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Administrative, financial and institutional matters

Audited financial statements for the biennium 2004–2005

Audited financial statements for the biennium 2004–2005

Note by the Executive Secretary

Addendum

**Comments by the secretariat on the draft report of the
United Nations Board of Auditors**

Summary

This document should be read in conjunction with the draft report of the United Nations Board of Auditors (FCCC/SBI/2006/14) and the financial statements for the biennium 2004–2005 (FCCC/SBI/2006/14/Add.2). It has been prepared to provide the Subsidiary Body for Implementation with comments by the secretariat on the recommendations made by the Board and an account of the initial actions taken to implement the recommendations.

Some of the recommendations had already been implemented by the time this report was prepared, whereas others will require the establishment of processes for the preparation of future financial statements and reports which should be maintained in conjunction with the United Nations Headquarters.

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
<p>Recommendation 1, paragraph 23: The Board reiterate its previous recommendation that UNFCCC disclose in its financial statements all of its income and expenditures including those of the Special Account set for the Conferences of the Parties.</p>	<p>The secretariat has acted in accordance with the policies and practices of the United Nations. Since this account is not part of the established trust funds of the secretariat, transactions are recorded under the special account for conferences and other recoverable costs in accordance to the United Nations Financial Regulations and Rules. Taking this into consideration, the secretariat disclosed the information as a note. In its reply of 5 July 2006 to the audit team, the United Nations Office at Geneva (UNOG) confirmed that such accounts need not be reported separately as a full set of financial statements of the organization. The secretariat believes that the UNFCCC has been transparent in its reporting and should not have been singled out on this issue nor treated differently from UNOG, as UNFCCC accounts are operated through an integrated information system maintained by the United Nations. Nevertheless the secretariat would welcome a change in the United Nations policies and practices to allow it to report on such expenditures in a manner meeting the expectations of the Board.</p>	<p>Pending</p>
<p>Recommendation 2, paragraph 25: The Board recommends that UNFCCC disclose all refunds to donors and refrain from offsetting income and expenditures in its accounts.</p>	<p>The secretariat agrees with the principle of this recommendation. The only case that led to this observation is exceptional. In the 2002–2003 financial statements, the UNFCCC disclosed the amount of USD 908,804 as a payable under Note 8 to indicate the unspent balance contributed by the host country to finance costs associated with the third session of the Conference of the Parties (COP) held in Kyoto, Japan. Subsequently, in 2004, the secretariat received instructions from the government to treat the balance as a contribution to the core budget, effectively changing the nature of this amount to income towards the government’s contribution for the biennium. The secretariat therefore recorded the amount as income under the income statement (Statement I) and collections in 2004 in <i>Schedule 1.1: Status of indicative contributions to the Convention for the biennium 2004–2005</i>.</p>	<p>Pending</p>
<p>Recommendation 3, paragraph 27: The Board reiterates its recommendation that UNFCCC, reconsider its governance and performance reporting information policy.</p>	<p>These topics, which include social accounting issues and performance reporting, are discussed in the UNFCCC’s income and budget performance report, which is issued regularly and considered by the Conference of the Parties through its Subsidiary Body for Implementation (see document FCCC/SBI/2006/15). The secretariat will consider the inclusion of these issues and the other information on best governance in the financial statements for future financial periods, as suggested by the Board.</p>	<p>Partially implemented</p>

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
<p>Recommendation 4, paragraph 29: The Board recommends that UNFCCC disclose an aged analysis of its outstanding contributions in order to monitor their recoverability and to be in line with the United Nations System Accounting Standards (UNSAS).</p>	<p>As noted by the Board, the secretariat provides the Parties with such an analysis twice a year along with the status of contributions report (FCCC/SBI/2006/INF.6). The secretariat will include this information in future financial statements, as suggested.</p>	<p>Partially implemented</p>
<p>Recommendation 5, paragraph 33: The Board reiterates its previous recommendation that UNFCCC pursue its efforts to obtain full payment of indicative contributions from all Parties.</p>	<p>In spite of the number of Parties who are in arrears, unpaid contributions for the last two bienniums have ranged from 5 to 6 per cent of the total indicative contributions by the end of each period. Hence, the secretariat would regard this recommendation as fully implemented owing to regular efforts, including issuing two reports per year on the status of contributions and specific reminders to those in arrears.</p>	<p>Implemented</p>
<p>Recommendation 6, paragraph 37: The Board recommends that UNFCCC improve the fund raising for the Trust fund for supplementary activities (FRA).</p>	<p>The secretariat agrees with this recommendation as the realized income usually falls short of the requirements. Nevertheless efforts have been made to intensify fund-raising with positive results. For example, voluntary contributions to the Trust Fund for Supplementary Activities in 2004–2005 increased by 112% relative to those received in the previous biennium, while overall income available under the trust fund increased by 83%.</p>	<p>Implemented</p>
<p>Recommendation 7, paragraph 40: The Board recommends that UNFCCC formulate and implement a write-off policy for long outstanding contributions.</p>	<p>In accordance with United Nations practice, indicative contributions are not written off. By approving the scale of assessment and the programme budget, Parties have a responsibility to ensure the timely payment of contributions. Therefore the secretariat can only inform Parties of the status of contributions and maintain a historical record of all outstanding contributions in the accounts. The secretariat will request the Board to reconsider this recommendation.</p>	<p>Pending</p>

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<p>Recommendation 8, paragraph 43: The Board recommends that UNFCCC comply with the UNSAS requirements relating to delay in collecting outstanding contributions (i.e., disclosure of a provision to cover such instances).</p>	<p>This recommendation focuses on the “provision for delays in the collection of contributions.” The secretariat will review this recommendation to strengthen the current note on the working capital reserve, the main purpose of which is to cover expenditures pending the receipt of contributions.</p>	<p>Pending</p>
<p>Recommendation 9, paragraph 45: The Board recommends that UNFCCC liaise with UNOG and UNHQ Treasury to consider appropriate tools to mitigate exposure to foreign exchange risk.</p>	<p>The secretariat agrees with this recommendation and has taken some measures within existing mechanisms, for example, use of the euro bank account of the United Nations.</p>	<p>Under implementation</p>
<p>Recommendation 10, paragraph 49: The Board recommends that UNFCCC properly disclose accreditation and project registration fees as miscellaneous income and in the future prepare in its budget submission a statement of estimated income relating to this activity.</p>	<p>The secretariat agrees that these fees should be recorded as miscellaneous income, and will prepare the interim financial statements for 2006 accordingly. So far, the secretariat did not treat these fees differently from the income to the supplementary fund for implementation of the clean development mechanism (CDM). However, the financial statements under Schedule 2.1 for the status of voluntary contributions for the biennium 2004–2005 indicate CDM accreditation fees and project registration fees as separate entries in the table.</p>	<p>Under implementation</p>
<p>Recommendation 11, paragraph 51: The Board recommends that UNFCCC account for deferred expenditure as required by United Nations financial regulations and rules.</p>	<p>The secretariat agrees with this recommendation and will continue to ensure contractual obligations are made for the current period. The principle of deferred expenditure is already followed in the treatment of some cases. For example, material amounts are recorded in the Integrated Management Information System (IMIS) for future periods as deferred expenditures, as is the case for education grants.</p>	<p>Pending</p>

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
Recommendation 12, paragraph 54: The Board recommends that UNFCCC account for expenditures in the proper period.	The secretariat agrees with this recommendation, and efforts are being made to ensure that instances that led to this recommendation are avoided in the future. (This is, however, an isolated case.) The secretariat had completed nearly the entire process for this contract during 2005. However, owing to the holiday period, the vendor's confirmation of the purchase order receipt was received after 1 January and therefore did not constitute a legal commitment in 2005.	Pending
Recommendation 13, paragraph 57: The Board recommends that UNFCCC obtain from the United Nations Treasurer all relevant documentation supporting investment and treasury functions and operations performed on its behalf.	It should be noted that the secretariat regularly receives monthly investment statements; day-to-day investment decisions are made by the United Nations. The secretariat agrees with this recommendation and will try to monitor the investment activities by requesting more information from UNOG.	Pending
Recommendation 14, paragraph 60: The Board recommends that UNFCCC reassess the need for maintaining a second imprest account in Bonn on a continuous basis and, if maintained, ensure that it is managed in full compliance with United Nations Financial regulations and rules.	The secretariat is currently reviewing its use of the sub-account taking into consideration the reduced level of expenditures through the imprest account.	Under implementation
Recommendation 15, paragraph 63: The Board recommends that the United Nations administration review its policy with direct debit payments.	The secretariat notes with appreciation the Board's confirmation on the efficiency and effectiveness of direct payments. Meanwhile, it will seek the guidance of the United Nations controller on the matter, as recommended.	Pending
Recommendation 16, paragraph 66: The Board recommends that UNFCCC reinstate its reserves to the prescribed level.	The secretariat has adjusted the working capital reserve in the current biennium and will continue to ensure that the accounts adhere to the methodology for calculating the working capital reserve addressed in Note 9.	Implemented

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
<p>Recommendation 17, paragraph 69: The Board reiterates its recommendation that UNFCCC review the funding of its annual leave, end-of-service and post-retirement benefits liabilities, in conjunction with the United Nations Secretariat.</p>	<p>The liabilities have been calculated and the information is reflected in the notes to the financial statements for the biennium 2004–2005 (see Note 12 on page 36 of document FCCC/SBI/2006/14/Add.2).</p>	<p>Fully implemented</p>
<p>Recommendation 18, paragraph 71: The Board recommends that UNFCCC disclose its non-expendable property in its financial statements as the required by UNSAS.</p>	<p>The secretariat agrees with this recommendation and will disclose the information in future financial statements. Meanwhile, it should also be noted that the information on non-expendable property is well documented and available, although not reflected in a detailed form in the 2004–2005 financial statements.</p>	<p>Pending</p>
<p>Recommendation 19, paragraph 75: The Board recommends that UNFCCC disclose future in kind contributions as per UNSAS. Without qualifying the audit opinion, the Board draws attention to the in-kind donation disclosure in the financial statements.</p>	<p>The secretariat will disclose this information in future financial statements.</p>	<p>Pending</p>
<p>Recommendation 20, paragraph 79: The Board recommends that UNFCCC strengthen its efforts to achieve a more balanced geographical distribution of staff.</p>	<p>The secretariat is fully committed to achieving a balanced geographical distribution and gender balance. It has recently intensified efforts to address this issue, which has led to an increase of 3% in staff appointments from Parties not included in Annex I to the Convention between May and October 2006.</p>	<p>Under implementation</p>
<p>Recommendation 21, paragraph 81: The Board recommends that the UN Secretariat renew delegations of authority in a timely manner.</p>	<p>The secretariat agrees with this recommendation and will monitor developments with the United Nations Secretariat.</p>	<p>Pending</p>

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
Recommendation 22, paragraph 84: The Board recommends that UNFCCC promptly issue appropriate delegations of procurement authority to all staff members exercising procurement functions.	The secretariat has implemented this recommendation.	Fully implemented
Recommendation 23, paragraph 86: The Board recommends that UNFCCC develop clear and measurable timelines and indicators for the implementation of its procurement work plan.	The work plan for the Procurement and General Services Unit (PGSU) was finalized in February 2006, and includes clear and measurable timelines and indicators.	Implemented
Recommendation 24, paragraph 88: The Board recommends that UNFCCC comply with the requirements of the procurement manual related to the authority limit for the acquisitions of goods and services.	The secretariat agrees with this recommendation, and will continue to intensify its efforts to adhere to applicable requirements of the procurement manual. Exceptions to this general approach are very rare and are made within the financial rules and regulations.	Under implementation
Recommendation 25, paragraph 90: The Board recommends that the UNFCCC comply with the United Nations procurement manual on bid reception as it relates to faxed submissions.	The secretariat has purchased a fax machine for exclusive use to receive bids, as a step towards full implementation.	Under implementation

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Recommendation 26, paragraph 94: The Board recommends that UNFCCC ensure competition for its bids.	The secretariat agrees with the recommendation. Expressions of interest (EoIs) are posted on the websites of the United Nations New York, the United Nations Geneva and the UNFCCC to encourage competition. Furthermore, advertisements are posted in local newspapers to obtain EoIs from vendors on upcoming requirements. Based on vendor interest and as envisaged in its work plan for 2006–2007, the secretariat is developing a roster of vendors for various commodities which are regularly procured.	Under implementation
Recommendation 27, paragraph 96: The Board recommends UNFCCC to expedite its vendor evaluation process.	The vendor evaluation process is in the work plan for 2006.	Pending
Recommendation 28, paragraph 99: The Board recommends that the UNFCCC further enhance its objectives and indicators of its results-based budgeting process.	In December 2005 the secretariat took the next step in implementing results-based budgeting (RBB) with the creation of the Performance Indicator Team, which has been tasked to guide the organization in identifying performance indicators with the assistance of the programmes. In August 2006 the Office of Internal Oversight Services (OIOS) conducted workshops on the first review of programmes' performance indicators. The implementation phase (data collection) of this pilot project is expected to begin in November 2006. Owing to the time required for completing the programme budget proposal for 2008–2009, the secretariat will proceed by using the fundamentals of RBB while the pilot project continues.	Under implementation
Recommendation 29, paragraph 101: The Board recommends that UNFCCC train concerned staff on Results-base budgeting tools.	The secretariat will build on current initiatives to strengthen and broaden the understanding of RBB. A site that provides information on performance indicators (including a guide) and on results-based budgeting has been developed and is maintained on the secretariat intranet. In March 2006 the Performance Indicator Team presented the guide to the Management Committee and to other concerned/relevant staff. In addition, OIOS conducted workshops on performance indicators, as noted above.	Under implementation

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
<p>Recommendation 30, paragraph 108: The Board recommends that UNFCCC continue to draw the attention of the Parties about the precarious resource situation and the implications for the implementation of mandated activities.</p>	<p>As a result of the secretariat's efforts to inform the CDM Executive Board and Parties through the CDM Management Plan and oral reports, Parties acknowledged the lack of adequate resources to meet the challenges of the CDM. Taking this into consideration, the Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), at its first session, agreed on an initial level of the share of proceeds to be paid by private sector entities using the CDM. The share of proceeds is expected to accumulate over the biennium 2006–2007 with a view to provide the CDM with a one-and-a-half to two-year operating reserve for the operations of the CDM to address the unpredictable income flow. In addition, Parties pledged sufficient resources to support the CDM to the end of 2006. While not all the pledges have materialized, funds have steadily been received, and the availability of resources is no longer the key obstacle to effective support to the CDM process.</p>	Implemented
	<p>As in the case of the CDM, the Joint Implementation Supervisory Committee (JISC) has also developed and adopted a JI Management Plan (JI-MAP). Parties have made pledges in accordance with the JI-MAP and funding is being received. In addition, the secretariat informed the Parties at SBI 24 that more resources were needed. Bilateral interaction with Parties indicates that resources will be forthcoming. For the longer term, the JISC has agreed on a fee-based system to cover the administrative costs of the JI Track-2 process for consideration by the COP/MOP at its second session in Nairobi, Kenya.</p>	Under implementation
	<p>Although in the past there was a lack of financial resources for the implementation of the international transaction log (ITL), resulting in significant delays, contributions received from Parties have now reached a level that allows the secretariat to undertake the next important implementation steps. Parties were informed of the progress made, as well as the cause of the delay, through a number of means, including the annual report of the ITL administrator (FCCC/KP/CMP/2005/5), a further progress report (FCCC/SBI/2006/INF.3), regular conferences under the Kyoto Protocol (COP/MOP 1 and SBI 24), and the Registry System Administrators Forum (RSA Forum). In light of the current movement in the implementation of the ITL and the past difficulties in securing funding, the SBI, at its twenty-fourth session, stressed the need for Parties to ensure sufficient contributions to support ITL-related work. The secretariat is in the process of elaborating a fee-based funding mechanisms which should ensure "predictable and sufficient provision" of resources for the operational activities of the ITL administrator, as requested by decision 16/CP.10. The Executive Secretary is already authorized by decision 34/CMP.1 to collect fees from ITL users in order to complement core resources.</p>	Under implementation

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
<p>Recommendation 31, paragraph 110: The Board recommends to further coordinate its Information and Communication Technology (ICT) expenditures, to establish a budget covering all ICT aspects and to monitor its implementation through an ad hoc steering committee.</p>	<p>Costs related to all information and communication technology infrastructure are now consolidated, and purchasing is managed through an annual purchase plan for the secretariat's main budget. ICT costs related to specialized systems development that is undertaken using supplementary funding are reviewed to ensure necessary coordination and technical linkages. Work under way for the preparation of the 2008–2009 budget will take further steps to consolidate some of the funding for these specialized systems into the core budget through structured service and operational level agreements with the respective programmes.</p>	<p>Implemented</p>
<p>Recommendation 32, paragraph 113: The Board recommended that UNFCCC establish a more rigorous security policy and to improve staff awareness on security and ethics issues.</p>	<p>A draft note on a framework for the establishment of security policies and guidelines for the secretariat was presented to the ICT Committee at its meeting on 18 July 2006. Based on the framework, a series of policy documents will be prepared covering the use of and access to data and information.</p>	<p>Under implementation</p>
<p>Recommendation 33, paragraph 115: The Board recommends that UNFCCC review the current access rights for developers and establish a formal development methodology for applications.</p>	<p>Following the recommendation of the Board, the secretariat has introduced further restrictions on the one group (software developers) that is permitted local administrative rights. The secretariat has opted to purchase industry-standard, fully operational systems for those applications that are to be deployed across the organization. These systems have been developed using standardized development methodologies, and documentation is available for verification. For specialized information system requirements related to mandates provided by the Parties, relevant programmes have developed customized systems by using a range of methodologies. The secretariat is aware of the need to harmonize approaches and is monitoring the situation through a comprehensive inventory of systems and through periodic reviews.</p>	<p>Under implementation</p>

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
<p>Recommendation 34, paragraph 118: The Board recommends that UNFCCC prioritise the Information Technology Task Force project on systems development standards and in-house coordination and establish Information Architecture plan consistent with the ICT Strategic plan.</p>	<p>Related to the work to harmonize system development standards, a centralized effort has started to consolidate and share information among those involved in system development and management together with network infrastructure personnel through the ICT Committee's "System Maintainers" subgroup. This subgroup meets to agree on common approaches for hosting systems on the UNFCCC network, for coordinating security considerations, among other topics. Such common approaches will evolve to include development considerations that are critical to the creation of a UNFCCC Information Architecture.</p>	<p>Under implementation</p>
<p>Recommendation 35, paragraph 120: The Board recommends that UNFCCC establish quality assurance and documentation standards for all information technology project developments.</p>	<p>Related to recommendations 33 and 34, the quality assurance standards and related documentation for specialized secretariat information systems will be developed as part of development methodologies.</p>	<p>Under implementation</p>
<p>Recommendation 36, paragraph 122: The Board recommends that UNFCCC include the review of servers and back-up facilities in the Business Continuity Plan.</p>	<p>The secretariat has completed efforts to ensure basic business continuity. The secretariat's critical systems and data are now fully redundant with systems and data physically located in two areas in fire protection zones of the headquarters building. Further, a supplementary server room and data centre at the UN Campus building is also available in Bonn. In all cases, server areas have been reorganized to remove all unnecessary equipment and materials, and all areas are fully documented and labelled for ease of access and maintenance. Business continuity planning is under way and will be completed in 2007.</p>	<p>Under implementation</p>
<p>Recommendation 37, paragraph 124: The Board reiterates its recommendation that UNFCCC and OIOS agree on a multi-year framework for periodic internal audits.</p>	<p>The secretariat has signed an agreement with OIOS, which is currently undertaking the recruitment process for selection of an internal auditor.</p>	<p>Under implementation</p>

Recommendations of the United Nations Board of Auditors	Comments by the secretariat	Status of Implementation
Recommendation 38, paragraph 126: The Board recommends that UNFCCC consider establishing an audit committee.	The secretariat will be examining this issue drawing on the experience from other United Nations organizations with the intention of submitting a report to the Parties in 2007.	Pending
Recommendation 39, paragraph 130: The Board recommends that the UNFCCC develop, document and implement a fraud prevention plan.	The secretariat now requires all staff to take the on-line integrity awareness course of the United Nations and is currently developing a policy based on the policy on financial disclosure statements of the United Nations. In addition, an anti-fraud plan will be developed in the course of the secretariat's enterprise-wide risk assessment exercise which has already begun.	Under implementation

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