of these CDM-funded posts in the Mitigation Division, and even though they have been moved elsewhere in the structure, in order to promote synergies related to knowledge sharing and staff development, they will continue to serve the Mitigation work programme. A high number of expected results and resources should be moved to other organizational units along with the shifts of the posts. UNFCCC announced that a revised work programme would be available for the next SBI meeting to explain and justify the changes made.

173. The Board takes note of the explanations of UNFCCC.

174. The Board holds that after the detailed budgeting process and the structure review, the organization should be implemented as agreed by the parties. UNFCCC should align the implementation of posts to the proposed work programme. Since UNFCCC considers a change to be beneficial, the Board holds that due to the changes, the proposed work programme is no longer suitable for reporting on budget performance. A high number of expected results and resources should be moved to other organizational units along with the shifts of the posts. Transparently tracking budget performance is always a high priority of the parties. This is especially important in times of restructuring and budget increase.

175. **The Board recommends that UNFCCC explain deviations between its structure as per the budget decision and the implemented structure of posts, and ensure adequate reporting on budget performance.**

176. UNFCCC agreed with the recommendation. UNFCCC stated that it was in the process of revising the work programme to have a suitable basis for reporting on budget performance or aligning the implementation of posts to the proposed work programme.

8. Enterprise risk management

177. In 2015, UNFCCC established an enterprise risk management in accordance with the United Nations Enterprise Risk Management and Internal Control Framework (framework). In 2019, UNFCCC intended to establish a risk management process, supported by a digital version with collaborative features.

178. The Board asked for the latest version of the UNFCCC enterprise risk management and was referred to the welcome page of the Enterprise Risk Management workspace (ERM workspace) on the UNFCCC intranet.

179. A risk dashboard on this page lists 19 risks, 4 of which are considered high. The remaining 15 are considered low or medium and all of them have the status “Open”. Only the four risks considered high are marked as having the status “in Risk Treatment”. The Annual Risk Response and Treatment page shows a list of 18 actions related to those risks that are considered high. The due date for each task was set at 31 December 2018. Two of the tasks have the action status “Completed”. The remaining 16 tasks are “Open”. No actions have been defined for the risks considered low or medium.

180. The ERM workspace does not provide a description of the current process established. A page titled “Summary of Enterprise Risk Management” lists six steps that have to be completed. However, no list of actions, no responsible persons and no due dates regarding the implementation of the process are provided. A link to the roll-out timeline leads to a list of actions due in November 2018.

181. In April 2019, the Management Team stated that no action was taken in the first quarter, but it would be a priority in the second quarter of 2019. In November 2019, the Management Team stated that an ERM training was conducted from 30-31 October 2019 for audit focal points and those responsible for identifying risks and mitigation strategies. The Management Team recommended that UNFCCC expand the training to risk owners and staff responsible for action.

182. In the audit of the financial year 2017, the Board recommended that UNFCCC perform a fraud risk assessment in line with or embedded in the ERM. UNFCCC stated that it had not yet undertaken the recommended fraud risk assessment (see annex 1, No. 6).

183. UNFCCC has not initiated the recommended fraud risk assessment for two years. Already in the previous year's report, the Board had urged UNFCCC to strengthen the function of a focal point for audit and oversight matters (see annex 1, No. 2). Since then, UNFCCC has put the implementation on hold pending the implementation of the structure review. The Board holds that the restructuring cannot be used as a reason to neglect high-priority tasks for years.

184. Monitoring and mitigating risks is an essential part of managing an organization. Therefore, the Board is concerned that risk owners and risk treatment owners have not ensured that relevant information remained up-to-date. Since medium and lower risks could also be relevant, the Board holds that all relevant risks should be addressed, and not only 4 out of 19. Furthermore, defined actions to mitigate high risk areas should be initiated in accordance with the timeline. The Board is of the opinion that risk owners should be prioritized in any trainings on this matter.

185. The Board acknowledges that UNFCCC has started to establish a risk management process in 2018. However, the risk register has not been maintained for years with the current version being from March 2018. Since then, UNFCCC has undertaken a review as to whether UNFCCC is fit for purpose (restructuring) and has introduced the new strategic plan until 2030. Both the restructuring as well as the introduction of the new strategic plan could and should have impacted on the ERM. UNFCCC has not kept the risk management process alive, and has not developed it further.

186. The Board holds that UNFCCC should address the risks it is exposed to through an ERM that is regularly updated and includes tasks, owners and due dates and a documentation. The description of the ERM process must be part of the documentation. UNFCCC should put in place a formally structured process for assessing, monitoring and mitigating enterprise risks. ERM should be an integral part of the governance structure of the UNFCCC secretariat and therefore be linked to its strategic plan.

187. UNFCCC stated that it acknowledged the delays in fully implementing the ERM and was committed to improving its oversight in this area of work. The framework had been established but it needed more systematic treatment to effectively update and address risks identified. The effective continuation of efforts on ERM was also hampered by changing the responsible staff. UNFCCC further stated that more importance would be given to ERM in the new structure with ODO function. The head of ODO would oversee the ERM framework including the development and implementation of a fraud-risk assessment.

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.**

189. UNFCCC agreed with the recommendation.

9. Coverage by internal audit

190. Decision 15/CP.1 stipulates that the accounts and financial management of all funds governed by UNFCCC shall be subject to the internal audit process of the United Nations. The United Nations Financial Regulation 5.15 stipulates that the Office of Internal Oversight Services (OIOS) shall conduct independent internal audits. Internal auditors shall review, evaluate and report on the use of financial resources and on the effectiveness, adequacy and application of internal financial control systems, procedures and other relevant internal controls.

191. Initially, OIOS deployed a resident auditor in Bonn to provide internal audit services to UNFCCC and the United Nations Convention to Combat Desertification (UNCCD). UNFCCC paid 75 per cent of the costs and UNCCD paid 25 per cent. In 2009, upon initiative of UNFCCC, OIOS and UNFCCC agreed that UNFCCC would cover the costs of one resident auditor based in Bonn, exclusively for UNFCCC.

192. In April 2019, UNFCCC requested OIOS to explore options for adjusting the audit arrangements as from 2020. UNFCCC argued that the current arrangement with OIOS did not commensurate with the risks UNFCCC is exposed to given its location and the nature of its operations as a treaty body. UNFCCC criticized the workload for the secretariat servicing the internal and external audits. The follow-up on recommendations and related work consumed a significant amount of time and effort and impacted on the substantive work of the secretariat. UNFCCC suggested OIOS either to provide the services of a shared resident auditor for the United Nations entities based in Bonn or to provide audit services on a project basis, without having a resident auditor.

193. In May 2019, OIOS replied that the current level of audit coverage as well as the level of resources was the minimum that was required for providing reasonable assurance to stakeholders on the adequacy and effectiveness of UNFCCC governance, risk management and control processes. OIOS notwithstanding offered to revitalize the initial arrangement, with a cost sharing of 75 per cent for UNFCCC and 25 per cent for UNCCD, provided that UNCCD agreed. For OIOS, the option of a non-resident auditor was not feasible. OIOS stated that if UNFCCC did not continue to fund the current audit arrangement, OIOS would not provide any internal audit services as from 1 January 2020 and would inform the United Nations General Assembly about the termination of the current internal audit arrangement. The Board does not know whether this happened from OIOS side.

194. In July 2019, UNFCCC informed OIOS that it would discontinue to fund the current arrangement as from 1 January 2020. It stated that the options for a shared audit with other United Nations entities in Bonn were not successful. UNFCCC further argued that the audit effort compared to other entities such as the United Nations Environmental Programme, taking into account staff numbers, numbers of locations and revenue, was comparatively high. UNFCCC requested OIOS again to provide an option for on-site audits and stated that it would offer to cover approximately 50 per cent of the costs of a resident auditor. OIOS did not reply.

195. In December 2019, OIOS published its last internal audit report on UNFCCC and moved its resident auditor to another duty station.

196. In January 2020, UNFCCC requested OIOS to consider carrying out one internal audit per year or to suggest other options for UNFCCC and UNCCD together. UNFCCC did not receive a reply. OIOS stated that it recently conducted a resource gap analysis for all clients including UNFCCC. In the near future, OIOS would approach UNFCCC with their resource requests.

197. UNFCCC stated that it was committed to having in place the appropriate internal audit function in accordance with Decision 15/CP.1. UNFCCC also stated that it intended to establish the ODO function, thus strengthening internal oversight (see para. 137).

198. The Board is concerned that UNFCCC is no longer covered by internal audits. The Board considers it crucial that UNFCCC comply with Decision 15/CP.1 and Financial Regulation 5.15 which requires that UNFCCC is subject to internal audit. The exchange of memorandums between UNFCCC and OIOS has obviously not led to a solution. The Board holds that UNFCCC needs to strengthen its efforts to find a solution. The Board encourages UNFCCC and OIOS to urgently start negotiating on how compliance with the rules can be provided in a financial arrangement that fits both.

199. **The Board recommends that UNFCCC, in coordination with the Office of Internal Oversight Services, take steps to re-establish internal audit coverage and to prepare an internal audit plan for the biennium 2020-2021.**

200. UNFCCC agreed with the recommendation.

C. Disclosures by Management

Write-off cash, receivables and property, ex gratia payments

201. UNFCCC reported to the Board that there were several small amounts of write-offs of cash and receivables of $0.007 million during the year ended 31 December 2019. 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). The secretariat stated that UNFCCC did not make any ex gratia payments.

Cases of fraud and presumptive fraud

202. In accordance with 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). Our audit, however, should not be relied upon to identify all misstatements or irregularities. Primary responsibility for preventing and detecting fraud rests with Management.

203. During the audit, the Board made enquiries of Management regarding their 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 their 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.

204. UNFCCC stated that there was final disciplinary action on an investigation by the Office of Internal Oversight Services related to a case of presumptive fraud which had occurred in 2016. The report was brought to the attention of the Board. UNFCCC reported that there was no further case of fraud and presumptive fraud for the financial year ended 31 December 2019.

D. Acknowledgement

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

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

Rajiv **Mehrishi**
Comptroller and Auditor General of India

Jorge **Bermúdez**
Comptroller General of the Republic of Chile

21 July 2020

Annex

Status of implementation of recommendations up to the year ended 31 December 2018

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
1	2017	60	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 and was discussed by UNFCCC management. Once cleared, a corresponding discussion will be facilitated with the conference of the parties (COP).	The Board concluded that the recommendation would remain under implementation until the next meeting of the Subsidiary Body for Implementation (SBI).		X		
2	2017	74	Clarify the roles of audit focal points at all levels; in particular update the delegation to a specific function, preferably the Deputy Executive Secretary, and establish clear terms of reference including division of responsibilities between the secretariat's management and the focal points from the individual programmes and ensure that this information is disseminated to all staff.	An administrative guideline AG/2020/2 was approved to clarify the terms of reference. The new position of the Manager, Organizational Development and Oversight (ODO), will be the management focal point for oversight matters, working under the guidance of the Deputy Executive Secretary in the Executive Division.	The new policy as per AG/2020/2 clarifies the roles and responsibilities. The existing terms of reference for audit focal points issued 7 August 2018 still need to be updated in accordance with AG/2020/2. Until the position of ODO is filled, the Chief of Finance is responsible. Therefore, the recommendation would be implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
3	2017	88	Critically examine policies on hiring consultants and individual contractors and whether there is still reason for maintaining them.	After the review, Human Resource unit recommended to switch to the United Nations policy. Management decided as of 6 May 2020 that the United Nations policy be adopted with immediate effect.	The compliance issue has been pending for over two years, although special importance was given by SBI/COP. See para. 11 ff. and table 1.	X			
4	2017	89	Adhere to the delegated authority including the required agreement of the USG-AM and update its guideline on consultants and individual contractors in the light of United Nations policies, should UNFCCC conclude to continue applying its own policies.	UNFCCC stated that this recommendation will be overtaken when recommendation No. 3 is implemented.	This recommendation was overtaken by events, as UNFCCC decided to adopt the United Nations policy on consultants and individual contractors.			X	
5	2017	117	Expedite the revision process of its procurement policy and procedures in order to provide an up-to-date basis for its procurement activities.	A new draft policy has been prepared and is ready for internal review and subsequent endorsement.	UNFCCC still applies a deviating policy that lacks the legal basis. Last year, UNFCCC stated that consultations with the United Nations Secretariat were under way, and that UNFCCC had scheduled completion for September 2019. The Board considers this recommendation to be under implementation.		X		

						Status after verification			
No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*UNFCCC response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
6	2017	138	Perform a fraud risk assessment in line with or embedded in the enterprise risk management.	The Head of ODO will oversee the secretariat enterprise risk management framework and, in this function, will be tasked to include a fraud risk assessment as part of the enterprise risk management in line with para. 20 of ST/IC/2016/25.0. The post is currently vacant and will be filled as soon as possible.	UNFCCC postponed to implement the fraud risk assessment. Since the new position of ODO has not yet been filled (see para. 137), the Board considers this recommendation to be under implementation.		X		
7	2017	139	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 function in its new structure This function will be tasked being a focal point for anti-fraud and anti-corruption.	Since the function of ODO is still vacant and job descriptions could not be provided, this recommendation is considered as under implementation. See para. 137.		X		
8	2018	15	Ensure the oversight of the policy review process including objectives, due dates and reporting lines for each policy.	UNFCCC established an oversight process. Nevertheless, some of the objectives of the policy review could not be reach on time due to the COVID-19 emergency. The timeline foresaw the closure by 15 March 2020.	The established oversight processes ensured that target actions and dates were set and controlled. It enabled UNFCCC to identify delays and decide upon further action. The Board therefore considers this recommendation to be implemented.	X			
9	2018	37	Analyse the net assets of the cost recovery fund and act on the results of this analysis.	The cost recovery fund is working on a "zero profit" policy, but some surplus funds have to be	While UNFCCC did not act on the results until the audit visit started,		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				available to cover service. Initial analysis has been done during the audit visit and reasons for accumulating balances have been identified.	the Board acknowledges the progress made (see paras. 45 f). Under implementation.				
10	2018	47	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.	The Board concluded that the recommendation would remain under implementation until the next meeting of the Subsidiary Body for Implementation, where the discussion is supposed to take place.		X		
11	2018	51	Disclose which share of the post-employment benefit liabilities stems from core financed staff and which share from non-core activities financed staff separately in its financial statements.	The 2019 financial statements include a breakdown of the after-service health insurance liability into the non-core and core financed staff.	The Board considers this recommendation to be implemented.	X			
12	2018	55	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 Board noted that a first contact approach with United Nations Treasury was initiated. The Board considers this recommendation to bender implementation.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
13	2018	59	Conduct and document a plausibility analysis of the actuarial valuation of the employee benefit liabilities.	The results of the 2019 actuarial study was undertaken to ensure plausibility of the results.	UNFCCC thoroughly analysed the data and the outcomes of the actuarial valuation. The Board considers this recommendation to be implemented.	X			
14	2018	65	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 a timely fashion to ensure that any data problems can be identified and rectified before the data final due date.	The administration of the United Nations Secretariat stipulated that it would collect additional data to address the data quality issues (A/74/5 (Vol. II), para. 50). UNFCCC should get in touch with the United Nations Secretariat to address the data quality issues. The Board considers the recommendation to be under implementation.		X		
15	2018	70	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	The Board considers UNFCCC's approach to be appropriate and considers the recommendation to be under implementation.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				Executives Board for Coordination.					
16	2018	77	Review the accounting process for appendix D benefits and for death benefits.	Accounting procedures have been adjusted for 2019.	The Board assessed the adjustments and the complex accounting treatment. The Board considers this recommendation to be partly implemented.		X		
17	2018	82	Revise the accounting policies to ensure that asset recognition criteria for non-exchange transactions are in line with IPSAS.	The accounting policy for non-exchange transactions has been updated.	The Board reviewed the updated accounting policy that now reflects IPSAS asset recognition criteria. The Board therefore considers the recommendation to be implemented.	X			
18	2018	89	Review the voluntary contribution agreements on a case-by-case basis as to all asset and revenue recognition criteria of IPSAS 23 and document the decision whether to treat the agreement to be conditional or unconditional.	All contributions have been reviewed on a case by case basis to assess the correct accounting treatment.	The Board considers the recommendation to be implemented. However, documentation needs improvement (see para. 61).	X			
19	2018	94	Disclose the amount of assets recognized that are subject to restrictions and the nature of those restrictions in the notes to the financial statements.	The disclosure was included in the financial statements as at 31 December 2019.	The Board considers this recommendation to be implemented.	X			
20	2018	101	Improve data quality of the grants created in Umoja.	Further enhancing data quality of the grants created in Umoja is a	The Board analysed the data quality of the grants created in 2019 and		X		

						Status after verification			
No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*UNFCCC response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
				matter of continuous improvement. Errors by oversights were identified and corrected in 2019.	noted that several errors still existed. The Board considers this recommendation to be under implementation.				
21	2018	109	Use Umoja to its full extent to manage the donor agreements within Umoja, to store documents related to donor agreements and to produce automated donor reports.	A proposal for using Umoja grants management to a greater extent will be presented to the Management Team Sub-committee on Finance in the second quarter of 2020 for consideration.	The Board considers this recommendation to be under implementation.		X		
22	2018	115	Analyse the case of an Umoja user mapped to a role combination seen as a risk for segregation of duty.	The referenced segregation of duty violation was fixed.	The Board considers this recommendation to be implemented.	X			
23	2018	119	Make efforts to minimize redundancies with embedded roles.	16 of 21 redundancies were resolved. For the remaining 5 cases the redundancy has not yet been confirmed by the Umoja technical teams; it is not sure if the users would lose access to certain BI reports.	Redundancies have been reduced sufficiently. The Board considers the recommendation to be implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
24	2018	123	Analyse the assignments to the Umoja role FA.13 and limit the number of assignments in accordance with the Umoja roles guide.	The number of assignments had been reduced to the allowed maximum value.	The Board considers this recommendation to be implemented.	X			
25	2018	130	Seek for approval by DMSPC for the exception of providing voucher-based support to interns and adjust its policy including the standard operating procedure accordingly.	On 20 April 2020, UNFCCC obtained the agreement from DMSPC/OHR for the deviating policy.	UNFCCC implemented the recommendation during the audit visit (see paras. 15 f and Table 1).	X			
26	2018	135	Adopt the United Nations staff selection policies system in the then applicable version or request approval of deviations by end of December 2019.	As of April 2020, OHRM has not released a new policy yet. An initial analysis of current UNFCCC AG/2014/4 versus United Nations ST/AI/2010/3 was undertaken. UNFCCC will align its policy when the revised United Nations policy will be issued. This is part of the overall policy review process (see item No. 8).	The progress is not sufficient (see para. 11 and Table 1). UNFCCC should close the legal gaps with high priority, especially during the restructuring phase. The Board considers this recommendation to be under implementation.		X		
27	2018	146	Evaluate whether it is beneficial to use the United Nations recruitment tool and to participate in shared human resources services where possible.	UNFCCC agreed on modalities of engagement with OneHR for job classification and reference verification. The costs for the implementation are determined. Implementation is depending on availability of funds.	The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
28	2018	152	Establish a comprehensive monitoring framework for the selection processes.	UNFCCC established a monitoring matrix, capturing benchmarks for human resources related activities in line with selection process.	The Board considers this recommendation to be implemented.	X			
29	2018	161	Transparently report on actuals vs. budget figures for all of its funding sources, taking into account differences of timing and reporting basis.	The Deputy Executive Secretary approved a new approach to report on actuals vs. budget figures. The approach included entering budget amounts in Umoja. A more in-depth analysis will be undertaken and recommendations for monitoring and reporting on budget implementation under each fund developed. The next report on budget performance will reflect the outcome.	The Board considers this recommendation to be under implementation.		X		
30	2018	168	Include an analysis of the reasons for the differences between budgeted and actual occupancy rate and its impact in its budget performance report.	For the general approach see response to recommendation No. 29. UNFCCC considers to report on the number of budgeted, funded and filled posts. A first step was the confirmation of the number of budgeted posts by fund and division for the biennium 2020-2021.	The Board reviewed the analysis in the budget performance report as at 31 December 2019. See para. 156. The Board considers this recommendation to be under implementation.		X		

						Status after verification			
No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*UNFCCC response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
	Total			**30**		**13**	**16**	**1**	**0**
	Percentage			**100**		**43**	**54**	**3**	**0**

United Nations Framework Convention on Climate Change

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 2019 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 2019 are correct.

(Signed) **Patricia Espinosa**
Executive Secretary
05 June 2020

United Nations Framework Convention on Climate Change

Chapter IV

Narrative financial report

Financial report on the 2019 accounts

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 regular budget, extra-budgetary financed activities and activities under the Sustainable Development Mechanisms.

2019 Financial Highlights

2019 Financial Results

Total revenue:

2. Revenue in 2019 totalled USD 85.2 million as follows:

(a) The indicative contributions to the core budget of USD 31.3 million and USD 1.5 million to the budget of the International Transaction Log;

(b) Voluntary contributions from donors totalled USD 36.4 million;

(c) Fees for the CDM and JI mechanisms USD 10.4 million.

3. **Total expenses**: Expenses in 2019 totalled USD 91.7 million mainly consisting:

(a) Personnel expenses amounting to USD 50.2 million;

(b) Travel USD 12.5 million;

(c) Contractual services for USD 20.1 million;

4. Both income on indicative contributions level as well as for fees for the CDM and JI saw a slight decrease in 2019 due to exchange rates changes under the core budget and the decreasing business activity under CDM/JI; a 23 per cent decreases in voluntary contributions has been recorded during the reporting period given that more agreements have been treated as conditional under IPSAS 23. This decrease relates mostly to voluntary funding received in the trust for supplementary activities (USD 26.4 million in 2019 compared to USD 32.2 million in 2018) but also in the special account for conferences and other events (USD 3.7 million in 2019 compared to USD 4.3 million in 2018). There was also the significant decrease of funding received under the trust fund for participation which had shown a decrease from USD 7.4 million in 2018 to USD 3.3 million in 2019 as sufficient funds balances were available at the beginning of the year.

5. Operating result: The deficit of revenue over expenditure in 2019 is USD 6.4 million (compared to a surplus of USD 7.9 million in 2018). The main reasons for total deficit under IPSAS are the deficits under the Sustainable Development Mechanisms amounting to USD

6.5 million (USD 5.5 million in 2018) and also under the special account for conferences and other recoverable costs of USD 4.2 million in 2019 comparing to a deficit of USD 4.6 million for 2018. These losses are partly offset by the surplus recorded under the trust fund for supplementary activities (USD 5.2 million) although this surplus was also lower when comparing to 2018 (USD 10.4 million). A significant actuarial loss of USD 48.2 million was recorded as a result of the actuarial study for the 2019 statements which is mainly attributable to the increase of after-service health insurance obligations of the organization. Main factors for this increase were the record-low interest rates (loss of USD 25.6 million) and the increase on per capital claim amounts from the participants of the insurance scheme provided (loss of USD 22.1 million) as well as an adjustment in the contribution rates for the organization used in the valuation which was reflected as a restatement for 2018.

6. **Assets**: Total assets as of 31 December 2019 increased by USD 16 million to USD 252 million compared to the balance at 31 December 2018 of USD 236 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 2019
(Thousands of United States dollars)

	2019	*2018 (restated)*
Cash and cash equivalents	57 698	20 168
Investments	156 981	185 523
Indicative contributions receivable	14 555	8 679
Voluntary contributions receivable	14 732	10 234
Other accounts receivable	1 634	1 456
Other assets	4 711	8 758
Property, plant and equipment	214	256
Intangible assets	1 232	891
Total assets	**251 756**	**235 965**

7. The major assets at 31 December 2019 are cash, cash equivalents and investments totalling USD 215 million representing 85 per cent of the total assets and outstanding indicative contributions from members Stats of USD 14.5 million, or 5.8 per cent. The remaining assets consist of other accounts receivable, other assets (primarily advances), equipment and software.

8. **Cash, cash equivalents and investments**: Cash and cash equivalents as well as investments of USD 215 million are held in the UN Treasury main cash pool. While the overall investments levels remain at the similar to 31 Dec 2018, the share of short-term investments has decreased with a corresponding increase in long-term investments as well as cash and cash equivalents.

9. **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. Delays in receiving contributions for 2019 during the financial year resulted in an increase of indicative contributions outstanding of USD 5.9 million or 68 per cent when comparing to amounts outstanding as at 31 December 2018. The increase in indicative contributions receivable is resulting from the late payment of amounts due from member states.

10. **Other assets** amounting to a total of USD 4.7 million mainly consist of prepayments (USD 2.0 million) and the advances to the CDM loan scheme totalling USD 1.2 million. The main reason for the decrease relates to the wind down of the operations of the CDM loan scheme in 2019 and the associated return of unused funds.

11. **Liabilities**: Liabilities as of 31 December 2019, totalled USD 184 million (USD 114 million as at 31 December 2018) as follows:

Table 2
Summary of liabilities as at 31 December 2019
(Thousands of United States dollars)

	2019	*2018*
Accounts payable and accruals	3 753	4 130
Advance receipts	28 051	10 379
Employee benefit liabilities	152 549	99 356
Other liabilities	2	0
Total liabilities	**184 355**	**113 865**

12. The most significant liability is 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). These liabilities total USD 138 million, represent 76 per cent of UNFCCC's total liabilities and are explained in detail in the respective note to the financial statements. The level of overall employee benefit liabilities increase significantly by 53.7 when comparing to 2018, mainly resulting from actuarial losses under the ASHI liability due to increased per capita claim amounts and the sharp decline in interest rates used in the actuarial study reflecting the current decline in interest rates worldwide. In addition, an adjustment to reflect the correct contribution share by the organization has been recorded as a restatement (see note 4).

13. The other significant liability, advance receipts covers indicative contributions received in advance of the start of the year to which they are related, voluntary contribution provided by donors that contain conditions requiring the return of funds not spent in accordance with the terms of the agreement as well as CDM fees received but not yet earned. The balance represents the portion of the contribution at 31 December that has not been recognized as revenue since it has not been earned by UNFCCC by performing the services covered by the agreement. An increase in conditional contributions has led to an increase of advance receipts amounting to USD 11.2 million.

14. During 2019, the location of the Conference of the Parties had to be moved from Santiago de Chile to Madrid in Spain. Correspondingly the host country contribution of the Government of Chile was cancelled before the year-end while other funding sources were identified for holding the conference in Spain instead.

15. **Net assets**: The movements in net assets during the year shows an overall decrease of USD 54.7 million from USD 122 million in 2018 (restated) to USD 67.4 million at the end of 2019 due to the actuarial losses of USD 48.4 million and an operating deficit of USD 6.4 million. Net assets include the operating reserves which amount to USD 67.4 million including operating reserves (USD 49.2 million) at the reporting date.

Core budget

16. The Conference of the Parties approved a Core expenditure budget for the 2018–19 financial period, amounting to EUR 56.9 million. The approved budget for the International Transaction Log for the 2018–19 financial period amounted to EUR 5.2 million.

17. As at 31 Dec 2019, the core budget showed for 2019 an implementation rate of 98 per cent which is almost an ideal result under the core budget despite constraints on receiving indicative contributions late.

18. For the International Transaction Log (ITL), the implementation rate was 60 per cent for 2019 due to high vacancy rate under this budget. In addition, the budget for ITL has several elements for contingency costs which did not materialize during 2019.

19. The regular 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 2018–19 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.

V. Financial statements for the year 2019

A. Statement I: Statement of Financial Position as at 31 December 2019

(Thousands of United States dollars)

	Note	*2019*	*2018* (restated)*
ASSETS			
Current Assets			
Cash and cash equivalents	6	57 698	20 168
Short-term investments	6	119 489	172 128
Indicative contributions receivable	7	14 555	8 679
Voluntary contributions receivable	7	11 775	5 489
Other receivables	7	1 634	1 456
Other current assets	8	4 711	8 758
Total current assets		**209 862**	**216 678**
Non-current assets			
Voluntary contributions receivable	7	2 957	4 745
Long-term investments	6	37 492	13 396
Property, plant and equipment	9	214	256
Intangible assets	10	1 232	891
Total non-current assets		**41 894**	**19 288**
TOTAL ASSETS		**251 756**	**235 965**
LIABILITIES			
Current Liabilities			
Payables and accruals	11	3 753	4 130
Advance receipts	12	28 051	10 379
Employee benefits	13	2 252	2 409
Other current liabilities	15	2	0
Total current liabilities		**34 058**	**16 918**
Non-current liabilities			
Employee benefits	13	150 298	96 947
Total non-current liabilities		**150 298**	**96 947**
TOTAL LIABILITIES		**184 355**	**113 865**
NET ASSETS			
Accumulated surpluses/(deficits)		18 219	72 967
Reserves	18	49 181	49 134
TOTAL NET ASSETS		**67 401**	**122 101**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**251 756**	**235 965**

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

* see Note 4

B. Statement II: Statement of Financial Performance for the year ended 31 December 2019

(Thousands of United States dollars)

	Note	*2019*	*2018*
REVENUE	16		
Indicative contributions		32 861	34 974
Voluntary contributions		36 362	46 892
CDM and JI service fees		10 382	11 660
Interest Revenue		5 091	4 092
Other/miscellaneous revenue		512	1 433
TOTAL REVENUE		**85 207**	**99 051**
EXPENSES	17		
Personnel expenditure		50 231	51 588
Travel		12 523	12 297
Contractual services		20 100	15 280
Operating expenses		1 016	1 387
Other expenses		5 620	4 019
Depreciation of equipment		82	109
Amortization of intangible assets		469	464
Return/transfer of donor funding		1 181	5 126
Loss on foreign exchange		435	887
TOTAL EXPENSES		**91 657**	**91 158**
SURPLUS/(DEFICIT) FOR THE PERIOD		**(6 449)**	**7 894**

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

United Nations Framework Convention on Climate Change

C. Statement III: Statement of Changes in Net Assets for the year ended 31 December 2019

(Thousands of United States dollars)

	Accumulated Surplus	*Reserves*	*Total Net Assets*
Balance as at 01 January 2019 (restated*)	72 967	49 134	122 101
Surplus/(Deficit) for the current period	(6 449)		(6 449)
Adjustment Appendix D reserve	(113)	113	
Actuarial gains (losses) on employee benefits liabilities	(48 251)		(48 251)
Adjustment to operating reverses amounts against accumulated surplus	66	(66)	
Balance as at 31 December 2019	**18 219**	**49 181**	**67 401**

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

* see Note 4

D. Statement IV: Cash Flow Statement for the year ended 31 December 2019

(Thousands of United States dollars)

	2019	*2018*
Cash flows from operating activities		
Surplus/(deficit) for the period	(6 449)	7 894
Depreciation expense	82	109
Amortization of intangible assets	469	464
(Increase)/decrease in accounts receivable	(10 552)	(8 119)
(Increase)/decrease in other assets	4 048	7 345
Increase/(decrease) in payables and accruals	(377)	(6 985)
Increase/(decrease) in advance receipts	17 672	(121)
Increase/(decrease) in employee benefit liabilities	4 942	4 795
Increase/(decrease) in other liabilities	2	(8)
Net cash flows from operating activities	**9 837**	**5 376**
Cash flows from investing activities		
(Increase)/decrease in equipment	(40)	
(Increase)/decrease in intangible assets	(809)	
(Increase)/Decrease in short-term investments	52 638	(30 615)
(Increase)/Decrease in long-term investments	(24 096)	31 213
Net cash flows from investing activities	**27 693**	**598**
Cash flows from financing activities		
Net increase/(decrease) in cash and cash equivalents	**37 530**	**5 974**
Cash and cash equivalents at the beginning of the year	20 168	14 194
Cash and cash equivalents at the end of the year	57 698	20 168
Overall increase/(decrease)	37 530	5 974

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

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

A. Budget to Actual Comparison Core Budget for the year 2019

2019*	Original Budget (EUR)	Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original Budget (USD)	Final Budget (USD)	Actual (USD)	Difference (USD)
Executive Direction and Management	2 353 745	2 606 524	2 538 867	67 657	2 686 924	2 975 484	2 848 640	126 844
Implementation and climate action cluster								
Mitigation, Data and Analysis	7 670 780	7 670 780	8 076 977	(406 197)	8 756 598	8 756 598	9 047 661	(291 063)
Finance, Technology and Capacity-Building	3 010 180	3 010 180	2 836 095	174 085	3 436 279	3 436 279	3 171 726	264 553
Adaptation	2 684 600	2 684 600	2 683 751	849	3 064 612	3 064 612	3 004 307	60 305
Sustainable Development Mechanisms	439 740	439 740	391 854	47 886	501 986	501 986	437 382	64 604
Subtotal implementation and climate action cluster	**13 805 300**	**13 805 300**	**13 988 677**	**(183 377)**	**15 759 475**	**15 759 475**	**15 661 076**	**98 399**
Intergovernmental and secretariat operations cluster								
Legal Affairs	1 076 800	1 076 800	1 130 043	(53 243)	1 229 224	1 229 224	1 263 988	- 34 764
Conference Affairs Services	1 696 620	1 696 620	1 505 604	191 016	1 936 781	1 936 781	1 686 885	249 896
Communication and Outreach	1 715 660	1 620 659	1 677 805	(57 146)	1 958 516	1 850 067	1 872 378	- 22 311
Information and Communication Technology	2 723 900	2 566 120	2 352 562	213 558	3 109 475	2 929 361	2 617 687	311 674
Administrative Services								
Secretariat-wide operating costs	1 584 433	1 584 433	1 224 227	360 206	1 808 713	1 808 713	1 356 458	452 255
Subtotal intergovernmental affairs and secretariat operations cluster	**8 797 413**	**8 544 632**	**7 890 241**	**654 391**	**10 042 709**	**9 754 146**	**8 797 396**	956 750
Total appropriation	**24 956 458**	**24 956 456**	**24 417 785**	**538 671**	**28 489 107**	**28 489 105**	**27 307 112**	**1 181 993**
Programme support costs (overheads)	3 244 340	3,244,340	3,168,948	75 392	3 703 584	3 703 584	3 556 400	147 184
Adjustment to working capital reserve								
Grand TOTAL	**28 200 798**	**28 200 796**	**27 586 733**	**614 063**	**32 192 691**	**25 311 575**	**30 863 512**	**1 329 177**
Contribution from the Host Government	766 938	766 938	766 938		875 500	875 500	875 500	
Income from Indicative Contributions	27 433 860	27 433 860	27 433 860		31 317 192	31 317 192	31 317 192	
Net result (budgetary)							1 329 180	

* Further information is contained in notes 20 and 21.

2018-2019	Original Budget (EUR)	Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original Budget (USD)	Final Budget (USD)	Actual (USD)	Difference (USD)
Executive Direction and Management	4 707 490	5 213 049	5 048 112	164 937	5 373 847	5 950 969	5 816 931	134 038
Implementation and climate action cluster								
Mitigation, Data and Analysis	15 626 860	15 626 859	15 072 559	554 300	17 838 881	17 838 880	17 295 942	542 938
Finance, Technology and Capacity-Building	6 020 360	6 020 360	5 428 347	592 013	6 872 557	6 872 557	6 233 518	639 039
Adaptation	5 362 100	5 362 099	5 364 410	(2 311)	6 121 119	6 121 118	6 161 568	- 40 450
Sustainable Development Mechanisms	879 480	879 481	703 055	176 426	1 003 973	1 003 974	804 108	199 866
Subtotal implementation and climate action cluster	**27 888 800**	**27 888 799**	**26 568 371**	**1 320 428**	**31 836 530**	**31 836 529**	**30 495 136**	**1 341 393**
Intergovernmental and secretariat operations cluster								
Legal Affairs	2 153 600	2 153 599	1 874 057	279 542	2 458 447	2 458 446	2 145 549	312 897
Conference Affairs Services	3 395 655	3 395 656	2 388 307	1 007 349	3 876 318	3 876 320	2 740 127	1 136 193
Communication and Outreach	3 431 320	3 241 319	2 583 402	657 917	3 917 032	3 700 136	2 957 388	742 748
Information and Communication Technology	5 447 800	5 132 240	3 776 633	1 355 607	6 218 950	5 858 721	4 327 345	1 531 376
Administrative Services	-	-						
Secretariat-wide operating costs	3 228 463	3 228 463	2 434 313	794 150	3 685 460	3 685 460	2 761 009	924 451
Subtotal intergovernmental affairs and secretariat operations cluster	**17 656 838**	**17 151 277**	**13 056 712**	**4 094 565**	**20 156 208**	**19 579 083**	**14 931 418**	**4 647 665**
Total appropriation	**50 253 128**	**50 253 125**	**44 673 195**	**5 579 930**	**57 366 584**	**57 366 581**	**51 243 485**	**6 123 096**
Programme support costs (overheads)	6 532 907	6 532 907	5 782 871		7 457 656	7 457 656	6 635 344	822 312
Adjustment to working capital reserve	103 057	-	-					
Grand TOTAL	**56 889 092**	**56 786 032**	**50 456 066**	**5 579 930**	**64 824 240**	**25 311 575**	**57 878 829**	**6 945 408**
Contribution from the Host Government	1 533 876	1 533 876	1 533 876		1 791 794	1 791 794	1 791 794	
Income from Indicative Contributions	55 355 216	55 355 216	55 355 216		64 676 040	64 676 040	64 676 040	
Net result (budgetary)							8 589 005	

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B. Budget to Actual Comparison International Transaction Log Budget for the year 2019

*2019**	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
Staff costs	807 130	620 723	186 407	921 381	696 104	225 277
Consultants	49 833		49 833	56 887		56 887
Travel of staff	15 000	4 308	10 692	17 123	4 726	12 397
Experts and expert groups						
Training	10 000		10 000	11 416		11 416
General operating expenses	1 303 610	693 514	610 096	1 488 139	769 464	718 675
Contributions to common services	120 000	74 079	45 921	136 986	83 398	53 588
TOTAL	**2 305 573**	**1 392 624**	**912 949**	**2 631 933**	**1 553 692**	**1 078 241**
Programme support costs (overheads)	299 724	179 044	120 680	342 151	201 925	140 226
Adjustment to working capital reserve	(6 078)					
Grant TOTAL	**2 599 219**	**1 571 668**	**1 033 629**	**2 974 084**	**1 755 617**	**1 218 467**
Income from Indicative Contributions	1 352 260	1 352 260		1 543 676	1 543 676	
Net result (budgetary)					**(211 941)**	

2018-2019	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
Staff costs	1 614 260	1 343 269	270 991	1 928 626	1 549 656	378 970
Consultants	99 666	345	99 321	119 075	394	118 681
Travel of staff	30 000	5 296	24 704	35 842	7 909	27 933
Experts and expert groups						0
Training	20 000	12 133	7 867	23 895	14 979	8 916
General operating expenses	2 607 220	1 584 664	1 022 556	3 114 958	1 800 779	1 314 179
Contributions to common services	240 000	184 688	55 312	286 738	215 145	71 593
TOTAL	**4 611 146**	**3 130 395**	**1 480 751**	**5 509 135**	**3 588 862**	**1 920 273**
Programme support costs (overheads)	599 450	399 209	200 241	716 189	464 115	252 074
Adjustment to working capital reserve	(6 076)					
Grant TOTAL	**5 204 520**	**3 529 604**	**1 680 992**	**6 225 324**	**4 052 977**	**2 172 347**
Income from Indicative Contributions	2 704 520	2 704 520		3 231 207	3 231 207	
Net result (budgetary)					**(821 770)**	

* Further information is contained in notes 20 and 21.

C. Budget to Actual Comparison Conference Services Contingency Budget for the year 2019

*2019**	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Interpretation	1 210 600		1 210 600	1 381 963		1 381 963
Documentation						
Translation	2 003 100		2 003 100	2 286 644		2 286 644
Reproduction and distribution	668 400		668 400	763 014		763 014
Meetings service support	276 400		276 400	315 525		315 525
Subtotal	**4 158 500**	**0**	**4 158 500**	**4 747 146**	**0**	**4 747 146**
Programme support costs	540 600		540 600	617 123		617 123
Working capital reserve	11 300		11 300	12 900		12 900
Total	**4 710 400**	**0**	**4 710 400**	**5 377 169**	**0**	**5 377 169**

*Further information is contained in notes 21 and 25.

F. Notes to the Financial Statements

Note 1: The Reporting Entity

20. The permanent secretariat of the United Nations Convention on Climate Change (UNFCCC) was established in January 1996 for the following purposes:

(a) To make arrangements 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

21. 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

22. 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.

23. 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

24. 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 2018–2019, 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.

25. In accordance with IPSAS, the 2019 financial statements are presented on an annual basis covering the period 1 January 2019 to 31 December 2019. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 March 2020. Sequentially, the report of the Board of Auditors together with the audited financial statements are submitted to the Conference of the Parties.

26. The Cash Flow Statement is prepared using the indirect method.

27. 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

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

2.2 Foreign Currency Translation

29. Transactions in currencies other than United States dollar are translated into United States dollar at the prevailing United Nations Operations Rates of Exchange (UNORE) which represents the prevailing rate at the time of transaction. 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.

30. 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 Conference of the Parties (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.

31. 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 2019 while the euro amounts for 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

32. 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

33. 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

34. 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).

35. 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.

36. 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.

37. 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.

38. 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 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

39. UNFCCC does not maintain an inventory of tangible assets that are held for resale or consumed in the distribution in rendering of 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

40. 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.

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

Table 1
The estimated useful life for equipment classes

Class of equipment	*Estimated useful live (in years)*
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

42. 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, subcontractors and consultants.

43. Amortization is provided over the estimated useful life using the straight-line method.

Table 2
The estimated useful lives for intangible asset classes

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

44. 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

45. 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.

46. 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.

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

3.7 Employee Benefits

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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

54. 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

55. 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

56. 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

57. **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.

58. **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.

59. 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.

60. **Goods in kind** are recognised at their fair value, measured as of the date the donated assets are acquired. **Services in kind** are not recognized on the face of the statements but as note disclosure describing the services received

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

3.12 Exchange revenue

62. 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, taking into account the effective yield.

3.13 Expenses

63. 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

64. 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.

65. UNFCCC classifies all projects, operations and fund activities into 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.

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

67. 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

68. UNFCCC's budget is prepared on a modified accrual basis based on the applicable financial regulations and rules while the financial statements are prepared on a full accrual basis. Under the modified accrual basis, expense is 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 and expense does not include costs related to changes in provisions for employee benefits liabilities or changes related to additions to or consumption of inventories. Income is recognized as per para 57 ff. also for statement V.

69. 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.

70. Statements V-A to V-C, Comparison of budget and Actual amounts, compare the final budget to actual amounts calculated on the same basis as the corresponding approved budget.

71. As the basis used to prepare the budget and financial statements differ, note 20 provides a reconciliation between the actual amounts presented in statement V-A to V-C and the actual amounts presented on the Statement of Financial Performance.

72. 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

73. IPSAS 40: Public sector combinations was issued in 2017 with an effective date of 1 January 2019 and is not expected to be applicable to UNFCCC in the foreseeable future.

74. IPSAS 41: Financial instruments was issued in 2018 with an effective date of 1 January 2022 and its impact on the financial statements of UNFCCC upon adoption is currently being assessed.

75. IPSAS 42: Social benefits was issued in 2019 with an effective date of 1 January 2022 and is not expected to be applicable to UNFCCC in the foreseeable future.

Note 4: Restatement of the employee benefit liability

76. As a result of the actuarial valuation for 31 December 2019, the adjustment of the contribution share of the organization covering current and future ASHI payments resulted in an actuarial loss valued at the reporting date of USD 22.7 million of which USD 1.7 million relate to 2019 while USD 21.0 million relate to prior periods. This correction is considered a correction of an error as per IPSAS 3 and results in a restatement of the following financial statement line items for 31 December 2018 in the statement of financial position:

- Non-current employee benefits increase from USD 75.9 million to USD 96.9 million
- Net assets – accumulated surplus decrease from USD 94.0 million to USD 73.0 million

Correspondingly, the opening balance for 1 Jan 2019 for statement III has been adjusted to reflect the adjusted net assets position.

Note 5: Financial Risks

5.1 Financial risk factors

77. 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.

5.2 Market risk

Foreign exchange risk

78. 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.

79. As of 31 December 2019, 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 1.1 million higher/lower due to the change in the asset value of receivables denominated in euro.

Price risk

80. 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

81. 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.

5.3 Credit risk

82. 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

83. Voluntary contributions from governments representing the member countries 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.

5.4 Liquidity risk

84. 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.

5.5 Cash Pools

85. 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.

86. 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.

87. As at 31 December 2019, UNFCCC participated in the main pool that held total assets of $9,339.4 million (2018: $7,504.8 million), of which $215.6 million was due to the Organization (2018: $206.5 million), and its share of revenue from the main pool was $5.4 million (2018: $4.1 million).

Table 3
Summary of assets and liabilities of the Cash Pools as at 31 December 2019
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	5 177 137
Long-term investments	1 624 405
Total fair value through the surplus or deficit investments	6 801 542
Loans and receivables	
Cash and cash equivalents	2 499 980
Accrued investment revenue	37 868
Total loans and receivables	2 537 848
Total carrying amount of financial assets	9 339 390
Cash pool liabilities	
Payable to UNFCCC	215 553
Payable to other cash pool participants	9 123 837
Total liabilities	9 339 390
Net assets	–

Table 4
Summary of revenue and expenses of the Cash Pools for the year ended 31 December 2019
(Thousands of United States dollars)

	Main pool
Investment revenue	198 552
Unrealized gains / (losses)	14 355
Investment revenue from main pool	**212 907**
Foreign exchange gains / (losses)	3 313
Bank fees	(808)
Operating gains (losses) from main pool	**2 505**
Revenue and expenses from main pool	**215 412**

Table 5
Summary of assets and liabilities of the Cash Pools as at 31 December 2018
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	6 255 379
Long-term investments	486 813
Total fair value through the surplus or deficit investments	**6 742 192**
Loans and receivables	
Cash and cash equivalents	732 926
Accrued investment revenue	29 696
Total loans and receivables	**762 622**
Total carrying amount of financial assets	**7 504 814**
Cash pool liabilities	
Payable to UNFCCC	206 508
Payable to other cash pool participants	7 298 306
Total liabilities	**7 504 814**
Net assets	–

Table 6
Summary of revenue and expenses of the Cash Pools for the year ended 31 December 2018
(Thousands of United States dollars)

	Main pool
Investment revenue	152 805
Unrealized gains/(losses)	3 852
Investment revenue from main pool	**156 657**
Foreign exchange gains/(losses)	854
Bank fees	(805)
Operating gains / losses from main pool	**49**
Revenue and expenses from cash pools	**156 706**

Financial risk management

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

89. 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.

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

Financial risk management: credit risk

91. 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.

92. 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.

93. 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
Credit ratings

Investments of the cash pool by credit ratings as at 31 December 2019

Main pool	*Ratings as at 31 December 2019*				*Ratings as at 31 December 2018*				
Bonds (Long term ratings)					**Bonds (Long term ratings)**				
	AAA	**AA+/AA/AA-**	**A+**	**NR**		**AAA**	**AA+/AA/AA-**	**A+**	**NR**
S&P	35.8%	58.8%		5.4%	S&P	15.4%	79.0%	5.6%	-
Fitch	60.2%	23.8%		16.0%	Fitch	55.1%	39.3%	-	5.6%
	Aaa	**Aa1/Aa2/Aa3**	**A1**			**Aaa**	**Aa1/Aa2/Aa3**	**A1**	
Moody's	54.8%	45.2%			Moody's	49.7%	50.0%	0.3%	
Commercial papers/ Certificates of Deposit (Short term ratings)					**Commercial papers (Short term ratings)**				
	A-1+/A-1					**A-1+/A-1**			
S&P	100%				S&P	100.0%			
	F1+/F1					**F1+**			

Fitch	100%			Fitch	100.0%		
	P-1				**P-1**		
Moody's	100%			Moody's	100.0%		
Reverse repurchase agreement (Short term ratings)				**Reverse repurchase agreement (Short term ratings)**			
	A-1+				**A-1+**		
S&P	-			**S&P**	100.0%		
	F1+				**F1+**		
Fitch	-			**Fitch**	100.0%		
	P-1				**P-1**		
Moody's	-			**Moody's**	100.0%		
Term deposits (Fitch viability ratings)							
	aaa	**aa/aa-**	**a+/a**		**aaa**	**aa/aa-**	**a+/a/a-**
Fitch	-	84.2%	15.8%	Fitch	-	53.5%	46.5%

94. 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

95. 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

96. 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 five years (2018: three years). The average duration of the main pool was 0.74 years (2018: 0.33 years), which is considered to be an indicator of low risk.

Cash Pool interest rate risk sensitivity analysis

97. 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 2019

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	134.47	100.84	67.22	33.61	-	(33.60)	(67.20)	(100.79)	(134.38)

Table 9

Cash Pools interest rate risk sensitivity analysis as at 31 December 2018

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	48.46	36.34	24.23	12.11	-	(14.89)	(24.22)	(36.33)	(48.44)

Other market price risk

98. 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

99. 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.

100. 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).

101. 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.

102. 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.

103. 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: Cash Pools
(Thousands of United States dollars)

	31 December 2019			*31 December 2018*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	148 473	-	148 473	205 566	-	205 566
Bonds - Non-United States agencies	755 027	-	755 027	791 922	-	791 922
Bonds - Supranational	423 230	-	423 230	174 592	-	174 592

Bonds - United States treasuries	497 829	-	497 829	610 746	-	610 746
Main pool - commercial papers		347 398	347 398		219 366	219 366
Main pool – certificates of deposit		3 419 585	3 419 585			
Main pool - Term deposits	-	1 210 000	1 210 000	-	4 740 000	4 740 000
Main pool total	**1 824 559**	**4 976 983**	**6 801 542**	**2 002 192**	**4 740 000**	**6 742 192**

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

	31 December 2019	*31 December 2018*
Cash and cash equivalents	57 698	20 168
Short-term investments	119 489	172 128
Long-term investments	37 492	13 396
Accounts receivable	30 921	20 369
Accounts payable	(464)	(1 927)
Total financial instruments	**245 135**	**224 134**

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

	Indicative Contributions	*Voluntary Contributions*
EUR and other currencies	16 194	11 557
USD	180	10 196
Total contributions receivable as at 31 December 2019	**16 374**	**21 754**

Table 13
Indicative contributions past due as at 31 December 2019
(Thousands of United States dollars)

Indicative contributions past due	*Indicative Contributions*
Up to 1 year	9 123
1 to 2 year	4 627
2 to 3 years	590
Above 3 years	2 035
Total indicative contributions past due as at 31 December 2019	**16 374**

Table 14
Provision for impaired indicative receivables as at 31 December 2019
(Thousands of United States dollars)

Provision for impaired receivables	*Indicative Contributions*
As at 1 Jan 2019	1 530
Less receivables written off during the year	1
Increase in provision during 2019	290

Total as at 31 December 2019	**1 819**

Note 6: Cash and cash equivalents, short-term and long-term investments

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

	31 December 2019	*31 December 2018*
Cash held in cash pools	57 698	20 168
Total cash and cash equivalents	**57 698**	**20 168**

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

	31 December 2019	*31 December 2018*
Short-term investments (cash pool)	119 489	172 128
Long-term investments (cash pool)	37 492	13 396
Total investments	**156 981**	**185 523**

104. 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.

105. UNFCCC cash and investments include USD 38.3 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 7: Accounts receivable

Table 17
Accounts receivable
(Thousands of United States dollars)

Accounts receivable	*31 December 2019*	*31 December 2018*
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International Transaction Log		
Current	16 374	10 209
Less provision for doubtful debts	(1 819)	(1 530)
Subtotal for indicative contributions	**14 555**	**8 679**
Voluntary contributions		
Current	11 775	5 489
Non-current	2 957	4 745
Subtotal voluntary contributions	**14 732**	**10 234**
Other receivables (current)	1 634	1 456

Total accounts receivable	**30 921**	**20 369**

106. Indicative contributions reflect the contributions receivable from Parties to the Convention to fund the Core Budget and the International Transactions log in accordance with the Financial Procedures adopted by the COP. Current voluntary contributions receivable are for confirmed contributions that are due within twelve months from the reporting date. Other receivables represent amounts invoiced to member governments, 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.

107. 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 8: Other current assets

108. Other current assets consist of the following:

Table 18
Other current assets
(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Prepayments	1 974	1 820
CDM Loan Scheme Advance	1 296	5 375
Project Clearing	217	138
Travel Advances	129	281
Education Grant Advances	1 096	1 145
Total	**4 711**	**8 758**

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

110. The UNFCCC loan scheme for CDM is administered by the UN Office for Project Services and the United Nations Environment Programme. The advances provided are covering the requirements for loans to be handed out to participants of the scheme as well as to cover related administrative expenses.

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

Note 9: Property, plant and equipment

Table 19
Property, plant and equipment

(Thousands of United States dollars)

	Vehicles	*Communication and IT equipment*	*Furniture and machinery*	*Total*
Cost				
At 1 January 2019	49	3 080	45	3 173
Additions	40			
Disposal				
At 31 December 2019	**88**	**3 080**	**45**	**3 213**
Accumulated depreciation				
At 1 January 2019	22	2854	42	2 918
Depreciation during the year	7	73	2	81
Disposal				
At 31 December 2019	**29**	**2 927**	**44**	**2 999**
Net Book Value				
At 31 December 2019	**59**	**153**	**1**	**214**
At 31 December 2018	26	226	4	256

112. Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2019 there was no indication for any equipment being impaired.

Note 10: Intangible assets

Table 20
Intangible assets
(Thousands of United States dollars)

	Internally developed software
Opening balance 1 Jan 2019	2 319
Additions	809
Disposal	
Total as at 31 Dec 2019	**3 128**
Accumulated Amortization 1 Jan 2019	1 427
Amortization during the year	469
Disposal	
Total as at 31 Dec 2019	**1 896**
Net book Value 31 Dec 2019	1 232
Net book Value 31 Dec 2018	891

113. 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 11: Payables and Accruals

Table 21

Payables and Accruals
(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Vendor payables	211	1 617
Other payables	253	310
Accruals for goods and services	3 289	2 203
Total payables and accruals	**3 753**	**4 130**

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

115. 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 12: Advance receipts

Table 22
Advance receipts
(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Conditional voluntary contributions	14 345	3 121
Indicative contributions received in advance	7 684	5 620
Voluntary contribution received in advance	2 344	
CDM fees received in advance	3 679	1 637
Total	**28 051**	**10 379**

116. 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.

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

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

Note 13: Employee Benefits

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

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

	31 December 2019	*31 Dec 2018 (restated)*
Current employee benefit liabilities		
After service health insurance	359	308
Repatriation grant	969	1 229
Annual leave	248	235
Death benefit	0	11
Home leave travel	585	496
US tax reimbursement	91	131
Total current employee benefit liabilities	**2 252**	**2 409**
After service health insurance	137 687	84 470
Repatriation grant	9 246	9 181
Annual leave	3 319	3 129
Death benefit	0	118
Home leave travel	46	49
Total non-current employee benefit liabilities	**150 298**	**96 947**
Total employee benefit liabilities	**152 550**	**99 356**

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

121. **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.

122. **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.

123. 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.

124. 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.

125. **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.

126. **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.

127. **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.

128. **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.

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

130. An actuarial valuation as of 31 December 2019 carried out in 2020 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 2018, the actuarial study was conducted as a roll-forward of the actuarial valuation of the End-of-Service schemes as of 31 December 2017.

131. 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.

132. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2019.

Table 24
Key financial assumptions

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*

Discount rate at beginning of period	1.02%	4.24%	4.27%
Discount rate at end of period	0.23%	3.09%	2.50%
General inflation rate at beginning of period		2.20%	
General inflation rate at end of period		2.20%	
Salary increase 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		

133. The following assumptions were utilized by the actuary in determining the maturity profile of the defined benefit obligations at 31 December 2019:

134. **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.

135. **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.

136. **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.

137. 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)

	Change	*After service health insurance*
On total defined benefit obligation	0.5%	22 284
	(0.5)%	(19 312)
On current service cost and interest cost component of liability	0.5%	1 665
	(0.5)%	(1 371)

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

	ASHI	**Repatriation Grant & Travel**	**Annual Leave**

	Liability change	*Change in %*	*Liability change*	*Change in %*	*Liability change*	*Change in %*
Increase of discount rate by 0.5%	(20 010)	(14)	(421)	(4)	(164)	(5)
Decrease of discount rate by 0.5%	11 878	18	453	4	177	5
Duration	33		10		10	

138. The liabilities established for defined benefit obligations and the net service costs for 2019 are as follows:

Table 27
Liabilities established for defined benefit obligations and the net service costs for 2019
(Thousands of United States dollars)

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*
Reconciliation of defined benefit obligation			
Defined benefit obligation, beginning of year (restated)	84 760	10 040	3 364
Current service cost	4 753	473	234
Interest cost	649	407	138
Benefits paid (net of participant contribution)	(293)	(890)	(243)
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	48 179	127	74
Total liability recognized on Statement of Financial Position	**138 048**	**10 157**	**3 567**
Annual expense for calendar year			
Current service cost	4 753	473	234
Interest cost	649	407	138
Benefits paid (net of participant contribution)	(293)	(890)	(243)
Total charge/(credit) recognized on statement of financial performance	**5 109**	**(10)**	**129**
Estimated benefit payments net of participant contributions payable in 2018	293	890	243
Cumulative amount of actuarial (gain)/loss recognized in net assets			
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	48 179	(127)	(74)
Total portion of cumulative liability recognized in net assets at end of year	**48 179**	**(127)**	**(246)**

139. 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.

140. Under IPSAS 39, 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.

141. 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.

142. 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.

143. During 2019, UNFCCC accrued USD 0.5 million for repatriation grant and travel and USD 1.2 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 138 million and USD 10.1 million for repatriation grant and the overall accrued amounts of USD 2.5 million for ASHI and USD 1.5 million for repatriation, the current funding ratio amounts to 2 per cent for the ASHI and 15 per cent for repatriation grant liability. For 2020, the estimated amounts for accrual under ASHI and repatriation are USD 1.2 million and USD 0.5 million respectively.

144. As at 31 Dec 2019, 49.5 per cent of the total ASHI and repatriation liability equaling USD 73.4 million relates to core budget funded positions while 50.5 per cent of the ASHI and repatriation liability corresponding to USD 74.8 million relates to non-core funded positions.

United Nations Joint Staff Pension Fund (UNJSPF)

145. 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.

146. 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.

147. The latest actuarial valuation for the Fund was completed as of 31 December 2017, and the valuation as of 31 December 2019 is currently being performed. A roll forward of the participation data as of 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 financial statements.

148. The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent. The funded ratio was 102.7 per cent when the current system of pension adjustments was taken into account.

149. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, 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.

150. 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 (2016, 2017 and 2018) amounted to USD 7,131.56 million, of which 0.3 per cent was contributed by UNFCCC.

151. During 2019, UNFCCC's contributions paid to UNJSPF amounted to 7.6 million (2018 7.4 million). Expected contributions due in 2020 are 7.6 million.

152. 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

153. 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.

Note 14: Provisions

Table 28
Provisions
(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Provision for legal cases	0	0
Total	**0**	**0**

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

Note 15: Other current liabilities:

Table 29
Other current liabilities
(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Other Liabilities	2	0
Total	**2**	**0**

Note 16: Revenue

155. Indicative contributions are contributions received from Parties to the Convention toward funding 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)

	2019	*2018*
Core budget to the convention	31 317	33 359
International transaction log	1 544	1 615
Total	**32 861**	**34 974**

156. 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 31
Voluntary contributions
(Thousands of United States dollars)

	2019	*2018*
Voluntary contribution to the core budget	875	916
Participation trust fund	3 311	7 373
Trust fund for supplementary activities	26 398	32 182
Special annual contribution from the host country	2 043	2 138
Special account for activities for conferences	3 734	4 283
Total	**36 362**	**46 892**

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

Table 32
Fee Income
(Thousands of United States dollars)

	2019	*2018*
CDM fees	10 382	11 656
Total	**10 382**	**11 656**

158. 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 on the basis of 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_2 of the expected annual CERs; b) USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO_2 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_2 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_2 equivalent for which issuance is requested in a given year;

(iii) No share of proceeds shall be due for project activities and PoAs 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 33
Interest revenue

	31 December 2019	*31 December 2018*
Investment income – Interest earned	5 091	4 092
TOTAL	**5 091**	**4 092**

159. Services in kind are not recognised in the face of the financial statements.

160. 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 17: Expenses

Table 34
Expenses
(Thousands of United States dollars)

	2019	*2018*
Personnel expenditure	50 231	51 588

Travel	12 523	12 297
Contractual services	20 100	15 280
Operating expenses	1 016	1 387
Other expenses	5 620	4 019
Depreciation of equipment	82	109
Amortization of intangible assets	469	464
Return/transfer of donor funding	1 181	5 126
Loss on foreign exchange	435	887
Total	**91 657**	**91 158**

161. 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 35
Personnel expenditure
(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Salary and wages	32 911	34 294
Pension and insurance benefits	14 232	14 075
Other benefits	3 088	3 949
TOTAL	**50 231**	**51 588**

162. Travel covers the cost of airfare and other transport cost, daily support allowances and terminal allowances.

163. Contractual services include cost of acquiring goods and services from commercial providers, mainly for IT related and consultancy services for different service periods.

164. Operating expenses include cost of maintenance, rent, communications, joint activities and other operating expenses.

165. Other expenses include allowances for doubtful debts, cost for inter-agency and meeting related expenses as well as write-offs.

166. Pursuant to rule 106.7(a) of the financial Regulations of the United Nations, write-off cases totaling USD 7,099 were approved for the year 2019 which related mostly to unrecoverable travel advances and staff entitlements.

167. 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 18: Reserves

168. 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 49.1 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 36
Reserves as at 31 December 2019

(Thousands of United States dollars)

Reserves for Core Budget and ITL	2 889
CDM trust fund reserve	45 000
Reserve for Appendix D	1 292
Total reserves	**49 181**

Note 19: Fund Accounting and Segment Reporting

169. 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.

170. 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 projects financed from voluntary contributions 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.

171. 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

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

Table 37
Statement of financial position by fund

ASSETS	Trust fund for the Clean development mechanism	Trust fund for the Core Budget of UNFCCC	Trust fund for participation in the UNFCCC process	Special Annual Contribution from the Government of	Trust fund for Supplementary Activities	Trust fund for the International Transaction Log	conferences and other recoverable costs	UNFCCC programme support costs	Cost Recovery	UNFCCC Employee liabilities fund		TOTAL
Current Assets												
Cash and cash equivalents	34 112	3 342	826	648	12 175	2 344	(543)	2 918	776	1 099		57 698
Short-term investments	70 645	6 920	1 711	1 342	25 214	4 854	(1 124)	6 044	1 608	2 276		119 489
Indicative contributions receivable		14 555										14 555
Voluntary contributions receivable			722		7 410		3 643					11 775
Other receivables	604	178	15	36	584	51	14	73	61	17		1 634
Other current assets	4 336	619	210		2 746	4	1 573	1 898	100		(6 762)	4 711
Total current assets	109 697	25 614	3 484	2 015	48 129	7 253	3 563	10 933	2 545	3 392		209 862
Non-current assets												
Other receivables					2 957							2 957
Long-term investments	22 166	2 171	537	421	7 911	1 523	(353)	1 896	504	714		37 492
Propery, plant and equipment		84			2		128					214
Intangible assets	11	54			1 166							1 232
Total non-current assets	22 177	2 309	537	421	12 037	1 523	(225)	1 896	504	714		41 894
TOTAL ASSETS	**131 874**	**27 923**	**4 021**	**2 436**	**60 166**	**8 776**	**3 338**	**12 830**	**3 049**	**4 106**		**251 756**
LIABILITIES												
Current Liabilities												
Payables and accruals	391	555	89	1	1 610	78	794	58	176			3 753
Advance receipts	3 679	7 302		1 997	14 692	382						28 051
Employee benefits	193	372		4	68	15	4	37	39	1 520		2 252
Provisions												0
Other current liabilities		2 512			(365)		4 617				(6 762)	2
Total current liabilities	4 262	10 741	89	2 002	16 006	474	5 415	96	215	1 520		34 058
Non-current liabilities												
Employee benefits	13	22			6			3	2	150 252		150 298
Advance receipts												
Total non-current liabilities	13	22			6			3	2	150 252		150 298
TOTAL LIABILITIES	**4 275**	**10 763**	**89**	**2 002**	**16 012**	**474**	**5 415**	**99**	**217**	**151 772**		**184 355**
NET ASSETS												
Accumulated surpluses/(deficits)	82 599	13 221	3 931	433	44 154	8 061	(2 077)	12 731	2 832	(147 666)		18 219
Reserves	45 000	3 940				241						49 181
TOTAL NET ASSETS	127 599	17 161	3 931	433	44 154	8 302	- 2 077	12 731	2 832	(147 666)		67 401
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**131 874**	**27 923**	**4 021**	**2 436**	**60 166**	**8 776**	**3 338**	**12 830**	**3 049**	**4 106**		**251 756**

Table 38
Statement of financial performance by fund

REVENUE	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 Supplementary Activities	Trust fund for the International Transaction Log	Special account for conferences and other recoverable costs	Special account for UNFCCC programme support costss	Cost Recovery	UNFCCC Employee liabilities fund	Elimination	TOTAL
Indicative contributions		31 317				1 544						32 861
Voluntary contributions		875	3 311	2 043	26 398		3 734					36 362
CDM and JI service fees	10 382											10 382
Interest Revenue	3 149	337	110	35	829	206	57	220	77	71		5 091
Gain on foreign exchange												
Other/miscellaneous revenue	47	99	202	3	27		0	26	6 082	2 033	(8 010)	508
Programme support income								9 534			(9 529)	4
TOTAL REVENUE	**13 578**	**32 629**	**3 624**	**2 081**	**27 254**	**1 750**	**3 791**	**9 779**	**6 159**	**2 103**	**(17 540)**	**85 206**
EXPENSES												
Personnel expenditure	10 847	20 739		617	4 730	675	380	6 211	2 798	5 228	(1 995)	50 231
Travel	1 386	1 810	3 932	70	3 974	9	1 314	34	(6)			12 523
Contractual services	2 025	4 064	69	852	8 563	703	3 111	211	2 161	161	(1 820)	20 100
Operating expenses	176	684		2	(105)	11	22		227			1 016
Other expenses	3 597	344	1	244	1 333	84	2 214	1 843	155	0	(4 195)	5 620
Depreciation of equipment		16			16		45	5				82
Amortization of intangible assets	69	108			292							469
Return/transfer of donor funding					541		640					1 181
Loss on foreign exchange	(325)	510	(15)	(17)	342	(7)	(19)	(27)	(2)	(5)		435
Programme support	2 258	3 556	536	231	2 386	202	360				(9 529)	
TOTAL EXPENSES	**20 031**	**31 831**	**4 523**	**1 999**	**22 072**	**1 678**	**8 069**	**8 276**	**5 332**	**5 385**	**(17 540)**	**91 657**
TOTAL SURPLUS/(DEFICIT)	**(6 454)**	**797**	**(900)**	**83**	**5 182**	**72**	**(4 277)**	**1 503**	**827**	**(3 282)**		**(6 449)**

Note 20: Budget Comparison and Reconciliation

173. 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.

174. 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.

175. 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.

176. 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.

177. 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.

178. 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 39
Reconciliation of net result on budgetary and IPSAS basis

Reconciliation of net result on budgetary and IPSAS basis	
Actual net result on the Statement of budgets to actual comparison	
Statement V-A Core Budget	1 329
Statement V-B International Transaction Log	(212)
Statement V-C Contingent budget of conference services	
Actual net result on budgetary basis	**1 117**
Basis differences	
Additional income components under IPSAS	642
Exchange gains/losses	(503)
Conversion of unliquidated obligations to delivery principle	28
Capitalization of equipment & intangible assets	(124)
Changes in provision for doubtful debts	(290)
Sub-total basis differences	**(248)**
Entity differences on IPSAS Basis	

Reconciliation of net result on budgetary and IPSAS basis	
Trust fund for participation in UNFCCC process	(900)
Trust fund for supplementary activities	5 182
Trust fund for the Clean development mechanism	(6 454)
Trust fund for the Special Annual Contribution from the Government of Germany	83
Special account for conferences and other recoverable costs	(4 277)
Special account for UNFCCC programme support costs	1 503
Cost Recovery	827
UNFCCC employee liabilities fund	(3 282)
Sub-total entity differences	**(7 319)**
Actual net result on the Statement of Financial Performance	**(6 449)**

Note 21: Budget to Actual variance analysis

179. Explanations of material differences between the original budget and final budget and the actual amounts are presented in the financial report from the Executive Secretary accompanying these statements. See paragraph 16 for further details.

Note 22: Related Parties

180. 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.

181. 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.

182. 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 Regular Budget at a value of EUR 4.7 million in 2019.

183. 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 40
Summary of senior management and related compensation

Number of individuals	*Aggregate remuneration (in thousands of USD)*	*Outstanding advances at 31 Dec 2019 (in thousands of USD)*
12	2,440	145

184. During 2019, three individuals of senior management left the organization.

185. The senior management personnel of UNFCCC are the Executive Secretary, Deputy Executive Secretary and Directors of programmes, who have the authority and responsibility

for planning, directing and controlling the activities of UNFCCC and influencing its strategic direction.

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

Note 23: Leases, commitments and contingencies

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

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

Note 24: Events after the reporting date

189. UNFCCC's reporting date is 31 December 2019. The financial statements were authorized for issue on 31 March 2020, the date at which they were submitted to the External Auditor. On the date of submitting these accounts, the impact of the corona virus pandemic is characterized as a material event, which has occurred since 31 December 2019, the impact of which cannot be reliably measured or assessed. No other material events, favorable or unfavorable, have occurred that would have impacted the present statements

Note 25: In-kind contributions of services

190. 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.