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Framework Convention on Climate Change

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Subsidiary Body for Implementation
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Item 20 of the provisional agenda
Administrative, financial and institutional matters

Financial report and audited financial statements for 2022 and report of the United Nations Board of Auditors

Note by the secretariat

1. The UNFCCC financial procedures[1] require that a final audited statement of accounts for the full financial period be provided to the Conference of the Parties as soon as possible after the accounts for the financial period have been closed. They also stipulate that the accounts and financial management of all funds governed by the financial procedures shall be subject to the internal and external audit process of the United Nations.

2. The United Nations Board of Auditors has audited the financial statements for 2022. The full text of the Board's report and of the audited financial statements is included in the annex and reproduced as received, with the original pagination. The secretariat's response to the audit recommendations is contained in the addendum to this document.[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 recommend appropriate actions in draft decisions on administrative and financial matters for consideration and adoption by the Conference of the Parties at its twenty-eighth session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eighteenth session and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fifth session.

[1] Decision 15/CP.1, annex I.
[2] FCCC/SBI/2023/INF.9/Add.1.

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Annex

United Nations

Report of the United Nations Board of Auditors on the financial statements of the United Nations Framework Convention on Climate Change

for the year ended 31 December 2022

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

United Nations Framework Convention on Climate Change

Contents

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) which comprise the statement of financial position (statement I) as at 31 December 2022, the statement of financial performance (statement II), the statement of changes in net assets (statement III), the cash flow statement (statement IV) and the statement of comparison of budgets to actual amounts (statement V) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNFCCC as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of UNFCCC in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the Financial Statements and Auditor's Report thereon

Management is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2022 included in chapter IV, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing UNFCCC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate UNFCCC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UNFCCC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNFCCC's internal control;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

(d) Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UNFCCC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNFCCC to cease to continue as a going concern; and

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

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

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Hou Kai
Auditor General of the People's Republic of China
Chair of the Board of Auditors

Pierre **Moscovici**
President of the French Cour des comptes
(Lead Auditor)

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

26 July 2023

Chapter II

Long-form Report of the Board of Auditors

Summary

The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty adopted in 1992 that entered into force in 1994. Its objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2022.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements for the period under review as reflected in chapter I.

Overall conclusion

Total revenue have increased by 21 per cent, reaching $112.7 million. UNFCCC is mainly funded through contributions and service fees. In 2022, total contributions amounted to $75.8 million. These contributions included $35.6 million of indicative contributions and $40.2 million of voluntary contributions. The total revenue increase is mainly due to the growth of voluntary contributions. Total expenses have increased by 42 percent, reaching $132.5 million. This increase is mainly due to the transfer of $20 million to the adaptation fund and to the return to normal activities after the Covid-19 pandemic. The total deficit noted in 2022 amounted to $19.8 million representing 17 per cent of total revenues received in 2022.

The 2022 financial statements were presented for audit on 31 March 2023. The Board highlighted and discussed a number of issues when reviewing the financial records of UNFCCC for the year ended 31 December 2022 that were well adjusted by UNFCCC in the final financial records submitted on 31 May 2023.

Key findings

Budget and finance

The Board noted the need for several changes in the draft financial statements, in the notes to the financial statements as well as in the supporting documentation shared. The UNFCCC Secretariat agreed to put in place the actions necessary to enhance the quality assurance review of the financial statements closing process.

UNFCCC's draft statement of changes in net assets (statement III) recorded a transfer of $ 20 million to the Adaptation Fund of the World Bank, but the draft statement of financial performance (statement II) did not recognize an equivalent expense. Following technical exchanges on the applicable accounting treatment, the UNFCCC Secretariat adjusted its financial statements and notes in line with the recommendations of the Board. The Board considers that the additional information provided complies with IPSAS requirements.

However, from a broader perspective, the Board notes that this adjustment illustrates the difficulties that can arise from the increasing complexity of the global climate finance landscape and the governance of climate funds under the responsibility of the Conference of the Parties.

Risk Management

The UNFCCC Secretariat's risk management framework is outdated and should notably address three major categories of strategic risks.

The first one concerns resource risks. Critical risks on resources include notably the fact that (i) UNFCCC is facing difficulties to receive its core budget's indicative contributions in due time, (ii) an increasingly important share of the budget relies on supplementary resources, even for mandated activities, the collection of which seems difficult and falls far short of the targets set, and (iii) underspending in some areas and insufficient reporting to donors could set in, hampering fundraising efforts.

A second area of strategic risks is of a reputational nature, in the conclusion of partnerships and the organization of the Conference of the Parties. Indeed, the choices made may jeopardize UNFCCC's credibility and by ricochet the Convention process itself. The Secretariat has lately given increasing consideration to the issue, and up-graded its due diligences. However, the appetite for risk in this matter still needs to be better defined.

A third category concerns risks arising from the absence of juridical personality of UNFCCC Secretariat on the international plane. UNFCCC Secretariat has an established institutional linkage with the United Nations which provides a basis for its day-to-day functioning. Clarifications have been obtained which confirm UNFCCC Secretariat's ability to issue its own administrative instructions as deemed necessary for improved controls and efficiencies. This relative autonomy induces specific risks for the UNFCCC Secretariat, considering its size and the very large scope of the rules at stake.

UNFCCC Secretariat should also better address the risks linked to cybersecurity and to the evolving role of the Regional Collaboration Centres.

The quality of UNFCCC's risk management framework at corporate level needs to be improved. A more mature risk management would mean, among other things, (i) embedding with internal control and the prevention and handling of misconduct, fraud and corruption, (ii) strengthening oversight, and (iii) better articulating with the wider accountability framework.

Access rights to Umoja

Despite the UNFCCC Secretariat's efforts to follow of the rules issued by the United Nations Secretariat aimed at securing access rights to the Umoja Enterprise Ressource Planning ~~IT~~ system, the Board identified that some difficulties persist, including on derogations from the principle of segregation of duties where greater formalization and compensatory controls are needed.

Recommendations

The Board has made 11 new recommendations based on its audit. Details of how they can be implemented are provided throughout the report, notably in paragraphs immediately following the formulation of each recommendation. The Board recommends that UNFCCC:

Budget and finance

(a) **formalize a suitable quality assurance process on the financial statements, notes and financial report;**

(b) **focus the information in the financial statements notes to its own assets and financial performance on investments;**

Risk Management

(c) **define and implement a due diligence process to clear all types of financial and non-financial contributions, commitments and partnerships with non-Parties stakeholders;**

(d) **systematically request to include provisions in Conference of Parties' host country agreements stipulating that its opinion would be sought on the sponsoring partnerships;**

(e) **secure without delay its sub-delegation of authority framework;**

(f) **identify, assess and mitigate in a systemic manner critical risks of a strategic nature, including those concerning financial resources, partnerships and the legal environment;**

(g) **define and implement mitigation measures to better address cybersecurity risks;**

(h) **enhance its oversight on risks linked to the evolving role of Regional Collaboration Centers;**

(i) **better prevent the risks of fraud, corruption and misconduct by enhancing and updating detection and treatment systems;**

(j) **adopt its own risk management policy with the objectives of reinforcing the global oversight on risks and better articulating it with the wider accountability framework.**

Access rights to Umoja

(k) **conduct a review of all Umoja related UNFCCC relevant internal processes and rules to mitigate risks related to access rights.**

Previous recommendations

Out of 30 outstanding recommendations, 14 have been fully implemented (representing 47 per cent of outstanding recommendations, compared to 28 per cent in 2021).

Key facts

$112.7 million	Revenue
$132.5 million	Expenses
$19.8 million	Deficit for the year
$264.7 million	Assets
$170.4 million	Liabilities
$94.3 million	Total net assets

A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty that entered into force in 1994. Its objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. In 1997, the Kyoto Protocol has been concluded and established legally binding obligations for developed countries to reduce their greenhouse gas emissions. In 2015, the Paris Agreement has adopted governing emission reductions as from 2020 by means of countries committing to Nationally Determined Contributions. The work of UNFCCC is facilitated by its secretariat located in Bonn, Germany.

2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2022 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations and the annex thereto and in accordance with the International Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNFCCC as at 31 December 2022, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the bodies and whether revenue and expenses had been properly classified and recorded in accordance with the United Nations Financial Regulations and Rules and financial procedures approved by the Conference of the Parties (COP) in Decision 15/CP.1 and IPSAS. The audit included a general review of the financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to auditing accounts and financial transactions, the Board carried out reviews of the UNFCCC operations under United Nations Financial Regulation 7.5. This enables the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNFCCC operations. The Board also followed up on its previous recommendations. These matters are addressed in the relevant sections of this report.

5. The audit was carried out at the premises and remotely from 05 to 16 December 2022 and from 03 to 21 April 2023. This included the final audit of the financial statements. The UNFCCC audit included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of our examination.

6. The findings and observations should not be regarded as representing a comprehensive statement of all the weaknesses which may exist in the financial and management systems at UNFCCC, or as identifying all improvements which could be made to the systems and procedures.

7. The Board's observations and conclusions were discussed with the UNFCCC Secretariat whose views are appropriately reflected in the report.

B. Follow-up of previous recommendations and findings

1. Previous recommendations

8. As at 31 December 2022, there were 30 outstanding recommendations. 16 from the audit report on financial year 2021, and 14 from previous exercises. The detailed follow-up of these recommendations is presented in the annex to this report.

9. The implementation rate of previous recommendations has improved compared to the previous year even if it still remains low. Fourteen recommendations have been implemented (representing 47 per cent of the outstanding recommendations, compared to 28 per cent in 2021), while twelve remain under implementation (40 per cent), three are not implemented (10 per cent) and one can be considered as overtaken by events (3 per cent). Seven of the implemented recommendations relate to the adoption of new policies, following the policy review carried-out by the UNFCCC Secretariat in 2021, a process which requires time to be implemented.

10. The Board is confident that the UNFCCC Secretariat will remain fully committed to continuing its efforts to implement the recommendations made in the most effective and expeditious manner possible.

11. The recommendation 2021-133 urging the UNFCCC Secretariat to "include the project of establishing an environmental management system based on an internationally recognized standard in the next workplan" is considered as being implemented. The Board will nevertheless come back to this issue, in order to verify progress made in implementing this project.

2. Budget and finance

12. The financial overview shows a total deficit of $19.8 million representing 17 per cent of total revenues received in 2022, and that net assets have increased by 23 million at year-end 2022 (see section 2.1).

13. Adjustments during the audit were substantial and comprise the accounting treatment of a $20 million donation to the Adaptation Fund, illustration of the growing complexity of climate finance (2.2).

14. The quality check of the financial statements closing process shows that the UNFCCC Secretariat needs enhance its quality assurance review process to fully implementrecommendations in previous Board reports regarding the insuance and the implementation of a quality assurance process, (2.3).

15. In terms of financial disclosure on investment, the Board noted the need to improve UNFCCC specific information in the notes for the reader of the financial statements (2.4).

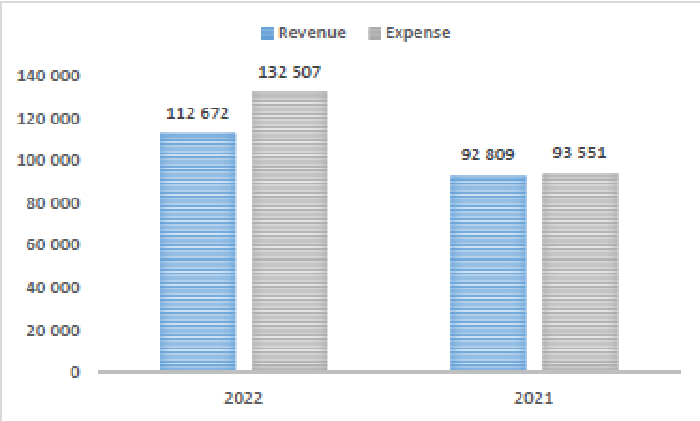
2.1. Financial overview

Revenue and expenses

16. Total revenue have increased by 21 per cent, reaching $112.7 million (in 2021: $92.8 million). UNFCCC is mainly funded through contributions and service fees. In 2022, total contributions amounted to $75.8 million (in 2021: $67.8 million). These contributions included $35.6 million (in 2021: $37.1 million) of indicative contributions and $40.2 million (in 2021: $30.7 million) of voluntary contributions. UNFCCC collected Clean Development Mechanism (CDM) and joint implementation (JI) service fees of $32.1 million (in 2021: $22.9 million). The total revenue increase is mainly due to the growth of voluntary contributions, while the decrease of indicative contributions is due to the exchange loss on euros contributions valuing lower in US dollars.

17. Total expenses have increased by 42 percent, reaching \$132.5 million (in 2021: \$93.5 million). This increase is mainly due to the transfer of \$20 million to the adaptation fund as per decision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) of 13 November 2021 (2/CMP.16). In addition to this transfer, the expenses have increased in 2022 due to the return to normal activities after the Covid-19 pandemic. As travel restriction were eased in 2022, most of meetings and events were conducted physically generating an expense of \$12.4 million while only the COP was held physically the previous year (in 2021: \$5.7 million). The other expenses increases are related to the contractual services amounting to \$24.2 million (in 2021: \$20.7 million), the operating expenses amounting to \$6.4 million (in 2021: \$2.2 million) and the foreign exchange and investments amounting to \$6.0 (2021: \$2.7 million).

Figure II.I
Revenue and expenses
(Thousands of United States Dollars)



Source: Analysis made by the Board on the basis the UNFCCC financial statements for the year ended 31 December 2022.

18. In 2022, the revenue/expenses ratio is lower than in 2021 mostly due to a transfer of \$20 million in 2022 from CDM Trust Fund to the Adaptation Trust Fund as per decision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) of 13 November 2021 (2/CMP.16). The accounting of this operation raised questions that are detailed below.

19. The total deficit noted in 2022 amounted to \$19.8 million representing 17 per cent of total revenues received in 2022.

Assets and liabilities

20. As of 31 December 2022, the two main elements of the UNFCCC assets are cash and investment balances, which totaled \$233.1 million (in 2021: \$248.0 million), and \$23.2 million of contributions receivables (in 2021: \$21.8 million). Contributions receivables represent amounts already due and the outstanding over the lifetime of current agreements with donors, of which an amount of \$4.1 million (in 2021: \$2.4 million) is due in more than one year.

21. The cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNFCCC cash balances and investments totaled \$4.0 million (in 2021: \$1.0 million).

22. The most significant component of UNFCCC liabilities results from employee benefits liabilities of \$130.9 million (in 2021: \$165.8 million). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate cost of after-service health insurance (ASHI) of \$120.0 million (in 2021: \$152.9 million). The effect of an increased discount rate resulted in an overall net actuarial gain

of $40.9 million (in 2021: gain of $6.2 million) on the ASHI liability as disclosed in note 12 of the financial statements.

23. The second most significant liability of UNFCCC relates to the advance receipt of conditional voluntary contributions of $19.3 million (in 2021: $18.2 million) as presented in note 11. In accordance with IPSAS 23, the advance receipts represent agreements where the revenue is recognized when the conditions set out in the agreements are met in future financial periods. Seen from UNFCCC's perspective, these advance receipts represent commitments to donors for the provision of future services. The recognized amount represents UNFCCC's best estimate that would be required to settle the obligations defined in the conditions of the agreements.

24. The Board' analysis of capital structure ratios (table II.1) shows that, despite the competitive environment for donor funds, the current financial position of UNFCCC remains sound, with an improved asset to liabilities ratio of 1.55 (1.34 in 2021). The analysis of ratios shows relative consistency over the last financial years, with a lower cash ratio at year-end of 4.13 (5.01 in 2021).

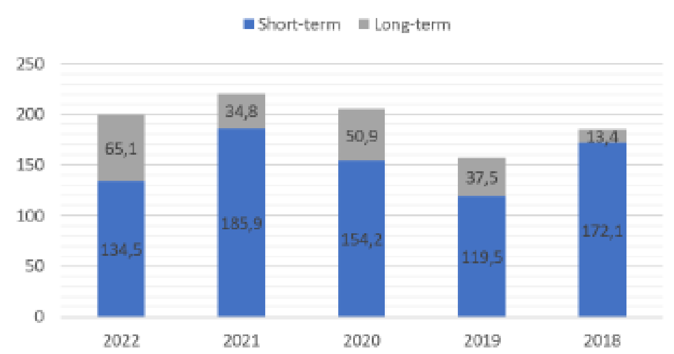
Table II.1
Capital structure ratios

Description of ratio	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Total assets: total liabilities Assets: liabilities	1.55	1.34	1.31	1.37
Current ratio Current assets: current liabilities	4.65	5.61	6.20	6.16
Quick ratio Cash + short-term investments + accounts receivable: current liabilities	4.53	5.49	6.10	6.02
Cash ratio Cash + short-term investments: current liabilities	4.13	5.01	5.36	5.20

Source: Board's calculations based on the UNFCCC financial statements for 2022, 2021, 2020 and 2019.

a A high ratio is a good indicator of solvency.
b A high ratio indicates an entity's ability to pay off its current liabilities.
c The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.
d The cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

Figure II.II
Development of investments during the years 2018-2022 (Millions of United States Dollars)



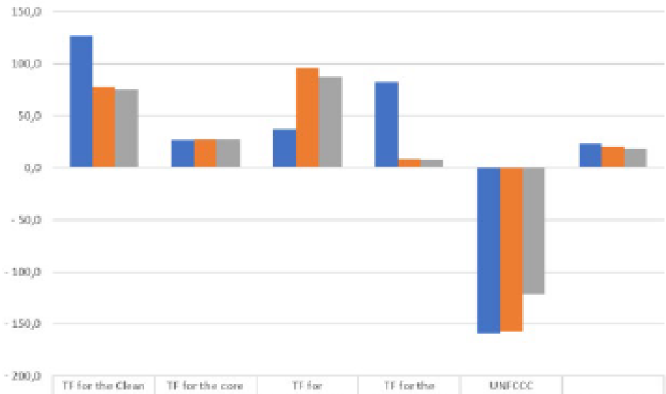
Source: Analysis made by the Board on the basis the UNFCCC financial statements for 2022, 2021, 2020 and 2019- accrued interests are excluded.

25. Total investments, handled by the United Nations Secretariat, have decreased by 10 per cent in 2022 from $220.7 million to $199.6 million (see table 3 above). Long-term investments have increased significantly (87 per cent) while short-term ones have decreased (28 per cent). Cash and cash equivalents have increased from $27.2 million to $33.5 million.

Net assets

26. Net assets have increased by $23.2 million at year-end 2022 compared to 2021.The figure below shows that the increase in net assets is primarily noted in the decrease of UNFCCC Employee Liabilities Trust Fund related to the net actuarial gain on the ASHI liability (see §22) as well as the improvement of net assets of the Supplementary Activities Trust Fund.

Figure II.III
Net assets by fund (Thousands of United States dollars)



	TF for the Clean development mechanism	TF for the core budget of UNFCCC	TF for Supplementary Activities	TF for the International Transaction Log	UNFCCC Employee liabilities fund	Other funds
2020	126,3	26,5	37,3	82,2	- 159,5	23,3
2021	77,6	26,7	95,5	8,1	- 157,1	20,2
2022	75,1	26,7	87,5	7,6	- 120,5	17,9

Source: Analysis made by the Board on the basis the UNFCCC financial statements for 2022, 2021 and 2020.

2.2. Adjustments during the audit

27. In the course of the audit of UNFCCC's financial statements and report for the year ended 31 December 2022, the Board noticed several transactions that needed to be corrected in the draft financial statements, and requested that appropriate corrections be made.

Accounting of a $20 million donation to the Adaptation Fund of the World Bank

28. UNFCCC draft financial statement III (changes in net assets and equity) recorded a transfer of $20 million to the World Bank, however the draft statement II (financial performance) did not recognize an equivalent expense. The initial explanation provided by UNFCCC Secretariat did not comply with IPSAS. The UNFCCC Secretariat agreed to make the adjustments to its financial statements and notes, in line with the recommendations of the Board. The Board considers that the additional information provided and the correction made to the financial statements is fully compliant with IPSAS requirements.

29. UNFCCC acts as a trustee for the Trust Fund for the Clean Development Mechanism ("CDM Fund"), and the World Bank similarly for the Adaptation Fund. The revenue, expenditure, assets and liabilities of the CDM Fund are recorded within UNFCCC Financial Statements.

30. In 2021, the COP/CMP decided a transfer of $20 million from the CDM Fund to the Adaptation Fund (CMP decision 2/CMP.16.2 §20). The legal form chosen for the transfer was a donation. The donation agreement was signed between UNFCCC and the World Bank on 16 November 2022.

31. This operation was difficult to assess during the audit as UNFCCC had initially recorded this transaction not as a donation but as a direct transfer from its accumulated surplus to the Adaptation Fund. As already mentioned above, no expense had been recognized in the draft statement II (financial performance).

32. After the Board identified the issue, the UNFCCC Secretariat provided the following explanations regarding this treatment:

- although the CDM Fund and the Adaptation Fund are administered separately, the COP/CMP is the common governing body for both of them;
- a donation agreement was the only instrument acceptable for the World Bank, but the transaction remained in essence and substance an inter-trust fund transfer and not an expense;
- an expense can be incurred only when it meets the objectives of the Secretariat as listed in its 2022-2023 biennium work programme. The $20 million transfer was not included in the objectives of the 2022 work programme of the Secretariat, so that UNFCCC considered it could not recognize the transaction as an expense.

33. The Board considered that the UNFCCC's explanation did not comply with IPSAS requirements.

34. Although being the common governing body of the CDM Fund and the Adaptation Fund, the COP/CMP has no direct control over the assets of these two funds. Indeed, UNFCCC on one hand and the World Bank on the other, are two separate accounting entities, each having a separate control of their respective assets. According to IPSAS 1 §7, "assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". If the UNFCCC Secretariat were to state that COP/CMP, and not itself, had effective control over the CDM Fund's assets, or that UNFCCC did not expect any future economic benefits or service potential from these assets, then the latter should not have been recognized as such within UNFCCC financial statement III.

35. When stating that the transaction remained an inter-trust fund transfer and not an expense, the UNFCCC Secretariat did not provide an IPSAS definition of such "inter-trust transfer".

36. According to IPSAS 1 §7, "expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners." If the assets of the CDM Fund are recognized on the face of the UNFCCC financial statement III, then the transaction fulfills all the conditions of an IPSAS expense on the face of the statement II because: (i) for UNFCCC, the donation agreement represents clearly a "decrease in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets"; and (ii) in the absence of one and same reporting entity controlling the assets of both funds, the transaction cannot be recognized as a redistribution of accumulated surplus (i.e. a direct transfer to and from a common owner).

37. This applies to the "transfer" of $20 million from the CDM Fund to the Adaptation Fund as per CMP decision 2/CMP.16.2 § 20, in compliance with IPSAS 1. The Board therefore concluded that this operation shall be recognized as an expense in UNFCCC financial statement II.

38. On that basis, the UNFCCC Secretariat decided to make an adjustment to its financial statement II by recognizing an expense of $20 million (as disclosed in the "return/transfer of donor/CDM Trust Funding" and in Table 39 of the note 18).

39. The Board considers that the additional information provided is compliant with the IPSAS 1 requirements.

Illustration of the growing complexity of climate finance

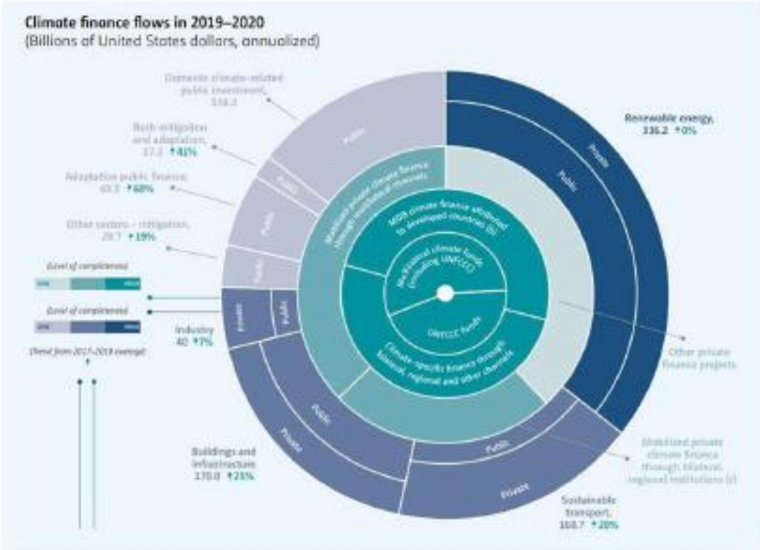
40. From a broader perspective, the Board notes that this adjustment illustrates the difficulties that can arise from the increasing complexity of the global climate finance landscape and the governance of climate funds under the responsibility of the COP.

41. The growing complexity of climate finance has regularly been underlined by many stakeholders and observers.[1] In a recent report, the United Nations Secretariat underlines notably that: "*Climate funds under the United Nations Framework Convention on Climate Change and the Paris Agreement, such as the Green Climate Fund, must play a critical role of delivering to developing countries. (...) There are currently around 73 public or partially public climate funds, with 62 multilateral funds disbursing only $3 billion to $4 billion in total in 2020. At present, they do not coordinate effectively.*".[2]

42. The reports of the Standing Committee on Finance, established to assist the COP in exercising its functions in relation to the Financial Mechanism of the Convention, clearly document this pattern. The figure below illustrate how public and private funds, intervening through multilateral, regional, bilateral, domestic or other channels, contribute directly or indirectly to the different objectives of the climate agenda, financing, with a variable level of completedness, cleaner energy, sustainable transport, climate-friendly infrastructure, construction and industries, among others.

[1] See for instance CFF2-2023-ENG-Global-Architecture.pdf (climatefundsupdate.org).
[2] Our Common Agenda Policy Brief 6, Reforms to the International Financial Architecture, May 2023.

Figure II.IV
Climate finance flows in 2019-2020



Source: J0156_UNFCCC BA5 2022 Summary_Web_AW.pdf.

43. The difficulty for the UNFCCC Secretariat in identifying the relevant accounting treatment of the $ 20 million transfer to the Adaptation Fund is part and parcel of the complexity of the governance of the climate funds within the COP's responsibility.

44. UNFCCC, as secretariat of a global process that rules on climate finance, could be considered as the apex body of this architecture. In practice however, streamlining this landscape would imply an involvement of the COP at the highest level. The UNFCCC Secretariat currently focuses on the transition from the clean development mechanism inherent to the Kyoto Protocol, to the mechanism set up by article 6.4 of the Paris Agreement, allowing countries to cooperate with each other to achieve emission reduction targets set out in their nationally determined contributions.

45. The Board will revert to the issue of the role of the UNFCCC Secretariat on climate finance in the broader perspective of its ongoing structural reforms ("fit-for-purpose" ambition).

Other adjustments

46. The UNFCCC Secretariat had overstated its voluntary contribution receivables by $2.6 million and understated the other receivables by the same amount. Even though the total accounts receivables balance was correct, the Board recommended UNFCCC to correct the presentation of Note 6. UNFCCC accepted the recommendation and corrected the amounts in the final version of the financial statements.

47. As regards cash and cash equivalents and investments statements, UNFCCC had proceeded to an off-balance reclassification of the accrual of investment revenue ($1.18 million) in the notes from the assets held cash pool (short-term investments) into an "other accounts receivables" section. The United Nations Secretariat financial statements (Vol. I), based on the IPSAS 1 and IPSAS 28, report the accrual of investment revenue as part of investments assets in the current assets. The Board also noted the same presentation in UNFCCC 2021 financial statements for $0.2 million. As financial statements shall present a fair presentation of financial position, financial performance and cash flows set out in IPSAS, the Board recommended that the UNFCCC Secretariat present the accrued interest among the current investments assets in order to be comparable with the UN main cash pool positions, as well as add an explanation in the notes regarding the 2021 amounts.

The UNFCCC Secretariat accepted this recommendation and corrected the amounts for 2022.

48. UNFCCC outstanding voluntary contributions amounts to $14.3 million as at 31 December 2022, with a related Allowance For Doubtful Account (AFDA) of $0.026 million. The UN approach for allowance for doubtful voluntary contributions receivables accounts as per the IPSAS policy framework is as follows (UN IPSAS Accounting manual, chapter 13):

- Specific identification - Provisioning will first go through specific identification of accounts receivable;
- Aging: The policy guidance is 25 percent allowance for receivables outstanding longer than 12 months, 60 percent for receivables outstanding longer than 24 months and 100 percent for receivables outstanding longer than 36 months.

49. Applying the UN IPSAS policy guidance on the ageing of UNFCCC outstanding voluntary contributions as at 31 December 2022 would lead to an AFDA of $1.4 million. In accordance with the principle of prudence when determining at year end the reasonable amount of cash to be collected from receivables, the Board recommended that the UNFCCC Secretariat provide an analysis of its past experience with similar types of sponsors and donors and its assessment regarding the probability that the payment will occur, notwithstanding that the funds have not been transferred at the reporting date. The UNFCCC Secretariat provided its own risk and history analysis supporting the level of allowance of $0.026 million booked at year end and showing that the rest of the accounts receivables balances $14.3 million do not require any provision for doubtful debts.

50. In 2022, UNFCCC disposed four intangible assets of $2.3 million among which two assets of total of $0.5 million are still in use and will not be effectively decommissioned until the end of 2023. As the net value of these assets is equal to $0 since they are fully amortized, and as UNFCCC has indicated that the assets will be decommissioned in 2023, the Board recommended to UNFCCC to add an explanation about the un-decommissioned asset in the note 9 and to proceed to the full decommissioning of these two assets in 2023. UNFCCC accepted the recommendation and added a note on this subject in table 20, note 9.

51. Furthermore, the Board has have issued various comments on UNFCCC's annual financial reporting for the year ended 31 December 2022 and, in particular, on the consistency and the correct presentation of the notes to the financial statements.

52. UNFCCC has reviewed the differences and revised its financial statements for the year ended 31 December 2022. The Board acknowledges the adjustments included in the final version of the financial statements for 2022 during the clearance process and has adjusted in accordance with its initial observations on the presentation assessments mentioned above.

2.3. Quality check of the financial statements closing process

53. The Board noted the need for a number of changes in the draft financial statements, in the notes to the financial statements as well as in the supporting documentation shared.

54. UNFCCC has to deal with a significant number of stakeholders, including Member States, voluntary donors, employees, consultants, and different funds with their specific mechanism, including the special accounts for cost recovery and programme support costs, as well as the Clean Development Mechanism funds. Various manual accounting post-elimination operations are necessary to ensure proper neutralization of internal transactions (as for the cost recovery fund) and relevant presentation of advances, payables and receivables account balances in the financial statements.

55. The Board have found that on many of these post-elimination operations, it was not possible to identify the source of data or the rationale for such elimination on the supporting Excel workbooks provided by UNFCCC. Some information was missing in these workbooks, while some other information was incomplete.

56. The initial documentation and draft financial statements provided to the Board during the financial audit final mission was not of a sufficient quality and led to time-consuming iterations with the auditee.

57. The UNFCCC Secretariat s needs to continue enhancing the financial statement quality review process to implement quality assurance process recommendation by the Board in last year's report. The aim of such review should be to ensure the accuracy of accounting methods, the consistency of the wording used in the financial statements, the accuracy of figures presented in the financial report, the completeness of the information, the individual information among the report themselves as well as prior-year reports.

58. According to the Annex I to the UN Financial Regulations and Rules "The Board of auditors and its staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the Board, necessary for the performance of the audit."

59. Sharing of complete files containing the entire notes to financial statement preparation process (notes tabs and details) and identifying the significant post-eliminations (nature, short description) would make the verification of the financial statements and accounting methods more efficient within the allotted time. The lack of appropriate information compromises the obtention of a reliable audit trail. The draft financial statements ought to be validated by appropriate staff who have not been involved in their preparation, and the UNFCCC Secretariat should ensure the availability and correct transmission to the Board of all the information required for the financial audit.

60. **The Board recommends that the UNFCCC Secretariat formalize a suitable quality assurance process on the financial statements, notes and financial report.**

61. For the 2023 annual financial statements, the Board considers that, to be timely, this quality assurance, based on the closing instructions shared by UNOG, should be finalized at the latest by March 2024, and identify the actions to be taken and timelines, as well as the quality control plan on the financial documentation ahead of the intervention of the Board.

62. The UNFCCC Secretariat accepted the recommendation, stating that it is willing to use a formal quality assurance checklist for future financial statements submissions.

2.4. Financial disclosure on investments

63. UNFCCC investments are managed by UN Headquarters. Each year UNFCCC books its investment amounts. The gains and losses arising from changes in the fair value of financial instruments are included within the statement of financial performance in the period in which they arise. The change in conditions in 2022 led to a decrease in the market-to-market valuation of financial assets, which result in investment losses of $2.7 million. In this regard, UNFCCC agreed to add appropriate information on financial losses in the final version of the notes to the financial statements. The accounting standard on the presentation of financial statements (IPSAS 1) recommends that §128 "Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement shall be cross-referenced to any related information in the notes." In addition, IPSAS 1 allows to add notes on "information about items that do not qualify for recognition in those statements" and other explanatory notes (§21-f). Furthermore, IPSAS 30 on Financial Instrument Disclosure notes that §9 "an entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position" and §10 "an entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance".

64. The notes to the financial statements reflect in several tables the summary of assets and liabilities of the main Cash pools managed by the UN Treasury unit, their annual performance and their interest rate risk sensitivity analysis. Tables 5, 6, 8, 9 and 10 show information about the main cash pool, while tables 11, 15 and 16 show only information

about UNFCCC financial instruments. Furthermore, amounts related to the main pool do not correspond to the sub-totals of the assets and cash flow statement of financial position of UNFCCC.

65. UN headquarters has confirmed the possibility to provide tables with only UNFCCC Secretariat portion of the pool alongside with the pool total amounts.

66. **The Board recommends the UNFCCC Secretariat to focus the information in the financial statements notes to its own assets and financial performance on investments.**

67. The UNFCCC Secretariat accepted the recommendation and noted that in order to fully implement the recommendation, it is dependent on the availability of information that is provided by UN headquarters.

3. Risk Management

68. The audit of the UNFCCC Secretariat's risk management has focused on three areas:

- the comprehension of the key risks at stake and the current challenges regarding some key strategic risks (see section 3.1);
- the implementation to date of the enterprise risk management tools at corporate level and the way other risk management tools have been developed in some divisions and articulated with the corporate framework (3.2);
- and the benefits of a more mature risk management, allowing a better articulation with the wider accountability framework, including in the areas of internal control, strategic programming, budgeting and performance (3.3).

69. The UNFCCC Secretariat's risk management framework is outdated and should notably address three major categories of strategic risks:

- resource risks,
- reputational risks, notably in the conclusion of partnerships and the organization of the COP,
- and risks arising from the absence of juridical personality of UNFCCC Secretariat on the international plane and its reliance on the institutional linkage with the United Nations which provides the basis for the day to day functioning of the UNFCCC Secretariat.

3.1. Strategic risks facing UNFCCC

70. Risk management at UNFCCC cannot be assessed without a good understanding of the main risks involved and of their dynamics (a). Critical risks to address in priority at a strategic level include issues related to core and supplementary resources, reputational threats linked to the conclusion of partnerships and the organization of the COP, as well as the legal framework concerning the absence of juridical personality of UNFCCC Secretariat on the international plane and the institutional linkage with the United Nations (b).

a) Better grasping UNFCCC's risk universe

71. The work on risk identification and management at the United Nations was structured progressively, notably with the adoption of the 2012 Enterprise Risk Management (ERM) policy. The UNFCCC Secretariat acknowledged the need to address risk management in 2017, when it developed its first enterprise risk management tools.

72. The UNFCCC Secretariat's risk management cannot be assessed without first having a good understanding of the key risks faced by the entity in achieving its objectives. UNFCCC acts in an unstable environment, which carries several risks. The main strategic risks identified by UNFCCC, stated in its financial statements for 2022, are the following:

- geopolitical situation and/or energy and economic crisis impinging on parties' commitment to urgently combating climate change;
- unclear or incoherent approach to the development of the secretariat as an organization in support of the implementation of the Paris Agreement;
- unpredictable or insufficient financial resources to finance all relevant mandates from parties.

73. Answering the Office of Internal Oversight Service (OIOS) annual interview guide in September 2022, UNFCCC also underlined that "Public perception on how climate neutral and environmentally friendly Conference of the Parties are organized and how participants travel to the respective destinations have a huge impact on the public image of the UNFCCC. The same is true for potential partnerships and donor funds from the fossil fuel industry."

74. The risks UNFCCC is facing can be classified according to different criteria: endogenous versus exogenous risks, recurrent versus one-time risks, strategic versus operational risks.

75. Exogenous risks might be harder to deal with. For instance, the support of parties to combat climate change cannot be addressed by the UNFCCC Secretariat with a comprehensive response; only a few preventive actions can be taken, and only in cases where UNFCCC has room for manoeuvre on the identification of the best organisation to fulfil its mandates. Similarly, in the context of a rising mandate as decided by the Conference of Parties, the UNFCCC Secretariat has very limited control over the amount of its core budget voted by the Parties, whilst it is responsible for raising supplementary funds.

76. Recurrent risks appear easier to anticipate. For instance, the Conference of Parties' perception by the public is an annual risk that UNFCCC has to face, whereas handling an exceptional crisis such as the Covid-19 pandemics cannot be subject to the same anticipation and has been qualified as "unique event".

77. Another useful categorisation of risks can differentiate risks of a strategic nature, in the sense that they may affect the core of UNFCCC missions, and risks of a more operational nature.

78. A first assessment of these strategic risks has been carried out when the only to date corporate risk register was established in 2017. This register identified three very high risks (out of 19): partnering activities, extrabudgetary funding and management and organizational transformation. The informal risk assessment of UNFCCC through OIOS' report confirms that several risks of a strategic nature remained critical such as the risks linked to the availability of resources to achieve the objectives mandated by the Parties or the reputational risks linked to partnerships or selection of contributors, which may jeopardize UNFCCC's credibility and the convention process itself. Moreover, risks arise from the specific status of UNFCCC.

b) Addressing in priority three categories of critical risks at a strategic level

79. Critical risks to address in priority at a strategic level include issues related to mobilizing core and supplementary resources, reputational threats linked to the conclusion of partnerships and the organization of the COP, as well as the legal framework concerning the absence of juridical personality of UNFCCC Secretariat on the international plane and the institutional linkage with the United Nations.

i. Resource risks

80. Critical risks on resources include notably the fact that (i) UNFCCC is facing difficulties to receive its core budget's indicative contributions in due time, (ii) an increasingly important share of the budget relies on supplementary resources, even for mandated activities, whose raising appears difficult and well below targets, and (iii) underspending in some areas and insufficient reporting to donors could set in, hampering fundraising efforts.

Core contributions

81. On budgetary matters, UNFCCC is torn between several issues which hinder its capacity to achieve the objectives set by Parties. The risk raises of not being able to keep up with the increase in mandates and institutional work due to resource constraints, especially concerning core resources. The functioning of UNFCCC Secretariat is very different from the UN Secretariat which has a regular budget for administrative functions. Moreover, the trend is to extend UNFCCC's mandate in the context of accelerating the fight against climate change, without increasing Parties' indicative contributions and relying increasingly on unpredictable and unsustainable supplementary funds. Meanwhile, some difficulties in the management of the supplementary budget were also noted.

82. UNFCCC biennium budget for the implementation of activities mandated by Parties has been divided in four categories:

- essential activities (category 1);
- long-term activities (category 2);
- short-term activities (category 3);
- complementary activities (category 4).

83. The first two categories are to be covered by the "Trust Fund for the Core Budget", while the third, even though this includes mandated activities, and the fourth are supposed to be covered by the "Trust Fund for Supplementary Activities". The core budget is funded by the Parties' indicative contributions, and the supplementary activities by voluntary contributions from parties and non-party donors.

84. In addition, UNFCCC implements specific activities funded by other funds, including: International Transaction Log; Clean Development Mechanism; Joint Implementation; Special Account for Conferences and other recoverable costs; Bonn Fund; Trust Fund for Participation; Programme Support Cost Fund; the budget for activities under Article 6, paragraph 4, of the Paris Agreement.

85. A first category of resource risks is linked to the fact that UNFCCC is facing difficulties to receive its core budget's indicative contributions in due time.

86. On the one hand, Parties can withdraw from the Convention, the Kyoto Protocol or the Paris Agreement. This risk occurred recently with the largest contributor's withdrawal from the Paris Agreement: announced in June 2017, the decision took effect from November 2020 to February 2021.

87. On the other hand, some arrears have been outstanding for several years. For the fiscal year 2022, 78 percent of the core budget's indicative contributions from the Parties have been collected. As at 1st April 2023, UNFCCC still needed to collect EUR 13,429,860 and $ 134,810 from the Parties in contributions to its core budget (excluding the outstanding contributions for the fiscal year 2023). Outstanding contributions older than two years (1996 – 2021) amount to EUR 3,582,758 and $ 134,810.

88. The gap between the approved budget and the received funding in due time contributes to hinder programme implementation and achievement of objectives. This should be dealt with at the planning stage. In the risk register issued in 2017, the failure to receive cash contributions was already identified as a critical risk. It entails an operational constraint as contributions are received late. The actions taken to tackle this risk seem unfortunately not sufficient, beyond the mentioning to the Parties, during the sessions of the Subsidiary Body for Implementation (SBI), of the high level of outstanding contributions.

Supplementary resources

89. A second category of resource risks is linked to the fact that the share of supplementary resources in the budget for mandated activities has increased throughout the years while the raising of these funds remains difficult and well below the targets. For the biennium 2024-2025, the proposed core budget amounts to EUR 82.7 million, while the projected supplementary budget represents EUR 145.2 million, representing 175

percent of the proposed core budget. Indeed, the need to cover categories 1 and 2 increased heavily due notably to the expansion of UNFCCC's mandate, inflation and staff salaries revaluation.

90. UNFCCC has endeavored to propose an integrated program budget broken down between core budget and supplementary budget. Three scenarios have been built for the core budget, including one proposed to validation by Parties:

- an "actual needs" scenario of the Secretariat, which comes to EUR 122.6 million and covers the categories 1 and 2;
- a "mandated zero nominal growth" scenario which retains the core budget to EUR 62.3 million, at the same nominal value as for the biennium 2022–2023, covers 50.8 percent of the actual needs and results in a 19 percent reduction of the core budget when considering the cost increases;
- and a "proposed core budget" scenario which comes to EUR 82.7 million, covers 67.4 percent of the needs and shifts a very large part of the category 2 activities to supplementary funding.

91. However, a reliable forecast of the supplementary budget that will effectively be available for allocation cannot be readily generated. Indeed, UNFCCC has difficulties to secure its supplementary funding, as it is raised on a voluntary basis from Parties and non-Party stakeholders. For the biennium 2022-2023, the gross requirement expressed for supplementary funding was EUR 135 million, the fundraising target (requirement net of available grant balance) was EUR 76 million and the amount effectively raised by April 2023 was EUR 24 million, i.e. 32 percent of the fundraising target.

The funding of Subsidiary Bodies conferences

UNFCCC Secretariat faces new challenges in financing the yearly sessions of the Subsidiary Bodies (SBs). The SB56 conference costed a total of million $ 5.4, including $ 1.0 for the participation of representatives of developing countries.

In the past, the SBs conferences cost for logistical arrangements (excluding the participation of representatives of developing countries) were covered mainly by the Bonn Fund, that is supposed to finance additional cost arising from the location of UNFCCC in Bonn, including the organization of UNFCCC events (EUR 3.6 million granted by the German government for every biennium).

However, the cost of organisation of the SBs sessional meetings increased in recent years due to rises in the cost of the participants, SB agenda, mandated events, conference venue, labour costs, global supply chain issues, virtual platforms involved, broader inflation and COVID-19 measures.

For the SB56 conference, $ 1.2 million came from the Bonn Fund and UNFCCC had a EUR 2.9 million funding gap to fill. Less than one month before the event, UNFCCC requested supplementary funding from the Parties and non-Parties stakeholders. It also used $ 0.2 million of available unearmarked funding.

In addition, in order to pay the suppliers, especially the World Conference Centre Bonn, UNFCCC had to temporally advance $ 3.1 million taken from the Programme Support Cost Fund. This loan was almost entirely returned to the Fund when UNFCCC succeeded to raising the required funding. The balance will be paid when the value added tax claims are settled.

This example illustrates the difficulties of budget planning arising from the lack of predictable resources covering the funding needs of recurrent events, implying a lot of efforts trying to find alternative solutions, in a context of cost increase and without prejudice to the conclusion that could be drawn from an assessment of the relevance of the design and price of the event.

Potential underspending and insufficient reporting to donors

92. Uncertainty about the financing of activities weakens the management of projects and can paradoxically also result in an under-execution of supplementary funds that, in

turn, can jeopardize the ability to raise funds on the long-term. This vicious circle is acknowledged by UNFCCC, which, in its draft prioritized workplan for 2023, identified several risks linked to supplementary funds seeking, such as: "*overall low expenditure rate by divisions (50 percent as of 31 December 2022 for the year 2022) under several key donor grants*".

93. UNFCCC's budgeting process does not prevent some under-consumption of funds in specific areas. For instance, the divisions Mitigation and Means of Implementation respectively spent 24 and 27 percent of their 2022-2023 integrated budget for mandated activities in 2022. This situation is notably due to delays in some projects and recruitments, as well as to difficulties to mobilise the stakeholders targeted by a project in order to deliver the expected outputs. In the case of projects funded through the transfer of $ 55 million from the Trust Fund for the Clean Development Mechanism, following a decision from the COP (2/CMP.16), the consumption rates versus proposed amounts for 2022 were respectively 30, 10 and 0 percent for projects SB-014990, SB-019082 and SB-019083.

94. Reporting on resource risk is also key and needs to be improved and coupled with reporting on programme achievements. The risk "*extrabudgetary funding and management*" identified in the risk register issued in 2017 as critical, still appears relevant; nevertheless, some of the mitigation measures identified have not yet been fully implemented six years later, such as the capacity to provide a sufficient and timely reporting. The issue on reporting is still accurate, as indicated in the risks identified in the 2023 draft prioritized workplan for UNFCCC which states "*insufficient/delayed donor reporting that undermines resource mobilization opportunities and the secretariat's creditability to deliver*". This insufficient donor reporting has been observed on a sample of projects: for the five projects reviewed, the details in narrative reports are variable; Information provided in section "*achievements and measurable reports*" is insufficient regarding the nature and number of beneficiaries or stakeholders involved in the project for instance.

95. The Board consider that these risks affecting resources are critical and should be addressed at strategic level (see recommendation below §164).

ii. Reputational risks linked to the conclusion of partnerships and the organization of the COP

96. A second area of strategic risks is of a reputational nature, in the conclusion of partnerships and the organization of the COP. Indeed, the choices made may jeopardize UNFCCC's credibility and by ricochet the Convention process itself. The Secretariat has lately given increasing consideration to the issue, and up-graded its due diligence. However, the appetite for risk in this matter still needs to be better defined.

Conclusion of partnerships and selection of non-Party contributors

97. Meeting the Paris Agreement goals implies achieving net-zero emission. To develop stronger and clearer standards for non-State entities, the UN Secretary-General appointed a High-Level Expert Group that in November 2022, the experts issued a report[3] concluding that to achieve the objective, the targets must cover all types of greenhouse gas emissions and all scopes. UN entities were also asked to implement recommendations aimed at tackling greenwashing.

98. UNFCCC, given its mandate, is expected to become one of the frontrunners on the road to net-zero. In this endeavor, UNFCCC should seek to align all scopes of activities with this goal, including the conclusion of partnerships. Indeed, if UNFCCC were to partner with non-Party stakeholders who are not aligned with this goal, its reputation could be threatened.

99. UNFCCC Secretariat adopted a Guidelines for Partnerships in 2017 that provide a framework to partner with stakeholders, excluding Parties and UN entities. This framework outlines how UNFCCC should select partners, the purpose, benefits and guiding principles of partnership, including due diligence process and criteria. UNFCCC

[3] www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

Secretariat also issued a Partnership standard operating procedure (SOP) in April 2020 that "*sets out criteria and processes for the consistent administration of partnerships*". The Resource Mobilization and Partnerships sub-division (RMP) intervenes actively in the process. Created as a result of the organizational reform, this sub-division coordinates the engagements in partnership activities.

100. Risk management has been a concern of the administration of partnerships. The 2020 SOP states that "*Risk Management shall be conducted in accordance with UNFCCC's Enterprise Risk Management.*" The current risk register has a risk rated "critical" (highest level of risk) called "Partnering Activities". While the level of risk is appropriate as the organization is subject to a high exposure on the public sphere due to its mandate, its definition appears to miss a significant dimension of the actual risk identifiable on partnership, as a specific risk exists for private stakeholders. Indeed, it does not mention the high reputational risk and it focuses on all kind of commitments with external stakeholders, such as the wide range of partners, progressively including multilateral development banks and the private sector, and the growing expectations on the part of partners for more strategic engagement and innovative models.

101. The updated risk treatment plan of 2021 mentions the full implementation of the Partnership Committee as a means to mitigate risks. However, even if this risk treatment plan of 2021 identifies the head of RMP as the risk treatment owner, it is not formalized in an actual risk register. The register in place, dating from 2017, does not identify RMP as risk owner. Thus, *de facto*, RMP does not have the lead to manage the risk and does not have the resources to secure all partnerships concluded by UNFCCC.

102. When solicited, the Partnership Committee has an oversight position as per the SOP. Since 2022, the Partnership Committee has recommended including risk mitigation clauses in agreements. This good practice will be reflected in the updated guidelines for partnerships. However, the committee does not have sufficient tools to achieve its mission.

103. On the one hand, the risk tolerance of UNFCCC is not clearly defined. Only the 2017 Guidelines for Partnership mention exclusion criteria, which are not related to UNFCCC's commitments on climate change. As a result, the Partnership Committee, when solicited, does not have the fully operational tools to recommend whether or not to conclude an agreement with a company with regards to the level of reputational risk. In 2021, UNFCCC signed a partnership agreement with Bank A for a total amount of $ 750,000.00. This partnership was concluded at the end of the partnership process in accordance with the Partnership SOP although the due diligence report highlighted the potential high risk. This decision implies a high residual reputational risk for UNFCCC.

104. On the other hand, the due diligence that were used until early 2023 did not fully reflect the Global Compact and the net-zero ambition. Diligences appeared to have shortcomings to analyze the structuration of non-Party stakeholders and environmental topics. The checklist is not adapted to the organization of global players which have philanthropic actions through foundation directly and exclusively financed (or almost) and mandated by the parent company. The discussion during the Partnership Committee of October 2022 on the link between the Foundation of Bank B and the Bank B group is a meaningful illustration. Furthermore, due diligence is not adapted to respond to the Global Compact principle 7 "*businesses should support a precautionary approach to environmental challenges*" and principle 8 "*undertake initiatives to promote greater environmental responsibility*". Indeed, it does not have a question related to the financing of non-sustainable energy infrastructures.

105. The due diligence is currently being reviewed. Given the large number of partnerships (broadly defined whether they be formal partnerships, simple grants or umbrella initiatives), the number of full-time equivalents (FTEs) of RMP and the number of FTEs that can be mobilized in the divisions seems low.

106. The Board consider that this reputational risk should be properly addressed and mitigated (see recommendation below §164).

107. To that extent, the UNFCCC Secretariat should balance risks and opportunities and define its appetite regarding reputational risks linked to the conclusion of partnerships, understood in their broad definition. A set of criteria referring to the commitment of non-Parties stakeholders to net zero and to the sustainability of their activities as well as a list of non-Parties stakeholders with whom UNFCCC divisions are not permitted to partner would benefit to the Organization. Moreover, UNFCCC has to finalize the revision of the due diligence checklist in order to better take into account the Global Compact, the net-zero commitment and the current structuration of non-Party stakeholders, and the process to provide a comprehensive view of potential partners organization, funding and activities to the decision-makers.

108. In June 2022, UNFCCC produced a comprehensive map of the partnerships signed. It concluded that not all of them had followed the established internal partnership process, including due diligence and review by the Partnership Committee. Contribution agreements can be concluded by divisions through their direct uploading in the Legal Portal, where they are reviewed by the finance function and the legal function without an RMP due diligence. They are intended to be more restrictive than partnership agreements, especially in terms of opportunities of communication for the contributor on the link to UNFCCC.

109. For instance, UNFCCC concluded on 2021 a contribution agreement with the Foundation of Bank B for a total amount of EUR 150,000.00 and on 2022 a contribution agreement with Company A for a total amount of $ 150,000.00. Despite that UNFCCC has not cleared the agreement with the Foundation of Bank B through the partnership procedure (as this was not mandatory in this case according to the SOP), a due diligence was carried out, in accordance with the 2017 Guideline for partnership, using the Partnership SOP checklist template (before its revision induced by the Net zero report[4]). It states that "*As the Foundation of the Bank B is linked to the Bank B, it needs to be considered that the latter, of the top fossil fuel bankers, had by far the biggest growth in fossil fuel financing over the past five years, from $16.9bn in 2016, to $40.8bn in 2020.*" The checklist's conclusion mentions a high reputational risk as the Foundation of Bank B is directly associated to the Bank B group which "*has still claims against it ongoing and was involved in corruption and money laundering as part of a fossil fuel project.*"

110. The agreement with Company A supports a large-scale project at COP 27. The clause 8 of the agreement states that "*The Donor is mindful of the principles of the UN Global Compact (https://www.unglobalcompact.org/what-is-gc/mission/principles) and shall, in the course of or in relation to this Contribution Agreement, make its' best efforts in good faith to refrain from any act or omission that would depart from these principles.*" The Company A is a signatory of the UN Global Compact. In its last Communication on Progress based on the 2021 sustainability report, Company A has addressed the four principles (human rights, labor, environment, anti-corruption) as well as fourteen out of seventeen SDGs. An independent report on the environmental, social, and governance (ESG) risk exposure of an individual company for the past two and ten years, available on access through the UN Global Compact, was shared within UNFCCC (UNFCCC gained paid access to the UN Global Database from January 2022). It provides a very different perspective on the one provided by the Company A's self-reporting Communication on Progress. In this report, for instance, Company A is ranked with a very high ESG risk exposure (lower range) for "Human rights abuses and corporate complicity" and "Violation of national legislation" over the last two and the ten last years. In addition to this report, UNFCCC managers were warned by RMP that "if the Company A is to finance the project, the reputational risk might be extremely high". Contrary to the 2017 Guideline for partnership, no due diligence was conducted and the topic was never discussed during the Partnership Committee. Despite this warning and the several potential reputational consequences, the agreement was signed. On the other hand, Company A takes advantage of the partnership by posting significantly on UNFCCC and on COPs on social media.

[4] www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

111. The UNFCCC Secretariat administers a number of initiatives which support non-Party stakeholders in contributing to achieving the goals of the Convention and the Paris Agreement. To that extent, stakeholders in the fashion industry launched at COP 24 and renewed at COP 26 a Fashion Industry Charter for Climate Action under the auspices of UNFCCC.

112. No committee or UNFCCC executive under the current regulatory framework is in a position to prevent a stakeholder from adhering to the Charter principles. During the adhering process, UNFCCC conducts a due diligence, using the Partnership SOP checklist template. However, this due diligence is not binding in the process and is not conducted thoroughly. To commit, fashion stakeholders need only to express their intent to implement the principles enshrined in the Charter. For example, Company B primarily committed in 2020 to engage in the Working Groups established under the Charter. The due diligence process for Company B concluded that the company should be included in the Charter signatories, but it appears to be incomplete as for instance it does not mention the collapse of a building, in which the company was manufacturing, and does not investigate on the mitigation measures implemented.

113. The steering committee can however remove an organization from the Charter if this organization does not perform in accordance with the criteria, in application of article 16 of the Fashion Charter. UNFCCC has not applied this rule until now.

114. Crowdfunding is considered as a risk area despite the internal controls in place. Indeed, the platform is not an *ad hoc* development as it is hosted by the UN Foundation website. Donation is possible up to $ 10,000.00 without any constraint. Above this threshold, UN Foundation carries out due diligences. Crowdfunding could be seen as an opportunity and a communication strategy be developed specifically.

115. Conscious that the current screening of partnering activities conducted by different divisions in the organization have weaknesses, UNFCCC initiated steps to reform the partnering early 2023. This encouraging work is still on-going.

116. The Board recommends that the UNFCCC Secretariat define and implement a due diligence process to clear all types of financial and non-financial contributions, commitments and partnerships with non-Parties stakeholders.

117. The Board considers that this process should be overseen by the Resource Mobilization and Partnerships sub-division of the Secretariat. The Partnership Committee should also be informed of all partnership and validate the most sensitive ones.

118. The UNFCCC Secretariat accepted the recommendation.

Risks associated to the organization of the COP

119. COPs' size has increasingly grown over the years. The number of participants has sharply risen over the last three COPs: For COP 27, effective participation (number of badges issued to participants other than support staff) was 41,342, a 32 percent increase from COP 26 and a 77 percent increase from COP 25. COPs have thus become a very large event, requesting significant organisation and involving many risks.

120. COPs' operational preparation (not including programmatic and engagement/presidency risk management) is steered through two different processes on the operation's side:

- the first one gathers representatives both from UNFCCC and the Host Country, at two different levels: (i) the Steering Committee gathers high officials from the host Government and addresses oversight and decision-making on operations; (ii) whereas the Joint Operational Team carries out the day to day work regarding several workstreams (aviation, catering, facilities, health, sustainability, transport, visas, etc.), through the elaboration of a Roadmap to COP, regularly up-dated;
- the second one gathers UNFCCC staff, at two different levels as well: i) the COP Governance Board (formerly the COP Project Board) is the body for oversight and decision-making on COP coordination; ii) it is also complemented by meetings between the Conference Affairs division and other divisions

(AS/HR/ICT division, CA, Communication & Engagement division, Intergovernmental Support and Collective Progress division).

121. Risk management holds a significant share in COPs preparation regarding venue and convening of participants. The Roadmap to COP identifies for each workstreams: risks, their criticality (low, medium, high) and the reduction actions proposed to address the risk. The Roadmap to COP 27, as of 28 October 2022, identified 95 risks, of which 12 were rated as "high", or "big rock". Risk remedies are identified and Annex to Roadmap lists both critical reduction actions to be carried out before COP and critical response actions to be carried out during COP. Although the granulometry of risk identification, and risk reduction actions, are not identical from one workstream to the other, all workstreams address the issue. In contrast with activity ownership, which is clearly attributed either to UNFCCC or to the Host Country's team, the risk owners are not identified in the roadmap, and the responsibility lies with the Joint Operational Team as a whole.

122. This risk management exercise is supported by in-depth exercises of post-event reviews, which identify lessons learned from the latest COP. These reviews are carried out by the Conference Affairs division annually. However, in 2022, a parallel review was also conducted by the Organisational Development and Oversight Unit, which proposed a follow-up action plan to improve COP management. A review of the status of actions' implementation took place during the Management Team meeting on 15 July 2022.

123. Despite the elaborated risk identification and anticipation embedded in these processes, COPs' organisation systematically faces difficulties. The MT meeting dated 7 December 2022 (post COP 27) indicates for instance that "*COP 27 was the first implementation COP of the Paris Agreement and achieved many decisions and conclusions resulting in various deadlines and actions to be taken. COP 27 was successful as it achieved the common denominator, but the organization must set the bar higher. [...] From Operations Coordination (OC) perspective, COP 27 has proven to be unsustainable, both for staff and operations management.*" The client survey on conference services incidentally indicated that the overall experience of participating in the conference was rated as 'very good' or 'good' by 38 percent of respondents, compared to a target of 59 percent (rating of the indicator for COP 26).

124. Nonetheless, some of risks identified in the Roadmap to COP 27 materialised although the corresponding difficulties had already occurred in COP 26 and were identified in its "review and lessons learned", such as the lack of adequate staffing resources: COP 26 lessons learned stated that *"Difficulties in finding suitable candidates led to delays in recruitment, onboarding and training, exacerbating the already heavy workload for CA teams"*, but informal feed-back from COP 27 maintained, although the number of UN staff had undergone an 8 percent increase, that "*There should be a sustainable solution with regards to the staffing issue. To deliver COP at the current scale requires more human resources.*" It was also the case on conditions guarantying the quality of facilities: the COP 26 lessons learned stated that "*not having early, unrestricted access to the COP construction site resulted in some of the facilities being poorly designed and equipped (e.g. registration and security offices, sanitary facilities in the temporary structures among others)"*, however the same problem occurred during COP 27, as the rating of the quality of infrastructure in the client survey shows[5].

125. The way prevention and mitigation actions, having been identified through "lessons learned" exercises, are effectively embedded in risk management tools, is not being reported on within UNFCCC on a regular basis. While the minutes of the Governance Board hold on 3 March 2022 mention that the technical mission to Egypt addressed the recap of lessons learned from COP 26, there is no detailed reporting on how the prevention or reduction actions to be carried out are being considered.

[5] *"Many negative comments referred to poor conference venue infrastructure, including venue layout, trip hazards, excessive air conditioning, noise level, pavilion materials, internet connectivity, lack of sanitary facilities and poor quality and management of the existing ones.* »

126. This reporting could be strengthened, in order to embark the whole administration into an improved forward planning on the issue, and defining consistent timelines. It could moreover embark UNFCCC's reflection on the proposal of a reform of the COPs process to next presidencies. Indeed, MT meeting dated 15 February 2023 indicates, with regard to an agenda item on the process to strengthen the observer engagement in the UNFCCC that: "*The MT appreciated the proposal and suggested that the discussions are compiled into a complete package of recommendations to be put forward to the COP 28 and COP 29 Presidencies on the future of COP and reforming the process. Further discussions on the margins of these recommendations to take place among directors are needed.*"

127. The reputational risk associated to the choice of the COP's sponsors by the Host Country is not identified in the Roadmap to risks. However, issues arose during COP 27, specifically regarding Company C's sponsorship[6].

128. The only risk prevention tool that UNFCCC has at its disposal on the issue lies in the specific clause stipulated in the host country agreement (HCA), which states that "*The Government may consult the secretariat with a view to obtaining its advice on entities of concern with which the Government, as the host of the Conference, should not conclude sponsorship agreements in connection with the Conference*".

129. In this case, the Egyptian Government had requested advice on the list of sponsors. The request was addressed to the Communication & Engagement division, under article 3.16, focusing on logos and emblems that can be displayed. The answer provided did not raise any red flag, because this kind of partner had not been identified as an issue in the past.

130. In addition, while UNFCCC due diligence checklist to select partners through partnerships agreements are shared with the host country, they are not made mandatory for the Host Country's selection of its own sponsors.

131. UNFCCC should therefore consider making the seeking of advice from the Host Country mandatory and organise itself to provide an informed decision on the matter. The response to be provided to the Host Country could be submitted to an internal committee, rather than lie with only one UNFCCC's executive.

132. **The Board recommends that the UNFCCC Secretariat systematically request to include provisions in Conference of Parties' host country agreements stipulating that its opinion would be sought on the sponsoring partnerships.**

133. The Board considers that this proposal should be reflected in the host country agreement template and include a formal transmission of the due diligences adopted by UNFCCC to the host country.

134. The UNFCCC Secretariat accepted the recommendation, but reminded that it cannot impose any provision on the host country.

135. One of the reputational risks associated to the COP also lies with the carbon footprint of the event and at "*32 percent "very good" or "good", perceptions of sustainability of the conference was the third lowest indicator*" of the participants survey.

136. The standard host country agreement clause however specifies that "*In providing the Conference space, premises, equipment, utilities and services referred to in Article 3 above, the Government shall ensure the climate neutrality of the Conference […].*"

137. COP 26 had been certified ISO 20121 (international standard for sustainable event management) as well as PAS 2060 (internationally recognized specification for carbon neutrality). For its part COP 27 aimed only at certification as ISO 20121, which was still in progress in January 2023, thus representing a lesser ambition that COP 26's.

[6] A petition was signed by 245,260 people around the world, requesting the removal of Company C as a sponsor.

iii. Critical risks stemming from the legal environment

138. A third category concerns risks arising from the absence of juridical personality of UNFCCC Secretariat on the international plane. UNFCCC Secretariat has an established institutional linkage with the United Nations which provides a basis for its day-to-day functioning. Clarifications have been obtained which confirm UNFCCC Secretariat's ability to issue its own administrative instructions as deemed necessary for improved controls and efficiencies. This relative autonomy induces specific risks for the UNFCCC Secretariat, considering its size and the very large scope of the rules at stake.

Absence of juridical personality on the international plane

139. Pursuant to several recommendations of the Board, UNFCCC has sought advice from the Office of Legal Affairs (OLA) of the UN Secretariat on a number of legal issues.

140. The UNFCCC Secretariat's juridical personality at international level is ambiguous. This situation might hinder its capacity of action with certain stakeholders. If OLA noted that "*UNFCCC secretariat enjoys, in the host country, legal capacity in accordance with the agreement concluded with Germany and the United Nations in 1996*" and that in a memorandum of 4 December 2020, UNFCCC Secretariat mentioned that *"it has concluded over 20 host country agreements with States that are hosting the Conference of the Parties (COP), pursuant to ad hoc decisions by the COP authorizing the secretariat to enter into such agreements"*, OLA also recalled that in decision 15/CP.2, the Conference of the Parties "*[c]onclude[d] that the Conference of the Parties should consider, in the context of the review of the functioning of the institutional linkage of the Convention secretariat to the United Nations, whether the functions that have to be carried out by the secretariat necessitate that it be given juridical personality on the international plane*" and that the Subsidiary Body for Implementation (SBI) considered the matter and concluded as follows: "*[T]he SBI took note of the fact that the Convention secretariat was vested with juridical personality in Germany where the headquarters of the secretariat is located and further noted that the absence of juridical personality on the international plane had not inhibited the secretariat in the effective performance of its functions. The SBI decided to hold the issue in abeyance and revisit the matter at a future date if the status of the secretariat should necessitate that it be vested with juridical personality on the international plane.*" (FCCC/SBI/2001/9, paras. 56-58). All this confirms that there is an ambiguity regarding the legal status of UNFCCC Secretariat under international law.

141. UNFCCC raised the issue to the Subsidiary Body of Implementation in September 2021. It stated that: "*In this context, UN OLA noted that UNFCCC was not a UN subsidiary organ and had also not been duly vested by the Parties with a clear juridical personality on the international plane. The secretariat had also not been accorded the appropriate privileges and immunities, including immunity from legal process*" and that "*The UNFCCC secretariat has recently started to face difficulties in being recognized as an international organization by some of the Parties.*". For instance, the European Union contribution agreement[7] supporting the international negotiations process, had to be signed by the UN Secretariat, acting on behalf of UNFCCC Secretariat. However, the European Union signed another agreement directly with UNFCCC Secretariat recently, regarding the support to the participation of developing countries in COP 26 and related UN processes[8].

142. In any case, the SBI did not conclude that there was sufficient concern to act on the issue. It "considered the concerns raised by the secretariat in its note on the legal status of the secretariat. The SBI concluded that solutions have been found for addressing the concerns raised in the note, systemic issues have not arisen and the secretariat has been functioning and conducting its operations effectively."

143. The possibility of clarifying its status with the COP being hampered, UNFCCC secretariat should address the corresponding risk (see below §164). Indeed, as the

[7] 21.020701/2019/817209/SUB/CLIMA.A.1.

[8] 14.020241/2022/879956/SUB/CLIMA.D1.

probability that the operational difficulties already encountered by UNFCCC secretariat, liable to impede the achievement of its missions, could happen again, UNFCCC secretariat should design appropriate risk response measures.

Institutional linkage with the United Nations

144. The institutional linkage between the UNFCCC Secretariat and the United Nations raised notably questions in the context of the UN Secretary-General's management reforms. These reforms included setting out a new policy on delegation of authority under the UN Staff Regulations and Rules (UNSRR) and the UN Financial Regulations and Rules (UNFRR) (ST/SGB/2019/2). These new policies induced a lot of questions from UNFCCC Secretariat's side, that echoed some of Board's recommendations, requiring UNFCCC Secretariat to get clarification from OLA and the United Nations Legal Counsel on a number of issues.

145. The exchange of letters between OLA and UNFCCC Secretariat clarified some issues, regarding delegation of authority from the UN Secretary-General to the Executive Secretary, and the fact that UN financial and administrative issuances are not per se mandatory for UNFCCC Secretariat.

146. UNFCCC's Executive Secretary only needs a delegation of authority from the UN Secretary-General for specific areas such as procurement. Under-Secretary-General for Legal Affairs and United Nations Legal Counsel's letter dated 8 April 2021 specifies that "*The Institutional Arrangement paper*[9] *provides that the Executive Secretary is accountable to the COP "for the implementation of the policies and programme of work approved by the [COP]" and to the "Secretary-General as the chief administrative officer of the Organization, including for the observance of the Financial and Staff Regulations and Rules of the United Nations." With respect to the latter, the Institutional Arrangements Paper specifically enumerates certain authorities for the Executive Secretary of the UNFCCC over the personnel and financial, including physical, resources of the secretariat of the UNFCCC."* In his letter dated 1 February 2023, the Under-Secretary indicated that "*[...] the Institutional Arrangements Paper makes clear that the Executive Secretary of the UNFCCC has broad authority over the financial administration of the secretariat of the UNFCCC. There are, however, a few matters in this area for which the Secretary-General specifically retained authority under the Institutional Arrangements Paper*".

147. A memorandum setting out a delegation of authority from the UN Secretariat for procurement, property management, and inventory control was issued in July 2016 to the Executive Secretary. This delegation specified that "*Should your assignment as Executive Secretary, UNFCCC expire, or should your delegation of authority be suspended of withdrawn, all delegations issued by you shall remain in effect with the responsibility and accountability reverting to me unless otherwise modified or withdrawn*". This provision allowed UNFCCC to carry out its work after the former Executive Secretary's departure, specifically regarding procurement, until the interim delegation of authority was granted to the new Executive Secretary (appointed on 15 August 2022) on 24 October 2022 by the UN Secretary General, who accepted it on 13 December 2022.

148. However, all cascading sub-delegations from the new Executive Secretary have not been signed yet. The framework for granting these delegations has moreover been modified by UNFCCC AI/2023/3 *Delegation of Authority Policy* promulgated on 1 March 2023. Yet this policy or the ones that it replaced[10], does not include such clauses as the one included in section 4.3 of ST/SGB/2019/2, that provides: "[…] *When the head of the*

[9] The Institutional Arrangements Paper was endorsed by the Conference of the Parties ("COP") to the UNFCCC by decision 14/1 of the COP of 7 April 1995 (see FCCC/CP/1995/7/Add.1, pp. 42-43). Pursuant to paragraph 2 of its resolution 50/115 of 20 December 1995, the General Assembly also endorsed the administrative arrangement set forth in the Institutional Arrangements Paper.

[10] Prior to the promulgation of the UNFCCC AI/2023/3 *Delegation of Authority Policy* on 1 March 2023, the internal UNFCCC delegation of authority framework was set out in the Secretariat Bulletins Delegation of authority in financial matters (UNFCCC B/2014/2) and HR Delegation of Authority (UNFCCC B/2018/2).

entity is succeeded by another, the duly appointed successor will ordinarily be afforded the same level of delegations as the predecessor [...]. All subdelegations issued by the predecessor shall remain valid, with the accountability transferring to the successor unless otherwise withdrawn or modified by the successor". AI/2023/3 should therefore be complemented on this issue.

149. In any case, since the promulgation of the new delegation of authority policy (UNFCCC AI/2023/3), the framework of sub-delegations has changed. For instance, this is the case for the sub-delegation of human resources authorities. The new sub-delegations of authority from the Executive Secretary should therefore be urgently issued. This process is currently being undertaken by UNFCCC.

150. **The Board recommends that the UNFCCC Secretariat secure without delay its sub-delegation of authority framework.**

151. The Board considers that, to that extend, the Secretariat should modify policy UNFCCC AI/2023/3 to include clauses regarding the validity of sub-delegations in the case of change at the head of the entity. It should also expedite the signature of the sub-delegations of authority within the relevant divisions. The UNFCCC Secretariat should moreover conduct an internal review on the validity of documents signed since 1 March 2023 by staff endowed with subdelegations of authority issued before the adoption of AI/2023/3.

152. The UNFCCC Secretariat accepted the recommendation.

153. The exchange of letters also clarified UNFCCC's room for manoeuvre in specifying the UN financial and staff rules and regulations at its own level. Indeed, OLA's letter dated 1 February 2023, indicates that "*These issuances [(ST/AI/226)], going back almost five decades, demonstrate that UN Secretariat administrative issuances are meant to apply only to the UN Secretariat unless explicitly stated otherwise by the Secretary-General or by an appropriate Under-Secretary-General or Assistant Secretary-General, or unless expressly accepted and adopted by the executive heads of the separately administered funds, organs and programmes.*"

154. Based on this clarification, the UNFCCC Secretariat has accelerated the implementation of the definition of relevant policies for its operations (see section 9 of Board's report on financial statements for year 2021). It issued a first overarching administrative instruction (AI), stating that "the UN Staff Regulations and Rules as well as the UN Financial Regulations and Rules apply mutatis mutandis [i.e. with the necessary modifications to make them applicable to UNFCCC] at the UNFCCC secretariat" and that "Other UN administrative issuances (Secretary General's bulletins, administrative instructions, and information circulars) apply only, if and as determined by the Executive Secretary in the UNFCCC Policy Compendium." The instruction further indicated that "The Executive Secretary promulgates policies as deemed necessary for the effective administration of the UNFCCC secretariat through UNFCCC administrative instructions. These administrative instructions are used to 1) promulgate policies specific to the UNFCCC secretariat, and 2) specify how UN administrative issuances are adapted as deemed necessary by the Executive Secretary."

155. If these steps clarify the UNFCCC Secretariat's ability to free itself from the UN Secretariat issuances that are deemed not relevant for UNFCCC, it introduces a period of high uncertainty over the prevailing rules, until UNFCCC's policy compendium is completed. Indeed, only five new policies envisaged by UNFCCC were approved as of 15 April 2023 and 11 were in progress at that time. Reviewing policies in light of the clarification of UNFCCC's room for manoeuvre might take time. If UNFCCC has identified a set of policies that needed to be reviewed following the Board's policy review, other policies might be eligible for review and moreover, every UN issuance applying to UNFCCC should be specified as such. The timeline for a consolidation of the new set of rules will probably be months or years.

156. A way to mitigate these legal risks would be for UNFCCC to implement the policy compendium at the earliest, without waiting for all new policies under elaboration to be issued. New issuances will request up-dates in the policy compendium, but in the

meanwhile, rules applying should be made clearly available. To that extent, it should be considered that UN administrative issuances on which the Executive Secretary has not yet taken a decision but on which the secretariat has relied in the past should be considered valid, unless a specific UNFCCC applies. UNFCCC confirms that it plans on implementing the Policy Portal in two phases. In the first phase (achieved in mid by May 2023) all UNFCCC issuances will be uploaded. In the second phase all UN administrative issuances that were already used by UNFCCC in the past will be uploaded.

157. In any case, we consider that this legal risk should be properly addressed and mitigated (see recommendation below §164).

158. In this respect, Board's recommendation 2021-98 that requests UNFCCC to bring important changes to UNFCCC administrative issuances to the attention of the COP as the governing body of the UNFCCC also appears all the more important. This recommendation is not implemented yet. The Board will come back in due time on the issue of the content of the reporting to the COP.

159. In order to establish a regular accountability framework on the issue, UNFCCC should have a definition of the criteria allowing to identify administrative instructions with significant financial impacts on the balance sheets that need to be recorded in the regular reports to COP on new administrative issuances. For instance, policies such as the one relating to Program Support Costs, that deviates from UN standard practice on the level of authorized accumulated surplus, which has a significant impact of UNFCCC's balance sheet, should be brought to the attention of the COP. In any case, UNFCCC's legal team is limited in numbers. Adjusting UN polices that have been proven cumbersome in the past and issuing them as UNFCCC policies to tailor them to its specific needs (while abiding by the UNFRR and UNSRR), on all operational areas, will be time-consuming. Moreover, it holds a high potential risk of missing a number of safeguards that had been constructed over time, throughout the feed-back from difficulties encountered.

160. The lack of clause, in the policy UNFCCC AI/2023/3, relating to the validity of subdelegations in the case of change at the head of the entity, is a clear example of loopholes that can emerge by tailoring policies to UNFCCC's needs.

161. Therefore, even if validation from the UN Secretariat on UNFCCC's policies is not necessary from a legal point a view, regular exchanges of views on difficult situations and an external analysis on the potential weaknesses of new policies would be valuable to UNFCCC. Mitigation measures could include peer review actions such as organizing regular meetings on policies with the UN Secretariat.

iv. Addressing in a systemic manner critical risks of a strategic nature

162. On top of the sectorial measures deemed necessary, critical risks of a strategic nature identified above need to be addressed in a systemic manner.

163. **The Board recommends that the UNFCCC Secretariat identify, assess and mitigate in a systemic manner critical risks of a strategic nature, including those concerning financial resources, partnerships and the legal environment.**

164. More specifically, the Board considers that, in order to implement this recommendation, the UNFCCC Secretariat should:

- include the risks at stake in the corporate risk register, regularly assess their criticality, clearly set targeted measures to mitigate them and closely monitored their implementation and impact. To succeed in this endeavour, mitigating actions should be selective, considering in a realistic manner pre-existing internal controls as well as the limited additional resources that can be devoted to this task;
- state clearly upfront that each critical risk selected can only be mitigatable up to the residual level that the Organization is ready to bear, hence defining its risk appetite;

- regarding resources, table a note at the Management Team meeting assessing the risks faced, exploring their various dimensions, identifying their root causes and consequences, mapping pre-existing internal controls and defining possible scenarios of adequate mitigation actions;
- regarding partnerships, clarify UNFCCC's policy to keep the reputational risks at an acceptable level and ensure compliance with the net-zero commitment;
- and regarding risks, seek to address risks induced by the absence of juridical personality on the international plane and by the newly confirmed autonomy in setting its own financial and administrative rules.

165. The UNFCCC Secretariat accepted the recommendation.

3.2. UNFCCC's risk management framework

166. The quality of UNFCCC's risk management framework at the corporate level needs to be improved (a). Several divisions of the Secretariat are already implementing effective risk management according to their own tools, including an enterprise risk management approach carried out at their level (b).

a. Improving the risk management framework at the corporate level

167. In 2017, the first UNFCCC's risk register was elaborated by using the UN Secretariat template.

168. An up-date on the status of the risk response and treatment plan was made to the Management Team meeting in January 2021. The Management Team acknowledged that "*reporting on key considerations of the Risk Response and Treatment Plan had been pending, as highlighted in the 2019 and 2020 [external auditor] reports*", and that "*the assessment is an important follow up from the recommendation of the UN Board of Auditors and presents an important tool for the secretariat that needs to be up to date*".

169. The rating of the plan indicated that three out of four risks identified were rated "partially treated" based on action status (out of 17 actions, 11 were completed and six remained open). The risk relating to the organisational transformation was the least addressed, as all risk treatment actions remained open.

170. The only risk considered to be addressed was the one relating to "joint inter-agency operations and partnering activities". The rating was motivated by the fact that the Partnership Committee had been created, had developed terms of reference, a strategy and SOP. However, a new risk assessment should reconsider the closure of this risk.

171. The Management Team deemed that the three other risks should be addressed in a new exercise: "*A new cycle will start that will result in a 2021 enterprise risk assessment for the whole secretariat*". This new risk assessment should have reassessed the three "high" risks partially treated by the risk treatment plan and addressed the "medium" and "low" risks from the risk register. This new exercise was to be articulated with the establishment of each division's risk registry.

172. A few divisions have already carried out a specific risk management assessment and elaborated a treatment plan at their own level, which were spurred by OIOS' multiple recommendations on risk management

173. There is however a lack of articulation between these risk exercises at the division level and risk management at the scale of UNFCCC. Although the risk assessment carried out by the divisions might be considered as tackling part of the risks listed in the risk register, such as risks 1.2.1 (COPs), 3.1.4 (Conference Management), 3.7.1 (ICT strategy and system implementation), 3.7.2 (security and access), there has been no feed-back from one exercise to the other, although through the exercise, mitigation also identified risks that could be of secretariat-wide relevance.

174. The enterprise risk management tools that have been developed by UNFCCC have identified risks that are still relevant for the institution. However, the overall architecture (hierarchy between risks addressed at a corporate level and risks addressed at division

level) should be reflected upon and the risk assessment, ownership and reduction proposals should be up-dated to reflect the change of missions and context in which UNFCCC operates. Thus, the recommendation from the Board 2019-188: "*the Board recommends that UNFCCC address the risks it is exposed to through an up-to-date enterprise risk management that includes owners and due dates and a documentation*" remains valid.

175. Enterprise risk management governance lies with MT sub-committee on financial management, who is responsible for "Risk management: a) updating the annual Enterprise Risk Register and the Risk Treatment and Mitigation plan; and b) monitoring the implementation of the Enterprise Risk Treatment and Mitigation plan."

176. The implementation of enterprise risk management is considered a strategic objective as it is directly linked to the DES. This mission lies with the Organisational Development and Oversight Unit, a new function to UNFCCC created in 2021. The head of the Organisational Development and Oversight Unit was the only staff for over a year, the unit now has two additional staff members, both of which focus some of their time on oversight matters. UNFCCC's administrative guideline specifies the Organisational Development and Oversight Unit manager's tasks and imply that he is the chief risk officer in UNFCCC.

177. In terms of risk response, UNFCCC considers that it "manages strategic, financial, operational and program delivery risks at the level of risk owners where risks are escalated to the Management Team or Management Team sub-committee on financial management meetings. The Organisational Development and Oversight Unit acts as the second "line of defence" and is responsible for ensuring a robust framework for enterprise risk management and identification, assessment and reporting of related risk."

178. However, the second "line of defence" is not limited to the Organisational Development and Oversight Unit. Indeed, as stated in the UN Guide for managers[11] "*an* effective *system of internal control is encompassed within and an integral part of enterprise risk management*". The second "line of defence" will be effectively carried out through control activities, throughout the organisation, at all levels and in all functions. Some internal control procedures still need to be elaborated and implemented.

179. While the head of the Organisational Development and Oversight Unit is a member of the Management Team meeting, and of the Senior Management Advisory Group, they are not a permanent member of either the Management Team sub-committees on financial management (handling risks and enterprise risk management) nor the one on ethics.

b. Handling of operational risks in different divisions

180. A bottom-up approach would benefit to UNFCCC by identifying the accurate risks of the organisation and better involving the staff members in the enterprise risk management system. UNFCCC could up-date its risks' hierarchy and identify prioritised risks needing the immediate attention of senior management, both from the previous risk register and from divisions feed-backs.

181. Some divisions such as conference affairs, mitigation and ICT are already addressing risks at their own level. On top of the risks associated to the organization of the COP (see above), the Board focused notably on risks linked to ICT and in particular cybersecurity (i) as well as the evolving role of Regional Collaboration Centers (ii).

i. Risks on ICT, and particularly on cybersecurity

182. The system for controlling risks within IT security within UNFCCC is based on a continuous improvement approach led by the ICT sub-division. It was deemed especially relevant after an intrusion attempt to the Secretariat CDM registry from a London based IP address was detected in 2011. This was part of a broader password phishing scheme

[11] Department of Management Strategy, Policy and Compliance, *Enterprise Risk Management and Internal Control Framework*, a Guide for managers, February 2021.

across National Registries under the Kyoto Protocol. The attempt to steal Kyoto units was unsuccessful. The intrusion was quickly contained, and relevant logs provided to the UK local authorities leading to prosecution of the intruder. No financial damage or data loss was incurred.

183. Since then, the ICT sub-division has strived to design and then implement an articulated approach aimed at bringing IT security risks under control. It all the more necessary, given that UNFCCC acts as a trusted third party regarding the management of the carbon credits' registers. Several projects have been deployed, to modernize the application base by reducing the technical debt of the tools, by generalizing business recovery plans and updating security certificates annually, etc.

184. During preparation and operation of conferences, the secretariat works with the host country to strengthen ICT security controls to protect against intrusions. This includes vulnerability and penetration testing and establishment of a joint Security Operations Center (SOC) manned by both the secretariat team and the host country cybersecurity team.

185. For the ITL[12] system, disaster recovery plans are organized annually to measure the return to normal (RTO) times in relation to the contractual deadlines negotiated with the operator Swisscomm for the connection of the registers of the carbon units.

186. Concerning the portals developed by the ICT at the request of the Parties[13], the exchanges highlighted that although security issues are included throughout the project including during the design phase of the development of these portals, the risks of intrusion are in fact very high due to the very high number of portals and the absence of identified risk security owners for these portals. Moreover, these portals have technical debts and therefore represent potential points of entry into the UNFCCC information system.

187. In 2021, another incident occurred. It was an external scam campaign targeting a non-UNFCCC audience by creating a fake internet domain name un-fccc.org. Even if there was neither an "attempt" nor an "intrusion" nor any illegal access to any UNFCCC ICT services, classified information, or assets as a result of any misconfiguration, UNFCCC voluntarily took steps with the involved registrar (Namecheap) and the ICANN (Internet Corporation for Assigned Names and Numbers) to report and request closure of the reported fake domain, and later to provide witnessing input to the German police.

188. As stated in the MT meeting of 29 January 2021 "*in 2020, the ICT security audit was initiated and finalised in January 2021. The global assessment of the status of services was positive, with no critical findings. The report would be shared in February 2021 and remediation will be carried out in 2021.*"

189. Aware of the stakes, ICT carried out an enterprise risk management workshop in July 2021, dedicated to the establishment of the ICT Risk Register for 2021. This workshop considered that "*A starting point for the elaboration of the ICT Enterprise Risk Register is to record into it the existing UNFCCC enterprise risks for which the Risk Owner is the ICT subdivision (previously represented by the ICT Director).*" It proposed to shift the risk owner of three risks identified in the UNFCCC risk register from the ICT sub-division director to the director of AS/HR/ICT division. But it also proposed to adopt A risk entry regarding "*ICT governance and cyber security*" was also adopted, that should be owned by the director for AS/H/ICT division.

190. A new governance and decision-making framework were adopted by the UNFCCC in January 2022, which should reflect the new structure of UNFCCC. Within this

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12 The International Transaction Log (ITL) connects registries and secretariat systems that are involved in the emissions trading mechanism defined under the Kyoto Protocol and its Doha amendment. One of the key mandates of the ITL is to ensure an accurate accounting and verification of transactions proposed by registries in order to support the review and compliance process of the Kyoto Protocol.
13 The ICT sub-division regularly develops portals such as the Climate Action Portal, an online platform on which actors around the world can publish and publicize their commitments to action on climate change.

framework, it was decided to reduce the number of sub-committees of the MT from four to two. The MT sub-committee on ICT has been eliminated as oversight is now provided by the new senior directors of operations and programs. In its terms of reference, the mandate of the MT is to make strategic policy decisions on specific topics, including guiding and ensuring consistency in the development of UNFCCC on substantive issues, as well as policies and processes in areas such as ICT. In practice, this means that any substantive decisions on ICT investments, strategies and risk management would rest with MT through the Senior Director, Operations. It is therefore essential to continue the initiative launched in 2021 within the framework that could be defined by a new enterprise risk management policy.

191. The follow-up on this initiative should include collecting best practices from other UN entities regarding cyber threats handling and identifying those that could be relevant for UNFCCC.

192. It is therefore essential to strengthen the resources for ICT security risks. This reinforcement of resources should be part of a comprehensive and articulated strategy aimed on the one hand at reviewing the lines of defence of ICT security risks and procedures, and on the other hand at continuously re-examining the resilience and robustness of the control framework. It is therefore useful to recruit an ICT security manager who should initiate action and remediation plans to deal with ICT risks.

193. **The Board recommends that the UNFCCC Secretariat define and implement mitigation measures to better address cybersecurity risks.**

194. The Board considers that this notably requests to include the cybersecurity risks in its risk register and identify corresponding risk owners in charge of mitigating them. Given the size of the ICT organization and the exposure to the risks of IT intrusion, the Board also suggests to complete the internal control system by taking out a cyber threat insurance contract. The subscription of this insurance contract should be consistent and articulated with the policy and the roles of the UN Secretariat. The secretariat could explore within the UN Common System if a cyber threat insurance is being considered by any other UN entities.

195. The UNFCCC Secretariat accepted the recommendation.

ii. Managing risks linked to the evolving role of the Regional Collaboration Centers

196. The Mitigation division launched the elaboration of a risk register throughout 2020, initially solely from a sustainable development mechanism (SDM) risk perspective, then from a broader mitigation division perspective.

197. This draft risk register addressed both risks at the mitigation division's or programme's level and UNFCCC wide risks. These identified UNFCCC-wide risks include risks such as: "*The strategic positioning and importance of the UNFCCC secretariat may be compromised due to the perceived lack of tangible outcomes from the negotiation processes*." Mitigation's exercise highlights the importance of the bottom-up approach of the identification of risks that should be addressed at the corporate level.

198. The status of this document is however unclear and appears to be more of a one-shot exercise. The report on "*status of enterprise risk management and Audit*" to MT sub-committee on financial management dated 14 December 2021 however states that "*Mitigation has shared draft 2021/2022 Risk Register at the secretariat level for consideration by Organization Development and Oversight office*", implying that the next steps to be taken would have to be geared by the Organisational Development and Oversight Unit.

199. This mitigation division risk register does not address one emerging risk which is related to the evolving role of the Regional Collaboration Centers, whose management in Bonn is given to the Mitigation division.

200. Indeed, since the Paris Agreement, the role of Regional Collaboration Centers has increased significantly. First established in 2013, the six Regional Collaboration Centers were initially intended to support Parties in the implementation of the CDM in their regions, under the coordination of the Mitigation division in the current organization. After the Paris Agreement, Regional Collaboration Centers have been requested by regional stakeholders and UNFCCC to support a wider range of activities delivered by the UNFCCC Secretariat, including support to developing countries in development and implementation of their Nationally Determined Contributions (NDCs). Now, they endorse diverse responsibilities such as regional coordination, policy support, technical capacity, partnership building, communication and outreach, data collection, logistic hubs. They deliver a large range of activities, in coordination with all UNFCCC programme divisions.

201. As a result, Regional Collaboration Centers benefit from a substantial budget (see table II.2). In addition, following the decision 2/CMP.16, $ 10 million were released from the CDM Trust Fund to the Trust Fund for Supplementary Activities to enable the Supervisory Body for Implementation to provide, through the RCCs, capacity-building in developing countries for applying the Article 6.4 mechanism, and support for the transition of CDM project activities and programmes of activities to the Article 6.4 mechanism if they are eligible for transition.

202. The structure of the Regional Collaboration Centers is evolving in line with their expanding scope and mandates. This offers opportunities for enhancing their programming, budgeting and human resources deployment . Considering their new activities, they have had to increase their staff. Composed with UNFCCC staff, alongside with staff hired by the host organization, RCCs positions are not all occupied.

203. In consequence, planned activities are not all under full implementation. The budget implementation rate (cf. table II.1) highlights this point, especially for the Regional Collaboration Centers of Kampala and Lomé.

Table II.2
Regional collaboration centers budget for 2022 and 2023

(in United States dollars)

RCC	*Allotted Budget 2022**	*Executed budget 2022*	*Implementation rate 2022*	*Allotted Budget 2023**
Bangkok	329,430.00	232,596.49	71%	368,508.00
Dubai	328,330.11	313,989.11	96%	270,244.00
Kampala	265,748.68	88,898.34	33%	571,523.00
Lomé	326,586.81	70,266.92	22%	505,078.00
Panama	34,969.67	*Not provided by UNFCCC*	*Not provided by UNFCCC*	184,324.00
St. Georges	484,762.92	437,000.83	90%	301,501.00
Total	**1,769,828.19**	**1,142,751.69**	**65%**	**2,201,178.00**

* Allotted by UNFCCC. In addition, the host organisation dedicates a budget to the RCC. Figures do not include salaries of UNFCCC staff assigned to RCCs as Regional Leads, neither cost of staff provided by local partners.
Source: Board of Auditors, UNFCCC.

204. **The Board recommends that the UNFCCC Secretariat enhance its oversight on risks linked to the evolving role of Regional Collaboration Centers.**

205. The Board considers that these risks should notably be included in the UNFCCC Secretariat's risk management framework.

206. The UNFCCC Secretariat accepted the recommendation.

iii. Addressing risks at divisions' level

207. As shown by the case studies above, handling risks at the division level might prove useful. Specific divisions can therefore continue to have their own enterprise risk management tools, on which they would be requested to report regularly to the Management team.

208. Moreover, the risk assessment in divisions could lead to the identification of risks that should be owned at the corporate level, by the Executive Secretary or the Deputy Executive Secretary. These risks should be escalated to the corporate risk register, through a process to be defined. This implies the definition of criteria of escalation, for instance in the view of the criticality, scope, nature (systemic risks), etc. of the risk.

209. The UNFCCC Secretariat would benefit from updating risk management exercises carried out at division level and embed them in its broader risk management framework, as described below.

3.3. Benefits of a more mature risk management

210. A more mature risk management would mean, among other things, embedding with internal control and the prevention and handling of misconduct, fraud and corruption (a), strengthening oversight (b) and better articulating with the wider accountability framework (c).

a. Embedding risk management with internal control and the prevention and handling of misconduct, fraud and corruption

211. Risk management should be able to incorporate specific mechanisms to deal with particular risks, which were either already part of a previous distinctive management system (see findings on mitigation division risk management and ICT risk management for instance) or were identified as unacceptable risks requiring particular control mechanisms set out by internal rules.

212. A comprehensive review of internal controls and risks, especially in the areas of fraud and corruption, would improve the overall risk management framework. To achieve this goal, the first "line of defence" of the risk management framework should be strengthened. The internal controls in place cannot easily be identified, as UNFCCC has not conducted yet a thorough work to map them, although work is being carried out the issue. The Board noted that the recommendation on the introduction of a Statement on Internal Control (SIC) as not yet been implemented (recommendation 2021-40).

213. Regarding misconduct, mechanisms are in place. They would benefit to be more advertised and to become fully operational. The anti-fraud and anti-corruption mechanisms are fragmentary and at an early stage. Despite the work in progress, UNFCCC needs to accelerate the structuration of coherent mechanisms covering the entire anti-fraud and corruption process (prevention, identification, treatment). During the last five years, no cases of fraud were identified by management, but the non-occurrence of an incident does not mean that the risk does not exist and incidents might have occurred and not having been detected. It could even, from a theoretical point of view, point to weaknesses in internal controls.

214. Based on the presentation made by UNFCCC and the work on fraud, the Board noted that the perception in UNFCCC is that internal controls are mostly limited to controls performed by Umoja and controls conducted by other UN entities. However, there are other controls in place within the entity, such as mutual controls and hierarchical controls. UNFCCC also has committees in various functional areas that are relevant to internal control, but which have not been comprehensively identified at this stage. These have to ensure that resources are managed efficiently and securely. The Secretariat (Organisational Development and Oversight Unit) is planning to review applicable

policies and frameworks as well as the system-wide benchmarks for internal control (frameworks) in the United Nations.

215. In addition, UNFCCC follows a set of UN rules that it has adapted to its organization, and has translated into policies. UNFCCC bulletin B/2006/2 implements the UN Secretariat bulletin ST/SGB/2005/21 on "*Protection against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations*", while the UNFCCC bulletin B/2011/1 implements the UN Secretariat ST/SGB2008/5 on "*Prohibition of discrimination, harassment, including sexual harassment, and abuse of authority*" for the UNFCCC Secretariat..

216. The misconduct management within the UNFCCC needs to be updated and clarified. Currently, it relies on the UN-wide system. UNFCCC applies the UN Code of conduct and a list of UN Ethics Offices is made available on the intranet to know who to contact in case of problems. Meanwhile, a MT subcommittee on ethics is tasked to prevent and manage cases of conflicts of interest, leaks of sensitive information, and discrimination and harassment, including sexual harassment. However, this sub-committee did not meet since February 2017.

217. UNFCCC developed a code of conduct to events it hosts, which is being updated to make it broader. This set of rules, oriented toward sexual harassment and sexual exploitation an abuse is available online. Also, the e-mail address[14] managed by the UN Department of Safety and Security (UNDSS), was made available to report suspicion of cases. In the framework of COP 27, three cases of sexual harassment, one case of suspicious behaviour or sexual nature, three cases of harassment and one case of person not feeling comfortable walking around in the Blue Zone late were reported.

218. More specifically, on anti-fraud and corruption issues, the mechanisms could be improved to ensure an efficient management of the risks. Following the recommendation of the Board 2017-138, a fraud risk assessment was conducted from the end of 2022. UNFCCC hired a consultant to develop an assessment checklist. 44 risks were identified on seven areas of work (accounting and reporting; fraud control environment; funding and investments; treasury; procurement; travel; Human Resources). The document was filled by UNFCCC staff. Self-assessment is a practice that can be fragile insofar as the gaze can be subjective.

219. Nevertheless, the fraud risk assessment is fragmentary and seems to be inaccurate. The analysis does not cover all financial and management processes. For example, with regard to procurement, the risks induced by the pre-selection of bidders during closed procurement procedures or during shopping and requests for quotation have not been assessed. Similarly, the assessment does not address the risks of conflicts of interest in decision-making committees, such as the partnership committee. Controls in place mapped in the assessment focus on prevention, and sometimes deserve to be complemented by reduction-oriented actions.

220. UNFCCC identified five high risks for which treatment actions are to be defined. For instance, the segregation of duties for issuing purchase orders, between the requesting function and the procurement function, do not prevent sufficiently the risk of conflict of interests. According to the risk assessment, the new delegation of authority framework is supposed to mitigate the risk as approving officers abstain from approving purchase orders relating to goods/services required in areas for which they bear immediate responsibility. This implementation is in progress.

221. The above-mentioned controls contribute to prevent fraud and corruption, as well as the available UN training "Preventing fraud and corruption". 82 percent of the UNFCCC staff completed this training.

222. The mechanisms to detect cases of fraud and corruption are insufficient. For instance, no independent focal point whom to report to is identified and there is no advertisement for this challenge. The identification of cases only relies on two shallow mechanisms: the possibility to handle suspicions to the management, for UNFCCC staff

[14] speakup@unfccc.int

only, and the existence of a webpage dedicated to handle fraud and an e-mail address[15] available online. A SOP frames the provision of this email address. Nevertheless, it concerns the "*handling of fraudulent emails received at the secretariat's generic email account*" and not the general reporting of cases of fraud or corruption.

223. However, no procedure is implemented in the organization to treat suspicions and cases of fraud and corruption. No dedicated governance is in place. No investigation body is appointed. The MT sub-committee on ethics is not missioned to endorse these responsibilities. The security and the safety of whistle-blowers as well as witnesses are not ensured by a UNFCCC specific mechanism with the exception of UNFCCC bulletin B/2006/2 implements the UN Secretariat bulletin ST/SGB/2005/21 on "Protection against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations. This bulletin refers to the UN Secretariat framework of action.

224. The Board recommends that the UNFCCC Secretariat better prevent the risks of fraud, corruption and misconduct by enhancing and updating detection and treatment systems.

225. The Board considers that, to that extent, UNFCCC should (i) develop a comprehensive anti-fraud, anti-corruption and misconduct framework to prevent, identify and treat cases, (ii) review the Terms of Reference of the MT sub-committee on ethics to add the mission of anti-fraud and corruption system overseeing, and (iii) integrate and update regularly the fraud risk assessment in the Enterprise Risk Management system.

226. The UNFCCC Secretariat accepted the recommendation.

b. Strengthening oversight

227. UNFCCC's enterprise risk management framework needs to be updated (see Board's recommendation 2019 – 188) and its formal ERM management dynamics is at a standstill since early 2021. The constitution of the new implementing and monitoring structure has however initiated a new dynamic to ERM management that should allow to move forward on the issue.

228. A workplan has thus been established for 2022 – 2023. Regarding specifically the enterprise risk management framework, the Organisational Development and Oversight Unit is charged to:

- *"Review applicable policies and frameworks as well as system-wide benchmarks for ERM in the United Nations (rf. JIU reports)" (by the end of first quarter 2023).*
- *"Issue clarifications on/adjustments to applicable enterprise risk management policies and guidelines for the UNFCCC, including: Enterprise risk management Committee(s); clear roles and responsibilities for risk identification, reporting, and mitigation plans; [the Organisational Development and Oversight Unit]'s role in advising on appropriate mitigation methods" (by the end of second quarter 2023).*
- *"Revamp UNFCCC risk register, and consider introducing a risk management dashboard" (by the end of second quarter 2023).*
- *Complete the audit recommendation "… that UNFCCC addresses the risks it is exposed to through an up-to-date enterprise risk management that includes owners and due dates and a documentation"" (by the end of third quarter 2023).*

229. These actions have not been implemented yet.

230. Due consideration should however be given to the governing body in charge of ERM management. The lack of activity of the MT sub-committee on ethics, can be considered an issue, as addressing fraud, corruption, mismanagement, etc. should be moved forward (see above and the Board's recommendation 2017-138). Moreover, the MT sub-committee on financial management is focusing on monitoring expenditures, allocating

[15] secretariat@unfccc.int

funds, and monitoring biennium budget preparations. It mainly acts on a narrow scope of its missions to the detriment of risk management. Besides, as the sub-committee acts as the first "line of defence" for numerous financial issues, giving it the role of second "line of defence" on risk management is not suitable.

231. The MT sub-committee on ethics, for its part, should be in charge of the respect of the principles of integrity, conformity and accountability. Giving ERM's oversight to this sub-committee, in addition to fraud and corruption management (see above), would be more consistent.

232. Shifting the governance of risk management to this committee would also give room to specific discussions on UNFCCC's risk appetite. Indeed, defining the Organization's appetite regarding the most critical risks is a necessary step that should also imply its governing bodies. Reflecting on the risk appetite of UNFCCC could help building more consensus among stakeholders and prioritizing risk response measures.

233. To this extent, UNFCCC could consider shifting risk management oversight from the MT sub-committee on financial management to a MT sub-committee on ethics and risk management. The Organisational Development and Oversight Unit's manager, acting as Chief Risk Officer, should be part of this committee. This could be settled through the review of the MT sub-committees' framework, i.e. the terms of reference, the composition, the recurrence and the naming.

234. UNFCCC should also consider involving on a more regular basis its governing bodies, including the SBI and the COP, in the strategic decisions regarding the management of the most critical risks.

235. These developments should form part of a broader reflection on the definition of genuine policy dedicated to risk management (see below).

c. Better articulating with the wider accountability framework

236. The adoption of the Paris Agreement marked a turning point in the global process to combat climate change. Parties should now be in the implementation stage, and the focus in negotiations has shifted from setting target to delivering on goals. This implies a new era for UNFCCC, as reflected in its recent restructuring.

237. However, the adaptation of UNFCCC to this new environment is far from achieved. The assessment of the benefits of the restructuring is not carried out yet and an overall reflection on its being "fit for purpose" will go on.

238. In this context, the new Executive Secretary launched an internal initiative to reflect on the long-term vision of UNFCCC with senior management.

239. The Executive Secretary also launched an initiative to strengthen the accountability framework of UNFCCC by elaborating a UNFCCC-wide prioritised workplan for 2023, coordinated by the Organisational Development and Oversight Unit, that foreshadows a results-based management principle. The purpose of the work plan is: "i) *to provide a clear overview of deliverables and priorities of the work of the secretariat for 2023; ii) to guide the agenda-setting of the future MT meetings and other regular coordination meetings; iii) to identify and manage risks associated with the deliverables.*" This initiative is particularly useful insofar as the areas of work of UNFCCC are particularly numerous and diverse.

240. The identification of non-delivery risks is also very useful. These risks belong to three main categories: political, technical and financial. The next steps would then consist in identifying the relevant actions to be undertaken by UNFCCC to mitigate those risks.

241. The link between the priorities identified in the work plan and the proposed allocation of financial resources doesn't exist yet. Enhancing the accountability framework by quantifying the resources allocated to each priority would also be very useful.

242. In any case, a more mature risk management through an updated ERM policy should contribute to strengthen the overall accountability framework of UNFCCC, as risk management is inherently linked to programme planning and budgeting, assessing results and performance, and implementing internal control.

Figure II.V
Risk management and accountability framework

Source: Board of Auditors.

243. The clarification on UNFCCC's absence of obligation to implement UN issuances as such allows UNFCCC to develop its own policy on enterprise risk management. This would allow to address both the enterprise risk management governance and overall architecture of the enterprise risk management framework, setting-up a procedure to identify risks addressed at the corporate level and risks addressed at division level. This policy should be consistent with the UN enterprise risk management and internal policy (2011) and the guide for manager, and deviations kept to the need to adapt the policy to UNFCCC constraints.

244. **The Board recommends that the UNFCCC Secretariat adopt its own risk management policy with the objectives of reinforcing the global oversight on risks and better articulating it with the wider accountability framework.**

245. The Board considers that this risk management policy should notably aim at covering both corporate level and operational level risks, including at division level, and better streamlining risk management with internal control, strategic programming, budgeting and reporting on performance. This framework would also gain to be endorsed at the level of UNFCCC's legislative body.

246. The UNFCCC Secretariat accepted the recommendation.

4. Access rights to Umoja

247. Despite the UNFCCC Secretariat's efforts to follow of the rules issued by the United Nations Secretariat aimed at securing access rights to the Umoja IT system, the Board identified that some difficulties persist, including on derogations from the principle of segregation of duties where greater formalization and the introduction of compensatory controls are needed.

4.1. Risks at stake and need to simplify Umoja "roles"

248. The Board noted risks derived from the architecture of "roles" defining the job of a user and the "transaction", making it possible to carry out a particular task of the job of the user16, in UNFCCC-Umoja.

249. If the Security Liaison Officer contributes to the creation of employees access to Umoja, modifies access in the context of changing functions or finally terminates access rights to the system, only the system administrator is authorized to intervene to modify or develop the architecture of "roles" and permissions in Umoja.

250. Yet, the Board noted various instances where employees of companies have access to transactions that could present risks regarding integrity of management data, financial statements and even fraud.

251. At UNFCCC's scale, the architecture of "roles" in Umoja seems oversized compared to the needs of users in terms of number of "roles" and "transactions". In the Umoja system, the architecture of "roles" adopted seems very complex. There are 25,761 roles to potentially run up to 125,096 transactions. In this Information and Communication Technology (ICT) configuration, a total of 424 users access 111 Umoja "roles" which allow to execute up to 1,566 transactions. 57 users were identified who can access between 300 and up to 1,566 transactions.

252. A simplification of the content of the roles which is based on the use of transactions is therefore essential to reduce the risks and improve performance in user management. This simplification could also provide an opportunity to review access to transactions that allow launching confidential reports in the system that do not fall within the scope of employees. This simplification should be requested by the UNFCCC secretariat to the UN secretariat.

4.2. Need for precision in job descriptions with Umoja "roles" and "transactions"

253. The Umoja user access provisioning procedure states that the provisioning of Umoja "user roles" is based on a process between the staff, the supervisor and the Security Liaison Officer. Only the Head of Security Liaison officer has the authorizations to add or remove roles from user files with the support of the "functional approver".

254. Umoja "role" assignment requests are drafted by the UNFCCC Security Liaison officer, then confirmed by the user and approved by the supervisor of the user. The head Security Liaison officer (at the UN office in Geneva) then submits these requests for new Umoja "role" assignments to the Umoja service desk at the UN Secretariat. Depending on the requested roles, further approvals are required by functional approvers (Umoja "role" owners). For new staff members designated to perform the same role as an existing staff member, the Umoja "roles" assigned to the existing staff member may be used as reference.

255. In a context marked by the absence of an annex to the job description which would specify the "roles" and "transactions" necessary to carry out the tasks without risk in the system, the use as a reference base of the "roles" and "transactions" of the employees already created in the system might be risky. In some cases, the roles could be incompatible with each other or not adapted for employees.

256. An annex to an SOP on Umoja rights could list a "Core Model" of the "roles" and Umoja "transactions" necessary for the different functions that are proposed in job descriptions. The arrival at the UNFCCC of a new Security Liaison officer in October 2022 could be an opportunity to review the allocation process on the basis of job

[16] A "role" in the Umoja system contains several SAP "transactions" codes. The 'role' defines the job of a user (example: accountant, supplier) and the SAP transacton code makes it possible to carry out a specific task of the job of the user (example: running reports or creating a purchase order)".

descriptions and not on the basis of the roles formerly assigned to employees already created in the system.

257. For non-permanent employees who can work within the UNFCCC for up to two years, all Umoja "role" requests must have an end date corresponding to the end date of the contract. Otherwise, the responsible Security Liaison officer may reject the Umoja "role" assignment request. When the contract is extended, the UNFCCC must request an extension of the role assignment. For fixed-term staff, end dates are not required by the UN Secretariat in Umoja user records. Indeed, almost all fixed-term staff contracts are extended. Additionally, HR notifies Security Liaison officer (via broadcast email) of staff departures, who notifies Security Liaison officer in order to take action in Umoja. In cases where staff are not extended, ICT deactivates their UNFCCC account, which includes access to Umoja. The closing of this access should in principle also make it possible to terminate access to Umoja, even if this may occur between 3 and 4 weeks after the employee's departure from the UNFCCC organization. However, no effective imbedded controls in that respect were identified, and no formal process is implemented to ensure that the users moving from UNFCCC are deprovisioned of their previous roles.

4.3. Oversight on derogations to the segregation of duties principle

258. UNFCCC does not sufficiently formalize, document and motivate its practice of the segregation of duty rules. It is also not in a position to present to the Board compensatory controls in cases of risky combination of Umoja "roles".

259. The assessment of the risks related to the segregation of duties in Umoja falls under the responsibility of the UNFCCC Secretariat, and the segregation of duties rules issued by the UN Secretariat are considered as indicative. However, if the UNFCCC Secretariat decides to derogate from the segregation of duties rules, it should imperatively justify it on a case-by-case basis in light of the issues and risks that this decision could generate.

260. It is also essential to document that the appropriate controls to check how this derogation is implemented are in place, a stem from a well-formalized procedure. For any derogation from segregation of duties rules that could expose the UNFCCC to critical risks, it is essential to define and formalize the compensating controls to track and mitigate the risks.

261. A total of 21 users were identified, who access risky "role" crossovers with roles that do not respect the separation of duties in Umoja. A total of 85 role association situations present risks. Regardless of the number of users, the launched risk analysis finally displays nine cross-risk associations. For 8 situations, the UNFCCC justifies it by the fact that « This segregation of duty violation was considered low risk by the UNFCCC and granted by the owner of the role of the UN Secretariat after the UNFCCC requested an exception. With the above Umoja "roles", users can initiate "transactions", but those "transactions" are only published after a Certifying Agent *and* an Approving Agent approves them. Therefore, the UNFCCC considered assigning these roles to the same low-risk user". It is however essential for UNFCCC to demonstrate through a posteriori checks that the "transactions" entered into Umoja by these users have been subject to double validation.

262. For the last situation of risky combination of roles, UNFCCC considers that "*The UN Secretariat has recently determined that these roles are in conflict, where they were not previously. This segregation of duty conflict is now being handled with the Security Liaison officer, User Section Chief and ASHRICT*[17] *Director. The offending role will either be revoked or, if deemed an acceptable risk, an exception request will be made to the UN Secretariat*". The response of the UNFCCC Secretariat to this situation of risky association of roles needs to be looked at. Compensatory controls should be defined, formalized, documented and implemented.

263. In conclusion, the management of access rights to Umoja for UNFCCC users should be secured by a remediation plan aimed at controlling the risks. First of all, the Umoja "roles" of UNFCCC users inherit, from the architecture of rights adopted by the system

[17] Administrative Services, Human Resources, & Information and Communication Technology.

administrators, three risky points which must be dealt with without delay: the UNFCCC secretariat should make a request to the Umoja system administrator to solve these issues. Then, a simplification of the authorizations could be addressed by adapting to the needs and practice of the users as well as by the definition of a "Core Model" of UMOJA rights by function. Finally, the degree of applicability and/or derogation to the segregation of duties rules must be formalized, documented, motivated and compensatory controls must be presented to the Board for any situation of risky combination of Umoja "roles".

264. **The Board recommends that the UNFCCC Secretariat conduct a review of all Umoja-ralated UNFCCC relevant internal processes and rules to mitigate risks related to access rights.**

265. The Board considers that this review should pay particular attention to the way the principle of segregation of duty is ensured in the context of the delegation of authority framework. Any derogation should be exceptional, duly justified and closely monitored.

266. The UNFCCC Secretariat accepted the recommendation. It stated that it would issue a standard operating procedure outlining the processes for:

- assignment of Umoja "roles";
- addressing segregation of duty violations;
- removing access to Umoja and/or deprovisioning of roles upon a staff member's movement or separation;
- an annex will be attached, which will contain a list of standard roles associated with specific functions (Finance Officer, Travel Assistant, etc.) These role-associations will be used as a starting point of refence only. They may be modified as the actual duties of the individual calls for.

C. Transmission of information by management

1. Write-off of losses of cash, receivables and non-expendable property

267. UNFCCC reported to the Board that a pledge of $8,890 of outstanding travel advances paid to participants to UNFCCC events were deemed uncollectible and subsequently written off during the year ended 31 December 2022. No write-offs of losses of property were reported. Respective supporting documents were available for all cases. The write-offs were conducted in accordance with Financial Rule 106.7 (a).

2. Ex gratia payments

268. UNFCCC stated that *ex gratia* payments were not made in 2022.

3. Cases of fraud and presumptive fraud

269. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The Board's audit, however, should not be relied upon to identify all misstatements or irregularities. Primary responsibility for preventing and detecting fraud rests with Management.

270. During the audit, the Board made enquiries of Management regarding the oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that Management has identified or that have been brought to Management's attention. The Board also enquired whether Management had any knowledge of any actual, suspected or alleged fraud. This includes enquiries of the Office of Internal

Oversight Services. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

271. UNFCCC stated that there was no case of fraud or presumptive fraud for the financial year ended 31 December 2022.

272. The Board has not identified any instances of fraud in its audit, and no cases have come to the Board's attention as a result of the review.

D. Acknowledgement

273. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary and staff members of her office.

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Hou Kai
Auditor General of the People's Republic of China
Chair of the Board of Auditors

Pierre Moscovici
First President of the French des comptes
(Lead Auditor)

Jorge Bermúdez
Comptroller General of the Republic of Chile

26 July 2023

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2021

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management's response*	*Board's assessment*	*'mplemented*	*Under implementati on*	*Not implemente d*	*Overtake n by events*
1	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 60	The Board recommends that UNFCCC review its funding policy for after-service health insurance and repatriation liabilities, in particular the duration of the accumulation phase, and seek a COP decision on the funding plan.	SBI56 has considered and took note of possible long-term financing strategies for secretariat employee benefit liabilities, namely the options "pay as you go", "monthly accrual" and "one-time payment followed by annual adjustments".	The recommendation is considered to be implemented	X			
2	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 117	The Board recommends that UNFCCC expedite the revision process of its procurement policy and procedures in order to provide an up-to-date basis for its procurement activities.	UNFCCC expedited the revision process of its procurement policy and standard operating procedures in the context of the policy review which was initiated in 2022. The update benefitted from important legal clarifications and a broad in-house review process.	The recommendation is considered to be under implementation. The Board is still waiting for the final signed version of the Policy and their SOPs		X		
3	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 138	The Board recommends that UNFCCC perform a fraud risk assessment in line with or embedded in the enterprise risk management.	UNFCCC performed a fraud risk assessment across several business areas, including amongst other things accounting and reporting, treasury services, and procurement. Future iterations will be embedded in a revamped enterprise risk management system, supported by an adequate internal control framework to assess the completeness and effectiveness of mitigation actions.	A fraud assessment has been carried out on several areas.	X			
4	2018	FCCC/SBI/ 2019/ INF.9	The Board recommends that UNFCCC incorporate the liabilities incurred by staff financed from indicative	See No.1 above	The recommendation is considered to be implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						'mplemented	Under implementati on	Not implemente d	Overtake n by events
		chap. II, para. 47	contributions in its funding policy review for employee benefits and seek a COP decision.						
5	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 55	The Board recommends that UNFCCC assess the possibilities of investment approaches within the cash pool for the reserves set aside to cover for the after-service health insurance liabilities, in consultation with United Nations Treasury.	UNFCCC assessed possibilities of investment approaches both within and outside of the cash pool, in consultation with UN Treasury. Decisions on future investment decisions will be informed by this.	The recommendation is considered to be under implementation. The Board is still waiting for the proof of assessment carried out by UNFCCC		X		
6	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 65	The Board recommends that UNFCCC consult with the actuary and United Nations Headquarters on the data basis for the actuarial valuation of employee benefits liabilities to enhance the accuracy of the actuarial valuation.	UNFCCC clarified the data basis for the actuarial valuation of employee benefits liabilities by distinguishing entry of duty dates for staff members depending on their service for UNFCCC and the UN system as a whole.	The recommendation is considered to be implemented.	X			
7	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 70	The Board recommends that UNFCCC assess, in consultation with United Nations Headquarters, whether it is beneficial to conclude agreements with the organizations of incoming and leaving UNFCCC staff to gain legal assurance on the employee benefit liabilities incurred for those staff members.	Based on data from the actuary, UNFCCC clarified that the census data includes both EOD dates in UNFCCC and the UN common system to calculate the actuarial valuation. In addition, eligibility requirements which contributes towards the organizations' financial liability can be determined against the EOD dates, but also against assignment history, contract type (fixed term appointments), age upon separation and other criteria.	The recommendation is considered to be implemented.	X			
8	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 135	The Board recommends that UNFCCC adopt the United Nations staff selection policies system in the then applicable	In accordance with the institutional linkage of the UNFCCC secretariat to the United Nations (UN), the UNFCCC Executive Secretary	AI/2023/5 has been approved by the ES and entered into force on 15 February 2023.				X

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No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management's response*	*Board's assessment*	*Status after verification* 'mplemented	*Under implementation*	*Not implemented*	*Overtaken by events*
			version or request approval of deviations by the end of December 2019.	has broad authority over the personnel administration of the UNFCCC secretariat. This includes the authority to promulgate the policies and procedures for such administration provided they are consistent with decisions of the Conference of the Parties and the UN Staff Regulations and Rules. On 15 February 2022 the new UNFCCC staff selection process became effective through UNFCCC administrative instruction AI/2023/5.	UNFCCC received confirmation from the Office of Legal Affairs that the Executive Secretary has the authority to approve policies applicable to UNFCCC's secretariat. Therefore, adoption of the UN policy or request for deviation is not necessary. The recommendation is considered overtaken by events.				
9	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 145	The Board recommends that UNFCCC ensure that the intended results of the restructuring such as efficiency gains and "being fit for purpose" are measured, tracked and evaluated.	UNFCCC has tracked main indicators of efficiency and fit-for-purposeless of the structural reform and intends to complete its evaluation of the data by year-end with data for the entire 2022/23 biennium.	A first list of indicators has been communicated to the Board. This proposal still needs to be shared and approved within the Secretariat The recommendation is considered under implementations.		X		
10	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 188	The Board recommends that UNFCCC address the risks it is exposed to through an up-to-date enterprise risk management that includes owners and due dates and a documentation.	*Work on ERM has progressed as part of the ODO workplan and will gain momentum in the second half of 2023.*	This year, the Board will propose recommendations on risk management that will complement this recommendation, that still remains valid. Considering Organizational Development and Oversight (ODO)'s workplan, the recommendation can be		X		

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No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: 'mplemented	Under implementation	Not implemented	Overtaken by events
					considered under implementation.				
11	2020	FCCC/SBI/ 2021/INF.4 chap. II, para.33	The Board recommends that UNFCCC review its financial statement discussion and analysis (chapter IV) to improve adherence to RPG 2.	UNFCCC has reviewed and enhanced chapter IV of the 2022 financial statement and will do so for the future ones as well.	The recommendation is considered to be implemented. The Board is waiting for the final FS submission	X			
12	2020	FCCC/SBI/ 2021/INF.4 chap. II, para.51	The Board recommends that UNFCCC describe the annual process and management of cost recovery in a procedural guideline approved by the Executive Secretary. This guideline should include potential measures in case of excessive surpluses or deficits from the cost recovery scheme.	In progress.	The recommendation is considered to be under implementation. The Board shared with UNFCCC suggestions and remarks to be included in the Policy regarding the management of potential surplus and deficit The Board is waiting for the final version signed by ES		X		
13	2020	FCCC/SBI/ 2021/INF.4 chap. II, para.61	The Board recommends that UNFCCC describe the annual process and management of programme support costs in a procedural guideline approved by the Executive Secretary. Based on further analysis of prior years – the guideline should include potential measures in case of excessive surpluses or deficits from programme support costs and incorporate them into the procedural guideline.	In progress.	The recommendation is considered to be under implementation. The Board shared with UNFCCC suggestions and remarks to be included in the Policy. The Board is waiting for the final version signed by ES		X		
14	2020	FCCC/SBI/ 2021/INF.4 chap. II, para.81	The Board recommends that UNFCCC comply with the Procurement Manual in further low value acquisition processes.	Clarity has been reached as to the fact that there is no provision in the institutional arrangements between the UN Secretariat and UNFCCC that would imply any	AI/2023/1 indicates that the UN Procurement Manual is higher in the hierarchy of norms than any UNFCCC's		X		

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No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: 'mplemented	Under implementation	Not implemented	Overtaken by events
				authority on the part of UN OICT over UNFCCC ICT, its set-up or operations. The draft new UNFCCC procurement policy and related SOPs thus stipulate clearance of ICT requirements by UNFCCC ICT division.	administrative instructions. UNFCCC will only be able to deviate from the Procurement Manual if it is specified in the final delegation of authority from the UN Secretary General to the Executive Secretary on procurement. The recommendation is considered to be under implementation				
15	2021	UNFCCC /2022/ chap. II, para.24	The Board recommends that UNFCCC formalize alternative kinds of inventories such as permanent inventory of PP&E as alternatives to annual inventory.	UNFCCC initiated implementation of a configuration management database in ServiceNow which will be able to give permanent update on the inventory	UNFCCC has shared with the Board the estimated implementation date of the configuration management database in ServiceNow which is fixed to the end of June 2023. The recommendation is considered under implementation .		X		
16	2021	UNFCCC /2022/ chap. II, para.28	The Board recommends that UNFCCC enhance the quality assurance for drafting the financial statements and the financial report.	*UNFCCC acknowledges this recommendation and will take action to implement it.*	No update shared with the Board regarding this recommendation and the same observation was noted during the audit of 2022 Financial Statements.			X	
17	2021	UNFCCC /2022/	The Board recommends that UNFCCC continue to closely monitor developments in financial accounting	*This has been implemented as requested.*	The recommendation is considered to be implemented.	X			

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No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						'mplemented	Under implementati on	Not implemente d	Overtake n by events
		chap. II, para.33	standards and briefly analyze which upcoming changes may affect the entity.						
18	2021	UNFCCC /2022/ chap. II, para.34	For the changes that have potentially far-reaching impacts, the Board further recommends that UNFCCC analyses these impacts in detail, develop implementation plans and discuss them with stakeholders.	*This has been implemented as requested.*	The recommendation is considered to be implemented.	X			
19	2021	UNFCCC /2022/ chap. II, para.40	The Board recommends that UNFCCC reconsider introducing a SIC based on the SIC signed by the Secretary-General in 2021.	UNFCCC has not started this activity due to staff constraints, but will do so shortly after a critical position was filled.	The implementation has not started and the recommendation is considered not implemented yet.			X	
20	2021	UNFCCC /2022/ chap. II, para.49	The Board recommends that UNFCCC revise the project descriptions for projects financed by the CDM transfer so that the amount and timing of the transfer can be reasonably justified.	At its third meeting (November 2023), the SB adopted the Article 6.4 Mechanism Resource Allocation Plan 2023. Table 2 of the RAP specifies 2023 resourcing requirements to deliver the activities and outputs required to operationalize the mechanism. The plan also provides indicative resource requirements for 2024 and 2025.	The recommendation is considered to be implemented	X			
21	2021	UNFCCC /2022/ chap. II, para.65	The Board recommends that UNFCCC have a catalogue of all rules, including those rules to which applicable rules refer, irrespective of whether they are UNFCCC's own rules or United Nations rules. This catalogue would need to be maintained on a regular basis.	UNFCCC issued the Policy Compendium to provide an accessible platform called "Policies Portal" and source for all UNFCCC policies. The content of the Compendium will be maintained by the Legal Affairs division, as the custodian of the administrative issuances that apply to the UNFCCC.	The AI provided (AI/2023/2) only authorizes the compendium, but the compendium does not appear as such on the SIA: there is no compilation of rules set according to the categories stated in AI/2023/2.		X		

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No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						'mplemented	Under implementation	Not implemented	Overtaken by events
					The recommendation is considered to be under implementation.				
22	2021	UNFCCC/2022/ chap. II, para.67	The Board recommends that UNFCCC add an overarching clause to each of its own policies that the financial rules (FRR) and the staff rules (SRR) take precedence.	UNFCCC clarified in its promulgation of UNFCCC administrative issuances (AI/2023/1) that the UN financial and staff rules take precedence over UNFCCC administrative instructions.	Administrative instruction AI.2023/1 has been promulgated and specifies that the FRR, SRR and Procurement Manual prevail over UNFCCC administrative issuances. The recommendation is considered implemented.	X			
23	2021	UNFCCC/2022/ chap. II, para.69	In addition, the Board recommends that UNFCCC eliminate all shortcomings in UNFCCC policies that were identified in the policy review as soon as possible.	The UNFCCC has established a proper drafting, review and approval process for reviewing all shortcomings that were identified in UNFCCC policies and has started issuing new administrative instructions	The Board has identified several policies that contradicted the staff rules and regulations and others that conflicted with the procurement manual. These policies are being reviewed, but new policies are not promulgated yet. The recommendation is therefore considered as being under implementation.		X		
24	2021	UNFCCC/2022/ chap. II, para.89	The Board recommends that UNFCCC liaise with OLA to clarify to what extent the COP can approve a reserve that is supposed to be significantly higher than specified in the United Nations instructions.	UNFCCC received legal assurance that ST/AI/286 is not applicable to the UNFCCC and that it can issue its own administrative instruction on this matter. Hence, the UNFCCC can approve a reserve that differs	The recommendation is considered to be implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: 'mplemented	Under implementation	Not implemented	Overtaken by events
				from the one applicable to the UN Secretariat under ST/AI/286					
25	2021	UNFCCC /2022/ chap. II, para.90	The Board also recommends that UNFCCC, in case UNFCCC may deviate from the United Nations administrative instruction ST/AI/286, revise the administrative instruction in order to comply with 15/CP.1.	UNFCCC received legal assurance that ST/AI/286 is not applicable to the UNFCCC and that it can issue its own administrative instruction on this matter	The recommendation is considered to be under implementation.		X		
26	2021	UNFCCC /2022/ chap. II, para.96	The Board recommends that UNFCCC seek clarification from OLA in how far UNFCCC is bound by United Nations administrative issuances in financial matters.	UNFCCC received legal assurance that it can issue its own administrative issuances in financial matters.	OLA clarified that UN Secretariat administrative issuances are meant to apply "only to the UN Secretariat unless explicitly stated otherwise by the Secretary-General or by an appropriate Under-Secretary-General or Assistant Secretary-General, or unless expressly accepted and adopted by the executive heads of the separately administered funds, organs and programmes" The recommendation is considered implemented.	X			
27	2021	UNFCCC /2022/ chap. II, para.98	The Board further recommends that UNFCCC should bring important changes to UNFCCC administrative issuances to the attention of the COP as the governing body of the UNFCCC.	Important changes to UNFCCC administrative issuances will be summarized in a yet to be identified format and document and brought to the attention of COP28 in December 2023, and subsequently to future COPs.	The recommendation is considered not implemented yet.			X	

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No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management's response*	*Board's assessment*	*Status after verification*			
						'mplemented	*Under implementati on*	*Not implemente d*	*Overtake n by events*
28	2021	UNFCCC /2022/ chap. II, para.111	The Board recommends that UNFCCC officially launch its crowdfunding platform and publish the donation web page as soon as possible.	The crowdfunding platform was launched through a "donate now" bottom on the UNFCCC budget site, leading to the UNFCCC donations platform https://act.unfoundation.org/onlineactions/nEiPXU69gEybCkzQSTMM_w2	The link provided is efficient and leads to the donation platform. The recommendation is considered to be implemented.	X			
29	2021	UNFCCC /2022/ chap. II, para.116	The Board recommends that UNFCCC publish summary information about donations from non-Party stakeholders and members of the public at large on its website.	Currently, the secretariat does not directly receive any individual contributions from crowdfunding, but grants from UNF which are channeled via UNFIP against approved project documents. As per current practice, UNFCCC will publish the donor's name on the website as a donor to the Trust Fund for Supplementary Activities.	There is currently no information on the website explaining how much contributions have been received from the crowdfunding platform and how it is been utilized (channeled to projects through the UNFIP grant). The recommendation is considered under implementation.		X		
30	2021	UNFCCC /2022/ chap. II, para.133	The Board recommends that UNFCCC include the project of establishing an environmental management system based on an internationally recognized standard in the next workplan.	The project has been prioritized in 2023 and already translated into a draft environmental sustainability policy. The secretariat aspires to obtain certification of its environmental management against an internationally recognized standard, such as ISO 14001 or EMAS.	A policy is being drafted on the issue. The recommendation is considered to be implemented.	X			
Total number of recommendations				**30**		**14**	**12**	**3**	**1**
Percentage of the total number of recommendations				**100**		**46.7**	**40**	**10.0**	**3.3**

Chapter III

Certification of the Financial Statements

The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the year ending 31 December 2022 have been prepared in accordance with financial rule 106.1. They include all trust funds and special accounts operated by UNFCCC.

A summary of significant accounting policies applied in the preparation of these statements is included as a note to the financial statements. The notes to the financial statements provide additional information and clarification on the financial activities undertaken by UNFCCC during the period covered by the statements, for which the Executive Secretary had administrative responsibility.

I certify that the appended financial statements of the United Nations Framework Convention on Climate Change for the year ending 31 December 2022 are correct.

(*Signed*) Simon Stiell
Executive Secretary
20 June 2023

Chapter IV

Financial report for the year ended 31 December 2022

A. Introduction

1. The permanent secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) was established in January 1996 for the following purposes to (a) arrange for sessions of the Conference of the Parties and its subsidiary bodies established under the Convention, the Kyoto Protocol and the Paris Agreement and to provide them with services as required; (b) compile and transmit reports submitted to it; (c) facilitate assistance to Parties particularly developing country Parties on request in the compilation and communication of information required in accordance with the provisions of the Convention, the Kyoto Protocol and the Paris Agreement; (d) prepare reports on its activities and present them to the Conference of the Parties; (e) ensure the necessary coordination with the secretariats of other relevant international bodies; (f) enter, under the overall guidance of the Conference of the Parties, into such administrative and contractual arrangements as may be required for the effective discharge of its functions; (g) perform other secretariat functions specified in the Convention and in any of its protocols; and (h) undertake any other functions as may be determined by the Conference of the Parties.

2. The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) are prepared in accordance with International Public Sector Accounting Standards (IPSAS) and are submitted to the Conference of Parties (COP) in accordance with the financial procedures. The financial statements include all operations under the direct authority of the Executive Secretary including the core budget, extra-budgetary financed activities, and activities under the Clean Development Mechanism (CDM).

3. This financial report should be read in conjunction with the UNFCCC audited financial statements for 2022, but they do not form part of the statements. The financial report is intended to provide readers of the financial results with a more holistic understanding of the meaning of the numbers and inform stakeholders about how financial resources are being managed.

B. 2022 Financial Highlights

Total revenue:

4. Revenue in 2022 totalled USD 112.7 million mainly consisting of:

(a) The indicative contributions to the core budget of USD 34.9 million and USD 0.7 million to the budget of the International transaction log;

(b) Voluntary contributions from donors totalled USD 40.2 million;

(c) Fees for the CDM and Joint Implementation mechanisms USD 32.1 million.

Total expenses:

5. Expenses in 2022 totalled USD 132.5 million mainly consisting of:

(a) Personnel expenses amounting to USD 58.5 million,

(b) Travel USD 12.4 million,

(c) Contractual services for USD 24.2 million,

(d) Operating and other expenses for USD 10.8 million.

(e) CDM Trust Fund transfer to the World Bank hosted Adaptation Fund of USD 20.0 million. It should be noted that this transfer is treated as an expense to comply with the International Public Sector Accounting Standards. In substance and form, the transfer was in fulfilment of a decision by the

Conference of Parties in 2 November 2021 and not a planned expenditure against the UNFCCC 2022 work programme.

6. **Combined Revenue** of indicative and voluntary contributions as well as fees for the Clean Development Mechanism (CDM) and the Joint Implementation (JI) saw an increase in 2022. Indicative contributions revenue decreased moderately to USD 35.6 million (USD 37.1 million in 2021) due to the indicative contributions in EUR valuing lower in USD in 2022 as compared to 2021. Voluntary contributions revenue had a significant rise to USD 40.2 million (USD 30.7 million in 2021) as a result of more effective fundraising. There was also a significant increase in CDM and JI fees to USD 32.1 million (USD 22.9 million in 2021) attributed to higher volumes of Certified Emission Reduction issuances for emission reduction projects and programmes in 2022 compared to 2021.

7. **Total Expenses** have increased to USD 132.5 million in 2022 (USD 93.6 million in 2021) mainly due to an increase of contractual services to USD 24.2 million (USD 20.7 million in 2021) and Travel to USD 12.4 million (USD 5.7 million in 2021). Both are a reflection of the increased activities and travel in 2022, increased costs for virtual meeting platforms and the in-person participation at the COP 27 held in 2022. A transfer of USD 20.0 million from the CDM Trust Fund surplus to the World Bank hosted Adaptation Fund effected in December 2022 in fulfilment of the decision in 2/CMP.16 by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol is also included in the expenses for the year.

8. **Operating result**: In 2022, there was an excess of expenditure over revenue of USD 19.8 million (compared to a deficit of USD 0.7 million in 2021). The transfer of the USD 20.0 million from the Clean Development Mechanism (CDM) Trust Fund to the Adaptation Fund contributed to the deficit resulting in an annual deficit of USD 2.5 million for the CDM fund. The deficit for the Core Trust Fund was USD 0.08 million while the deficit for the Trust fund for participation in the UNFCCC process was USD 1.4 million, deficit for the Trust fund for Supplementary activities was USD 8 million, and the deficit for the UNFCCC employee liabilities fund was USD 6.5 million.

9. Assets: Total assets as at 31 December 2022 decreased by USD 12.2 million to USD 264.7 million compared to the assets at 31 December 2021 of USD 276.8 million. The major components of UNFCCC's assets are as follows (thousands of United States dollars).

Table 1
Summary of assets as at 31 December 2022
(Thousands of United States dollars)

	2022	*2021*
Cash and cash equivalents	33 515	27 236
Investments	199 576	220 766
Indicative contributions receivable	11 424	14 247
Voluntary contributions receivable	11 727	7 507
Other accounts receivable	2 223	1 012
Other assets	5 576	5 143
Property, plant, and equipment	310	444
Intangible assets	323	495
Total assets	264 676	276 849

10. The major assets at 31 December 2022 are cash, cash equivalents and investments totalling USD 233.1 million, representing 88 per cent of the total assets, outstanding indicative contributions from Parties of USD 11.4 million, (4.3 per cent) and Voluntary Contributions of USD 11.7 million representing 4.4 per cent of the total assets. The remaining assets consist of other accounts receivable of USD 2.2 million, other assets (primarily advances) of USD 5.6 million, equipment and software of USD 0.6 million.

11. **Cash, cash equivalents and investments**: Cash and cash equivalents as well as investments of USD 233. million are held in the UN Treasury main cash pool. The overall levels of these assets have decreased by USD 14.9 million compared to 31 December 2021.

12. **Accounts receivable**: There continue to be delays in paying contributions to the UNFCCC Secretariat by many Parties. In 2022 the situation improved resulting in a decrease of indicative contributions outstanding of USD 2.8 million or 19.8 per cent compared to amounts outstanding as at 31 December 2021. The decrease in indicative contributions receivable is a result of the timely payment of amounts due by some Parties and concerted effort by UNFCCC Secretariat to follow up on outstanding contributions with the Parties.

13. **Other assets** amounting to a total of USD 5.6 million mainly consist of prepayments of USD 3.5 million and education grant advances of USD 1 million.

14. **Liabilities**: Liabilities as at 31 December 2022, totalled USD 170.4 million (USD 205.8 million as at 31 December 2021) as follows.

Table 2
Summary of liabilities as at 31 December 2022
(Thousands of United States dollars)

	2022	2021
Accounts payable and accruals	7 825	5 074
Advance receipts	29 767	34 185
Employee benefit liabilities	130 915	165 812
Other liabilities	1 878	746
Total liabilities	**170 385**	**205 817**

15. The most significant liability is for the employee benefits earned by staff members and retirees but not paid at the reporting date, primarily the liability for After Service Health Insurance (ASHI). The ASHI liabilities total USD 119.4 million, representing 70.1 per cent of UNFCCC's total liabilities and are explained in detail in the respective note to the financial statements.

16. The other significant liability is for advance receipts mainly comprising of indicative contributions received in advance of the start of the year to which they are relating to, voluntary contribution provided by donors that contain conditions requiring the return of funds (if not spent in accordance with the terms of the agreement), and CDM fees received in advance but not yet earned by UNFCCC. The balance represents the portion of the contributions as at 31st December that have not been recognized as revenue as they are not yet earned by UNFCCC by performing the services covered by the respective agreements.

17. **Net assets**: The movements in net assets during the year shows an overall increase of USD 23.3 million, from USD 71 million in 2021 to USD 94.3 million at the end of 2022. This is mainly due to the actuarial gains of USD 43.1 million with the addition of operating surplus of USD 0.1 million. Net assets include the operating reserves which amount to USD 49.4 million at the reporting date.(see statement III)

Comparison of budgets to actual amounts

18. The Conference of the Parties (COP) approved a Core expenditure budget for 2022 in the biennium 2022–2023, amounting to EUR 31.5 million. The 2022 approved budget for the International transaction log in the biennium 2022–2023 amounted to EUR 1.9 million.

19. Total expenditure as at 31 December 2022 under the core budget in biennium 2022-2023 represented 97.0 per cent of the approved core budget. Personnel expenditure in 2022 is up by USD 2.2 million, mainly due to the retroactive salary adjustment paid in response to the International Civil Service Commission (ICSC) review. Contractual

services and operating expenses are higher in 2022 by USD 3.5 million and USD 4.2 million respectively, due to the increased activity post COVID and the increase of physical meetings. Loss on foreign exchange and investments is also higher by USD 3.4 million due to strengthening of the USD against the EUR during 2022.

20. The overall expenditure rate under the Trust Fund for the International Transaction Log (ITL) was 62.1 per cent for the biennium 2022-2023 as at 31 December 2022. Owing to several staff departures, the restructuring of the secretariat and the decrease in operational activities, the staffing level of the ITL during the reporting period was below the requirements included in its budget.

21. The core budget, as well as the budget for the international transaction log continues to be prepared on a modified cash basis in accordance with the UN Financial Regulations. The overall budgetary results of the 2022 financial period are summarized in Statement V-A to V-C. The differences between the net results on the IPSAS (full accrual) basis and those in accordance with the adopted budget are explained in the respective note to the financial statements.

Impact of the COVID-19 pandemic

22. During 2022, the impact of COVID-19 pandemic on operations was reduced when compared to the previous year. COP 27 conference was attended in person as a result of relaxation of travel restrictions across the globe.

Managing (financial) risk and uncertainties

23. The secretariat's main income sources are the indicative contributions from Parties, voluntary contributions from donors as well as fee-based income from the mechanisms supported by the secretariat, mainly the Clean Development Mechanism (CDM).

24. Indicative contributions have been steadily received in the past years and there is no expectation of a significant change in the coming years. The secretariat is following up regularly on outstanding contributions and does not expect a significant change in the levels of contributions to be received. Expenditure under the core budget are controlled by the appropriations at the entity level as per the financial rules and regulations.

25. While fluctuating over time, voluntary contributions have been received at insufficient levels to cover the budgeted requirements for supplementary activities in line with the mandates given from the different bodies of the Conference of the Parties. Similar to the core budget, expenditure is limited to funding received and budgets are developed and implemented to ensure full cost recovery, taking into consideration all direct and indirect costs.

26. Although the CDM mechanism is still producing significant levels of income, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided at COP 26 to support the development of new mechanisms under Article 6 of the Paris Agreement. The secretariat is foreseen as the supporting entity to the new mechanism (similar to the CDM process). While the respective budgets to support the CDM mechanism have been adjusted to the necessary resource levels in biennium 2022–2023, sufficient reserves in the CDM trust fund are available to cover the needs for the remaining service period and the CMP has allocated significant resources to the development of the new mechanisms under Article 6.

27. The financing of the long-term employee benefit liabilities has been addressed by the secretariat by introducing a surcharge on the salary costs to set aside funds to cover the respective liabilities under non-core activities following the UN secretariat approach. Under the core budget, these liabilities are currently unfunded and covered under a pay-as-you-go arrangement financed from the current core budget.

28. The secretariat manages strategic, financial, operational and program delivery risks at the level of risk owners where risks are escalated to the Management Team (MT) or MT sub-committee meetings. The Organizational Development and Oversight Unit acts as the second line of defence and is responsible for ensuring a sound framework for Enterprise Risk Management and related risk identification, assessment and reporting.

29. Key risk factors for the secretariat include: (i) geopolitical situation and/or energy and economic crisis impinging on parties' commitment to urgently combating climate change and (ii) unpredictable or insufficient financial resources to finance all relevant mandates from parties.

30. Mitigation action to address key risk factors include strengthening the positioning and relevance of the secretariat through outreach, active engagement in high-level meetings and improving the organization's approach to strategic planning and ERM. In addition, the secretariat seeks to broaden its resource base for supplementary project to non-state actors.

Strategic Plan and Objectives

31. The secretariat provides the foundation for global cooperation to address climate change. It is an authoritative, recognized UN body that empowers all actors to achieve the objective of the Convention. In doing so, it puts the well-being of humanity and sustainable development at the centre of climate action in pursuing the full implementation of the Convention, the Kyoto Protocol and the Paris Agreement.

32. The secretariat in its 2022–2023 budget proposals presented the budgetary requirements along organization-wide strategic objectives and priorities, provided a comprehensive reference for all stakeholders and a single source for departmental and divisional budgets, as well as for monitoring and evaluation. The budgets were developed from the ground up through a comprehensive and participatory secretariat-wide effort and consider all mandated work regardless of the date of adoption of the respective mandate.

33. Directors of divisions are responsible for their division's key objectives and all staff are subject to annual performance assessments. The secretariat also reports the budgetary and work programme performance to Parties annually.

34. In 2022–2023 the secretariat's work continues to be guided by the following strategic objectives:

(a) Facilitate intergovernmental engagement on responding to the threat of climate change by providing effective organizational, process, technical and substantive support for:

i. Ongoing intergovernmental oversight of established processes and negotiation of new, revised or enhanced processes, as appropriate;

ii. Operating established processes arising from the decisions of the COP, the CMP and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA);

(b) Enable the constituted bodies to fulfil their mandates, including by providing effective organizational, process, technical and substantive support;

(c) Manage a trusted repository of data and information in support of the intergovernmental response to the threat of climate change;

(d) Facilitate engagement in the UNFCCC process in order to promote action towards the achievement of the objectives and goals of the Convention, the Kyoto Protocol and the Paris Agreement;

(e) Oversee and manage the secretariat effectively.

Programme delivery highlights

35. During the reporting period, the secretariat organized SB 56 and COP 27, both of which took place in person, with a robust virtual component, with an increase in complexity and scope compared with previous sessions, as well as around 200 workshops, capacity-building sessions and meetings in and outside Bonn.

36. Work under all constituted bodies, processes and work programmes supported by the secretariat progressed in line with the respective mandates and workplans. The secretariat continued to support the intergovernmental process in relation to the current Measuring Reporting Verification (MRV) arrangements and the Enhanced Transparency

Framework (ETF), including by providing technical assistance to developing countries and training to experts engaged in the reporting, review and analysis processes. It is facilitating the operationalization of the ETF and work on methodological issues, including in relation to GHG inventories, REDD+, agriculture, land use, land-use change and forestry, Intergovernmental Panel on Climate Change (IPCC) guidelines and common metrics.

37. Furthermore, the secretariat facilitated intergovernmental engagement on areas such as climate finance flows, Article 6 of the Paris Agreement, the Sharm el-Sheikh mitigation ambition and implementation work programme, adaptation, and loss and damage, including by supporting the process to formulate and implement National Adaptation Plans (NAPs), the Nairobi Work Programme (NWP), the Warsaw International Mechanism for loss and damage (WIM) and the Glasgow–Sharm el-Sheikh work programme on the global goal on adaptation, and managing adaptation-related data and information.

38. The secretariat also facilitated intergovernmental engagement on and implementation of established processes relating to gender, Action for Climate Empowerment (ACE), youth engagement, observer engagement and global climate action, including by preparing reports and events under the gender action plan, organizing the ACE Dialogue, and supporting the Presidency and relevant observer constituencies in organizing Gender Day and Young and Future Generations Day events, including the youth-led forum and civil society events at COP 27.

39. More information can be found at:
https://unfccc.int/sites/default/resources/sbi2023_06_adv.pdf

Chapter V

Financial statements for the year ended 31 December 2022

A. Statement I: Statement of Financial Position as at 31 December 2022

(Thousands of United States dollars)

	Note	*2022*	*2021*
ASSETS			
Current Assets			
Cash and cash equivalents	5	33 515	27 236
Short-term investments	5	134 463	185 961
Indicative contributions receivable	6	11 424	14 247
Voluntary contributions receivable	6	7 565	5 130
Other receivables	6	2 223	1 012
Other current assets	7	5 576	5 143
Total current assets		**194 767**	**238 729**
Non-current assets			
Voluntary contributions receivable	6	4 163	2 377
Long-term investments	5	65 112	34 804
Property, plant and equipment	8	310	444
Intangible assets	9	323	495
Total non-current assets		**69 909**	**38 119**
TOTAL ASSETS		**264 676**	**276 849**
LIABILITIES			
Current Liabilities			
Payables and accruals	10	7 825	5 074
Advance receipts	11	29 767	34 185
Employee benefits	12	2 418	2 557
Other current liabilities	14	1 878	746
Total current liabilities		**41 888**	**42 562**
Non-current liabilities			
Employee benefits	12	128 497	163 255
Total non-current liabilities		**128 497**	**163 255**
TOTAL LIABILITIES		**170 385**	**205 817**
NET ASSETS			
Accumulated surpluses/(deficits)		44 888	21 527
Reserves	17	49 403	49 504
TOTAL NET ASSETS		**94 291**	**71 032**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**264 676**	**276 849**

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

B. Statement II: Statement of Financial Performance for the year ended 31 December 2022

(Thousands of United States dollars)

	Note	*2022*	*2021*
REVENUE	15		
Indicative contributions		35 618	37 076
Voluntary contributions		40 228	30 733
CDM and JI service fees		32 072	22 894
Interest Revenue		4 008	1 030
Gain on foreign exchange		-	-
Other/miscellaneous revenue		746	1 077
TOTAL REVENUE		112 672	92 809
EXPENSES	16		
Personnel expenditure		58 462	56 309
Travel		12 418	5 721
Contractual services		24 239	20 733
Operating expenses		6 393	2 159
Other expenses		4 405	4 915
Depreciation of equipment		133	110
Amortization of intangible assets		171	276
Return/transfer of donor/CDM Trust Fund Transfer		20 273[18]	664
Loss on foreign exchange and investments		6 013	2 663
TOTAL EXPENSES		132 507	93 551
SURPLUS/(DEFICIT) FOR THE PERIOD		(19 835)	(742)

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

[18] This amount includes USD 20.0 million transfer from the CDM Trust Fund to the World Bank hosted Adaptation Fund pursuant to the decision in 2/CMP.16

C. Statement III: Statement of Changes in Net Assets for the year ended 31 December 2022

(Thousands of United States dollars)

	Accumulated Surplus	*Reserves*	*Total Net Assets*
Balance as at 01 January 2022	21 527	49 504	71 032
Surplus/(Deficit) for the current period	(19 835)	–	(19,835)
Actuarial gains (losses) on employee benefits liabilities	43 094	–	43 094
Adjustment to operating reserve amounts against accumulated surplus	102	(102)	-
Balance as at 31 December 2022	**44 888**	**49 403**	**94 291**

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

D. Statement IV: Cash Flow Statement for the year ended 31 December 2022

(Thousands of United States dollars)

	2022	*2021*
Cash flows from operating activities		
Surplus/(deficit) for the period	(19 835)	(742)
Depreciation expense	133	110
Amortization of intangible assets	171	276
(Increase)/decrease in accounts receivable	(2 609)	2 360
(Increase)/decrease in other assets	(433)	(1 792)
Increase/(decrease) in payables and accruals	2 751	1 006
Increase/(decrease) in advance receipts	(4 417)	7 098
Increase/(decrease) in employee benefit liabilities	8 197	8 896
Increase/(decrease) in other liabilities	1 132	746
Net cash flows from operating activities	**(14 910)**	**17 957**
Cash flows from investing activities		
(Increase)/decrease in equipment	–	(204)
(Increase)/decrease in intangible assets	–	(28)
(Increase)/decrease in short-term investments	51 498	(31 770)
(Increase)/decrease in long-term investments	(30 308)	16 082
Net cash flows from investing activities	**21 190**	**(15 920)**
Net increase/(decrease) in cash and cash equivalents	**6 279**	**2 036**
Cash and cash equivalents at the beginning of the year	27 236	25 199
Cash and cash equivalents at the end of the year	33 515	27 236
Overall increase/(decrease)	**6 279**	**2 036**

	2021	*2020*
Cash flows from operating activities		
Surplus/(deficit) for the period	(742)	(513)
Depreciation expense	110	68
Amortization of intangible assets	276	489
(Increase)/decrease in accounts receivable	2 360	5 795
(Increase)/decrease in other assets	(1 792)	1 360
Increase/(decrease) in payables and accruals	1 006	314
Increase/(decrease) in advance receipts	7 098	(964)
Increase/(decrease) in employee benefit liabilities	8 896	9 254
Increase/(decrease) in other liabilities	746	(2)
Net cash flows from operating activities	**17 957**	**15 802**
Cash flows from investing activities		
(Increase)/decrease in equipment	(204)	(204)
(Increase)/decrease in intangible assets	(28)	0
(Increase)/Decrease in short-term investments	(31 770)	(34 702)
(Increase)/Decrease in long-term investments	16 082	(13 394)
Net cash flows from investing activities	**(15 920)**	**(48 300)**
Cash flows from financing activities	**0**	**0**
Net increase/(decrease) in cash and cash equivalents	**2 036**	**(32 498)**

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

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

1. Budget to Actual Comparison Core Budget for the year 2022 and the biennium 2022–2023

*2022**	Original Budget (EUR)	Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original Budget (USD)	Final Budget (USD)	Actual (USD)	Difference (USD)
Executive	1 916 780	1 916 780	2 014 718	(97 938)	2 175 687	2 175 687	2 116 842	58 845
Programmes Coordination	256 940	256 940	271 266	(14 326)	291 646	291 646	285 589	6 057
Adaptation	3 255 039	3 255 039	3 584 283	(329 244)	3 694 709	3 694 709	3 753 068	(58 358)
Mitigation	1 870 091	1 870 091	1 489 552	380 539	2 122 691	2 122 691	1 567 028	555 664
Means of Implementation	3 313 247	3 313 247	2 428 796	884 451	3 760 780	3 760 780	2 553 200	1 207 579
Transparency	6 423 302	6 423 302	6 475 287	(51 985)	7 290 922	7 290 922	6 808 069	482 853
Operation Coordination	612 178	612 178	725 025	(112 847)	694 867	694 867	765 712	(70 845)
Secretariat-wide costs	1 435 293	1 435 293	1 614 069	(178 776)	1 629 163	1 629 163	1 678 620	(49 456)
AS/HR/ICT	1 877 106	1 877 106	1 661 025	216 081	2 130 654	2 130 654	1 751 304	379 350
Conference Affairs	1 300 600	1 300 600	1 474 284	(173 684)	1 476 277	1 476 277	1 556 355	(80 078)
Legal Affairs	1 186 960	1 186 960	1 177 812	9 148	1 347 287	1 347 287	1 239 986	107 301
Intergovernmental Support and Collective Progress	2 021 362	2 021 362	1 778 609	242 753	2 294 395	2 294 395	1 864 915	429 480
Communications and Engagement	2 044 839	2 044 839	2 026 408	18 431	2 321 043	2 321 043	2 146 261	174 782
IPCC	244 755	244 755	244 755	0	277 815	277 815	268 078	9 737
Total appropriation	**27 758 492**	**27 758 492**	**26 965 890**	**792 602**	**31 507 936**	**31 507 936**	**28 355 026**	**3 152 910**
Programme support costs	3 608 604	3 608 604	3 445 357	163 247	4 096 032	4 096 032	3 660 805	435 227
Adjustment to working capital reserve	103 470	103 470			117 446	117 446		
Grand TOTAL	**31 470 566**	**31 470 566**	**30 411 246**	**955 850**	**35 721 414**	**35 721 414**	**32 015 831**	**3 588 138**
Contribution from the Host Government	766 938	766 938	766 938		870 531	870 531	870 531	
Income from Indicative Contributions	30 703 626	30 703 626	30 703 626		34 850 881	34 850 881	34 850 881	
Net result (budgetary)			**1 059 318**				**3 705 581**	

2. Budget to Actual Comparison International Transaction Log Budget for the year 2022 and the biennium 2022–2023

2022*	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
Staff costs	654 740	485 643	169 097	743 178	513 479	229 699
Consultants	22 500		22 500	25 539		25 539
Travel of staff	12 036		12 036	13 662		13 662
Experts and expert groups						
Training	8 000		8 000	9 081		9 081
General operating expenses	923 956	525 734	398 222	1 048 758	545 859	502 899
Contributions to common services	97 024	50 625	46 399	110 129	58 240	51 889
TOTAL	**1 718 256**	**1 062 002**	**656 254**	**1 950 347**	**1 117 578**	**832 769**
Programme support costs (overheads)	223 373	143 513	79 860	253 545	153 139	100 405
Adjustment to working capital reserve	(15 655)			(17 769)		
Grand TOTAL	**1 925 974**	**1 205 515**	**736 114**	**2 186 123**	**1 270 717**	**933 175**
Income from indicative contributions	1 925 974	1 925 974		2 186 123	767 280	
Net result (budgetary)					**(503 437)**	

* Further information is contained in notes 19 and 20.

3. Budget to Actual Comparison Conference Services Contingency Budget for the year 2022

2022	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Interpretation	1 149 094		1 149 094	1 304 306		1 304 306
Documentation						
Translation	1 014 435		1 014 435	1 151 459		1 151 459
Reproduction and distribution	779 935		779 935	885 284		885 284
Meetings service support	234 878		234 878	266 604		266 604
Subtotal	**3 178 342**		**3 178 342**	**3 607 653**		**3 607 653**
Programme support costs	413 185		413 185	468 995		468 995
Working capital reserve	298 097		298 097	338 362		338 362
Total	**3 889 624**		**3 889 624**	**4 415 010**		**4 415 010**

*Further information is contained in notes 19 and 20.

F. Notes to the Financial Statements

Note 1: The Reporting Entity

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

(a) To arrange for sessions of the Conference of the Parties and its subsidiary bodies established under the Convention, the Kyoto Protocol and the Paris Agreement and to provide them with services as required;

(b) To compile and transmit reports submitted to it;

(c) To facilitate assistance to Parties particularly developing country Parties on request in the compilation and communication of information required in accordance with the provisions of the Convention, the Kyoto Protocol and the Paris Agreement;

(d) To prepare reports on its activities and present them to the Conference of the Parties;

(e) To ensure the necessary coordination with the secretariats of other relevant international bodies;

(f) To enter, under the overall guidance of the Conference of the Parties, into such administrative and contractual arrangements as may be required for the effective discharge of its functions;

(g) To perform other secretariat functions specified in the Convention and in any of its protocols; and

(h) To undertake any other functions as may be determined by the Conference of the Parties.

2. UNFCCC is governed by the following constituent bodies:

(a) **The Conference of the Parties (COP)** is the supreme decision-making body of the Convention. All States that are Parties to the Convention are represented at the COP, at which they review the implementation of the Convention and any other legal instruments that the COP adopts and take decisions necessary to promote the effective implementation of the Convention, including institutional and administrative arrangements.

(b) **The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol** (CMP): All States that are Parties to the Kyoto Protocol are represented at the CMP, while States that are not Parties participate as observers. The CMP reviews the implementation of the Kyoto Protocol and takes decisions to promote its effective implementation.

(c) **The Subsidiary Body for Implementation** (SBI) is one of two permanent subsidiary bodies to the Convention established by the COP/CMP. It supports the work of the COP and the CMP through the assessment and review of the effective implementation of the Convention and its Kyoto Protocol. A particularly important task in this respect is to examine the information in the national communications and emission inventories submitted by Parties in order to assess the Convention's overall effectiveness. The SBI reviews the financial assistance given to non-Annex I Parties to help them implement their Convention commitments and provides advice to the COP on guidance to the financial mechanism (operated by the Global Environment Facility - GEF). The SBI also advises the COP on budgetary and administrative matters.

(d) The Conference of the Parties, the supreme body of the Convention, shall serve as **the meeting of the Parties to the Paris Agreement (CMA)**. All States that are Parties to the Paris Agreement are represented at the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), while States that are not Parties participate as **observers**. The CMA oversees the implementation of the Paris Agreement and takes decisions to promote its effective implementation.

(e) **The Bureau of the COP and CMP** supports the COP, CMP and the CMA through the provision of advice and guidance regarding the on-going work under the

Convention and its Kyoto Protocol, the organization of their sessions and the operation of the secretariat, especially at times when the COP and the CMP are not in session. The Bureau is elected from representatives of Parties nominated by each of the five United Nations regional groups and small island developing States. The Bureau is mainly responsible for questions of process management. It assists the President in the performance of his or her duties by providing advice and by helping with various tasks (e.g. members undertake consultations on behalf of the President). The Bureau is responsible for examining the credentials of Parties, reviewing the list of intergovernmental and non-governmental organizations, seeking accreditation and submitting a report thereon to the Conference.

3. UNFCCC is financed by indicative contributions paid by Parties to the Convention, fees derived from services provided by the organization and voluntary contributions from Parties to the Convention and the Kyoto Protocol and other donors.

4. The Organization enjoys privileges and immunities as granted under the 1947 Convention on Privileges and immunities of the United Nations and the 1996 Headquarters agreement with the Federal Government of Germany, notably being exempt from most forms of direct and indirect taxation.

Note 2: Basis of Preparation

5. The financial statements of the UNFCCC have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention. The statements are prepared on a going concern basis given the approval by the Conference of Parties of the programme budget appropriations for the biennium 2022-2023, the historical trend of collection of indicative and voluntary contributions over the past years and that the Conference of Parties has not made any decision to cease operation of UNFCCC.

6. In accordance with IPSAS, the 2022 financial statements are presented on an annual basis covering the period 1 January 2022 to 31 December 2022. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 March 2023. Sequentially, the report of the Board of Auditors together with the audited financial statements are submitted to the Conference of the Parties.

7. The cash flow statement is prepared using the indirect method.

8. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

2.1 Functional and Presentation Currency

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

2.2 Foreign Currency Translation

10. Transactions in currencies other than United States dollar are translated into United States dollar at the prevailing United Nations Operational Rates of Exchange (UNORE) which represents the prevailing rate at the time of transaction[19]. Assets and liabilities in currencies other than United States dollar are translated into United States dollar at the UNORE year-end closing rate. Resulting net gains and losses are accounted for in the Statements of Financial Performance.

11. The Core budget and the budget for the International transaction log are approved and assessed in euros. The contingency budget for conference services of UNFCCC is approved by the COP. However, funds are not accessed unless required. Information on the Statements of Budget to Actual Comparisons for each budget are presented on both euros and United States dollars.

[19] https://treasury.un.org/operationalrates/OperationalRates.php

12. For statements V, euro amounts from the approved budgets for the original and final budget are converted to USD using the UNORE as at 1 January 2022 while the euro amounts for the actuals are converted to USD using the applicable monthly UNORE rate at the time of the transaction.

2.3 Materiality and the use of judgement and estimates

13. Materiality is central to the UNFCCC financial statements. The financial statements necessarily include amounts based on judgments, estimates and assumptions by management. Actual results may differ from these estimates. Changes in estimates are reflected in the period in which they become known. Accruals, equipment depreciation and employee benefit liabilities are the most significant items for which estimates are utilized.

Note 3: Significant Accounting Policies

3.1 Cash and Cash Equivalents

14. Cash and Cash equivalents are held at fair value and comprise cash on hand, cash at banks, money market and short-term deposits. Investment revenue is recognized as it accrues taking into account the effective yield.

3.2 Financial Instruments

15. Financial instruments are initially measured at fair value. Subsequent measurement of all financial instruments is at fair value except for accounts receivable and accounts payable, which are measured at amortized cost using the effective interest method except for indicative and voluntary contributions balances which are recognized at nominal value (proxy to fair value at the time of recognition).

16. Financial instruments are recognized when UNFCCC becomes a party to the contractual provisions of the instrument until the rights to receive cash flows from those assets have expired or have been transferred and UNFCCC has transferred substantially all the risks and rewards of ownership.

17. The Main cash pool comprises participating entity shares of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed by the UN Treasury. UNFCCC's share of the cash pool is disclosed in the notes to the financial statements and on the Statement of Financial Position categorized as cash and cash equivalents, short-term and long-term investments.

18. Gains or losses arising from changes in the fair value of financial instruments are included within the statement of financial performance in the period in which they arise. Gains or losses arising from a change in the fair value of the financial assets held in the Main Cash Pool are presented in the Statement of Financial Performance in the period in which they arise as finance costs if net loss or investment revenue if net gain.

19. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. UNFCCC's receivables comprise indicative contributions receivable from member countries (Parties) and other accounts receivable recognized on the Statement of Financial Position. Receivables are measured at amortized cost taking into account a provision for impairment.

3.3 Inventories

20. UNFCCC does not maintain an inventory of tangible assets that are held for resale or consumed in the distribution in rendering of its services. Should inventories be recognized in future financial statements, these inventories would be recognized at the lower of cost and net realizable value or at the lower of cost and current replacement cost.

3.4 Property, Plant and Equipment

21. Equipment with a cost above USD 5,000 is stated at historical cost less accumulated depreciation and any impairment losses. UNFCCC is deemed to control equipment if it can use or otherwise benefit from the asset in the pursuit of its objectives and if UNFCCC can exclude or regulate the access of third parties to the asset.

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

Table 3
The estimated useful life for equipment classes

Class of equipment	*Estimated useful life (in years)*
Computer equipment	5
Communication and audio equipment	5
Furniture and fittings	10
Vehicles	10
Leasehold improvements	10 (or lease term, whichever is shorter)

3.5 Intangible Assets

23. Intangible assets are valued at historical cost less accumulated amortization and any impairment losses. Intangible assets acquired externally are capitalised if their costs exceed the threshold of USD 5,000. Internally developed software is capitalized if its cost exceeded a threshold of USD 100,000 excluding research and maintenance costs and including directly attributable costs such as staff assigned full time to a development projects, sub-contractors, and consultants.

24. Amortization is provided over the estimated useful life of the intangible asset using the straight-line method.

Table 4
The estimated useful lives for intangible asset classes

Class of intangible assets	*Estimated useful life (in years)*
Software acquired externally	3 – 10
Internally developed software	3 – 10
Copyrights	Set 8 years or period of copyright, whichever is shorter

25. Impairment is assessed at each reporting date for all intangible assets based on indications that an asset may be impaired, and any impairment losses are recognized in the Statement of Financial Performance.

3.6 Payables, advance receipts, and accruals

26. Accounts payable are financial liabilities in respect of either goods or services that have been acquired and received by UNFCCC and for which the invoices have been received from the suppliers. They are initially recognized at fair value and, when applicable, subsequently measured at amortized cost using the effective interest method. As the accounts payable of UNFCCC generally fall due within 12 months, the impact of discounting is immaterial, and nominal values are applied to initial recognition and subsequent measurement.

27. Accruals are liabilities for goods and services that have been received or provided to UNFCCC during the year and have not been invoiced by suppliers as at the reporting date.

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

3.7 Employee Benefits

29. UNFCCC provides the following employee benefits:

(a) Short-term employee benefits comprise first-time employee benefits (assignment grants), regular monthly benefits (wages, salaries, allowances), compensated absences (annual and paid sick leave, maternity/paternity leave) and other short-term benefits (education grant, reimbursement of taxes) which fall due wholly within twelve months after the end of the accounting period in which employees render the related service.

(b) Post-Employment benefits including ASHI, repatriation grant, separation related travel and shipping costs;

(c) Other long-term employee benefits including accumulated annual leave payable on separation; and

(d) Termination benefits include indemnities for voluntary redundancy payable once a plan has been formally approved.

30. The liability recognized for post-employment benefits is the present value of the defined benefit obligations at the reporting date. An independent actuary using the projected unit credit method calculates the defined benefit obligations. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-grade corporate bonds with maturity dates approximating those of the individual plans.

31. Employee benefits including payments to staff members on separation from service such as repatriation grant, accrued annual leave, repatriation travel and removal on repatriation are expensed on an accrual basis.

32. Actuarial gains and losses related to post-employment benefits for after service health insurance are recognised in the period in which they occur on the statement of changes in net assets as a separate item in net assets/equity.

33. UNFCCC is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF, the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability, and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances, and other conditions of service of the United Nations and the specialized agencies.

34. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the Fund. UNFCCC and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify UNFCCC's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UNFCCC has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee Benefits. UNFCCC's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

3.8 Provisions

35. Provision are made for future liabilities and charges where UNFCCC has a present legal or constructive obligation as a result of past events and is probable that UNFCCC will be required to settle the obligation, and the value can be reliably measured.

3.9 Contingent liabilities and contingent assets

36. Contingent liabilities where their existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNFCCC or where the value cannot be reliably estimated are disclosed in the Notes to the financial statements. Contingent liabilities are assessed continually to determine whether an outflow of resources has become probable. If an outflow becomes probable, a provision is recognized in the financial statements in the period in which probability occurs. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

3.10 Leases

37. Leases, where the lessor retains a significant portion of the risks and rewards inherent in ownership, are classified as operating leases. Payments made under operating leases are charged on the Statement of Financial Performance as an expense on a straight-line basis over the period of the lease.

3.11 Non-exchange revenue and receivables

38. **Indicative contributions** to the Core budget and to the Trust Fund for the International transaction log from Parties to the Convention are recognised at the beginning of the year to which the assessment relates. The revenue amount is determined based on the approved budgets and the scale of assessment approved by the General Assembly as adopted by the Conference of the Parties. Provision of 50 per cent for all indicative amounts receivable for three years and 100 per cent for all amounts receivable for four or more years is provided for.

39. **Voluntary contributions** are recognised upon the signing of a binding agreement with the donor. Revenue is recognised immediately if no condition is attached. If conditions are attached, including a requirement that funds not utilized in accordance with the agreement must be returned to the contributing entity, revenue is recognised only upon satisfying the conditions. Until such conditions are met a liability (deferred revenue) is recognised. Voluntary contributions such as pledges and other promised donations which are not supported by binding agreements are considered contingent assets and are recognised as revenue when received and disclosed in the Notes to the financial statements if receipt is considered probable. Provision for doubtful debts is based on specific identification basis.

40. Multi-year voluntary conditional **contributions** due in future financial periods are recognized as receivables on the signing of the agreement along with a liability (deferred revenue) until the conditions are met.

41. **Goods in kind** are recognised at their fair value, measured as of the date the donated assets are received or acquired. **Services in kind** are not recognized on the face of the financial statements but instead disclosing the nature and type of services in-kind in the notes.

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

3.12 Exchange revenue

43. Revenue from the fees charged in connection with the Clean Development Mechanism (CDM) and the Joint Implementation Determination (JI) is recognized upon completion of the underlying service for which the fee has been charged. A liability is established covering the estimated amount of fees reimbursable to the applicant. Interest income is recognized on a time proportion basis as it accrues, considering the effective yield.

3.13 Expenses

44. Expenses arising from the purchase of goods and services are recognized when the services or goods have been received and accepted by UNFCCC. Service are considered received on the date when the service is certified as rendered. For some service contracts this process may occur in stages.

3.14 Segment reporting

45. UNFCCC is a single purpose entity with a mandate to assist the signatories of the UN Framework Convention on Climate Change to limit average global temperature increases and the resulting climate change, and to cope with whatever impacts are inevitable in part through enforcing the legally binding emission reduction targets established in the Kyoto Protocol. Its operations, therefore, consist of a single segment. However, to provide additional information for use to senior management and Parties to the Convention and Kyoto Protocol, supplemental disclosures are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all

UNFCCC funds. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Fund balances represent the accumulated residual of revenue and expenses.

46. UNFCCC classifies all projects, operations, and activities into the following ten funds and special accounts:

(a) Trust fund for the Core Budget of UNFCCC financed from indicative contributions (or general-purpose contributions from donors);

(b) Trust fund for Supplementary Activities financed from voluntary contributions;

(c) Trust fund for the Participation in the UNFCCC process financed from voluntary contributions;

(d) Trust fund for the Clean Development Mechanism financed from fees charged for registration of projects and issuance of certificates;

(e) Trust fund for the International Transactions Log financed from indicative contributions (or general-purpose contributions from donors);

(f) Trust fund for the Special Annual Contribution from the Government of Germany financed from a voluntary contribution from the government in which the UNFCCC headquarters is located;

(g) Special account for Programme Support Costs financed from charges made to the activities financed from indicative and voluntary contributions as well as fee financed activities;

(h) Special account for conferences and other recoverable costs financed from voluntary contributions; and

(i) Cost recovery fund financed from charges made to the activities financed from indicative and voluntary contributions;

(j) End of service and post employee benefits fund currently not fully funded.

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

48. UNFCCC reports on the transactions of each fund during the financial period, and the balances held at the end of the period.

3.15 Budget comparison

49. UNFCCC's budget is prepared on a modified cash basis as per the applicable financial regulations and rules whereas the financial statements are prepared on a full accrual basis. Under the modified cash basis, expenses are recognized on the obligation principle, i.e. when the organization enters into a financial commitment to obtain goods or services. Costs of equipment acquisition are expensed when the equipment has been delivered . On the other hand, the budget expenses does not include costs related to changes in provisions for employee benefits liabilities. Income is recognized as per para 70 also for statement V.

50. The budget is adopted on a biennial basis and presented in annual estimates in the financial statements. Unexpended balances at the end of the first year of the biennium are carried forward and added to the annual budget estimate for the second year of the biennium.

51. Statements V-1 to V-3, Comparison of budget and Actual amounts, compare the final budget to actual amounts calculated on the same basis as the corresponding approved budget.

52. As the basis used to prepare the budget and financial statements differ, note 19 provides a reconciliation between the actual amounts presented in statement V-1 to V-3 and the actual amounts presented on the Statement of Financial Performance.

53. The COP approves the biennial Core budget and the contingent budget for Conference Services. The CMP approves the budget for the International transaction log. Budgets may be subsequently amended by the COP or CMP, as applicable, or through the exercise of delegated authority.

3.16 Update on IPSAS standards

54. IPSAS 41 :Financial instruments was issued in 2018 with an initial effective date of 1 January 2022 which was postponed to 1 January 2023 due to the Covid-19 pandemic. Its impact on the financial statements of UNFCCC upon adoption is currently being assessed by the United Nations Secretariat Treasury which manages the UNFCCC cash pool and investments. UNFCCC will implement the changes provided by the United Nations Secretariat.

55. IPSAS 42: Social benefits was issued in 2020 with an effective date of 1 January 2022 which was postposed to 1 January 2023 due to the Covid-19 pandemic. The standard is not applicable to UNFCCC in the foreseeable future.

56. IPSAS 43 (Leases) was issued in January 2022 with an effective date of 1 January 2025. Its impact on the financial statements of UNFCCC upon adoption is currently being assessed. The IPSAS board indicated that entities will benefit from a further assessment following the implementation of IPSAS 41 and also finalisation of other IPSAS currently under development, including revenue, which may result in further amendments to IPSAS 43. Therefore, UNFCCC aims to complete its initial assessment subsequent to the implementation of IPSAS 41 and plans to adopt IPSAS 43 effect 1 January 2025.

Note 4: Financial Risks

4.1 Financial risk factors

57. UNFCCC's operations may expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

4.2 Market risk

Foreign exchange risk

58. UNFCCC operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. Foreign exchange risk arises from operating revenue and expenses and recognized assets and liabilities. Management requires that the Organization manage its currency risk against its functional currency by structuring contributions from its owner organizations and its technical cooperation project donors to correspond to the foreign currency needed for operational purposes.

59. As at 31 December 2022, if the US dollar had weakened/strengthened by 5 per cent against the euro with all other variables held constant, the impact on net assets would have been USD 1 million higher/lower due to the change in the asset value of receivables denominated in euro.

Price risk

60. The Organization may be exposed to price risk because of investments held in the Main cash pool which are classified in the Statement of Financial Position at fair value through surplus or deficit. The share of any realized loss or gain on the Organization's holdings in the Main cash pool is recognized in surplus or deficit.

Interest rate risk

61. The organization earns interest revenue derived from surplus balances that it maintains in operational and non-operational cash holdings throughout the year. The implementation of UNFCCC's programme and budget is not directly dependent on interest earnings.

4.3 Credit risk

62. Credit risk refers to the risk that counterparty to a financial instrument will default on its contractual obligations resulting in a financial loss to the Institute. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date. The Organization does not hold any collateral as security.

Other credit risk disclosure

63. Voluntary contributions from governments representing the Parties of the Organization comprise the majority of the Organization's voluntary contributions receivable. Credit risk is considered minimal since most of its donors are sovereign entities.

4.4 Liquidity risk

64. Cash flow forecasting is performed by the Organization in conjunction with the United Nations Office at Geneva (UNOG) which monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. There are no restrictions on the amount that UNFCCC may withdraw at any time after providing the UN Treasury with several days' notice.

4.5 Cash Pools

65. In addition to directly held cash and cash equivalents and investments, the United Nations Framework Convention on Climate Change ("UNFCCC") participates in the United Nations Treasury main pool. The main pool comprises of operational bank account balances in a number of currencies and investments in United States dollars.

66. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

67. As at 31 December 2022, the cash pools and the total assets of USD 11,873.8 million (2021: USD 11,799.7 million), of which USD 233.0 million was due to the Organization (2021: $248.0 million), and its share of revenue from cash pools in 2022 was USD 1.29 million (2021: $0.234 million).

Table 5
Summary of assets and liabilities of the Cash Pools
(Thousands of United States dollars)

	as at 31 December 2022	*as at 31 December 2021*
Fair value through the surplus or deficit		
Short-term investments	6 789 427	8 839 722
Long-term investments	3 316 889	1 654 439
Total fair value through the surplus or deficit investments	**10 106 316**	**10 494 161**
Loans and receivables		
Cash and cash equivalents	1 707 288	1 294 660
Accrued investment revenue	60 265	10 903
Total loans and receivables	**1 767 553**	**1 305 563**
Total carrying amount of financial assets	**11 873 869**	**11 799 724**
Cash pool liabilities		
Payable to UNFCCC	233 091	248 231
Payable to other cash pool participants	11 640 778	11 551 493
Total liabilities	**11,873,869**	**11 799 724**
Net assets	-	–

Table 6
Summary of revenue and expenses of the Cash Pools
(Thousands of United States dollars)

	For the year ended 31 December 2022	*For the year ended 31 December 2021*
Investment revenue	178 646	46 322
Unrealized gains / (losses)	(137 034)	(37 495)
Investment revenue from main pool	**41 612**	**8 827**
Foreign exchange gains / (losses)	(7 670)	(1 626)
Bank fees	(772)	(1 805)
Operating gains (losses) from main pool	**(8 442)**	**(3 431)**
Revenue and expenses from main pool	**33 170**	**5 396**

Financial risk management

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

69. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

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

Financial risk management: credit risk

71. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible Cash Pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The Cash Pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

72. The Guidelines require that investments are not to be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

73. The credit ratings used for the Cash Pools are those determined by major credit-rating agencies; Standard & Poor's and Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Table 7
Investments of the cash pools by credit ratings as at 31 December
(Percentage)

Main pool	*Ratings as at 31 December 2022*					*Ratings as at 31 December 2021*			
Bonds (long-term ratings)					**Bonds (long-term ratings)**				
	AAA/AAAu	*AA+u/AA+/AA*	*A+*	*NA*		*AAA*	*AA+/AA/AA-*	*A+*	*Not rated/WD*
S&P	33.8	65.9%		0.3%	S&P	47.8%	48.1%	0.4%	3.7%
	AAA	*AA+/AA/AA-*		*NA/NR*	Fitch	61.3%	15.7%		23.0%
Fitch	61.9%	22.5%	0.4%	15.4%					
	Aaa	*Aa1/Aa2/Aa3*	*A1*	*NA*		*Aaa*	*Aa1/Aa2/Aa3*	*A1*	
Moody's	66.7%	30.9%		2.4%	Moody's	61.1%	34.9%	0.4%	3.6%
Commercial papers/certificates of deposit (short-term ratings)					**Commercial papers/certificates of deposit (short-term ratings)**				
	A-1+/A-1					*A-1+/A-1*			
S&P	100.0%				S&P	100.0%			
	F1+/F1			*NR*		*F1+/F1*			*NR*
Fitch	97.7%			2.3%	Fitch	96.7%			3.3%
	P-1/P2					*P-1*			
Moody's	100.0%				Moody's	100.0%			
Term deposits/demand deposit account (Fitch viability ratings)					**Term deposits demand deposit account (Fitch viability ratings)**				
	aa/aa-	*a+/a/a-*		*NA*		*aa/aa-*	*a+/a/a--*	*a+/a*	
Fitch	35.9%	64.1%			Fitch	34.1%	65.9%		

74. The United Nations Treasury actively monitors credit ratings and, given that the Organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

75. The cash pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. The cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

76. The cash pool comprises the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2021: three years). The average duration of the main pool on 31 December 2022 was 0.77 years (2021: 0.49 years), which is considered to be an indicator of low risk.

Cash Pool interest rate risk sensitivity analysis

77. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the

yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 8
Cash Pools interest rate risk sensitivity analysis as at 31 December 2022

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars):									
Main pool total	168.98	126.73	84.48	42.24		(42.23)	(84.46)	(126.69)	(168.91)

Table 9
Cash Pools interest rate risk sensitivity analysis as at 31 December 2021

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars):									
Main pool total	113.63	85.22	56.81	28.40	0	(28.40)	(56.80)	(85.19)	(113.58)

Other market price risk

78. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value – Cash Pool

79. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

80. The levels are defined as:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (i.e. derived from prices);

(c) Level 3: Inputs for the asset or liabilities that are not based on observable market data (that is, unobservable inputs).

81. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian based on valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held in the main pool is the current bid price.

82. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques which maximise the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

83. The following fair value hierarchy presents the cash pool assets that are measured at fair value at the reporting date. There were no Level 3 financial assets, nor any liabilities

carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 10
Fair value hierarchy as at 31 December: main pool
(Thousands of United States dollars)

	31 December 2022			*31 December 2021*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds – corporate	65 200	–	65 200	29 997	–	29 997
Bonds – non-United States agencies	1 974 662	–	1 974 662	1 595 405	–	1 595 405
Bonds – supranational	789 587	–	789 587	812 539	–	812 539
Bonds – United States treasuries	1 348 056	–	1 348 056	197 390	–	197 390
Bonds – non-United States sovereigns	96 713	–	96 713	90 163	–	90 163
Main pool – commercial papers	–	1 747 461	1 747 461	–	3 033 880	3 033 880
Main pool – certificates of deposit	–	2 654 637	2 654 637	–	2 824 787	2 824 787
Main pool – term deposits	–	1 430 000	1 430 000	–	1 910 000	1 910 000
Total	**4 274 218**	**5 832 098**	**10 106 316**	**2 725 494**	**7 768 667**	**10 494 161**

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

	31 December 2022	*31 December 2021*
Cash and cash equivalents	33 515	27 236
Short-term investments	134 463	185 961
Long-term investments	65 112	34 804
Accounts receivable	25 375	22 766
Accounts payable	(2 755)	(1 347)
Total financial instruments	**255 711**	**269 420**

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

	Indicative Contributions	*Voluntary Contributions*
EUR and other currencies	11 289	10 986
USD	135	3 391
Total contributions receivable as at 31 December 2022	**11 424**	**14 337**

Table 13
Net indicative contributions past due as at 31 December 2022
(Thousands of United States dollars)

Indicative contributions past due	*Indicative Contributions*
Up to 1 year	8 133
1 to 2 year	1 434
2 to 3 years	1 555
Above 3 years	302

Indicative contributions past due	*Indicative Contributions*
Total net indicative contributions past due as at 31 December 2022	**11 424**

Table 14
Provision for impaired indicative receivables as at 31 December 2022
(Thousands of United States dollars)

Provision for impaired receivables	*Indicative Contributions*
As at 1 Jan 2022	2 457
Increase in provision during 2022	(267)
Total as at 31 December 2022	**2 190**

Note 5: Cash and cash equivalents, short-term and long-term investments

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

	31 December 2022	*31 December 2021*
Cash held in cash pools	33 515	27 236
Total cash and cash equivalents	**33 515**	**27 236**

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

	31 December 2022	*31 December 2021*
Short-term investments (cash pool)	134 463	185 961
Long-term investments (cash pool)	65 112	34 804
Total investments	**199 576**	**220 765**

84. UNFCCC cash forms part of a cash pools that are maintained and managed by the UN Treasury. The cash pools comprise UNFCCC's participating share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pool.

85. UNFCCC cash and investments include USD 29.8 million that are subject to general stipulations which did not meet the requirements of conditionality under IPSAS 23. These stipulations include earmarking on the use of funding, mostly regarding their programmatic use and eligible expenditure periods. Historically, UNFCCC has had positive experiences with regard to receiving payment tranches from donors in accordance with the agreement and did not have cases where breach of stipulations prompted donors to demand refunds or reimbursement.

Note 6: Accounts receivable

Table 17
Accounts receivable
(Thousands of United States dollars)

Accounts receivable	*31 December 2022*	*31 December 2021*
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International transaction log		
Current	13 614	16 705
Less provision for doubtful debts	(2 190)	(2 457)
Subtotal for indicative contributions	**11 424**	**14 247**
Voluntary contributions		
Current	7 565	5 130
Non-current	4 163	2 377
Subtotal voluntary contributions	**11 727**	**7 507**
Other receivables (current)	2 223	1 012
Total accounts receivable	**25 375**	**22 766**

86. Indicative contributions reflect the contributions receivable from Parties to the Convention, the Kyoto Protocol and the Paris Agreement to fund the core budget and the International Transactions log in accordance with the Financial Procedures adopted by the COP. Current voluntary contributions receivables are confirmed contributions that are due within twelve months from the reporting date. Other receivables represent amounts invoiced to Parties, other UN agencies and individuals for services provided. Provisions for doubtful receivables have been established covering indicative contributions receivables and other receivables equal to 50 per cent of amounts outstanding for more than three but less than four years and 100 per cent of amounts outstanding for more than four years.

87. The full amount of voluntary contributions receivable are subject to general stipulations in donor agreements which did not meet the requirements of conditionality under IPSAS 23. These stipulations include earmarking on the use of funding, mostly regarding their programmatic use and eligible expenditure periods. Historically, UNFCCC has had positive experiences with regard to receiving payments tranches from donors in accordance with the agreement and did not have cases where breach of stipulations prompted donors to demand refunds or reimbursement

Note 7: Other current assets

88. Other current assets consist of the following:

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

	31 December 2022	*31 December 2021*
Prepayments	3 456	3 222
Project Clearing	854	654
Travel Advances	234	190
Education Grant Advances	1 032	1 077
Total	**5 576**	**5 143**

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

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

Note 8: Property, plant and equipment

Table 19
Property, plant and equipment
(Thousands of United States dollars)

	Vehicles	*Communication and IT equipment*	*Furniture and machinery*	*Total*
Cost				
At 1 January 2022	77	3 488	45	3 610
Additions	–	–	–	0
Disposal	–	–	(38.83)	(38.83)
At 31 December 2022	**77**	**3 488**	**6**	**3 571**
Accumulated depreciation				
At 1 January 2022	34	3 088	45	3 167
Depreciation during the year	8	126	–	133
Disposal	–	–	(38.83)	(38.83)
At 31 December 2022	**42**	**3 213**	**6**	**3 261**
Net Book Value				
At 31 December 2022	36	275	–	310
At 31 December 2021	43	400	1	444

91. Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2022 there was no indication for any equipment being impaired.

Note 9: Intangible assets

Table 20
Intangible assets
(Thousands of United States dollars)

	Internally developed software
Opening balance 1 Jan 2022	3 156
Additions	–
Disposal (see note in para 124 below)	2 319
Total as at 31 Dec 2022	**837**
Accumulated Amortization 1 Jan 2022	2 662
Amortization during the year	171
Disposal (see note in para 124 below)	2 319
Total as at 31 Dec 2022	**514**
Net Book Value	
Net book Value 31 Dec 2022	323
Net book Value 31 Dec 2021	495

92. The decommissioning of fully amortized and no longer used intangible assets of USD 2.32 million will be completed during 2023.

93. UNFCCC has utilized the transition provision in IPSAS 31, and the value of intangibles assets has been recognized prospectively beginning with costs incurred on or after 1 January 2014.

Note 10: Payables and Accruals

Table 21
Payables and Accruals
(Thousands of United States dollars)

	31 December 2022	31 December 2021
Vendor payables	1 439	625
Other payables	1 317	722
Accruals for goods and services	5 070	3 727
Total payables and accruals	**7 825**	**5 074**

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

95. Accruals are liabilities for goods and services that have been received or provided to UNFCCC during the year which have not yet been invoiced by suppliers.

Note 11: Advance receipts

Table 22
Advance receipts
(Thousands of United States dollars)

	31 December 2022	31 December 2021
Conditional voluntary contributions	19 280	18 208
Indicative contributions received in advance	2 946	9 097
CDM fees received in advance	7 542	6 879
Total	**29 767**	**34 185**

96. UNFCCC recognizes a liability in cases where conditions are attached to voluntary contributions. Conditions are imposed by donors on the use of contributions and include both an obligation to use the donation in a specified manner and an obligation to return any amount not expended in accordance with performance specified by the donation. The amount recognized as a liability is the best estimate of the amount that would be required to settle the obligation at the reporting date. As UNFCCC satisfies the conditions on voluntary contributions through performance in the specified manner, the carrying amount of the liability is reduced and an amount of revenue equal to that reduction is recognized.

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

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

Note 12: Employee Benefits

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

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

	31 December 2022	31 December 2021
Current employee benefit liabilities		
After service health insurance	605	492
Repatriation grant	608	772
Annual leave	341	451
Home leave travel	715	801

	31 December 2022	31 December 2021
US tax reimbursement	149	41
Total current employee benefit liabilities	2 418	2 557
After service health insurance	119 441	152 387
Repatriation grant	5 366	6 373
Annual leave	3 642	4 474
Home leave travel	48	21
Total non-current employee benefit liabilities	128 497	163 255
Total employee benefit liabilities	130 915	165 812

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

101. Education grant: Internationally recruited staff members are eligible for partial reimbursement of the amounts paid for the education of dependent children up to maximum allowances established by the International Civil Service Commission (ICSC). The liability relates to the amount earned but not claimed at the reporting date. In case of education grants advances, 40 per cent of the advance is expensed in the current year while the balance of 60 per cent is recorded as staff advances under other current assets.

102. After Service Health Insurance (ASHI): Staff members (and their spouses, dependent children and survivors) retiring from service at the age of 55 or later are eligible for ASHI coverage if they have contributory health insurance coverage prior to retirement for at least five years of service for staff hired before 1 July 2007 and ten years of service for staff hired after 1 July 2007. Staff hired before 1 July 2007 who retire with less than ten years but more than 5 years of covered receive unsubsidized coverage until enrolled for 10 years at which time the coverage is subsidized. UNFCCC's liability for ASHI is calculated as the residual liability after deducting contributions from retirees and a portion of the contribution from active staff.

103. After-service health insurance for retired staff members and their survivors and dependents of UNFCCC is provided by the United Nations Staff Mutual Insurance Society against Sickness and Accident (UNSMIS) established under article 6.2 of the United Nations Staff Regulation. UNSMIS is governed by its General Assembly consisting of its members which includes, in addition to UNFCCC, UNOG (UNCTAD, OCHA, ECE and OHCHR) as well as ICT, UNHCR, UNDP, UNICEF, WMO, UNV, UNCCD, UNSCC and UNCC. The General Assembly approves amendments to the Statutes. An Executive Committee consisting of three members appointed by the Director-General of the United Nations Office at Geneva, three members appointed by the Co-ordinating Council of the United Nations at Geneva in consultation with corresponding bodies of the specialized agencies affiliated to the UNSMIS and one member appointed by the other six members, is responsible for approving the UNSMIS accounts and management report.

104. In accordance with Article 11 of the Statute, persons insured by UNSMIS shall pay monthly contributions, the amount of which shall be fixed by its Internal Rules. The UNFCCC, or other UNSMIS affiliated organizations, shall contribute to the UNSMIS funds through the payment of a subsidy, the proportion of which in relation to staff member contributions shall be fixed by the Director-General of the United Nations Office at Geneva within the limits of the relevant credited voted by the General Assembly of the United Nations. The ASHI liability calculation also include staff members who contribute to other United Nations insurance plans and accrue eligibility for after-service health insurance.

105. **Repatriation grant and travel**: In accordance with UN Staff Rules and Staff Regulations, non-locally recruited UNFCCC staff are entitled to a grant calculated based on length of services and family status on separation from service if they have completed at least one year of service outside their home country. In addition, non-locally recruited UNFCCC staff are entitled to reimbursement of travel and transport of personal effects on separation for themselves, their spouse and their dependent children.

106. **Annual leave**: In accordance with UN Staff Rules and Staff Regulations, UNFCCC staff may accumulate annual leave of up to 60 working days which is payable on separation from service.

107. **Death** benefit includes lump-sum benefits to be paid in the event of the death in service of an official with a long-term contract who left a dependent spouse or child. In line with the accounting practice of the UN secretariat, this liability is no longer recorded as a long-term employee benefit liability.

108. **Home leave**: Non-locally recruited UNFCCC staff is entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter, every second year. The liability recorded has been calculated proportionately reflecting the number of months relates to the value of home leave entitlements that have been earned by officials since their last entitlement but not taken at the reporting date.

109. US taxes: American citizens that are UNFCCC staff members are reimbursed for the amount of income taxes payable on the compensation they earn from the organization.

110. An actuarial valuation as at 31 December 2022 carried out in 2023 has been utilized to determine the UNFCCC's estimated liability and expenses recognized on the Statements of Financial Performance and Financial Position for repatriation grants and travel, accumulated annual leave and after-service health insurance at the reporting date. For 2022, the actuarial study was conducted as a roll-forward of the actuarial valuation of the End-of-Service schemes as at 31 December 2021.

111. Each year, the UNFCCC reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the UNFCCC's after-service medical care plans and separation benefit plans. The discount rate is determined by calculating the expected benefit payments for each future year attributable to past service as of the valuation date and then discounting these benefit payments using spot rates for high quality corporate bonds. A single equivalent discount rate was then determined that resulted in the same past service obligation.

112. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2022.

Table 24
Key financial assumptions

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*
Discount rate at beginning of period	0.19%	2.68%	2.70%
Discount rate at end of period	2.06%	5.09%	5.10%
General inflation rate at beginning of period		2.20%	
General inflation rate at end of period		2.20%	
Salary increases rate at beginning and end of period	Based on the age of staff member calculated separately for professional and general service staff		
Healthcare cost trend rate at beginning of period	3.75% decreasing to 3.75% no downturn		
Healthcare cost trend rate at end of period	5.20% decreasing to 4.15% in eleven years		

113. The following assumptions were utilized by the actuary in determining the maturity profile of the defined benefit obligations at 31 December 2021:

114. ASHI scheme: full eligibility is achieved once the staff member's period of service reaches 10 years in duration (5 years if hired before 01.07.2007) and once he/she reaches 55 years old.

115. Repatriation benefits: historically, for disclosure purposes it has been assumed that full eligibility is achieved from the time when the staff member's period of service reaches 12 years.

116. Annual leave: historically, for disclosure purpose it has been assumed that full eligibility is achieved from the time when the staff member has accumulated 60 days of leave, i.e. once the maximum of benefits has been accumulated.

117. The principal financial assumptions in the valuation of the defined benefit obligations are the rate at which medical costs are expected to increase in the future and the discount rate curve, which is calculated on the basis of corporate bonds. The sensitivity analysis looks at the change in liability due to changes in the medical cost trend rates and discount rate. The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognized in the statement of financial position. Should the discount rate or the medical cost trend assumption vary by 0.5 per cent, this would affect the measurement of the defined-benefit obligations as follows:

Table 25
Impact of change in medical health care cost trend rate
(Thousands of United States dollars)

	Change	*After service health insurance*
On total defined benefit obligation	0.50%	20 913
	(0.50)%	(17 601)
On current service cost and interest cost component of liability	0.50%	1 728
	(0.50)%	(1 432)

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

	ASHI		Repatriation Grant		Annual Leave	
	Liability change	Change in %	Liability change	Change in %	Liability change	Change in %
Increase of discount rate by 0.5%	(11 745)	(12)	(234)	(4)	(160)	(4)
Decrease of discount rate by 0.5%	13 370	13	245	4	167	4
Duration	25		9		9	

118. The liabilities established for defined benefit obligations and the net service costs for 2021 are as follows:

Table 27
Liabilities established for defined benefit obligations and the net service costs for 2022
(Thousands of United States dollars)

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*
Reconciliation of defined benefit obligation			
Defined benefit obligation, beginning of year	152 879	7 010	4 925
Current service cost	8 297	578	272
Interest cost	287	179	127
Benefits paid (net of participant contribution)	(493)	(654)	(463)
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	(40 924)	(1 292)	(878)
Total liability recognized on Statement of Financial Position	**120 046**	**5 821**	**3 983**
Annual expense for calendar year			
Current service cost	8 297	578	272
Interest cost	287	179	127
Benefits paid (net of participant contribution)	(493)	(654)	(463)
Total charge/(credit) recognized on statement of financial performance	**8 091**	**103**	**(64)**
Estimated benefit payments net of participant contributions payable in 2022	606	467	350
Cumulative amount of actuarial (gain)/loss recognized in net assets			
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	40 924	1 292	878
Total portion of cumulative liability recognized in net assets at end of year	**40 924**	**1 292**	**878**

119. Effective 1 January 2018, a monthly accrual has been implemented to start funding after-service health insurance liabilities relating to extra budgetary activities. For this purpose, an accrual rate of 3 per cent is applied on the sum of gross salary and post adjustment.

120. Under IPSAS 39: Employee benefit, the liabilities for ASHI, repatriation grant and travel and accumulated annual leave are considered unfunded and, therefore, no fair value of plan assets has been recognized and the entire ASHI liability is recognized as a liability of the UNFCCC.

121. Beginning in 2014 with the adoption of IPSAS, interest cost and current service cost related to the defined benefit obligation for ASHI liability, repatriation grant and travel and accumulated annual leave are recognized on the statement of financial performance as a component of personnel expenditure. Actuarial gains or losses for defined benefits plan results from changes in actuarial assumptions or experience adjustments including experience adjustments are directly recognized in the consolidated statement of changes in net assets. The balance of each provision is reviewed annually and adjusted to reflect actual experience.

122. Short-term employee benefit liabilities for education grants and home leave are recognized at an undiscounted amount. Short-term compensated absences are recognized, as employees earn their entitlement to future compensated absences through rendering a service to the UNFCCC. For non-accumulating compensating absences an expense is recognized when the absence occurs.

123. During 2022, UNFCCC accrued USD 0.7 million for repatriation grant and travel and USD 1.36 million for ASHI from all funds except the core budget and the international transaction log budget. These amounts are collected in the fund for employee benefits and will be used to (partially) fund future payment for ASHI and repatriation grants relating to the funds participating in the accrual. Based on the total liability for ASHI of USD 120 million and USD 5.8 million for repatriation grant and the overall accrued amounts of USD 6.5 million for ASHI and USD 3.1 million for repatriation, the

current funding ratio amounts to 5.7 per cent for the ASHI and 53 per cent for repatriation grant liability. For 2022, the estimated amounts for accrual under ASHI and repatriation are USD 1.3 million and USD 0.5 million respectively.

124. Based on the staffing ratio as at 31 Dec 2022, 37.3 per cent of the total ASHI and repatriation liability equalling USD 47.0 million relates to core budget funded positions while 62.6 per cent of the ASHI and repatriation liability corresponding to USD 78.8 million relates to non-core funded positions .

United Nations Joint Staff Pension Fund (UNJSPF)

125. UNFCCC is a member organization participating in the United Nations Joint Staff Pension Fund (the "Fund"), which was established by the United Nations General Assembly to provide retirement, death, disability, and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

126. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. UNFCCC and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify UNFCCC's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNFCCC has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39, Employee Benefits. UNFCCC's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

127. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

128. UNFCCC's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

129. The latest actuarial valuation for the Fund was completed as at 31 December 2021, and a roll forward of the participation data as at 31 December 2021 to 31 December 2022 will be used by the Fund for its 2022 financial statements.

130. The actuarial valuation as of 31 December 2021 resulted in a funded ratio of actuarial assets to actuarial liabilities of 117.0% (107.1% in the 2019 valuation). The funded ratio was 158.2% (144.4 % in the 2019 valuation) when the current system of pension adjustments was not taken into account.

131. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2021, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the

market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

132. Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2019, 2020 and 2021) amounted to USD 8,505.27 million, of which 0.28 per cent was contributed by UNFCCC.

133. During 2022, UNFCCC's contributions paid to UNJSPF amounted to USD 8.5 million (2021 USD 7.9 million). Expected contributions due in 2023 are USD 8.5 million.

134. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

135. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

Note 13: Provisions

Table 28
Provisions
(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Provision for legal cases	0	0
Total	**0**	**0**

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

Note 14: Other current liabilities

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

	31 December 2022	*31 December 2021*
Other Liabilities	1 878	746
Total	**1 878**	**746**

Note 15: Revenue

137. Indicative contributions are contributions received from Parties to the Convention, the Kyoto Protocol and the Paris Agreement to fund the core budget and the International transaction log under the Financial Procedures, based on the United Nations scale of assessment adjusted for differences in membership. The contributions are based on a biennium budget and are recognized as of the first day of the year to which they relate. Indicative contributions are considered to be without conditions.

Table 30
Indicative contributions
(Thousands of United States dollars)

	2022	2021
Core budget to the convention	34 851	35 781
International transaction log	767	1 295
Total	**35 618**	**37 076**

138. The below table shows the top ten contributors to the indicative contributions including working capital adjustments requested from the parties.

Table 31
Top ten parties contributing to the core budget
(Thousands of United States dollars)

	2022	Per cent
United States of America	9 284	25.99
China	4 226	11.83
Germany	3 002	8.46
Japan	3 015	8.44
United Kingdom of Great Britain and NI	1 608	4.50
France	1 558	4.36
Russian Federation	1 344	3.76
Italy	1 165	3.26
Republic of Korea	930	2.60
European Union	872	2.44

139. Voluntary contributions are recognized as revenue at the point of signature except where such agreement contains a condition in which case recognition as revenue is deferred until the conditions specified in the donor agreement have been satisfied.

Table 32
Voluntary contributions
(Thousands of United States dollars)

	2022	2021
Voluntary contribution to the core budget	871	1 002
Participation trust fund	1 982	3 509
Trust fund for supplementary activities	29 506	19 138
Special annual contribution from the host country	2 031	2 196
Special account for activities for conferences	5 838	4 888
Total	**40 228**	**30 733**

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

Table 33
Fee Income
(Thousands of United States dollars)

	2022	2021
CDM fees	32 072	22 894
Total	**32 072**	**22 894**

141. From 2021, income to finance the administration of CDM processes consists of accreditation fees and fees to be charged at issuance of certified emission reductions (CERs) (share of proceeds) to cover administrative expenses:

(a) The accreditation fee for the application for accreditation or reaccreditation of an entity is USD 15,000;

(b) The share of proceeds to cover administrative expenses are:

(i) USD 0.10 per CER issued for the first 15 000 tonnes of CO_2 equivalent for which issuance is requested in a given calendar year;

(ii) USD 0.20 per CER issued for any amount in excess of 15 000 tonnes of CO_2 equivalent for which issuance is requested in a given calendar year;

(iii) No share of proceeds are required for activities hosted in least developed countries.

Table 34
Interest revenue

	31 December 2022	*31 December 2021*
Investment income – Interest earned	4 008	1 030
Total	**4 008**	**1 030**

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

143. Gain/loss on foreign exchange represent gains realized on transactions occurring in currencies other than United States dollars and unrealized losses resulting from revaluation of monetary assets.

Note 16: Expenses

Table 35
Expenses
(Thousands of United States dollars)

	2022	*2021*
Personnel expenditure	58 462	56 309
Travel	12 418	5 721
Contractual services	24 239	20 733
Operating expenses	6 393	2 159
Other expenses	4 405	4 915
Depreciation of equipment	133	110
Amortization of intangible assets	171	276
Return/transfer of donor funding	20 273	664
Loss on foreign exchange and investments	6 013	2 663
Total	**132 507**	**93 551**

144. Personnel expenditure includes all international and national staff expenses such as salaries, post adjustments, entitlements, pension, and health plan contributions for professional and general service category staff. It also includes temporary staff expenses such as costs relating to the employment of temporaries and supernumeraries. Pension and insurance benefits also include the service and interest cost as per the actuarial valuation.

Table 36
Personnel expenditure
(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Salary and wages	34 414	33 909
Pension and insurance benefits	18 719	18 284
Other benefits	5 328	4 116
Total	**58 462**	**56 309**

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

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

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

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

149. Pursuant to rule 106.7(a) of the financial Regulations of the United Nations, write-off cases totalling USD 8 890 were processed for the year 2022 for long outstanding travel related advances paid to participants to UNFCCC events for prior years. These advances were deemed uncollectible and subsequently written off.

150. Returns of donor funding includes the amounts of unspent funds returned to donors upon completion of voluntary funded projects in accordance with the respective donor agreement.

Note 17: Reserves

151. A reserve is established for the core budget and the budget of the International transaction log as part of the adoption of the budget by the COP. For the CDM trust fund, a reserve of USD 45.0 million has been established. The total reserves at the reporting date amount to USD 49.4 million. The Appendix D to the Staff Rules covers staff members for work related death, injury or illness attributable to the performance of official duties on behalf of the United Nations for which UNFCCC maintains a corresponding reserve.

Table 37
Reserves as at 31 December 2022

	Thousand USD
Reserves for core budget and ITL	2 927
CDM trust fund reserve	45 000
Reserve for Appendix D	1 476
Total reserves	**49 403**

Note 18: Fund Accounting and Segment Reporting

152. The UNFCCC is a single purpose entity established by the Parties to the Convention and the United Nations as the joint technical cooperation agency for business aspects of trade development. The UNFCCC has one major mandate to assist the signatories of the UN Framework Convention on Climate Change to limit average global temperature increases and the resulting climate change, and to cope with whatever impacts are inevitable in part through enforcing the legally binding emission reduction targets established in the Kyoto Protocol. It, therefore, does not have segments as defined under IPSAS.

153. However, to provide essential information to senior management and owners on the utilization of resources by funding source, separate funds have been established to reflect the major funding sources of UNFCCC as follows:

(a) Trust fund for the Core Budget of UNFCCC financed from indicative contributions (or general-purpose contributions from donors) supports the core functions of the secretariat;

(b) Trust fund for the Participation in the UNFCCC process financed from voluntary contributions supports participation of representatives from eligible developing country Parties and Parties with economies in transition in the sessions of the Conference of the Parties and its subsidiary bodies;

(c) Trust fund for Supplementary activities financed from voluntary contributions including both bilateral funds involving the UNFCCC, a donor and often a recipient government and programmes to which multiple donors make voluntary contributions supports mandated activities for which provisions are not made under the Core budget;

(d) Trust fund for the Clean Development Mechanism financed from fees charged for registration of projects support the administration of the clean development mechanism enabling parties to meet their emission limitation and reduction commitments by using certified emission reductions (CERs) generated from CDM projects;

(e) Trust fund for the International transactions log (ITL) financed from indicative contributions (or general-purpose contributions from donors). The ITL to verify the validity of transactions undertaken by national registries of Parties of Annex B of the Convention and CDM registry. The ITL takes a central role between registries and is an essential component of the settlement infrastructure for emissions trading under the Kyoto Protocol;

(f) Trust fund for the Special Annual Contribution from the Government of Germany financed from a voluntary contribution from the government in which the UNFCCC headquarters is located. Funds are used to finance the logistical arrangements of events taking place in Germany including workshops and sessions of the subsidiary bodies;

(g) Special account for Programme Support Costs financed from charges made to the activities under all operational funds used to manage the overhead charges payable on all trust funds to cover costs relating to administrative services;

(h) Special account for conferences and other recoverable costs financed from voluntary contributions used to finance costs associated with the hosting of the Conference of the Parties under the host country agreement. Balances in this account are refunded to the host country;

(i) Cost recovery fund financed from charges made to the activities financed from indicative and voluntary contributions;

(j) End of service and post employee benefits fund not currently financed.

154. Programme Support Revenue is charged in line with the UN financial procedures where UNFCCC charges a standard programme support cost rate of 13 per cent on expenditures incurred. For associate experts and European Commission funded projects, the rate varies from 7 per cent to 13 per cent.

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

Table 38
Statement of financial position by fund
(Thousands of United States dollars)

	Trust fund for the Clean development mechanism	*Trust fund for the core budget of UNFCCC*	*Trust fund for participation in the UNFCCC process*	*Trust fund for the Special Annual Contribution from the Government of Germany*	*Trust fund for Supplementary Activities*	*Trust fund for the International Transaction Log*	*Special account for conferences and other recoverable costs*	*Special account for UNFCCC programme support costs*	*Cost Recovery*	*UNFCCC Employee liabilities fund*	***TOTAL***
ASSETS											
Current Assets											
Cash and cash equivalents	12 158	2 673	628	27	13 555	1 109	255	1 335	431	1 345	33 515
Short-term investments	48 779	10 723	2 521	107	54 382	4 449	1 022	5 354	1 730	5 396	134 463
Indicative contributions receivable		11 363				62					11 424
Voluntary contributions receivable			5		7 560						7 565
Other receivables	445	285		35	720	36	468	51	184		2 223
Other current assets	511	674	(4)	9	2 575	61	99	1 546	105		5 576
Total current assets	61 894	25 717	3 150	177	78 791	5 717	1 843	8 286	2 450	6 742	194 767
Non-current assets											
Other receivables					4 163						4 163
Long-term investments	23 621	5 192	1 221	52	26 334	2 154	495	2 593	838	2 613	65 112
Property, plant and equipment		42		95	28		109	36			310
Intangible assets					310		13				323
Total non-current assets	23 621	5 234	1 221	147	30 835	2 154	617	2 629	838	2 613	69 909
TOTAL ASSETS	**85 515**	**30 951**	**4 371**	**325**	**109 626**	**7 871**	**2 460**	**10 915**	**3 288**	**9 355**	**264 676**
LIABILITIES											
Current Liabilities											
Payables and accruals	2 648	996	903	3	1 665	90	840	122	558		7 825
Advance receipts	7 542	2 774	865		18 414	172					29 767
Employee benefits	186	503		5	123	12		127	60	1 401	2 418
Provisions											0
Other current liabilities					1 878						1 878
Total current liabilities	10 375	4 273	1 768	8	22 081	274	840	249	618	1 401	41 888
Non-current liabilities											
Employee benefits	4	20			19			4		128 449	128 497
Advance receipts											
Total non-current liabilities	4	20			19			4		128 449	128 497
TOTAL LIABILITIES	**10 379**	**4 293**	**1 768**	**8**	**22 100**	**274**	**840**	**253**	**618**	**129 850**	**170 385**
NET ASSETS											
Accumulated surpluses/(deficits)	30 135	22 426	2 603	316	87 526	7 425	1 620	10 662	2 670	(120 495)	44 888
Reserves	45 000	4 231				171					49 403
TOTAL NET ASSETS	75 135	26 658	2 603	316	87 526	7 597	1 620	10 662	2 670	(120 495)	94 291
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**85 515**	**30 951**	**4 371**	**325**	**109 626**	**7 871**	**2 460**	**10 915**	**3 288**	**9 355**	**264 676**

Table 39
Statement of financial performance by fund
(Thousands of United States dollars)

	Trust fund for the Clean development mechanism	*Trust fund for the core budget of UNFCCC*	*Trust fund for participation in the UNFCCC process*	*Trust fund for the Special Annual Contribution from the Government of Germany*	*Trust fund for Supplementary Activities*	*Trust fund for the International Transaction Log*	*Special account for conferences and other recoverable costs*	*Special account for UNFCCC programme support costs*	*Cost Recovery*	*UNFCCC Employee liabilities fund*	*Elimination*	***TOTAL***
REVENUE												
Indicative contributions		34 851				767						35 618
Voluntary contributions		871	1 982	2 031	29 506		5 838					40 228
CDM and JI service fees	32 072											32 072
Interest Revenue	1 553	322	76	14	1 570	126	56	118	48	126		4 008
Gain on foreign exchange												
Other/miscellaneous revenue		5	705	4	(6)		(6)	3	7 192	1 857	(9 009)	746
Programme support income								10 059			(10 058)	1
TOTAL REVENUE	**33 626**	**36 048**	**2 763**	**2 049**	**31 070**	**893**	**5 888**	**10 180**	**7 240**	**1 983**	**(19 066)**	**112 672**
EXPENSES												
Personnel expenditure	8 139	21 382	73	786	9 200	501	156	8 764	3 143	8 175	(1 857)	58 462
Travel	774	1 887	3 497	50	4 078	4	2 084	39	6			12 418
Contractual services	1 316	4 233	3	705	14 957	587	2 242	503	3 263	160	(3 730)	24 239
Operating expenses	46	1 096		10	4 100	2	236	40	862			6 393
Other expenses	3 106	595	29	262	1 435	54	834	1 459	55	1	(3 422)	4 405
Depreciation of equipment		17		32	10		65	9				133
Amortization of intangible assets					162		9					171
Return/transfer of donor/CDM Trust Fund	20 000				273							20 273
Loss on foreign exchange	1 199	3 254	113	41	987	118	53	113	27	109		6 013
Programme support	1 496	3 661	420	229	3 828	153	271				(10 058)	0
TOTAL EXPENSES	**36 075**	**36 124**	**4 134**	**2 115**	**39 030**	**1 419**	**5 951**	**10 927**	**7 354**	**8 445**	**(19 066)**	**132 507**
TOTAL SURPLUS/(DEFICIT)	**(2 449)**	**(76)**	**(1 371)**	**(66)**	**(7 960)**	**(526)**	**(63)**	**(747)**	**(114)**	**(6 463)**		**(19 835)**

Note 19: Budget Comparison and Reconciliation

156. UNFCCC's budget is prepared on a modified cash accounting basis and the financial statements are prepared on a full accrual basis in accordance with IPSAS. The budgets are adopted on a biennial basis and divided into annual amounts for presentation in the financial statement. Comparison of budget and actual amounts compares the final budget to actual amounts calculated on the same basis as the corresponding budgetary appropriations. The comparison is only made in respect of budgets adopted by the COP and CMP as per IPSAS 24.

157. The actual amounts presented on a comparable basis to the budget are not prepared on a comparable basis to the Statement of Financial Performance. A reconciliation of the budgetary amounts to the amounts presented on the financial statements, identifying separately any basis and entity differences is presented in table 40. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

158. Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the net results on an IPSAS basis the non-cash elements such as unliquidated obligations, payments against prior year obligations and outstanding indicative contributions are included as basis differences.

159. Presentation differences are differences in the format and classification schemes in the Statement of Financial Performance and the Statement of Comparison of Budget and Actual Amounts.

160. Entity differences represent funds other than Core budget, International Transactions Log and Contingent budget for conference services that are reported in the Statement of Financial Performance.

161. The reconciliation between the actual amounts presented in statements V-A, V-B and V-C and the actual amounts presented on the Statement of Financial Performance is as follows.

Table 40
Reconciliation of net result on budgetary and IPSAS basis

Reconciliation of net result on budgetary and IPSAS basis	*Thousand USD*
Actual net result on the Statement of budgets to actual comparison	
Statement V-A Core Budget	3 706
Statement V-B International Transaction Log	(503)
Statement V-C Contingent budget of conference services	
Actual net result on budgetary basis	3 202
Basis differences	
Additional income components under IPSAS	452
Exchange gains/losses	(3 366)
Conversion of unliquidated obligations to delivery principle	(297)
Capitalization of equipment & intangible assets	(17)
Changes in provision for doubtful debts	(577)
Sub-total basis differences	(3 804)
Entity differences on IPSAS Basis	
Trust fund for participation in UNFCCC process	(1 371)
Trust fund for supplementary activities	(7 960)

Reconciliation of net result on budgetary and IPSAS basis	*Thousand USD*
Trust fund for the Clean development mechanism	(2 449)
Trust fund for the Special Annual Contribution from the Government of Germany	(66)
Special account for conferences and other recoverable costs	(63)
Special account for UNFCCC programme support costs	(747)
Cost Recovery	(114)
UNFCCC employee liabilities fund	(6 463)
Sub-total entity differences	**(19 233)**
Actual net result on the Statement of Financial Performance	**(19 835)**

Note 20: Budget to Actual variance analysis

162. Explanations of material differences between the original budget and final budget and the actual amounts are presented in the budget performance report for biennium 2022–2023 by the Executive Secretary accompanying these statements. See paragraph 18-21 for further details.

Note 21: Related Parties

163. Except otherwise noted in these statements for revenue from non-exchange transactions including contributions in kind, all transactions made with 3rd parties occur within a normal supplier or client/recipient relationship or at arm's length terms and conditions.

164. The Organization reimburses the United Nations for the cost of all services provided at such rates as may from time to time be agreed upon for that purpose by both organizations.

165. The charges paid to the United Nations (UN Office at Geneva – UNOG) of USD 0.4 million for services related to security, payroll, treasury and other services are considered to be provided on a normal supplier basis.

166. The authority to establish funds is vested in the Secretary General of the United Nations with the approval of the Conference of the Parties. All such funds must be consistent with the objectives of the UN Convention on Climate Change. The termination of any existing fund by the Conference of the Parties and the distribution of any remaining fund balance is subject to consultation with the Secretary General of the United Nations.

Table 41
Summary of senior management and related compensation

Number of individuals	*Aggregate remuneration (in thousands of USD)*	*Outstanding advances at 31 Dec 2022 (in thousands of USD)*
14	2 848	191

167. During 2022, two individuals of senior management left the organization and two joined.

168. The senior management personnel of UNFCCC are the Executive Secretary, Deputy Executive Secretary, Senior Directors of the departments and Directors of divisions, who have the authority and responsibility for planning, directing, and controlling the activities of UNFCCC and influencing its strategic direction.

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

Note 22: Leases, commitments, and contingencies

170. Commitments relating to acquisition of goods and services contracted for, but not delivered as at 31 December 2022 amount to 4.5 USD million (USD 6.3 million in 2021). Details are shown in the table below.

Table 42
Contractual Commitments by Category
(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Goods and services	4 051	5 590
Travel related commitments	498	712
Total	**4 549**	**6 302**

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

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

Note 23: Events after the reporting date

173. UNFCCC's reporting date is 31 December 2022. The financial statements were authorized for issue on 31 March 2023, the date at which they were submitted to the External Auditor. On the date of signing these accounts, there have been no material events, favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issue that would have impacted these statements.

Note 24: In-kind contributions of services

174. The UNFCCC receives in-kind contributions from the government of the Federal Republic of Germany of the right to use land, office space and other facilities in its operations. The Organization has not received title to these properties which remain with the government. The facilities are provided to UNFCCC without charge. The agreement under which the facilities are provided does not entail formal cancellation policies or timelines. UNFCCC does not recognize the value of in-kind contributions of services including the financial value of the donated right to use the facilities provided by the Federal Republic of Germany on the financial statements. In addition, UNFCCC receives conference services (interpretation and document preparation) as in-kind contribution for the UN secretariat for meeting of the COP and the subsidiary bodies.