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on Climate Change**

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Item 14 (a) of the provisional agenda

Administrative, financial and institutional matters

Audited financial statements for the biennium 2006–2007

Report of the United Nations Board of Auditors

Note by the Executive Secretary

1. The financial procedures of the Convention require that “a final audited statement of accounts for the full financial period shall be provided to the Conference of the Parties as soon as possible after the accounts for the financial period are closed”. They also stipulate: “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” (decision 15/CP.1, annex I, paras. 18–19).
2. The United Nations Board of Auditors has audited the financial statements for the biennium 2006–2007. The full text of the Board’s report is attached as an annex and reproduced as received, without formal editing and with the original pagination. The secretariat’s response to the audit recommendations has been issued as addendum 1 to this document; the audited financial statements themselves have been issued as addendum 2.
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 propose appropriate actions, which may be included in draft decisions on administrative and financial matters for adoption by the Conference of the Parties at its fourteenth session and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourth session.

Annex



United Nations

Financial report and audited financial statements

**for the biennium ended 31 December
2007 and**

Report of the Board of Auditors

**United Nations Framework Convention
on Climate Change**

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Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the biennium ended 31 December 2007. The audit was carried through a review of the financial transactions and operations of UNFCCC at its Headquarters in Bonn, Germany.

The Board issued an unqualified audit opinion on the financial statements for the period under review, as reflected in Chapter III.

Coordination with internal audit

The Board coordinated with the Office of Internal Oversight Services (OIOS) in the planning of the audit in order to avoid duplication of effort. In addition, the Board reviewed the internal audit coverage of the operations of the OIOS to assess the extent to which reliance could be placed on its work.

Follow-up of previous recommendations

In response to the request of the ACABQ and in line with paragraph 7 of General Assembly resolution A/RES/59/264A, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and indicated the financial periods in which such recommendations were first made. UNFCCC had fully implemented 55 per cent of the Board's previous recommendations.

Overall financial overview

As at 31 December 2007, UNFCCC's cash over total assets ratio was 0.93:1 while as at 31 December 2005, it was 0.89:1. There was also an improvement in the cash over total liabilities ratio, from 1.63:1 in the previous biennium¹ to 2.66:1 in the current biennium. On the other hand, the unliquidated obligations over total liabilities ratio went up from 0.13:1 as at 31 December 2005 to 0.23:1 as at 31 December 2007.

Statement of income and expenditure

Total income for the period under review amounted to \$140.32 million, compared with \$66.67 million for the previous biennium, an increase of 110 per cent. Total expenditure amounted to \$100.17 million, compared with \$56.82 million for the previous biennium, an increase of 76 per cent. This resulted in a surplus of \$40.15 million, compared with \$9.84 million in the preceding biennium. The significant increase in income was the result of the

¹ Figures for the biennium ended 31 December 2005 have been restated in the financial statements for the biennium ended 31 December 2007, as detailed in notes 14 and 17 to the 2006-2007 financial statements. Unless indicated otherwise, the figures for the 2004-2005 biennium used in this report for comparative purposes are the restated figures disclosed in the financial statements for the 2006-2007 biennium.

collection of contributions for the Kyoto protocol of \$18.21 million and clean development mechanism fees of \$40.60 million.

Statement of assets, liabilities and reserve and fund balances

The total assets of UNFCCC totaled \$83.50 million. Compared with \$31.45 million in the previous biennium, there was a significant increase of \$52.05 million or 166 per cent. Total liabilities were \$29.12 million, compared with \$17.05 million in the preceding biennium, reflecting an increase of 71 per cent.

For the period under review, reserves and fund balances amounted to \$54.39 million, compared with \$14.40 million in the previous biennium, an increase of \$39.99 million or 278 per cent.

End-of-service liabilities including after-service health insurance

Obligations relating to end-of-service liabilities, including those pertaining to after-service health insurance (ASHI), were now included in the financial statements pursuant to GA resolution A/RES/61/264. The financial statements for the period under review reflected end-of-service liabilities of \$18.12 million. Of this amount, \$13.92 million represented ASHI, \$2.39 million pertained to accrued accumulated annual leave, and \$1.81 million represented repatriation benefits.

Progress towards the implementation of the International Public Sector Accounting Standards (IPSAS)

The General Assembly, in its Resolution A/RES/60/283, approved the adoption of IPSAS across the UN System. UNFCCC has a draft IPSAS implementation plan containing indicative dates and planned milestones. However, the plan has no components for budget, information technology, and change management nor does it identify the role players.

Procurement and contract management

Inadequate procurement planning resulted in the acquisition of goods and services worth \$3.0 million which were not included in the procurement plan. This amount represented 16 per cent of the \$18.91 million in total purchases of goods and services for the biennium.

Internal audit findings

Based on the risk assessment report prepared by the Office of Internal Oversight Services (OIOS) in November 2007, 15 areas were identified as focus areas in UNFCCC. In the OIOS work plan covering the period 2008-2010, only two areas were planned to be audited each year.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are set out in paragraph 8 of this report.

A. Introduction

1. Mandate, scope and methodology

1. The ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC or the Convention) is to achieve stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic (human induced) interference with climate change. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner. The Kyoto Protocol, which took effect on 16 February 2005, supplements and strengthens the Convention and provides a further framework for action. The ultimate decision-making body of UNFCCC is the Conference of the Parties (COP) which meets every year to review the implementation of the Convention and the COP meeting as Parties to the Kyoto Protocol to review implementation of the protocol. The current participation stands at 192 Parties.

2. The Board of Auditors (the Board) has audited the financial statements of the UNFCCC and has reviewed its operations for the financial period from 1 January 2006 to 31 December 2007 in accordance with General Assembly resolution 74(I) of 7 December 1946 and decision 15/CP.1 of the Conference of the Parties (7 April 1995). The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations (UNFRR) and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of 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 the UNFCCC as at 31 December 2007 and the results of its operations and cash flows for the financial period then ended, in accordance with the United Nations System Accounting Standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit also included a general review of 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 the audit of the accounts and financial transactions, the Board carried out reviews of the UNFCCC operations under UN

financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNFCCC operations. The Board also followed-up the status of implementation of prior period recommendations. Those matters are addressed in paragraphs 10 to 21.

5. The Board continued to report the results of audits to UNFCCC in the form of management letters containing detailed observations and recommendations. This practice allowed for ongoing dialogue with the UNFCCC. In this regard, one management letter was issued covering the period under review.

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

2. Coordination with internal audit

7. The Board continues to coordinate with the OIOS in the planning of its audits in order to avoid duplication of efforts and to determine the extent of reliance that could be placed on the work of OIOS.

3. Main recommendations

8. **The Board's main recommendations are that UNFCCC:**

- a. Obtain full payment of indicative contributions from all parties (paragraph 33);**
- b. Continue reminding the Parties of their outstanding International Transaction Log assessments (paragraph 36);**
- c. Provide the appropriate funding for the settlement of end-of-service liabilities (paragraph 42); and**
- d. Consider all the necessary components in the final version of its IPSAS implementation plan (paragraph 50).**

9. The Board's other recommendations appear in paragraphs 16, 27, 47, 52, 56, 60, 66, 69, and 72.

B. Detailed findings and recommendations

1. Follow-up of previous recommendations

10. The Board reviewed the actions taken by UNFCCC to implement the recommendations made in its report for the biennium ended 31 December 2005.

11. Of the 38 recommendations that were made, 21 (55 per cent) were fully implemented, 13 (34 per cent) were partially implemented, three

(eight per cent) were not implemented, and one (three per cent) was overtaken by events. The details are shown in the Annex to this chapter.

Recommendations partially implemented

12. Six of the 13 recommendations that were partially implemented pertained to information and communication technology (ICT) issues. To address these ICT issues, UNFCCC has drafted an information architecture plan which provides the timelines for the steps that it would undertake in 2008.

Recommendations not implemented

13. In the previous biennium, the Board recommended that UNFCCC formulate and implement a write-off policy for long outstanding contributions and comply with the requirements of the United Nations system accounting standards relating to provisions for delay. However, the Board noted that this has not yet been implemented as UNFCCC was following the practice of the United Nations Headquarters (UNHQ) of not providing for delay in the collection of contributions receivables. Incidentally, UNHQ does not also write-off contributions receivables.

14. An analysis of the ageing schedule of indicative contributions receivables showed that as at 31 December 2007, UNFCCC had total outstanding indicative contributions receivable (for the Convention) of \$1.12 million. Of this amount, \$317,038 or 28 percent were receivable from Parties who have not made any payment for more than ten years.

15. The Board is of the view that financial reporting could be improved if provision is made in the accounts to provide for delays in the collection of outstanding contributions.

16. The Board reiterates its previous recommendation that UNFCCC formulate and implement a write-off policy for long outstanding contributions.

17. UNFCCC commented that it publishes the names of Parties with outstanding contributions since the Parties agreed that persuasion is the best recourse to address the issue.

18. In the area of procurement, the Board noted that there were still vendors who did not undergo the required evaluation process of vendor performance. During the biennium 2006-2007, 11 unevaluated vendors were awarded 57 purchase orders/contracts totalling to \$3.89 million.

Recommendation overtaken by events

19. In paragraph 63 of its previous report (FCCC/SB1/2006/14), the Board recommended that UNFCCC review its policy with direct debit payments. For the biennium ended 31 December 2007, there were 52 direct debits totalling \$124,751.

20. UNFCCC explained that it was operating within the German banking system which had been proven to be efficient and cost effective, hence, it could not implement the Board's recommendation.

Ageing of previous recommendations

21. The Board also evaluated the ageing of its previous biennium's recommendations that were partially or not yet implemented. The financial periods in which such recommendations were first made are indicated in the Annex to this chapter.

2. Overall financial overview

Key financial ratios

22. The Board performed an analysis of the financial position of UNFCCC as at 31 December 2007. The results of some key financial indicators are set out in table II.1.

Table II.1

Ratios of key financial indicators

Ratio	Biennium ended 31 Dec		Component of 2007 ratio ^a
	2004-2005	2006-2007	
Indicative contributions outstanding/total assets ^b	0.08	0.02	1.94/83.50
Cash/total assets ^c	0.89	0.93	77.39/83.50
Cash/ total liabilities ^d	1.63	2.66	77.39/29.12
Unliquidated obligations/total liabilities ^e	0.13	0.23	6.70/29.12
End -of- service and post-retirement benefits/total liabilities	0.72	0.62	18.12/29.12

a In millions of dollars

b A low indicator depicts a healthy financial position

c A high indicator depicts a healthy financial position.

d A low indicator is a reflection that insufficient cash is available to settle debts.

e A low indicator is a positive reflection that obligations are being liquidated.

23. As indicated in the above table, as at 31 December 2007, UNFCCC's cash over total assets ratio of 0.93:1 improved from the previous ratio of 0.89:1 as at 31 December 2005. There was also an improvement in the cash over total liabilities ratio, from 1.63:1 in the previous biennium² to 2.66:1 in the biennium under review. On the other hand, the unliquidated obligations over total liabilities ratio went up from 0.13:1 as at 31 December 2005 to 0.23:1 as at 31 December 2007.

² As indicated in footnote 1, all comparisons have been made with the restated 2004-2005 balances.

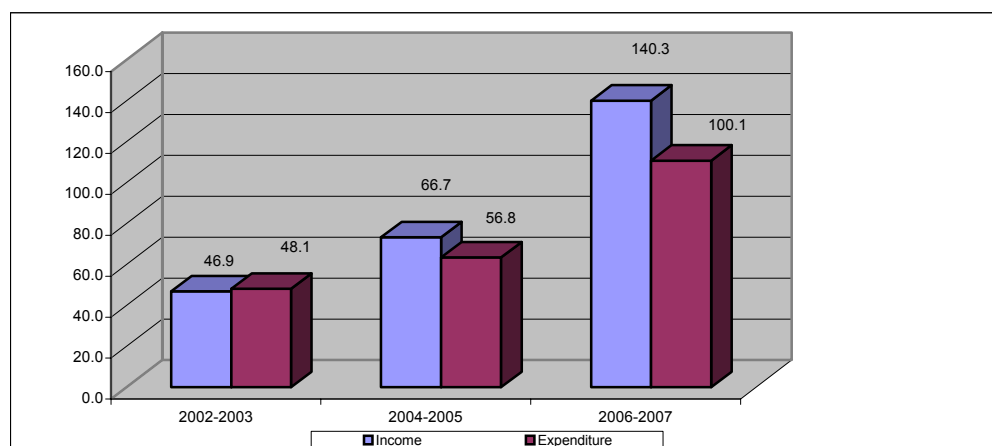
3. Statement of income and expenditure

24. Total income for the period under review, amounted to \$140.32 million, compared with \$66.67 million for the previous biennium, an increase of 110 per cent. Total expenditure amounted to \$100.17 million, compared with \$56.82 million for the previous biennium, an increase of 76 per cent. Details are shown in Table II.2.

Table II.2

Comparative income and expenditure

(In millions of United States dollars)



25. The significant increase in income was the result of the contributions to the Kyoto protocol (\$18.21 million) and the receipt of clean development mechanism and joint implementation fees (\$40.60 million) while the increase in expenditures of \$43.35 million or 76 per cent was attributable mainly to increase in staff and other personnel costs.

Travel

26. Rule 105.8(a) of the Financial Regulations and Rules of the UN states that outstanding obligations must be reviewed periodically by the responsible certifying officer(s). The Board noted from the ageing of travel obligations as at 31 December 2007 that out of the amount of \$400,991, 33 per cent or \$130,766 remained unliquidated for more than 12 to 24 months and the remaining 67 per cent or \$270,225 for more than three to 12 months.

27. **UNFCCC agreed with the Board's recommendations to: (a) review and determine the validity of travel obligations; and (b) establish a policy for the liquidation of these obligations.**

4. Statement of assets, liabilities, and reserves and fund balances

28. The total assets of UNFCCC totaled \$83.50 million. Compared with \$31.45 million in the previous biennium, there was a significant increase of

\$52.05 million or 166 per cent. Total liabilities were \$29.12 million, compared with \$17.05 million in the preceding biennium, there was an increase of 71 per cent. This was attributable mainly to the increase in unliquidated obligations and in end-of-service liabilities as well.

29. For the period under review, reserves and fund balances amounted to \$54.38 million, compared with \$14.40 million in the previous biennium, an increase of \$39.98 million or 278 per cent.

Indicative Contributions Receivable

30. Regulation 3.4 of the UNFRR states, thus: “*Contributions and advances shall be considered as due and payable in full within thirty days of the receipt of the communication from the Secretary-General referred to in regulation 3.3 or on the first day of the calendar year to which they relate, whichever is later. As of 1 January of the following calendar year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears.*”

31. The Board’s review and verification of the status of indicative contributions receivable showed that as at 31 December 2007, total indicative contributions receivable amounted to \$1.94 million, of which \$1.12 million was for the Convention, while \$818,463 was for the Kyoto protocol.

32. Of the total indicative contributions receivable for the Convention, \$802,241 or 72 per cent pertained to 2006-2007 indicative contributions while \$317,038 or 28 per cent represented unpaid contributions for the previous biennium. Of the total unpaid contributions of \$818,463 for the Kyoto protocol, \$761,513 or 93 per cent were unpaid contributions for the biennium 2006-2007, while \$56,950 or 7 per cent was for the biennium 2004-2005. In view of Regulation 3.4 of the UNFRR, these receivables are beyond their due dates.

33. UNFCCC agreed with the Board’s reiterated recommendation to obtain full payment of indicative contributions from all Parties.

Fees from use of the International Transaction Log (ITL)

34. The Conference of the Parties, by its decision 34/CMP.1 authorized the Executive Secretary to collect fees from users of the International Transaction Log (ITL) as additional income to the Trust Fund for Supplementary Activities in the biennium 2006-2007. The ITL is a system that verifies transactions processed by registries to ensure that they are consistent with the rules agreed upon under the Kyoto Protocol.

35. Verification of income from ITL fees as at 31 December 2007 showed that of the total indicative fees for 2007 of \$2.50 million, \$1.04 million or 42 per cent were paid while \$1.46 million or 58 per cent remained unpaid. UNFCCC explained that ITL fees for 2007, although based on a scale of assessment, are of a voluntary nature.

36. The Board recommends that UNFCCC continue reminding the Parties of their outstanding International Transaction Log assessments.

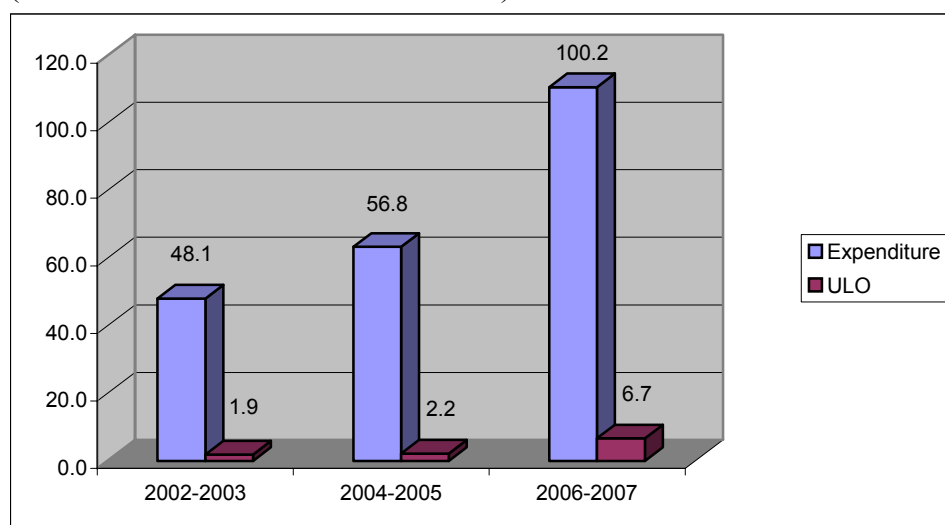
Unliquidated obligations

37. Unliquidated obligations (ULOs) as at 31 December 2007 amounted to \$6.70 million, representing seven per cent of the total expenditure. There was an increase of \$4.55 million or 212 per cent over the \$2.15 million ULOs of the previous biennium. Table II.3 shows unliquidated obligations against total expenditures for the biennia 2002-2003, 2004-2005 and 2006-2007.

Table II.3

Unliquidated obligations against total expenditure

(In millions of United States dollars)



5. End-of-service liabilities including after- service health insurance

38. In relation to the financial reporting of end-of-service liabilities (ESL), in accordance with GA resolution A/RES/61/264, the UNFCCC changed the presentation of ESL this year from disclosure in the notes to the financial statements to accounting and presentation on the face of the financial statements.

39. The financial statements for the period under review reflected end-of-service liabilities amounting to \$18.12 million. Of this amount, \$13.92 million represented after-service health insurance (ASHI), \$2.39 million related to unused vacation leave credits, and \$1.80 million represented repatriation benefits.

40. The determination of UNFCCC's liability for ASHI was based on the actuarial valuation conducted by a consulting actuary. The liabilities for accrued annual leave were calculated based on the actual

accumulated leave balances as at 31 December 2007, as generated from the online attendance records database. In addition, repatriation benefits are given to staff members with international status upon their separation from UNFCCC based on the number of years of service outside the home country.

41. The Board has validated ESL through reliance on the actuarial valuation done by the consulting actuary and the Board's own procedures. The Board, however, is concerned that the appropriate funding for ESL has not yet been provided.

42. The Board recommends that UNFCCC, through the Parties, provide the appropriate funding for the settlement of end-of-service liabilities.

43. UNFCCC commented that it would be extremely difficult to convince Parties to make contributions to cover the full funding for the settlement of these liabilities in the unlikely event that the Secretariat closes down. UNFCCC, however, informed the Board that there are adequate reserves under all the funds to cover the required liabilities considering the number of people leaving the Secretariat at a given time.

6. Financial statements disclosures

Non-expendable property

44. Note 13 to the financial statements disclosed that the non-expendable property (NEP) balance was adjusted by \$152,810, representing the net of adjustments and corrections relating to discrepancies in the valuation of Information and Communication Technology (ICT) equipment pertaining to the period 1997 to 2006. However, this amount could not be verified as the nature or breakdown of the said adjustments and corrections were not properly identified nor substantiated by any supporting documents.

45. In addition, ICT equipment worth \$747,644 were listed in the inventory report as a lump sum figure, but details such as unit costs, serial numbers, and item description were not available. This amount was for ICT equipment acquired in 1994 to 1996.

46. The absence of historical data as well as the necessary documents to support the adjustments and corrections prevented the Board from validating the accuracy of such valuations.

47. The Board recommends that UNFCCC determine the details pertaining to each information and communications technology equipment to facilitate the reconciliation of the physical inventory against property records.

7. Progress towards the implementation of IPSAS

48. General Assembly resolution A/RES/60/283 approved the adoption of the International Public Sector Accounting Standards (IPSAS) across the United Nations system.

49. UNFCCC has prepared a draft IPSAS adoption plan which contained milestones and indicative dates. However, it did not identify the role players who would be involved in the implementation of the plan. There were also no components pertaining to budget, information technology, and change management. UNFCCC explained that this was due to the fact that it would implement IPSAS together with the UN Office in Geneva (UNOG), with whom its systems are closely linked.

50. The Board recommends that UNFCCC consider all the necessary components in the final version of its IPSAS implementation plan.

8. Procurement and contract management

Vendor registration

51. Section 7.9.1(2.e) of the Procurement Manual states that no contractual award shall be made prior to formal registration of a vendor. From among 20 samples, nine vendors with contracts aggregating to \$592,201 were not included in the Vendor Roster of UNFCCC and the United Nations Global Marketplace (UNGM). The Board is concerned that UNFCCC might be dealing with vendors who have not complied with the requirements of formal registration.

52. UNFCCC agreed with the Board's recommendation to ensure that all vendors are duly registered prior to entering into contract with them.

Procurement planning

53. Section 8.1.1 of the UN Procurement Manual states that procurement planning is essential for the effective and timely solicitation of bids or proposals, award of contracts and delivery of the goods and services required. Requisitioners are responsible for the development of a procurement plan. From the selected samples of purchase orders, the Board noted that acquisition of goods and services worth \$ 3.0 million were not included in the procurement plan.

54. On the other hand, acquisitions totaling \$1.18 million were included in the procurement plan but the actual purchases were \$454,562 more than the planned acquisitions.

55. UNFCCC contended that it can never fully implement its procurement plan due to constant receipt of new mandates from the Parties. Considering that the \$3 million represented 16 per cent of the \$18.91 million in total purchases of goods and services for the biennium 2006-2007, the Board is of the view that procurement planning needs to be improved.

56. UNFCCC agreed with the Board's recommendation to ensure that procurement actions be more accurately planned.

Delivery dates

57. Rule 105.18 of the UNFRR states that the terms of delivery and payment shall be specified in detail in written procurement contracts. Section 13.6.3 (i) of the Procurement Manual also states that an appropriate liquidated damages clause is issued as a protection against failure of the contractor to deliver the goods and services on time.

58. Verification of 14 purchase orders (POs) showed that seven had no specific terms of delivery. Deliveries under these seven POs took an average of 39 days from the date the POs were received by the vendors. Hence, UNFCCC could not determine whether delivery was on time or delayed nor could it evaluate vendor performance on this aspect. On the other hand, deliveries on the other seven POs with specific delivery terms were made two to 107 days after the specified delivery dates.

59. Since the POs did not provide penalties for late deliveries, no liquidated damages were imposed. Considering that a PO binds the vendor to fulfill his contractual obligations, it is therefore essential that stipulations such as terms of delivery and penalties for late deliveries are incorporated in the PO to guarantee delivery within the agreed time.

60. UNFCCC agreed with the Board's recommendations to specify in the purchase orders the terms of delivery and the corresponding penalty clause for late delivery.

9. Consultants

61. ST/AI/1999/7 dated 25 August 1999 provides the rules for hiring of consultants. While UNFCCC did not have a central roster of consultants, each of the programmes were expected to have their own roster. Verification however, showed that of the ten programmes, only four maintained the said roster. It was also noted that the rosters lacked information vital to the evaluation of the prospective consultants such as up-to-date data on the skills of candidates, prior and current engagements, types of work performed, fees and summary rating or evaluation of past work as reference for future consultancy contracts. One programme only had a list of four consultants where the area of expertise was the only data indicated.

62. Review of ten contracts revealed insufficient documentation to show that consultants were selected from a wide number of nationalities and from the widest possible geographical base. Four requests for outside expertise did not indicate the names of other candidates considered. Likewise, proposals and quotations were not obtained prior to hiring of consultants, hence there was no basis for comparison on the reasonableness of the fees charged by these consultants.

63. All ten contracts did not have performance indicators for evaluation of results such as timeliness and value of the services rendered in relation to their cost. Except for one, all terms of reference (TOR) were not dated nor were

the dates of submission and acceptance indicated. In one instance, the period and duration in the TOR was inconsistent with the corresponding contract.

64. The Board also noted that the TORs did not have realistic delivery dates and details as to when and how the work must be delivered. One consultant was initially contracted for a period of only 35 days for a cost of \$23,800. However, the contract was amended four times until it reached 250 days and the cost increased to \$214,880.

65. Another contract was also amended three times. From the original contract cost of \$57,349 and an original duration of three working months, it increased to \$213,584 and 11 working months. The remaining two contracts were also amended such that both the cost and the duration doubled.

66. The Board recommends that UNFCCC indicate in the terms of reference for the hiring of consultants definite and realistic performance indicators to: (a) establish greater competitiveness of the selection process through a comprehensive central roster of consultants; and (b) monitor effectively the work of the consultants.

67. UNFCCC noted the Board's recommendation on the performance indicators in the TOR and will continue efforts to ensure its implementation.

10. Information technology

68. UNFCCC did not have an overall organizational Strategic Information Technology Plan. Absence of such a plan exposes UNFCCC to risks that information technology projects might not be able to match the organisation's plans, quality assurance and cost and time guidelines.

69. UNFCCC agreed with the Board's recommendations to pursue an information technology plan that would be in accordance with the Control Objectives for Information and related Technology (COBIT) standards.

11. Internal audit function

70. An agreement between the United Nations Office of Internal Oversight Services (OIOS) and the Secretariat of the UNFCCC on the provision of internal audit services was signed on 07 August 2006.

71. Based on the OIOS risk assessment report dated 16 November 2007, 15 areas were identified as focus areas. In the OIOS work plan covering the period 2008-2010, only two areas were planned to be audited each year.

72. The Board recommends that UNFCCC request OIOS to consider increasing the focus areas to be audited each year taking into account the risk assessment conducted and the availability of resources.

12. Write-offs and disposals

73. In accordance with Rule 106.8 (a) of the Regulation 6.4 of the United Nations Regulations and Rules (UNFRR), UNFCCC has written-off \$85 in line with General Assembly resolution A/RES/61/237.

13. Ex gratia payments

74. The Board was informed by UNFCCC that no ex-gratia payments were made during the biennium under review.

14. Cases of fraud and presumptive fraud

75. UNFCCC had reported to the Board that no cases of fraud and presumptive fraud had come to its attention during the 2006-2007 biennium.

C. Acknowledgement

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

(Signed) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)

(Signed) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit
(Lead Auditor)

(Signed) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

Annex 1

Analysis of the status of implementation of the Board's recommendations for the biennium ended 31 December 2005

	Summary of recommendation	Paragraph Reference*	Financial period first made	Fully implemented	Partially implemented	Not implemented	Overtaken by events
1	Disclose in its financial statements all of its income and expenditures including those of the Special Account set for the Conferences of the Parties.	23	2002-03	X			
2	Disclose all refunds to donors and refrain from offsetting income and expenditures in its accounts.	25	2004-05	X			
3	Reconsider its governance and performance reporting information policy	27	2002-03	X			
4	Disclose an aged analysis of its outstanding contributions in order to monitor their recoverability and to be in line with UNSAS.	29	2004-05	X			
5	Pursue its efforts to obtain full payment of indicative contributions from all parties.	33	2002-03		X		
6	Improve the fund raising for the trust fund for supplementary activities	37	2002-03	X			
7	Formulate and implement a write-off policy for long outstanding contributions.	40	2004-05			X	
8	Comply with the UNSAS requirements relating to delay in collecting outstanding contributions	43	2004-05			X	
9	Liaise with UNOG and UNHQ Treasury to consider appropriate tools to mitigate exposure to foreign exchange risk.	45	2004-05	X			

* Report of the Board of Auditors for the biennium 2004-2005 (FCCC/SBI/2006/14)

	Summary of recommendation	Paragraph Reference*	Financial period first made	Fully implemented	Partially implemented	Not implemented	Overtaken by events
10	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.	49	2004-05	X			
11	Account for deferred expenditure as required by United Nations financial regulations and rules.	51	2004-05	X			
12	Account for expenditures in the proper period.	54	2002-03	X			
13	Obtain from the United Nations Treasurer all relevant documentation supporting investment and treasury functions and operations performed on its behalf.	57	2004-05		X		
14	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.	60	2004-05	X			
15	Review its policy with direct debit payments.	63	2004-05				X
16	Reinstate its reserves to the prescribed level.	66	2004-05	X			
17	Review the funding of its annual leave, end-of-service and post-retirement benefits liabilities, in conjunction with the United Nations Secretariat	69	2004-05		X		
18	Disclose its non-expendable property in its financial statements as required by UNSAS.	71	2004-05		X		

	Summary of recommendation	Paragraph Reference*	Financial period first made	Fully implemented	Partially implemented	Not implemented	Overtaken by events
19	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.	75	2004-05	X			
20	Strengthen its efforts to achieve a more balanced geographical distribution of staff.	79	2004-05	X			
21	The UN Secretariat renew delegations of authority in a timely manner.	81	2004-05		X		
22	Promptly issue appropriate delegations of procurement authority to all staff members exercising procurement functions	84	2004-05	X			
23	Develop clear and measurable timeline and indicators for the implementation of its procurement work plan.	86	2004-05		X		
24	Comply with the requirements of the procurement manual related to the authority limit for the acquisitions of goods and services.	88	2004-05	X			
25	Comply with the United Nations procurement manual bid reception as it relates to faxed submissions.	90	2004-05	X			
26	Ensure competition for its bids.	94	2004-05	X			
27	Expedite its vendor evaluation process	96	2004-05			X	
28	Further enhance its objectives and indicators of its results based budgeting process.	99	2004-05	X			
29	Train concerned staff on Results-base budgeting tools.	101	2004-05	X			

	Summary of recommendation	Paragraph Reference*	Financial period first made	Fully implemented	Partially implemented	Not implemented	Overtaken by events
30	Continue to draw the attention of the Parties about precarious resource situation and the implications for the implementation of mandated activities	108	2004-05	X			
31	Further coordinate its ICT expenditures, to establish a budget covering all ICT aspects and to monitor its implementation through an ad hoc steering committee.	110	2004-05		X		
32	Establish a more rigorous security policy and to improve staff awareness on security and ethics issues	113	2004-05		X		
33	Review the current access rights for the developers and establish a formal development methodology for applications.	115	2004-05		X		
34	Prioritize 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.	118	2004-05		X		
35	Establish quality assurance and documentation standards for all information technology project developments.	120	2004-05		X		
36	Include the review of servers and back-up facilities in the Business Continuity Plan.	122	2004-05		X		
37	UNFCCC and OIOS agree on a multi-year framework for a periodic internal audits.	124	2002-03	X			
38	Develop, document and implement a fraud prevention plan.	130	2004-05		X		

	Summary of recommendation	Paragraph Reference*	Financial period first made	Fully implemented	Partially implemented	Not implemented	Overtaken by events
	Total			21	13	3	1
	Percentage			55	34	8	3

Chapter III

Audit opinion

We have audited the accompanying financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) comprising statements numbered I to III and the supporting notes and annexes, for the biennium ended 31 December 2007. These financial statements are the responsibility of the Executive Secretary of the UNFCCC. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the 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 policies used and significant estimates made by the Executive Secretary as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the UNFCCC as at 31 December 2007 and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations System Accounting Standards.

Furthermore, in our opinion, the transactions of the UNFCCC that have come to our notice, or which we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the UNFCCC.

(Signed) Philippe **Séguin**
First President of the Court of Accounts of France
Chairman of the United Nations Board of Auditors

(Signed) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit
(Lead Auditor)

(Signed) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

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