



**UNITED  
NATIONS**



**Convention to Combat  
Desertification**

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Distr.  
GENERAL

ICCD/COP(7)/2/Add.5 (B)  
26 August 2005

ENGLISH ONLY

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CONFERENCE OF THE PARTIES  
Seventh session  
Nairobi, 17–28 October 2005  
Item 6 (d) of the provisional agenda

## **PROGRAMME AND BUDGET**

### Addendum

**Audited financial statements for the Convention's trust funds for the biennium 2002–2003  
ended 31 December 2003**

Note by the Global Mechanism\*

## **EXECUTIVE SUMMARY**

This document contains the report of an external auditor, as well as the financial statements of the Global Mechanism (GM) as at, and for the years ended, 31 December 2003 and 2002.

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<sup>1</sup> The notes and annex form an integral part of the financial statements.

## I. AUDIT REPORT

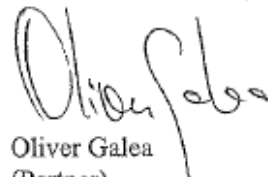
The International Fund for Agricultural Development (IFAD)  
as Administrators for the Global Mechanism of the UN Convention  
to Combat Desertification (the Global Mechanism)  
Rome

We have audited the financial statements of the Core Budget Administration Account of the Global Mechanism as at and for the years ended 31 December 2003 and 2002. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Core Budget Administration Account of the Global Mechanism as at 31 December 2003 and 2002 and the results of its operations and its cash flows for the periods then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SpA



Oliver Galea  
(Partner)

Rome, 14 May 2004

## II. FINANCIAL STATEMENTS

### A. Statement of revenues and expenses (in United States dollars)

	2003	2002
<b>Total revenues</b>	<b>2,152,115</b>	<b>1,794,067</b>
<b>Expenses</b>		
<b>Staff costs</b>		
Professional and General Service	(1,439,753)	(1,136,800)
Temporary support staff	(139,543)	(119,266)
	<u>(1,579,296)</u>	<u>(1,256,066)</u>
<b>Office and general expenses</b>		
External auditor's fees	(5,500)	(3,524)
Office equipment and maintenance, telecommunications	(93,212)	(77,382)
Hospitality	(3,285)	(1,814)
Consultants fees	0	(39,902)
Media communications and networking	(17,323)	(17,115)
Publications	(21,023)	(14,619)
Duty travel	(289,493)	(244,661)
Service charge	(142,984)	(138,984)
	<u>(572,820)</u>	<u>(538,001)</u>
<b>Total expenses</b>	<b>(2,152,115)</b>	<b>(1,794,067)</b>
Total     Revenues less expenses	-	-
Add:     Net foreign exchange rate movements	(44,130)	(5,725)
<b>Transfer to retained earnings</b>	<b>(44,130)</b>	<b>(5,725)</b>

**B. Statement of changes in retained earnings**  
(in United States dollars)

<b>Opening balance as at 1 January 2002</b>	<b>(1,572)</b>
Total revenues less expenses	<b>0</b>
Net exchange rate movements	<b>(5,725)</b>
<b>Retained earnings as at 31 December 2002</b>	<b>(7,297)</b>
Total revenues less expenses	<b>0</b>
Net exchange rate movements	<b>(44,130)</b>
<b>Retained earnings as at 31 December 2003</b>	<b>(51,427)</b>

**C. Balance sheet**  
(in United States dollars)

	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Cash	88,258	392,499
Contributions receivable (Note 3)	1,468,568	1,108,284
Interfund receivables	3,179,887	-
<b>Total assets</b>	<b>4,736,713</b>	<b>1,500,783</b>
<b>Liabilities, deferred revenues and retained earnings</b>		
Payables and accrued liabilities (Note 6)	694,876	483,418
Interfund payables	4,027,353	736,920
Deferred contributions revenue (Note 3)	65,911	287,742
Retained earnings	(51,427)	(7,297)
<b>Net assets</b>	<b>(51,427)</b>	<b>(7,297)</b>
<b>Total liabilities, deferred revenues and retained earnings</b>	<b>4,736,713</b>	<b>1,500,783</b>

**D. Statement of cash flows**  
(in United States dollars)

	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities</b>		
Contributions to Core Budget Administration Account	1,570,000	1,200,200
Operating and administrative expenses paid	(1,874,240)	(879,000)
<b>Net cash (used) from/by operating activities</b>	<b>(304,241)</b>	<b>321,200</b>
<b>Net (decrease) increase in cash</b>	<b>(304,241)</b>	<b>321,200</b>
<b>Cash at beginning of the year</b>	<b>392,499</b>	<b>71,299</b>
<b>Cash at the end of the year</b>	<b>88,258</b>	<b>392,499</b>
<b>Reconciliation of total revenues less expenses to net cash provided by operating activities</b>		
Total revenues less expenses	0	0
Increase in accrued liabilities	211,458	85,550
Increase in interfund payables/receivables	110,546	835,242
(Decrease)/increase in deferred revenue	(221,832)	82,217
Increase in contributions receivable	360,284	(676,084)
Net exchange rate movements	(44,130)	(5,725)
	<b>(304,241)</b>	<b>321,200</b>

E. Statement of revenues available for commitment  
(in United States dollars)

	2003	2002
Cash	88,258	392,499
Contributions receivable	1,468,568	1,108,284
Interfund receivables	3,179,887	-
	<b>4,736,713</b>	<b>1,500,783</b>
Less:		
Accrued liabilities	(694,876)	(483,418)
Interfund payables	(4,027,353)	(736,920)
	<b>(4,722,229)</b>	<b>(1,220,338)</b>
<b>Resources available (Note 2(g))</b>	<b>14,484</b>	<b>280,445</b>
Less:		
Cumulative funds committed not accrued	-	(83,435)
<b>Uncommitted resources available (Note 2(g))</b>	<b>14,484</b>	<b>197,010</b>
<b>Reconciliation of resources available</b>	<b>2003</b>	<b>2002</b>
Resources available	14,484	280,445
Plus cumulative exchange movements	51,427	7,297
Deferred contributions revenue (Note 3)	65,911	287,742

### **III. NOTES TO THE FINANCIAL STATEMENTS**

#### **Note 1. Brief description of the Global Mechanism**

1. The United Nations Convention to Combat Desertification (UNCCD) created the GM as a means of mobilizing resources to protect dryland areas. At the first Conference of the Parties (COP) of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The GM has a Collaborative Institutional Arrangement to support it, involving the United Nations Development Programme (UNDP), IFAD and the World Bank. The Managing Director of the GM reports directly to the President of IFAD.

2. The GM aims to mobilize funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, subregional and regional action programmes. In addition, the GM is involved in partnership building, establishing broad contacts among international organizations, the non-governmental organizations (NGOs) community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the GM is developing a database, collecting and managing data on desertification and “matching” resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

3. In order to meet the requirements of individual donors, from 2000, separate financial statements have been prepared for the three accounts of the GM, namely the Core Budget Administration Account (CBAA), which contains contributions from UNCCD; the Voluntary Contributions Administrative Expenses Account (VCAEA), which contains voluntary contributions from donors as well as technical assistance grants (TAG) contributions from IFAD; and the Special Resources for UNCCD Finance Account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

#### **Note 2. Summary of significant accounting policies**

##### **(a) Basis of accounting**

4. The financial statements of the GM are prepared in accordance with International Financial Reporting Standards (IFRS) (formerly called International Accounting Standards) and under the historical cost convention. Revenue and expenses are recognised as they occur (and not as cash is received or paid) and reported in the period to which they relate. The excess of expenses over revenues is transferred to the retained earnings and to date the amounts have related to exchange rate movements. Certain reclassifications of the prior year’s information has been made to conform to the current year’s presentation.

##### **(b) Administration and operating expenses, including service charge**

5. The President’s Bulletin - Accounts of the GM of 4 October 1999, defines the use of funds in the following way: the CBAA is used for administrative costs of the GM such as staff and office costs. It can also be used for operating costs directly relating to the GM such as: (a) employment



of consultants to prepare action plans; (b) marketing functions of the GM; and (c) organization of financing conferences.

6. In 2003, as in 2002, operating expenses have been financed from the contributions received from UNCCD, as permitted by the terms of the related letter of agreement.

7. The service charge has been charged to the CBAA in accordance with IFAD's rules and regulations.

(c) Donor contributions

8. Contributions are recorded in receivables and as resources available on the date of receipt of formal communication from the donor or actual receipt of funds, whichever occurs earlier. Contributions received and interest earned thereon, where specified in the donor agreements, are recorded as revenues in the period in which the related expenditures occur. Contributions for which no direct expenditures have yet been incurred are deferred until future periods to be matched against the related costs.

(d) Translation and conversion of currencies

9. The GM conducts its operations in several currencies, and at the present time maintains its accounting records in United States dollars. The financial statements are expressed in United States dollars solely for the purpose of summarizing the financial position.

10. The GM has translated all items in its balance sheet at market rates of exchange at year-end.

11. Revenue and expense items in currencies other than the United States dollar have been recorded at the rates of exchange ruling when the transaction occurred.

12. The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States dollar are credited or charged to the statement of revenue and expenses.

13. The movements in the foreign exchange rate account are explained as follows, in terms of United States dollars:

	<u>2003</u>	<u>2002</u>
Opening balance at 1 January	(7,297)	(1,572)
Net exchange movements	<u>(44,130)</u>	<u>(5,725)</u>
Closing balance at 31 December	<u>(51,427)</u>	<u>(7,297)</u>

(e) Provisions

14. Provisions are established when the GM has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated

liability for annual leave and long service separation entitlements as a result of services rendered by employees up to the balance sheet date. A provision is also made for the estimated cost for After-Service Medical Coverage.

(f) Statement of cash flows

15. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(g) Resources available for commitment

16. Resources available for commitment are those resources that have been contributed by UNCCD. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes; such as earmarked workshops.

17. In practice, resources available may be defined as cash, amounts receivable from UNCCD less liabilities and balances owed to IFAD and other funds administered by IFAD.

**Note 3. Statement of contributions and deferred revenue**

<b>Donor</b>	<b>US\$</b>	<b>Received</b>	<b>Receivable</b>	<b>Recognized revenue</b>	<b>Recognized in 2003</b>	<b>Deferred revenue</b>
UNCCD 1999	986,974	986,974	0	725,687		261,287
UNCCD 2000	1,404,000	1,404,000	0	1,418,621		(14,621)
UNCCD 2001	1,458,000	1,458,000	0	1,499,141		(41,141)
UNCCD 2002	1,876,284	1,876,284	0	1,794,067		82,217
UNCCD 2003	1,930,284	461,716	1,468,568	2,152,115	2,152,115	(221,831)
<b>Balance at 31 December 2003</b>	<b>7,655,542</b>	<b>6,186,974</b>	<b>1,468,568</b>	<b>7,589,631</b>	<b>2,152,115</b>	<b>65,911</b>
Balance at 31 December 2002	5,725,258	4,616,974	1,108,284	5,437,516	-	287,742

**Note 4. Expenses**

18. As part of the Strategic Change Programme of IFAD, during 2003 the Fund has implemented new financial systems have been implemented for the general ledger and certain expenditures. Financial data has been migrated from the legacy system of the general ledger as at 1 April 2003. The migration of financial data involved retrieval, conversion and transformation, and required adding new data fields and restructured values to take into account the new activity-based budget structure. During the migration period, business was conducted continuously while waiting for the closure of accounts at 31 March 2003, and the data clean-up initiated prior to migration.

**Note 5. Staff salaries and benefits**

19. The GM had 18 employees as at 31 December 2003 (31 December 2002: 16 employees). These employees are on IFAD's payroll and are therefore part of the benefit system offered by IFAD. These benefits include the participation in the United Nations Joint Staff Pension Fund and in the After-Service Medical Coverage administered by the Food and Agriculture Organization of

the United Nations (FAO). For further information regarding these benefits, refer to the financial statements of IFAD.

20. IFAD charges the GM for the costs incurred on behalf of the employees of the GM.

#### **Note 6. Payables and accrued liabilities**

21. This comprises the following balances:

	<b>2003</b>	<b>2002</b>
Staff salaries and benefits	(525,140)	(394,892)
Staff travel	(63,412)	(49,043)
Consultants	(4,790)	(18,880)
Administrative expenditures	(101,534)	(20,603)
<b>Total</b>	<b>(694,876)</b>	<b>(483,418)</b>

#### **Note 7. Taxation**

22. Under the terms of the Agreement Establishing IFAD and the Agreement with the Government of Italy covering the Permanent Headquarters of the Fund, the exemptions from any form of direct taxation and social insurance on salaries, emoluments and indemnities paid to IFAD officials apply equally to all employees of the organization including those working for the GM.

Annex

**STATEMENT OF THE CORE BUDGET ADMINISTRATION ACCOUNT**

	2003	2002
<b>Total amount of contribution</b>	<b>1,930,284</b>	<b>1,876,284</b>
<b>Amount available to commit brought forward from prior year</b>	<b>197,010</b>	<b>136,351</b>
<b>Funds released from unused commitments</b>	<b>83,435</b>	<b>-</b>
<b>Expenses</b>		
<b>Staff costs</b>		
Professional and General Service	(1,439,753)	(1,136,800)
Temporary support staff	(139,543)	(119,266)
	<b>(1,579,296)</b>	<b>(1,256,066)</b>
<b>Office and general expenses</b>		
External auditor's fees	(5,500)	(3,524)
Office equipment and maintenance, telecommunication	(93,212)	(77,382)
Hospitality	(3,285)	(1,814)
Consultants fees	-	(39,902)
Media communications and networking	(17,323)	(17,115)
Publications	(21,023)	(14,619)
Duty travel	(289,493)	(244,661)
Service charge	(142,984)	(138,984)
	<b>(572,820)</b>	<b>(538,001)</b>
<b>Total amount expensed in the period</b>	<b>(2,152,115)</b>	<b>(1,794,067)</b>
	<b>58,614</b>	<b>218,568</b>
Less: Funds committed not accrued <sup>1</sup>	-	(15 833)
Add: Net exchange rate movements	(44,130)	(5,725)
<b>Total amount available for commitment</b>	<b>14,484</b>	<b>197,010</b>

<sup>1</sup> Funds committed not accrued are budget commitments that do not represent expenses for accounting purposes.

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