

**Opening Statement on the Report of the Board of Auditors on the Financial
Statements of the United Nations Framework Convention on Climate Change to the
Conference of the Parties (UNFCCC)**

31 October 2021

Audit reports and financial statements for 2019 and 2020

Distinguished Chair,
Distinguished Delegates,

On behalf of the Board of Auditors, I have the honour to present to you the major findings from the audit reports on the financial statements of the United Nations Framework Convention on Climate Change for the years 2019 and 2020.

We audited the financial statements and reviewed the operations of UNFCCC for the years ended 31 December 2019 and 31 December 2020. Due to the COVID-19 pandemic, the audits were partly carried out remotely in 2020 and 2021. We duly considered the secretariat's responses to the draft reports and adequately reflected them in the final reports (copies of which can be obtained here today).

We will also be happy to provide answers to your specific questions in writing.

Audit opinion

The Board has issued unqualified opinions on the financial statements for the periods under review. They fairly present the organization's financial position, its financial performance and cash flows.

Overall conclusion

In 2020, UNFCCC recognized a deficit of 0.5 million USD. The deficit largely resulted from the impacts of the COVID-19 pandemic. Large conferences and project implementation were postponed or delayed which resulted in lower levels of voluntary contributions. The

revenue decrease was not counter-balanced by savings due to lower travel expenses or reduced spending on contractual services.

UNFCCC is mainly funded through contributions and service fees. In 2020, total contribution revenue amounted to 52.2 million USD¹, including 33.7 million USD² of indicative assessed contributions and 18.5 million USD³ of voluntary contributions. Contributions receivable amount to 23.7 million USD, thereof 15 million USD from indicative assessed contributions and 8.7 million USD from voluntary contributions receivable.

Let me turn to the

Implementation of recommendations made by the Board of Auditors in previous years

The secretariat has pursued its efforts to implement the recommendations made by the Board. The Board noted that out of a total of 32 recommendations that remained outstanding, 17 (53 per cent) had been implemented, 13 were under implementation, 1 had not been implemented and 1 had been overtaken by events. Overall, the Board noted that positive progress had been made as more than half of the recommendations were implemented by year-end 2020.⁴

Nevertheless, some recommendations which were still marked as ‘Under Implementation’ covered important topics such as reviewing the funding policy for after-service health insurance and repatriation liabilities, and drawing a realistic timetable and a priority list for filling vacancies.

In the meantime, a policy paper for after-service health insurance funding has been developed. At the next meeting of the Subsidiary Body for Implementation (SBI), a funding mechanism will be considered.

UNFCCC is in the process of finalizing the priority recruitments for the remainder of 2021 which is based on the function and availability of funds. As of May 2021, 111.5 vacant posts have not yet been prioritized.

After this status update on the implementation of the recommendations from previous reports, I now wish to turn to:

The key findings in the long-form reports

¹ 2019: 69.2 million USD.

² 2019: 32.9 million USD.

³ 2019: 36.4 million USD.

⁴ 2019: 43 per cent were fully implemented.

As a result of the financial and performance audit work, the Board found some weaknesses that merit attention. Let me focus on certain areas for further improvement.

I would like to start the presentation of key findings from the report 2019 with the review of **The key findings in the long-form report**

Let me focus on 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 and the implementation of the restructuring of the secretariat.

Let me start with the

Accumulated surplus on the special account for programme support costs

UNFCCC accrued 12.7 million USD of 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.

Now, I wish to continue with the

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 management, 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 management. The scope of the delegation of authority on human resources management 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 considered 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. The secretariat is in consultation with the Office of Legal Affairs of the United Nations Secretariat in this regard.

May I now turn to the

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. At the time of this audit, UNFCCC did not have a clear set of criteria to assess whether the restructuring has achieved its objectives. UNFCCC stated that the implementation of the new structure is still at an early stage and that the Organizational Development and Oversight (ODO) unit would establish the criteria monitor 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. The proposal reflected 471 posts.

While the posts funded by the core budget increased by 3 per cent, the number of posts at P5 grade level 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.

These have been the major findings taken from the report 2019.

I would now like to continue with the report 2020 and our key findings on the review of the last financial statements:

The key findings in the long-form report

Let me focus on the financial statement discussion and analysis, the cut-off of expenses of Regional Collaboration Centres, the guidelines on the process of cost recovery and programme support costs, low value acquisition, and consultants and individual contractors.

Let me start with the

Financial statement discussion and analysis

Chapter IV of the financial statements did not include information on all areas recommended in the IPSAS Board's Recommended Practice Guideline. The purpose of the financial statement discussion and analysis is to assist users to understand the financial position, financial performance and cash flows presented in the general purpose financial statements. The Board holds that compliance with the guideline would enhance UNFCCC's financial statement discussion and analysis and would also contribute to improving comparability of United Nations entities' financial reporting. UNFCCC started to discuss and analyse chapter IV of the financial statements to adhere to the guideline.

Cut-off of expenses of Regional Collaboration Centres

UNFCCC collaborates with several partners to establish Regional Collaboration Centres (RCCs). The activities of the RCCs are pre-financed by UNFCCC. The respective partner is responsible for providing financial reports to render account of how the funds were used. Sometimes, the Board found considerable delays in receiving the financial reports which led to expenses recorded in the subsequent financial year. In order to comply with the principles of accrual accounting, UNFCCC needs to receive financial information from the partners of RCCs in a timely manner to recognize expenses as incurred in the financial statements of the respective year.

May I now turn to the

Guideline on the process of cost recovery

In prior years, the net assets in the special account for cost recovery have continuously increased to 2.9 million USD. The special account for cost recovery is primarily used for secretariat-wide information and communications technology services and for administrative services. The account is financed by internal service charges levied on divisions. A cost recovery fund should not be used to collect significant amounts of accumulated surpluses. UNFCCC has not submitted an analysis of the comparatively high amount of net assets. The Board noted that a complete and reliable description of the process was still lacking.

Guideline on the process of programme support costs

In 2020, the accrued net assets in the special account for programme support costs (PSCs) only slightly decreased from 12.7 million USD to 12.4 million USD which still exceeds by far the operating reserve for unpredictable issues stipulated by the UN Secretariat. This reserve amounts to 20 per cent of the annual programme support income. The Board noted that UNFCCC started to analyse prior years' reasons for such high levels of net assets and

to develop a financial planning tool for PSCs. Standard operating procedures for PSC planning and execution were not in place.

Low value acquisition

The Board found 10 purchases of non-standard hardware/software without technical review by the Office of Information and Communications Technology. Furthermore, 6 out of them had been paid by UNFCCC credit card. In doing so, UNFCCC accepted the terms and conditions of the vendor and did not respect the United Nations General Terms and Conditions of Contract which are to be applied when purchasing software/hardware. In exceptional cases, if additional terms or changes have to be accepted, UNFCCC needs to thoroughly assess whether to take the risks.

Consultants and individual contractors

The Board found several cases of consultants or individual contractors whose contracts overlapped in time with other contracts. If consultants and individual contractors enter into multiple contracts, internal controls are needed to provide an overview of the contracts in order to ensure compliance with the policy.

Based on its findings, the Board has made a number of recommendations aimed at further enhancing governance and financial management of the secretariat.

Honourable Chair, Distinguished Delegates, this concludes my statement. Let me take the opportunity to thank the staff in the secretariat for their support and assistance throughout the audit, and also for making this written presentation possible.

I will be happy to respond to any questions you may have.

Thank you very much for your kind attention.

Mr. Kay Scheller
President of the German Supreme Audit Institution
(Lead Auditor)