United Nations

FCCC/SBI/2017/INF.15

Framework Convention on Climate Change

Distr.: General
4 October 2017

English only

Subsidiary Body for Implementation
Forty-seventh session
Bonn, 6–15 November 2017

Item 21(b) of the provisional agenda
Administrative, financial and institutional matters
Audit report and financial statements for 2016

Financial report and audited financial statements for the year 2016 and report of the United Nations Board of Auditors

Note by the Executive Secretary

1. The financial procedures for the Conference of the Parties, its subsidiary bodies and the secretariat 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 are closed. They also stipulate that the accounts and financial management of all funds governed by these financial procedures shall be subject to the internal and external audit process of the United Nations.[1]

2. The United Nations Board of Auditors has audited the financial statements for the year 2016. 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 has been issued as addendum 1 to this document.

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-third session and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its thirteenth session.

[1] Decision 15/CP.1, annex I, paragraphs 18 and 19.

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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 2016

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 2016 and the statement of financial performance (statement II), statement of changes in net assets (statement III), 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 2016, 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 (ISAs). 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

The Executive Secretary is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2016 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 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 skepticism throughout the audit. We also:

- 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.

- 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

- 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.

Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

30 June 2017

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 that entered into force in 1994. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2016. The audit was carried out at UNFCCC's headquarters in Bonn, Germany.

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

UNFCCC had accumulated surplus and reserves of $122.96 million. For the third year in a row, UNFCCC showed a deficit. The deficit has been reduced from $43.25 million in 2015 to $17.2 million in 2016.

UNFCCC continued its efforts to maintain sound internal control and accountabilities, promote good governance structures as well as to address the concerns raised by the Board in its previous reports. However, the Board identified some weaknesses in the areas of accrual accounting, human resources and treatment of Audit Report that merit attention.

Key findings and recommendations

The Board's main findings are as follows:

a) *Appropriate deferral and accrual of expenses*

The Board noted that for numerous items amounting to $2.4 million, deferral and accrual of expenditure had not been recognized correctly. Thus, expenses of the financial year 2015 were understated and expenses of the financial year 2016 were overstated.

b) *Recognition of multi-year voluntary contribution*

The Board noted that the UNFCCC IPSAS Policy Framework on recognition of multi-year voluntary contribution is neither in line with the IPSAS Framework nor does it reflect the current accounting method of UNFCCC.

c) *Treatment of the Board's report*

The Board noted differences in the treatment of the Board's report in comparison to other United Nations entities, although comparable rules apply. In particular, the audited financial statements are presented to the Conference of Parties where the Board is not represented.

d) Personnel records

The termination date of a contract was changed upon request of the staff member. This contractual change was not documented in the personnel file. Only e-mail communication existed which, however, was not filed. The contractual change had a significant impact on later separation payments. The Board found a note on a document in the personnel file with the order to remove the document in case of review. The document showed that the selected candidate for a managerial position had to undergo training in order to be adequately qualified for the post advertised, while an external candidate who had met the recruitment criteria had been refused.

e) Compensation in lieu of applying the termination notice period

For staff members whose posts were abolished for operational reasons, the applicable notice period in accordance with the Staff Rules and Regulations is at minimum 30 calendar days for fixed-term appointments. The Board noted that UNFCCC determined a 90-day notice period to the affected staff which exceeded multiple times the minimum notice period. As the affected staff members were placed on special leave with full pay during the notice period, the arrangement of UNFCCC led to an amount of the compensation payments equivalent to three times of the payments of a normal notice period as per the Staff Rules and Regulations.

f) Separation payments due to restructuring reasons

UNFCCC restructured two programmes and, as a consequence, abolished 66 posts. At the beginning of the project, UNFCCC developed a guideline for the implementation of the new structure. This guideline included several measures to ease the separation of affected staff and to avoid the separation of staff which was still qualified for UNFCCC's needs. Among others, affected staff who applied for vacancies posted during the notice period should be treated with priority, with a 14-day period for the selection decision.

The Board found several cases in which staff members whose contracts had terminated, received the termination and separation grants but were re-employed a short time later. These cases were not eligible for the priority selection and the 14-day mark had not been applied. The Board is of the opinion that the rules aim at granting termination indemnities only if a further employment is not considered. The Board observed that the reviewed cases were not properly documented. They bear a risk of fraudulent activities.

g) Repatriation payments

The Board found cases where the staff member's eligibility to the repatriation grant was not backed with sufficient evidence. In one case, the self-attestation of the staff member did not fulfil the requirements of the relevant provision. Although UNFCCC confirmed some of the deficiencies, it came to the conclusion that the payment of repatriation grant was still covered by its scope of discretion. In the Board's view the grant was paid without sufficient evidence which is in violation of the relevant provision. As the quality of the evidence has an impact beyond the specific case, UNFCCC should consult the Office of Legal Affairs.

In another case, a separated staff member applied anew at UNFCCC, stating to live in its home country. UNFCCC found evidence that the applicant lived at the former duty station. This evidence came from records of Umoja and from a declaration of the applicant to the German Ministry of Foreign Affairs. Subsequently, UNFCCC recruited the former staff member locally but ignored the information of its residence status which had led to paying the repatriation grant at the time of the separation. The Board holds that control mechanisms to prevent such cases were overridden in the process.

h) Business Continuity Plan

The Board noted weaknesses in the existing business continuity plan. It was not documented what information and communication technology systems were necessary for the continuation of critical business processes. There was no procedure in place that would have provided detailed binding instructions for the case of emergency.

Recommendations

Based on key findings above, the Board recommends that UNFCCC:

(a) Ensure that expenses are duly attributed to the financial year to which they relate.

(b) Update the internal IPSAS guidance policy on recognition of multi-year contribution agreements in order to have them in line with IPSAS.

(c) Establish a process that enables the presentation of the Boards' report to those charged with governance.

(d) Complete the personnel files of the sampled cases in accordance with the Board's observations and ensure that all contractual changes are formally signed and included in the personnel file.

(e) Revisit its provisions governing termination notice periods and ensure compliance with the standard provisions.

(f) Re-evaluate each of the cases of termination reviewed by the Board; if needed, the Office of Legal Affairs should be consulted.

(g) Clarify the facts raised in the two cases of repatriation grants and, where appropriate, request reimbursement of the repatriation grant.

(h) Give high priority to developing a comprehensive business continuity / disaster recovery plan and test it regularly.

Key Facts

$72.70 million	Revenue
$89.90 million	Expenses
$17.20 million	Deficit for the year
$122.96 million	Accumulated Surpluses and Reserves
$225.58 million	Assets
$102.62 million	Liabilities
$30.2 million	Core budget
423	Staff

A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change (UNFCCC) is the parent treaty of the 1997 Kyoto Protocol which aims at stabilizing greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. Currently, the convention has 197 Parties. The work of UNFCCC is facilitated by its Secretariat located in Bonn, Germany. The Secretariat is institutionally linked to the United Nations without being integrated in any programmes and is administered under the United Nations Regulations and Rules.

2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2016 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. 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 2016 and the results of its operations, changes in net assets and cash flows for the year then ended, 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 Regulations and Rules and financial procedures approved by the Conference of Parties (COP) in Decision 15/CP.1. 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 audit of 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 from 28 November to 2 December and from 3 to 13 April 2017.

The examination of UNFCCC 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. The Board has taken up two cross cutting audit themes in 2016: Inclusion of persons with disabilities and the contribution to the Sustainable Development Goals.

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

B. Findings and recommendations

1. Follow-up of previous recommendations

8. The Board noted that out of the total 11 recommendations that remained outstanding up to 31 December 2015, 7 (64 per cent) had been implemented, 3 (27 per cent) were under implementation and 1 (9 per cent) was not implemented. The recommendations under implementation related to expediting the settlement of outstanding balance of the accounts in respect of Conference of Parties (COP 16 and COP 17), improved provisioning for the unfunded liabilities in order to mitigate the risk of failure to pay these liabilities and ensuring timely recoveries of the fees and other claims from Designated Operating Agencies. The implementation rate shows an increase compared to the previous year when 40 per cent were fully implemented and 60 per cent were under implementation. Details of the status of the implementation of the recommendations are presented in the **Annex**.

9. One recommendation relating to the certified emission reduction certificates (CER) is not implemented because UNFCCC disagreed with it. In the previous year the Board noted that for a large number of projects the process for issuance of CERs had been completed. These CERs were not issued, amounting to potential revenue of $33.1 million. The Board had recommended that UNFCCC make suitable disclosure in the notes to the financial statements on the unissued CERs which were in the stock of UNFCCC. UNFCCC had disagreed with this recommendation. It had stated that as per UNFCCC IPSAS accounting policy, administration fees for the issuance of CER are earned on the date on which the CER are transferred to UNFCCC's own registry account but before transfer to the project participant. UNFCCC considers that it is very unlikely that these fees will be collected. IPSAS 19, paragraphs 105 and 106 require a note disclosure if the revenue is probable. The Board recognized that UNFCCC has done the ground work and kept the CERs ready to be issued in expectation of the fee to be received. The amount increased to $43.1 million in 2016. The Board reiterates the recommendation from last year to disclose the amount, since it is significant. The Board will review this topic next year.

2. Financial overview and management

Financial overview

10. The total revenue of UNFCCC for the year ended 31 December 2016 was $72.70 million (2015: $79.73 million) while total expenses amounted to $89.90 million (2015: $122.97 million) resulting in a deficit of $17.20 million (2015: $43.24 million). The assets totalled $225.58 million (2015: $235.74 million) while the total liabilities were $102.62 million as at 31 December 2016 (2015: $99.09 million) leaving an accumulated surplus and reserves balance of $122.96 million (2015: $136.65 million). The important financial ratios are presented in the table below.

Table 1: Ratio analysis

Ratio	*31 December 2016*	*31 December 2015*	*31 December 2014*
Total assets : total liabilities[a]			
Total assets : total liabilities	2.20	2.38	2.28
Current ratio[b]			
Current assets : current liabilities	9.65	8.59	8.59
Quick ratio[c]			
(Cash + short-term investments + accounts receivable): current liabilities	9.11	7.96	8.13
Cash ratio[d]			
(Cash + short-term investments) : current liabilities	8.57	7.47	7.77

Source: Calculated on the basis of UNFCCC's financial statements 2016

Note:

[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.

11. There was little change in the total assets to total liabilities ratio as at 31 December 2016, compared to previous year. However, there was a slight increase in current ratio, quick ratio and the cash ratios. The ability of UNFCCC to cover its current liabilities has increased compared to the previous financial year.

12. Out of the total assets of $225.58 million, $202.78 million consisted of cash and cash equivalents, short-term investments and long-term investments deposited in the United Nations Office at Geneva (UNOG) cash pool which was in turn invested by the United Nations treasury in New York.

13. The total expenses for the year ended 31 December 2016 were $89.90 million which reduced significantly compared to the previous year ($122.98 million). The main reason for the decrease was the reduction of 66 posts in the years 2015 and 2016. This had a major impact on the personnel costs of the current financial year and lead to a reduction of the personnel expenditure from $75.05 million in 2015 to $54.41 million in 2016.

Appropriate deferral and accrual of expenses

14. During the audit of the expense positions "Travel", "Contractual services", "Operating expenses" and "Other expenses", the Board noted that for several items within the sample, the services were rendered in 2015. No accruals were recognized for items totalling $2.4 million. This leads to understating expenses of the financial year 2015 and overstating expenses of the financial year 2016. The Board holds that UNFCCC should ensure timely collection of accurate financial data and in general closely monitor the accrual process. UNFCCC should enhance the capacity of the staff which provides the data to the finance department on these matters.

15. **The Board recommends that UNFCCC (i) ensure that expenses are duly attributed to the financial year to which they relate (ii) conduct training to** staff outside finance involved in the accrual procedures and introduce better monitoring procedures of accruals for year-end activities.

16. UNFCCC agreed with the recommendation. UNFCCC stated that it will ensure appropriate accrual of expenditure in the correct financial year. Therefore, UNFCCC will intensify the training of staff outside finance.

Recognition of multi-year voluntary contributions

17. The Board reviewed the financial statement position “voluntary contributions”. For two multi-year agreements, the Board noted that the full amount of the agreements was recognized as an asset and revenue on the signature of the agreement by both parties. The two agreements refer to the period 2016 to 2018 (€1.5 million) and the period 2016 to 2020 ($1 million). This recognition was in accordance with the United Nations IPSAS Policy Framework.

18. However, the UNFCCC IPSAS Policy Framework “IPSAS-23 Revenue from non-exchange transactions” stipulates that a receivable is established only for the amount of the contribution related to the current reporting period since insufficient control exists for the future contributions to be considered as assets. The amounts specified for receipt in future reporting periods is disclosed as a contingent asset. This is neither in line with the United Nations IPSAS Policy Framework nor does it reflect the current accounting method of UNFCCC. Therefore, the UNFCCC IPSAS Policy Framework should be amended accordingly.

19. **The Board recommends that UNFCCC review the internal IPSAS policy guidance on recognition of multi-year contribution agreements in order to have them in line with IPSAS.**

20. UNFCCC agreed with the recommendation and promised to adjust the accounting policy on recognition of multi-year contributions agreements to be in line with the United Nations IPSAS Policy.

3. Treatment of the Board’s Report

21. In 1995, the conference of the Parties adopted its financial procedures (FCCC/CP/1995/7/Add.1 of 6 June 1995, 15/CP.1 (Financial procedures)). Para 18 stipulates that “the accounts and financial management of all funds governed by these financial procedures shall be subject to the internal and external audit process of the United Nations.” Pursuant to the Financial Regulations and Rules of the United Nations, the Board “shall issue a report on the audit of the financial statements and relevant schedules relating to the accounts for the financial period” (7.11). “The reports of the Board of Auditors shall be transmitted to the General Assembly through the Advisory Committee, together with the audited financial statements, in accordance with any directions given by the Assembly. The Advisory Committee shall examine the financial statements and the audit reports and shall forward them to the Assembly with such comments as it deems appropriate” (7.12).

22. In its session of 14 November 2016, the Subsidiary Body for Implementation (SBI) decided on administrative, financial and institutional matters, budget performance for the biennium 2016-2017, audit report and financial statements for 2015 and other financial matters. The audited financial statements for the year ended 2015 and the Board’s report were presented and decided upon. The decision of the SBI reads as follows: The SBI “Takes note of the audit report of the United Nations Board of Auditors and the financial statements for 2015, which include recommendations, and the comments of the secretariat thereon; Expresses its appreciation to the United Nations for arranging the audits of the accounts of the Convention and for valuable observations and recommendations of the auditors; Urges the Executive Secretary to implement the recommendations of the auditors, as appropriate”.

23. During the session of the SBI, the Board was not represented. As stated by the SBI, the Conference of the Parties (COP) adopted the same decision with the same wording. The Board noted that, in contrast to other United Nations entities, UNFCCC did not have a committee dedicated to

financial and budget issues.

24. The Board noted differences in the treatment of the Board's report of other United Nations entities, although comparable rules were applicable. Usually, a representative of the Board presents the report to the Advisory Committee. Some United Nations entities additionally seek for an informal consultation prior to the transmission of the report to the Advisory Committee.

25. UNFCCC stated that an initial proposal to have a Finance Committee, made before COP 1, was deleted from the Financial Procedures because Parties did not see a need for this. Even until now, UNFCCC considers the interest of Parties as extremely low.

26. The Board sees merits for both sides if the Parties may contact the representatives of the Board, if needed. Vice versa, the Board may wish to elaborate on some findings or recommendations. The Board would welcome being provided with the opportunity to present the report to SBI at the respective meeting. Pursuant to international standards, auditors should provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.[1]

27. **The Board recommends that UNFCCC establish a process that enables the presentation of the Boards' report by the Lead Auditor from the Board of Auditors to those charged with governance, in this case the Subsidiary Body for Implementation (SBI).**

28. UNFCCC agreed with the recommendation. The Executive Secretary will assign the Director of Administration to make the necessary arrangements in consultation with the Parties and the Deputy Executive Secretary.

4. Human resources management

29. The Board reviewed the human resources (HR) processes of separation and recruitment and related payments. The Board selected 31 cases.[2] It noted weaknesses in the completeness and transparency of the personnel records.

Determination of salary steps

30. In one sampled case, a separated staff member was reappointed in January 2017. At that time, the applicant was eligible for salary step V[3]. He or she had received an offer in 2016 with a salary calculated under the 2016 salary scales for step V at the relevant level and the note that the conditions herein specified were "subject to any modifications to the Staff Regulations and Rules". In line with the 2017 scales, the annual salary would have been $1,274 less. The Board noted that the HR unit decided to assign the applicant to a higher step, because it wished to compensate for the reduction in salary that would have occurred as a result of the new unified salary scale effective 1 January 2017.

31. UNFCCC stated that it had exercised its discretion to offer a higher step despite the absence of four months of relevant experience of the candidate; UNFCCC had used, in addition, conversion tables from the old to the new salary scales, although it was aware of the fact that the conversion tables were not applicable for employments starting in 2017. UNFCCC stated that it deemed the use

[1] International Standard on Auditing 260 "Communication with those charged with governance".

[2] The Board selected 18 cases in December 2016 for a sample check of the staff payments from 1 January until 30 September 2016. Of these, 9 were used to review the compliance with the regulations relevant for the management of human resources. To cover the complete financial year, the Board reviewed 4 more cases in terms of HR management and 9 cases regarding separation payments during the final audit in 2017.

[3] Steps in the context of Annex I, Staff Rules and regulations, are salary increments, subject to satisfactory service or - in the case of recruitment- of the number of years of experience required. Cf. Guidelines for determination of level and step on recruitment to the professional category and above, Chapter IV, Office of Human Resources Management, June 2004.

of the tables was appropriate, transparent and rational.

32. When accepting the offer of appointment, the applicant confirmed that the salary conditions herein specified could change. While the level of the position and the step of experience were fixed, the amounts are determined by the salary tables applicable in 2017. Hence, the Board cannot see any obligation for UNFCCC to pay the amount in 2017 which was calculated under the salary scales of 2016. The step shall be determined based on the professional experience of the staff member. It was not compliant with the Staff Rules and Regulations to assign the staff member to a higher step in 2017 in spite of the absence of four months of relevant experience.

33. **The Board recommends UNFCCC to ensure the compliance with the provisions applicable also in such specific cases.**

34. UNFCCC did not agree with this recommendation. UNFCCC repeated its conviction that it had legally binding obligations through the signed offer when the salary scales changed. It further referred to a financial risk of losing the lead candidate in the selection process, should the candidate have declined.

35. The Board acknowledges the comments of UNFCCC. However, it does not share the view that in this situation a legal obligation to grant a higher step than the one compliant to the actual experience of the candidate existed. According to the files reviewed, the offer was signed before the salary change and it included a condition that the salary amounts are subject to changes if the relevant staff rules change. Therefore, the lead candidate should have been aware of the risk of a lower salary. Due to this, the Board reiterates its recommendation.

Personnel records

36. In several sampled cases the Board found that significant HR activities following contractual changes were not recorded.

37. Contractual change not documented: In one case, the Board noted that an agreement upon an earlier separation date was not documented in the personnel file. The staff member was reemployed shortly after. Due to the earlier separation the staff member became eligible for the compensation package upon termination. The document that displays the newly agreed separation date is an e-mail which was only made available upon request and not included in the personnel file. This e-mail left unclear who made this decision and referred to a meeting, minutes of which, however, were lacking. UNFCCC stated that the case was sufficiently documented through the e-mail communication. UNFCCC also stated that the later re-employment was not known at the time of the agreement. Hence, the monetary effects of the decision (termination package) were not clear. The Board is concerned about the attention of UNFCCC towards the need to document and justify decisions in the personnel records. In the specific case the decision of an earlier separation date should have been recorded in the files since it had significant effects. While the Board still holds that a decision of this impact would require a more official, signed document, the fact that the e-mail was not even in the files does not assure the auditors as to the transparency of decisions.

38. Document in personnel file with a note to remove it in case of review: In one recruitment file, the Board found a memorandum. The memorandum was an agreement between the Executive Secretary and the applicant for a management position at the Director level D1. The memorandum listed reasons why the applicant could not be recruited at the advertised level, but first had to be trained over one year before being adequately qualified. An external candidate, who had met the recruitment criteria, was refused.[4] The memorandum had a handwritten note attached to it that

[4] The selection panel reasoned its recommendation upon the provision that preference should be given to the internal candidate and disregarding another provision which stated that the candidate with the underrepresented gender should be given the preference.

instructed the reader to remove the memorandum in case of a review of the file, signed by the Executive Secretary. The Board is of the view that the instruction to remove the memorandum from the file reflects an approach of not valuing transparent documentation of decisions. Furthermore, verifiability is a principle of the IPSAS framework. UNFCCC confirmed the existence of the note on this memorandum. UNFCCC commented the matter formally, referring to the Staff Selection System Guideline which allows the Executive Secretary to assign staff to a lower level than the level of the advertised post. UNFCCC did not provide comments on the underlying circumstances or on the legal aspects.

39. Having reviewed these cases, the Board is concerned with the degree of attention UNFCCC has shown to documenting important personnel decisions. In the view of the Board, completeness and transparency of the files is necessary to exclude the possibility of collusion and to enable reviewing the decision-making process. As a general rule, UNFCCC should ensure complete documentation in the personnel file. This means that all contractual changes should be formally signed and included in the personnel file. In particular, every exceptional agreement is to be documented in a transparent manner so that the aspects that UNFCCC has considered can be checked.

40. The Board sees the need for UNFCCC to undertake more efforts to ensure complete and transparent documentation of key decisions and contractual changes in the personnel file. This includes that better attention be paid to documenting decisions and considerations throughout the selection process.

41. **For the specific cases, the Board recommends that UNFCCC complete the personnel files in accordance with the Board's observations and ensure that all contractual changes are formally documented, signed and included in the personnel file.**

42. UNFCCC agreed to this recommendation with the exception of requiring signatures for all contractual changes. UNFCCC stated that it would continue to accept staff members' and other necessary signatories' agreements via e-mail or through the established systems and document such agreements in the Official Status file of the staff member. The Board is not convinced by this argumentation and reiterates the complete recommendation.

5. Staff payments on separation

43. In 2015 and 2016, the Sustainable Development Mechanism (SDM) and Information and Communication Technology (ICT) programmes were restructured. All of the 145 posts for SDM were abolished and 93 new posts for SDM were created. For ICT, 17 out of 76 posts were abolished and 3 posts created in a new organizational structure. At the beginning of the restructurings, UNFCCC established a process for the implementation of the new structures[5] (restructuring guideline).

44. In accordance with the guideline, staff members were entitled to special leave under full pay for three months after notice (termination notice period). In case no employment possibilities were found in this time, the separated staff member would be eligible for a termination indemnity grant as the last of 13 steps described in the guideline. In addition, the following off-cycle payments upon (usual) separation would be granted:

- Relocation grant,
- Repatriation grant,
- Annual leave payout,
- Separation travel.

[5] Information Note on Organizational restructuring and staff redeployment process, approved 22 June 2015.

45. During the two years of restructuring, UNFCCC had different kinds of vacancies:

a) New posts in the new organizational structure were only open for the so-called skills matching process of the restructuring guideline.[6]
b) Vacancies posted during the termination notice period were subject to the speedy priority selection process which included a 14-day period for the selection decision.
c) Vacancies posted before the termination notice period were not open for the priority selection process under step 12 of the restructuring guideline.

46. The Board identified several cases in which staff members whose contracts had terminated received the above mentioned grants but were-employed a short time later, in one case even at the same position and with the same tasks. The Board reviewed how UNFCCC applied the restructuring guideline and analysed why the employment possibilities for the reemployed staff were not realized before the separation.

Compensation in lieu of the termination notice period

47. In accordance with the staff rules, staff members whose appointment is to be terminated shall be given a written notice of the termination. Such notice should be given at least 30 calendar days for fixed-term appointments before the termination date.7 In lieu of the notice period, the Executive Secretary may authorize compensation equivalent to the salary and allowances corresponding to the notice period.[8]

48. The Board noted that UNFCCC gave a three-month termination notice to the affected staff9 which exceeded three times the minimum notice periods for fix-term appointments. The arrangement of UNFCCC led to an amount of the compensation payments equivalent to three times of what would have had to be paid if the notice period foreseen in the Staff Rules and Regulations had been applied.

49. UNFCCC referred to its Letters of Appointment indicating a ninety day notice prior to expiration of fixed-term appointments. This principle was carried forward into the restructuring.

50. The Board holds that the intention of the Letters of Appointment cannot be compared to the purpose of the termination notice period. Neither the target group nor the consequences are comparable. Hence, the comparison that UNFCCC draws does not apply. UNFCCC should derive the length of the termination notice period directly from the staff rules applicable.

51. **The Board recommends that UNFCCC revisit its provisions governing termination notice periods and ensure compliance with the standard provisions.**

52. UNFCCC agreed with the recommendation. UNFCCC stated to have already aligned itself with the staff regulations and rules to require 30 days' notice period for fixed-term appointments and 15-day notice periods for temporary appointments.

[6] According to steps 8 to 11 of the guideline, the programme head conducted a desk review of applications for redeployment to identify the best qualified staff members who meet the requirements of the posts under the new organizational structure. For those staff members who were unsuccessful in the matching process, the termination notice would be served.
[7] ST/SGB/2016/1, Staff Rule 9.7 (b) respectively (c).
[8] ST/SGB/2016/1, Staff Rule 9.7 (d). The authority of the Secretary General as mentioned in the staff rule is exercised at UNFCCC by the Executive Secretary, according to a memorandum dated 28 December 1995 from the Under-Secretary-General for Management to the Executive Secretary / UNFCCC, delegation of authority for personnel arrangements.
[9] Information Note on Organizational restructuring and staff redeployment, para 3.11.2. The Information Note does not distinguish between fixed-term and temporary appointments. No temporary staff was affected by the restructuring.

Separation payments due to restructuring reasons

53. In one of the sampled cases, a vacancy was posted in month 1 to which a staff member applied in month 2.[10] The advertised post being still vacant, the staff member received a termination note in month 6 with the usual termination notice period of three months (until the end of month 8) on special leave under full pay. During that time, the person was eligible for the speedy priority selection process. At the end of month 8, four days before the separation, the selection panel recommended to re-employ the staff member and the Deputy Executive Secretary approved the recommendation. The Review Board confirmed these three days after the separation.

54. The following table shows the timeline for the entire separation and reemployment process:

Table 2: Time-line of the separation and reemployment process, case 1

					staff member is eligible for priority selection					
Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11
Vacancy posted	Application staff member	advertised post is vacant								reemploy-ment
					Termination Letter		Approval recommen-dation by deputy ES	Final decision by deputy ES		

Source: Board of Auditors

55. The recruitment process took UNFCCC more than six months. A decision made three days earlier would have saved UNFCCC the termination indemnity, the repatriation grant and allowances as well as the costs related to relocation upon re-assignment. While the staff member signed the final re-employment decision 12 days after the date of separation, he or she had received:

- Three months' leave under full pay;
- Off-cycle payments upon separation, amounting to $74,000 and
- Off-cycle payments upon reappointment two months later of $27,000.

56. UNFCCC stated that at the time of separation, no selection decision had been made. Especially, the selection decision of the Executive Secretary or her representative cannot and should not be prejudged. The timing of any decision of the selection process should not be influenced. UNFCCC further explained that the 14-day mark for a priority recruitment decision of the restructuring was not valid as the vacancy was posted before the termination notice period of the staff member. UNFCCC stated further that any attempt to extend the appointment when a fixed-term appointment is expiring prior to a selection decision being made, could be perceived as prejudging the selection process. Furthermore, if the staff member applied for a number of vacancies, there would be no end to the number of extensions pending his or her selection to any given position. Therefore, UNFCCC still holds that the entitlements due to the staff member were properly paid, given the situation at hand. In addition, UNFCCC stated that there was no loss for the organization and reasoned this with staff rule 4.17 (c).[11]

57. The Board holds that the arguments promulgated by UNFCCC are not applicable in this case, as no extension of the current contract was demanded. The observation aims at the fact that

[10] No more details for privacy reasons. The payment of the separation benefits took place in 2016.

[11] Staff Rule 4.17 (c) indicates that "When a staff member receives a new appointment in the United Nations common system of salaries and allowances less than 12 months after separation, the amount of any payment on account of termination indemnity, repatriation grant or commutation of accrued annual leave shall be adjusted so that the number of months, weeks or days of salary to be paid at the time of the separation after the new appointment, when added to the number of months, weeks or days paid for prior periods of service, does not exceed the total of months, weeks or days that would have been paid had the service been continuous.". As such payments are balanced against future such payments, UNFCCC is of the view that there is no loss to the organization.

UNFCCC should have finished the selection decision prior to the expiry date of the contract. The length of the selection process is questionable in a restructuring period when many staff members are affected. The Board does not see any reason why the candidate who had shown the best performance in the recruitment process, might relocate to another country only few days before the selection decision was made and take the "risk" to relocate back few weeks later in the very probable case of a positive decision. Regarding the fact that a non-temporary relocation would not be reasonable, UNFCCC should have proved carefully whether the relocation of the staff member fulfilled the condition of being "not temporary in nature" and should have requested sufficient evidence.[12] UNFCCC should consult with the Office of Human Resources Management whether it is equitable to pay grants amounting to more than $74,000 to a staff member who will obviously not undertake any of the actions covered by the grants. The Board disagrees that there would have been no loss to the organization if the payments were not necessary.

58. In another sampled case[13], a staff member was notified in month 1 to be separated three months later. He or she applied for a vacancy posted in month 3 which would have been within the priority selection period. However, UNFCCC had agreed to an earlier separation, effective in month 2, without deduction of the payments in lieu of the termination notice period. No signed contract on this change existed (cf. para 37). Upon this separation the staff member received off-cycle payments of $105,000. The amount comprised termination indemnity ($48,000), two months in lieu of notice ($13,700), repatriation grant ($27,800), relocation grant ($15,000) and separation travel ($600). The staff member was only eligible to these grants because of the earlier separation. He or she was selected for his new assignment in month 8, six days before the original fixed-term contract would have expired.

59. Had UNFCCC waited for the regular end of the contract, the entire termination process would have been obsolete. Moreover, UNFCCC agreed to the staff member's wish of an earlier separation without any negotiations to reduce the period of termination payment in lieu of the minimum required in the Staff Rules and Regulations.[14] Without the earlier separation at the staff member's wish, the priority selection would have been applicable and no termination grants would have to be paid.

60. UNFCCC stated that due to the earlier termination date, the priority selection period was not applicable. By the time the post was advertised, the prospective candidate was no longer a staff member and therefore could not be considered under the provisions of priority selection. Regarding the payments in lieu of the termination notice period, UNFCCC stated that the entitlements as per the original letter of termination did not change as a result of the earlier separation upon the staff member's request. UNFCCC stated that it benefitted from an earlier separation as the costs and efforts to manage and support separating staff can be quite large. In the view of UNFCCC, a staff member having an interest in rejoining the organization at a later date would not serve as a significant justification not to accept an earlier separation date. There are far too many uncertainties on which the organization would need to rely, thus increasing the risk for UNFCCC.

61. In the third case, a staff member with a fixed-term contract was separated from the SDM programme with effect from month 1. The staff member was placed on special leave with full pay for the usual 90 days before that date. The staff member received grants amounting to $44,700, comprising a relocation grant ($15,000), repatriation grant ($11,900), termination indemnity ($11,700) and separation travel costs ($6,000). Seven months later, the separated staff member applied for a position in the SDM programme, was selected and reemployed one year after the separation. The re-employment date was before his original fixed-term contract would have expired. In the meantime he was subject to the restructuring process, relocated to his home country (according to the payments), and granted the full relocation and repatriation grants and the

[12] Cf. Staff rule 3.19 in conjunction with ST/AI/2016/2, para 4.2.
[13] Anonymised for privacy reasons; all events described took place in 2016.
[14] In accordance with ST/SGB/2016/1, rule 9.7 (b) and (d): 30 days; UNFCCC grants voluntarily the threefold.

termination indemnity.

62. UNFCCC pointed out the measures undertaken under the restructuring process in the SDM programme.[15] UNFCCC stated further that it did not receive any application from the staff member before or during the termination notice period at which the priority selection process would have been applicable. UNFCCC stated that at the time of the staff member's separation it was neither possible to know that such a future vacancy might be announced, nor that the former staff member would apply nor would be selected one year later. In the view of UNFCCC, payments made were based on entitlements due to the separating staff member at the time of separation. UNFCCC further stated that recruitment processes generally ran from three to seven months on average and, hence, the selection process which exceeded four month in this case was not too long.

63. The Board reiterates its finding that the re-employment was before the natural expiring date of the staff member's contract. UNFCCC had failed to identify before the separation that the staff member was best qualified for the tasks and requirements in the new structure of the SDM programme. UNFCCC had six months to identify this match and avoid the entire termination procedure and costs in this case. The Board does not share the view of UNFCCC that a recruitment process over four months is appropriate during a restructuring phase when a huge number of staff members was affected.

Overall conclusion and recommendations in terms of separation on operational reasons

64. The Board is of the opinion that the termination payments were based on decisions which lacked sufficient or consistent information or documentation or where the benefit of UNFCCC was not obvious. UNFCCC should ascertain that "letter and spirit" of the relevant rules were observed. Misuse or appearance of misuse of grant eligibility should be prevented, especially in cases in which the separated staff member has been reemployed after a very short time. According to the purpose of the rule, termination indemnity should be granted only in cases where a further employment of the staff is not possible. The Board takes into account that the rule refers to the history of the staff member. Nevertheless, future employment possibilities are to be reviewed in advance and the termination should be the ultimate consequence. As in the cases described above the match between skills and programme needs had existed, UNFCCC should re-evaluate the cases and the restructuring concept. Regarding the case in which a staff member requested earlier separation, the entire recruitment process should be reviewed. UNFCCC should avoid cases like this in the future and should ensure full transparency. As cases where terminated staff has been reemployed short time later are especially sensitive and tend to bear a risk of fraudulent activities, the Board expects that UNFCCC improves its procedures and documentation.

65. Looking ahead, UNFCCC should evaluate the restructuring processes and draft lessons learned before continuing with further restructurings. The evaluation should focus at a better match of vacancies to staff to avoid cases as those mentioned above. The Board suggests that all vacancies during a restructuring process be open for applications from staff and be evaluated in an expeditious manner in all cases where affected staff has applied. UNFCCC should consider not to terminate contracts with an expiry date up to four months after the implementation of the new structure, but to separate according to the expiry date.

66. **The Board recommends that UNFCCC re-evaluate each of the cases described above. If needed, UNFCCC should consult the Office of Human Resources Management regarding the payments made to terminated staff.**

[15] The alternative measures as outlined in step 5 of the restructuring guideline were explained to all SDM staff during the all staff meeting on 18 August 2015. Affected SDM staff members were given the opportunity to apply for the alternative measures which were a) Mutual Separation Package, b) Special Leave Without Pay for job application purposes and c) job sharing opportunity.

67. UNFCCC agreed to this recommendation. UNFCCC pointed out that repatriation, and possibly termination indemnity, would have been payable at a later separation, should the staff member's contract have been extended. Further, UNFCCC stated that more weight should be given to the need for the selection process to be sterile from external influences.

68. **The Board recommends that UNFCCC evaluate the restructuring process and draft lessons learned from the restructurings of the SDM and ICT programmes before continuing with further restructurings.**

69. UNFCCC agreed to this recommendation. UNFCCC stated that revisions of the guidelines are already underway, based on lessons learned from the previous restructuring exercises.

Repatriation payments

70. In the sampled staff payments' cases, the Board reviewed whether the repatriation payments were granted in accordance with the relevant provisions.[16] The Board looked at the quality of the evidence provided by the staff member and the controls through UNFCCC regarding the core eligibility condition. The former staff member has to relocate away from the country of the last duty station and that the relocation is not temporary in nature.

71. In one case the Board noted that the staff member separated from the restructured programme in month 2 and joined the same programme in month 4. In month 1, the programme asked to advertise a further requirement of a new temporary post because its functions were still needed. The vacancy announcement for that position was issued in month 2 and the separated staff member applied for that position at that time. The separated staff member was then selected to work in the same department and on the same position. Because of the fully satisfactory performance and because of the work experience of the staff member in the same area, an interview was not undertaken.[17] The staff member received off cycle payments of $10,500. UNFCCC confirmed the creation of the new temporary post with the same functions as the abolished one. UNFCCC stated that it was not aware that the staff member would be applying or be selected for the new position. Regarding the selection process, UNFCCC stated that only two eligible candidates applied; one was available after 3.5 months, the former staff member was available immediately. The Board is aware that the selection procedure was not in infringement to the formal rules. Nevertheless, the short time between the separation and the reemployment raised the question whether the staff member actually relocated to his home country under these circumstances.

72. The Board reviewed the personnel file for documentation for relocation. The official document from month 2 stated that the staff member is permanently living at the address in his home country since 2010. This document was not recognized as evidence by the HR unit. The HR unit requested a separate document which would confirm where he or she was actually registered as "living since (his or her) separation date". HR unit pointed out the need to prove that he or she "left the country to reside outside of the duty station" in an e-mail. The former staff member e-mailed a self-statement with his signature verified by a public notary, stating that as per month 2 he or she lived permanently in his or her home country. Further, the address of registration, date and signature were noted as well as the notarial confirmation of the identity of the self-attesting person. UNFCCC accepted the statement and paid the repatriation grant.

73. In the Board's view, also the self-attestation did not fulfil the requirements of the provision on the evidence of relocation[18] for the following reasons:

[16] In particular Staff Rule 3.19 and ST/AI/2016/2.

[17] The relevant provision allows for this.

[18] ST/AI/2016/2, section 4, para 4.2.

(a) The provision requires a "sworn" statement. UNFCCC is of the opinion that a simple statement is sufficient.

(b) The content of the sworn statements must be that "the staff has relocated to a country other than the duty station". The statement provided did not indicate that relocation had taken place.[19] UNFCCC deemed the Boarding passes sufficient. The Board is of the view that Boarding passes only show that the former staff member has traveled which could be for various purposes e.g. family visit, holiday etc.

(c) A further content required is that "the relocation is not temporary in nature". Hereon, no reference is contained in the self-statement provided. In the view of UNFCCC, the statement from the former staff member that he or she registered with permanent residency in his or her home country was taken to mean that the relocation was not temporary. Following the official document, the permanent residence status was not interrupted since 2010, although the staff member had lived in the place of duty station for various years. Hence, the term "permanent residency" cannot be taken as evidence that relocation has taken place at all.

(d) Furthermore, the sworn self-attestation must be submitted as an original document. UNFCCC accepted a scanned copy submitted by e-mail.

The Board therefore considers that there is no sufficient evidence to satisfy the requirements.

74. UNFCCC has not accepted the Board's view. It stated that there exists a scope for discretion since the requirements stipulate that evidence "shall normally be satisfied by" submitting the documents as above. The underlying principle is that UNFCCC needs to be convinced that a staff member has relocated to a country other than that of the last duty station, and that the relocation is not temporary in nature (remembering that this determination is made at a specific point in time).

75. The quality of the evidence accepted as sufficient in the context of the requirements has an impact beyond the specific case. Staff is not obliged to announce the change of residence when living in the country of duty station and can even keep their permanent residency in the home country during the time of living at the location of the duty station. This framework contains the risk for payment of repatriation grant without a confirmation of relocation. The Board considers it crucial that high demands be set on the quality of the evidence that an actual relocation had taken place. Otherwise it cannot be ruled out that a repatriation grant is paid out outside the purpose of the staff rules.

76. In another case dealt with already (cf. para 58 above) the Board noted inconsistencies in terms of the conditions for the repatriation grant. The staff member was notified in month 1 to be separated three months later. Upon his/her separation the staff member received inter alia the repatriation grant ($27,800). The repatriation grant was paid on the understanding that the move to his/her home country was not temporary in nature. The staff member applied for a vacancy posted in month 3, was selected and joined UNFCCC again in month 9. When preparing for the re-employment, in month 8, HR noticed that while the applicant had notified to live in his or her home country, the applicant and the family lived in Bonn as per the Umoja system and as declared to the German Ministry of Foreign Affairs through the records of his United Nations' employed spouse updated in month 3. When HR undertook efforts to clarify this, the applicant repeated that the residential address after the separation was in the home country; the spouse had given differing information to the German authorities to allow the applicant to move anytime between the home country and Bonn. In the personnel file, no further e-mail communication was recorded, but the recruitment status changed from internationally to locally recruited. The Board noted that no further investigations were done on the opposing information of the residence status.

77. The Board holds that UNFCCC should have undertaken steps to verify the different

[19] The only statement included was that the former staff member was registered in his home country, which had already been clear by the first statement.

statements concerning the residence status which was not only important for the application, but also for the repatriation eligibility. HR had correctly questioned the residence status. However, it is not documented who made the decision to close the issue with the change of recruitment status to locally recruited and why UNFCCC did not initiate investigations to rule out that the repatriation grant was paid without a satisfactory evidence of the relocation on a non-temporary basis.

78. UNFCCC stated that the decision to recruit the staff member locally was based on evidence provided in Umoja and that the Ministry of Foreign Affairs had data that the staff member was residing with the family in Bonn. UNFCCC further stated that the documentation clearly stated that the staff member's relocation, at the time of repatriation, was not temporary in nature. It might be considered whether a repatriation grant should be reclaimed with reference to a period of time considered not to be "temporary in nature". However, the term "not temporary in nature" had not been determined exactly and left a scope of discretion. In the view of UNFCCC, the intervening factors of a former staff member applying for positions which might or might not have him/her relocate to another duty station at a later date also needed to be considered. UNFCCC further stated that it was not aware of the declaration to German authorities at the time of separation and that giving potentially wrong information to German authorities was outside the purview of UNFCCC. Therefore, according to UNFCCC the only questionable element was the definition of relocation as "temporary in nature". The actual whereabouts of the former staff member during the period between his or her separation and reappointment did not require an investigation. No financial loss to UNFCCC would be realized as the provisions take into account the need to reconcile a repatriation grant that was issued with any future repatriation.

79. The answers of UNFCCC do not explain the opposing facts for one legal confirmation of relocation to the home country and one legal confirmation for a residence in Germany. Even if UNFCCC was not aware of the opposing information at the time of repatriation, it became so later in the process. The applicant did not object to the local recruitment which is a serious indicator that the applicant could have given false information in the application form. While UNFCCC did not believe the information on residence status provided by the staff member at the time of the application, it did believe the staff member at the time of the separation with the same underlying facts. These facts give sufficient reason for UNFCCC to investigate whether Staff Rule 9.13, in particular (c) (v), was violated.[20] The Board does not concur with the view of UNFCCC that no financial loss would be realized as the provisions take into account the need to reconcile a repatriation grant that is issued with any future repatriation. If the staff member was not eligible to receive a repatriation grant, there is no applicable reconciliation with future repatriation. The Board is also concerned about the control mechanisms to detect inconsistencies: First, they worked properly since the HR unit discovered the inconsistencies. However, further clarification was stopped.

80. Therefore, UNFCCC should take any efforts to address the issues raised in the two cases above. The efforts should include the request of a sworn self-attestation by both staff members in accordance with the provision upon the documentary evidence. In case staff rule 3.19 (c) has been infringed, UNFCCC needs to claim reimbursement of the repatriation grant and report on fraud or presumptive fraud. The Office of Legal Affairs should be consulted to clarify whether the documentation provided in case 1 has the quality of a "sworn statement", whether the confirmation on the non-interrupted residency in a country other than the duty station is a satisfactory evidence for actual relocation, and what "not temporary in nature" covers. Depending on the outcome, UNFCCC will need to consider asking the staff members to reimburse the grants.

81. **The Board recommends that UNFCCC clarify the facts raised and where appropriate request reimbursement of the repatriation grant and inform OIOS about the cases.**

[20] The staff rule 3.19 (c) determines the conditions as a conditions for the eligibility of repatriation grant. The condition under (c) (v) is that the staff member does not have permanent resident status in the country of the duty station at the time of separation.

82. UNFCCC agrees in general to the recommendation.

6. Business Continuity Plan

83. The purpose of business continuity / disaster recovery planning is to enable an entity to continue offering critical services in the event of a disruption. Therefore, planning and commitment of resources is required in order to be prepared for such an event. Since most key business processes depend on the availability of systems infrastructure components and data, business continuity and disaster recovery planning must focus in particular on information and communication technology (ICT) services.

84. UNFCCC has developed disaster recovery plans and business continuity plans. The Board noted weaknesses: They lack information about the complete ICT infrastructure (e.g. telephony), risk analysis and threat scenarios, business impact analysis and mitigation strategies. Therefore, it is not documented what ICT systems are necessary for the continuation of critical business processes. There is no procedure in place that would provide detailed compulsory instructions which need to be complied with in case of emergencies.

85. The current documentation is available to staff members only in an online format. In case of disaster, services such as power supply, data network, access to client hardware and software, server infrastructure, webserver software might be disrupted. Therefore, access to the online version might be hampered.

86. The Board noted that the existing business continuity plan has not been formally approved. Ideally, formal approval should be given by executive management, since the ICT sub-programme relies on the specifications given for designing and implementing measures for risk mitigation and disaster recovery.

87. UNFCCC stated that the ICT programme was developing a new business continuity plan and Risk Management Framework to complete and integrate the various disaster recovery plans. This is expected to be available in 2017 including testing plan of the critical processes.

88. The Board acknowledges the ongoing efforts. The updated business continuity plan should be tested periodically (at least annually) in order to verify the completeness and precision of the plan. Essential information must be provided in such formats that they can be accessed in any case of contingency. Furthermore, formal approval should be given by executive management that states the entity's overall target for recovery and authorizes those officials involved in developing, testing and maintaining that plan.

89. **The Board recommends that UNFCCC give high priority to developing a business continuity / disaster recovery plan. The plans should cover the areas mentioned in paragraphs 84 to 86 and be tested regularly.**

90. UNFCCC agreed with the recommendation.

7. Accessibility for staff members with disabilities

91. The Secretary-General's bulletin Employment and accessibility for staff members with disabilities in the United Nations Secretariat requires the establishment of a focal point on disability and accessibility in the workplace.[21] Pursuant to this bulletin, the organization is committed to improving accessibility and full inclusion of staff members with disabilities.[22] For this purpose, the

[21] ST/SGB/2014/3, No. 5.2.
[22] ST/SGB/2014/3, No. 3.1.

designation of a local focal point, who is familiar with the local conditions, would be most helpful.

92. The Board noted that neither UNFCCC nor the premises manager provided general information about facilities or offers to support in case of staff members with disabilities. There is no central focal point for the organizations based on the United Nations Campus Bonn. UNFCCC is open to appointing a focal point.

93. The Board further noted that the public website (unfccc.int) does not fully comply with the Web Content Accessibility Guidelines (WCAG). For internal web pages, UNFCCC has not verified to which extent they are compliant with such requirements. UNFCCC stated that it planned to relaunch its public website later in 2017. The new design would adhere to the United Nation's accessibility criteria as defined by the Department of Public Information.[23]

94. The Board acknowledges that UNFCCC has taken steps to improve accessibility of their public web pages by requirement of adherence to United Nations accessibility criteria. Still, accessibility of the internal web pages could be improved. It would be most helpful to have a local focal point who could collect proposals for improvement to address the factual shortcomings of internal web pages.

95. The Board considers it most helpful to have a central focal point for the premises of the United Nations Campus Bonn. Since they are managed by the United Nations Volunteers programme, the Board suggests that UNFCCC encourage the United Nations Volunteers programme appointing a central focal point for the United Nations Campus Bonn additionally to the focal point of their own organization. Staff members should be provided with general information about accessibility at the workplace. They should be informed about their focal point(s) and provided with a reference to the Secretary General's Bulletin at least.

96. **The Board recommends that UNFCCC formally designate a focal point on disability and accessibility issues and inform staff members accordingly.**

97. UNFCCC agreed with the recommendation and the suggestions.

8. Sustainable development goals

98. In September 2015, the United Nations defined 17 global sustainable development goals to be implemented in the next 15 years. The Board decided to review the role played by various United Nations agencies in contributing to the implementation of the 2030 sustainable development goals (SDG) agenda.

99. The UNFCCC secretariat stated it was developing a strategy for the implementation of the Paris Agreement, which had a direct link to the SDGs, in particular to SDG 13, Climate Action. The overall strategy would also depend on the secretariat's budget to be discussed by Parties in May 2017 and the direction provided by Parties. This would be for medium-term, as the UNFCCC process was a Party-driven process and Parties would provide direction to the secretariat in this regard over time. While the strategy is not finalized, the main goals addressed by the secretariat are:

- Successfully support climate action and the implementation of the Paris Agreement;
- Successfully support Parties in the implementation of their SDGs;
- Successfully support the UNFCCC intergovernmental process,
- Effectively complement the work of other United Nations agencies in the efforts to support the implementation of the Paris Agreement.

[23] https://www.un.org/en/webaccessibility.

100. In line with the initial strategy, the UNFCCC secretariat is working closely with various United Nations agencies to complement the efforts undertaken to support the implementation of the Paris Agreement through specific partnerships.

101. Regarding budget allocation for the implementation of the SDGs, UNFCCC stated that the overall strategy would depend on the budget of the secretariat to be agreed by Parties in May 2017. Once the budget of the secretariat was agreed by Parties in May 2017, UNFCCC promised to develop a detailed plan.

102. The Board acknowledges UNFCCC secretariat working closely with various United Nations agencies. It encourages UNFCCC to start to establish a long-term strategy upon the contribution of the UNFCCC secretariat to the Agenda 2030. If the Parties wish, the long-term strategy may be adjusted if significant changes in climate-related knowledge or enabling capacities require so. In particular SDG 13, Climate Action, requires long periods before any effects from a contribution can be recognized. Hence, the UNFCCC secretariat should work with the Parties as its governing body on a long-term strategy against which the short- and medium-term actions can be measured.

C. Disclosures by Management

Write-off cash, receivables and property, ex gratia payments

103. UNFCCC reported to the Board that there were no write-offs of cash, receivables and losses of property during the year ended 31 December 2016. UNFCCC also did not make any ex-gratia payment.

Cases of fraud and presumptive fraud

104. In accordance with 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 irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with Management.

105. During the audit, the Board makes enquiries of management regarding their 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 brought to their attention. The Board also enquired whether Management has any knowledge of any actual, suspected or alleged fraud, and this includes enquiries of the Office of Internal Oversight. 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.

106. UNFCCC further reported that there was no case of fraud and presumptive fraud for the financial year ended 31 December 2016.

D. Acknowledgement

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

Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

Mussa Juma Assad
Controller and Auditor General of the
United Republic of Tanzania

30 June 2017

Annex

Status of implementation of recommendations up to the year ended 31 December 2015

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
1.	2012 / 2013	13	Expedite the settlement of the outstanding balance of the accounts in respect of COP 16 and COP 17.	Under-implementation COP 16 was followed - up on several occasions with the government of Mexico concerning the return of funding. Options have been provided to Mexico for use of remaining funding at Mexico's request. No decision has been reached. This has been escalated to Deputy Executive Secretary level whose latest communication with Mexico was on 16 April 2015. A letter has been transmitted to the Government of Mexico through the Executive Secretary in September of 2016 outlining the options on the use of the remaining project balance. Corresponding	Under Implementation Further follow- up on regular basis is required to achieve full and final settlement of the matter.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				instructions on how to use this balance were outstanding as at 31 March 2017.					
2.	2014	27	Ascertain the reasons for non-adherence to the advance purchase policy and take effective measures to improve adherence.	Implemented Measures in place to improve compliance with the advance purchase policy ("16 day rule"): • Programmes Heads must endorse justifications in all cases on Mission Objective Form (MOF) or via separate email if missed on MOF. • Justifications must be included in UMOJA Travel Request in the respective field and through attachment of MOF/email. • Travel Team reviews all justifications for relevance and follows up accordingly. The first annual report to the	Implemented	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				Executive Secretary summarizing reasons and recommending actions was issued 7 March 2017.					
3.	2015	13	Work on provisioning of the unfunded liabilities in order to mitigate the risk of failure to pay these liabilities.	Under Implementation UNFCCC participates in the UN secretariat wide initiative to start funding the liabilities for after-service health insurance and repatriation related entitlements by accruing for these expenses starting in January 2017. This includes all funds except the core budget and the trust for the International Transaction Log. For these funds, the payments for these entitlements will be made on a pay-as-you-go basis in accordance with the General Assembly Res 68/244. UNFCCC receives indicative contributions which are the equivalent of assessed contributions	Under Implementation		X		

No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*UNFCCC's response*	*Board's assessment*	*Status after verification*			
						Implemented	*Under Implementation*	*Overtaken by events*	*Not implemented*
				received for the UN.					
4.	2015	20	(i) Reconcile the differences of balance with UNOPS and (ii) make detailed disclosure of the design and performance of the CDM Loan Scheme to provide appropriate information to the Users and Stakeholders of UNFCCC.	Implemented A quarterly reconciliation process between UNOPS and UNFCCC has been established. In the FS 2016 a note with 1-2 sentences should explain the CDM Loan Scheme.	Implemented	X			
5.	2015	28	Expedite the measures to streamline the clean development mechanism (CDM).	Implemented The Executive Board of the CDM at its ninety-third meeting held from 20-24 February 2017 adopted the key CDM regulatory documents as referred to above and agreed to make them effective on 1 June 2017.	Implemented	X			
6.	2015	32	Devise a suitable mechanism to ensure	Under Implementation	Under Implementation		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			timely recoveries of the fees and other claims from Designated Operating Agencies (DOE)s.	The secretariat is modifying the accreditation IT work flow so as to accommodate tracking of fee payments. The first release of modification has been received recently and is under user testing presently. However, in the meanwhile the tracking of DOEs fee payment is also being done separately through a dedicated excel sheet.					
7.	2015	40	Make suitable disclosure in the notes to the financial statements on the unissued Certified Emission Reductions (CERs) which were lying in the stock of UNFCCC and the total potential revenue unrealized for the CER certificates.	Not implemented UNFCCC disagreed with this recommendation as it is not required or even discouraged by IPSAS. IPSAS 19 paragraph 105 and 106 requires a note disclosure if the revenue is probable. UNFCCC considers that it is very unlikely that these fees will be collected.	Not Implemented The Board recognized that UNFCCC has done the ground work and kept the CER ready to be issued in expectation of the fee to be received against them. The amount is not accrued but probable. The amount is considered material and hence should be disclosed. The amount of the potential revenue				X

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
					increased from $33.13 million (31 December 2015) to $43.13 million (31 December 2016). The amount is considered material and hence should be disclosed.				
8.	2015	44	Ensure that bank reconciliation of accounts is done within 15 days after the closure of each month.	Implemented Reconciliation process for the Deutsche Bank account established.	Implemented	X			
9.	2015	48	Ensure the achievement of training targets of the Sustainable Development Mechanism (SDM) programme.	Implemented SDM has updated the process of managing staff attendance at organized training initiatives to include a section on cancellation and absence from classes. This will be monitored by the HR staff development and training Associate Programme Officer. Once the course is	Implemented	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				scheduled the staff member is obliged to attend and complete it. During training sessions, attendance will be collected and SDM management will be informed on any unjustified absences. Unjustified absences will be recorded and subject to further reflection in ePAS.					
10.	2015	52	Enforce compliance to UNFCCC advance purchase policy for air tickets.	Implemented See above No. 2	Implemented	X			
11.	2015	57	Ensure that all recruitment exercises in future are conducted by interview panel members who have successfully completed competency-based interview courses.	Implemented All panel members have completed the courses.	Implemented	X			
	Total			**11**		**7**	**3**	**0**	**1**
	Percentage			**100**		**64**	**27**	**0**	**9**

United Nations

Framework Convention on
Climate Change

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 2016 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 2016 are correct.

(*Signed*) Patricia **Espinosa**
Executive Secretary
3 May 2017

Chapter IV

Narrative financial report

Financial report on the 2016 accounts

Introduction

1. 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 of the operations under the direct authority of the Executive Secretary including the regular budget, extra-budgetary financed activities and under the Sustainable Development Mechanisms.

2016 Financial Highlights

2016 Financial Results

Total revenue:

2. Revenue in 2016 totalled USD 73 million as follows:

(a) The indicative contributions to the core budget of USD 29 million and USD 2.8 million to the budget of the International Transaction Log;

(b) Voluntary contributions from donors totalled USD 27 million;

(c) Fees for the CDM and JI mechanisms USD 11 million.

3. **Total expenses**: Expenses in 2016 totalled USD 90 million mainly consisting:

(d) Personnel expenses amounting to USD 54 million;

(e) Travel USD 8 million;

(f) Contractual services for USD 17 million;

(g) Return and transfers of donor funding of USD 6 million.

4. The decrease in personnel expense for 2016 compared the previous year is due to one off expenditures for restructuring incurred in 2015 only which also resulted in reduced number of staff. A further reduction in expenses relating to loss on foreign exchange is due the fact that holdings in Euros have been reduced significantly compared to 2015. In addition, the devaluation of the Euro against the US Dollar was less in 2016 compared to 2015. The reduction of travel expenses is mainly due to reduced number of trips and the fact that for COP in 2016, hotel rooms have been provided free of charge. Compared to 2015, the returns/transfer of donor funding have increase due to significant transfers of funding from mayor donors between different trust funds. Increase expenses under contractual services relate mainly to services relate to additional expenses recorded from servicing organizations at headquarters.

5. **Operating result**: The net deficit of expense over revenue in 2016 is USD 17

million. The main reasons for this deficit are the strong decline in activities and related revenues under the Sustainable Development mechanisms of USD 7.0 million, a deficit in the programme support cost account (USD 2.3 million) as well as the increase in the employee benefits liabilities of USD 7 million during 2016.

6. **Assets**: Assets as of 31 December 2016 decreased by USD 10 million to USD 226 million compared to the balance at 31 December 2015 of USD 236 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

(Thousands of United States dollars)

	2016	*2015*
Cash and cash equivalents	55 869	34 050
Investments	146 914	178 218
Indicative contributions receivable	6 074	4 755
Other accounts receivable	4 779	4 375
Other assets	9 782	11 811
Property, plant and equipment	342	625
Intangible assets	1 819	1 844
Total assets	**225 579**	**235 740**

7. The major assets at 31 December 2016 are cash, cash equivalents and investments totalling USD 203 million representing 90 per cent of the total assets and indicative contributions from signatories to the convention receivable of USD 6.1 million, or 2.7 per cent. The remaining assets consist of other accounts receivable, other assets (primarily advances), equipment and software.

8. **Cash, cash equivalents and investments**: Cash and cash equivalents of USD 203 million are primarily held in the UN Treasury euro and main cash pool. The amounts for short- and long-term investments reduced by USD 31.3 million which is due to overall deficit incurred mainly in the CDM trust fund and by converting investments into current cash and equivalents.

9. **Accounts receivable**: Under IPSAS, accounts receivable from indicative contributions are recognized net of a provision of 50 per cent for all amounts receivable for three years and 100 per cent for all amounts receivable for four or more years.

10. **Liabilities**: Liabilities as of 31 December 2016 totalled USD 103 million (USD 99 million as at 31 December 2015) as follows:

Table 2
Summary of liabilities as at 31 December

(Thousands of United States dollars)

	2016	*2015*
Accounts payable and accruals	4 264	6 386
Advance receipts	11 726	6 182
Employee benefit liabilities	86 628	83 210
Provisions	0	3 049

	2016	*2015*
Other liabilities	3	268
Total liabilities	**102 621**	**99 094**

11. The most significant liability is 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). These liabilities total USD 86.6 million, represent 85 per cent of UNFCCC's total liabilities and are explained in detail in the respective note to the financial statements. The increase of USD 3.4 million in employee benefit liabilities is mainly related to the annual service cost and an adjustment to a gain on the liabilities as per the actuarial report.

12. The other significant liability, advance receipts which covers indicative contributions received in advance of the start of the year to which they are related, voluntary contribution provided by donors that contain conditions requiring the return of funds not spent in accordance with the terms of the agreement as well as fees received but not yet earned. The balance represents the portion of the contribution at 31 December that has not been recognized as revenue since it has not been earned by UNFCCC by performing the services covered by the agreement.

13. **Net assets**: The movement in net assets during the year reflects a decrease of USD 13.7 million from USD 136.6 million in 2015 to USD 123.0 million at the end of 2016 due to the positive actuarial change of 3.4 million and an operating loss of USD 17.2 million. Net assets include the operating reserves which amount to USD 48.5 million at the reporting date.

Core budget

14. The Conference of the Parties approved a Core expenditure budget for the 2016–17 financial period, amounting to EUR 54.6 million. The approved budget for the International Transaction Log for the 2016–17 financial period amounted to EUR 5.4 million.

15. As at 31 Dec 2016, the core budget showed an ideal expenditure rate of 100 per cent. While some programmes showed minor over- or under-expenditure, the expenses are in line with the overall approved budget.

16. The regular 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 for the first 12 months of the 2016–17 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.

Chapter V

Financial statements for the year 2016

A. Statement I: Statement of Financial Position as at 31 December 2016

(Thousands of United States dollars)

	Note	*2016*	*2015*
ASSETS			
Current Assets			
Cash and cash equivalents	5	55 869	34 050
Short-term investments	5	98 981	105 776
Indicative contributions receivable	6	6 074	4 755
Other receivables	6	3 568	4 375
Other current assets	7	9 782	11 811
Total current assets		**174 274**	**160 766**
Non-current assets			
Other receivables	6	1 211	0
Long-term investments	5	47 933	72 505
Property, plant and equipment	8	342	625
Intangible assets	9	1 819	1 844
Total non-current assets		**51 305**	**74 973**
TOTAL ASSETS		**225 579**	**235 740**
LIABILITIES			
Current Liabilities			
Payables and accruals	10	4 264	6 386
Advance receipts	11	11 726	6 182
Employee benefits	12	2 067	2 837
Provisions		0	3 049
Other current liabilities	14	3	268
Total current liabilities		**18 060**	**18 721**
Non-current liabilities			
Employee benefits	12	84 561	80 373
Total non-current liabilities		**84 561**	**80 373**
TOTAL LIABILITIES		**102 621**	**99 094**
NET ASSETS			
Accumulated surpluses/(deficits)		74 483	88 139
Reserves	17	48 475	48 507
TOTAL NET ASSETS		**122 958**	**136 646**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**225 579**	**235 740**

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 2016

(Thousands of United States dollars)

	Note	*2016*	*2015*
REVENUE	15		
Indicative contributions		31 884	34 797
Voluntary contributions		27 304	31 094
CDM and JI service fees		10 834	12 370
Interest Revenue		23 42	901
Other/miscellaneous revenue		333	563
TOTAL REVENUE		**72 697**	**79 725**
EXPENSES	16		
Personnel expenditure		54 410	75 048
Travel		7 970	15 972
Contractual services		16 691	10 886
Operating expenses		1 460	7 096
Other expenses		2 024	1 721
Depreciation of equipment		282	336
Amortization of intangible assets		355	137
Return/transfer of donor funding		6 076	2 079
Loss on foreign exchange		630	9 695
TOTAL EXPENSES		**89 897**	**122 971**
SURPLUS/(DEFICIT) FOR THE PERIOD		**(17 200)**	**(43 246)**

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

C. Statement III: Statement of Changes in Net Assets for the year ended 31 December 2016

(Thousands of United States dollars)

	Accumulated Surplus	*Reserves*	*Total Net Assets*
Balance as at 01 January 2016	88 139	48 507	136 646
Surplus/(Deficit) for the current period	(17 200)		(17 200)
Adjustment Appendix D reserve		140	140
Actuarial gains (losses) on employee benefits liabilities	3 373		3 373
Adjustment to operating reverses amounts against accumulated surplus	171	(171)	0
Balance as at 31 December 2016	**74 483**	**48 475**	**122 958**

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

D. Statement IV: Cash Flow Statement for the year ended 31 December 2016

(Thousands of United States dollars)

	2016	*2015*
Cash flows from operating activities		
Surplus/(deficit) for the period	(17 200)	(43 246)
Depreciation expense	282	336
Amortization of intangible assets	355	137
(Increase)/decrease in accounts receivable	(1 723)	(387)
(Increase)/decrease in other assets	2 029	(986)
Increase/(decrease) in payables and accruals	(2 122)	957
Increase/(decrease) in advance receipts	5 544	(2 655)
Increase/(decrease) in employee benefit liabilities	6 930	12 130
Increase/(decrease) in other liabilities	(3 314)	(3 629)
Net cash flows from operating activities	**(9 219)**	**(37 344)**
Cash flows from investing activities		
(Increase)/decrease in equipment	0	(38)
(Increase)/decrease in intangible assets	(330)	(756)
(Increase)/Decrease in short-term investments	6 795	14 874
(Increase)/Decrease in long-term investments	24 572	(4 414)
Net cash flows from investing activities	**31 037**	**9 666**
Cash flows from financing activities		
Net increase/(decrease) in cash and cash equivalents	**21 819**	**(27 677)**
Cash and cash equivalents at the beginning of the year	34 050	61 728
Cash and cash equivalents at the end of the year	55 869	34 050
Overall increase/(decrease)	21 819	(27 678)

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 2016

2016	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Executive Direction and Management	2 250 862	2 107 696	143 166	2 462 650	2 320 970	141 680
Mitigation, Data and Analysis	7 611 688	7 661 332	(49 644)	8 327 886	8 337 255	(9 369)
Finance, Technology and Capacity-Building	2 732 260	2 487 925	244 335	2 989 344	2 752 703	236 641
Adaptation	2 335 712	2 373 506	(37 794)	2 555 484	2 588 988	(33 504)
Sustainable Development Mechanisms	406 250	405 356	894	444 475	449 438	(4 963)
Legal Affairs	1 304 455	1 127 738	176 717	1 427 194	1 245 995	181 199
Conference Affairs Services	1 691 137	1 467 251	223 886	1 850 259	1 583 944	266 315
Communication and Outreach	1 591 177	1 618 348	(27 171)	1 740 894	1 775 661	(34 767)
Information Technology Services	2 874 780	2 812 833	61 947	3 145 274	3 109 589	35 685
Administrative Services	1 402 358	2 080 867	(678 509)	1 534 309	1 819 739	(285 430)
Total	**24 200 679**	**24 142 852**	**57 827**	**26 477 767**	**25 984 282**	**493 485**
Programme support costs (overheads)	3 146 088				3 426 092	
Adjustment to working capital reserve	(41 609)					
Grand total	**27 305 158**	**24 142 852**	**57 827**	**26 477 767**	**29 410 374**	**493 485**
Income from Indicative Contributions	26 538 220				29 036 392	
Net result (budgetary)					**(373 982)**	

2. Budget to Actual Comparison International Transaction Log Budget for the year 2016

2016	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Staff costs	773 710	739 367	34 343	846 510	820 540	25 970
Temporary assistance and overtime	10 000		10 000	10 941		10 941
Consultants	62 125	50 959	11 166	67 970	56 641	11 329
Contractors	1 347 023	919 538	427 485	1 473 767	1 011 642	462 125
Travel of staff	20 000	3 831	16 169	21 882	4 279	17 603
Experts and expert groups	10 000	4 354	5 646	10 941	4 866	6 075
Training	10 000	58	9 942	10 941	65	10 876
General operating expenses	52 000	449	51 551	56 893	504	56 389
Contributions to common services	83 500	127 654	(44 154)	91 357	141 911	(50 554)
Total	**2 368 358**	**1 846 210**	**522 148**	**2 591 201**	**2 040 448**	**550 753**
Programme support costs (overheads)	308 147				250 269	
Adjustment to working capital reserve	(5 654)					
Grant total	**2 670 851**	**1 846 210**	**522 148**	**2 591 201**	**2 290 717**	**550 753**
Income from Indicative Contributions	2 670 851				2 847 128	
Net result (budgetary)					**556 411**	

3. Budget to Actual Comparison Conference Services Contingency Budget for the year 2016

2016	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Interpretation	1 258 100		1 258 100	1 376 477		1 376 477
Documentation						
Translation	2 104 500		2 104 500	2 302 516		2 302 516
Reproduction and distribution	719 900		719 900	787 637		787 637
Meetings service support	259 200		259 200	283 589		283 589
Subtotal	**4 341 700**	**0**	**4 341 700**	**4 750 219**	**0**	**4 750 219**
Programme support costs	564 400		564 400	617 505		617 505
Working capital reserve	407 200		407 200	445 514		445 514
Total	**5 313 300**	**0**	**5 313 300**	**5 813 239**	**0**	**5 813 239**

F. United Nations Framework Convention on Climate Change Notes to the 2016 Financial Statements

Note 1
The Reporting Entity

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

(a) To make arrangements for sessions of the Conference of the Parties and its subsidiary bodies established under the Convention and the Kyoto Protocol 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 and the Kyoto Protocol;

(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.

United Nations Framework Convention on Climate Change
Notes to the 2016 financial statements (continued)

(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 and the CMP 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 2016–2017, 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 2016 financial statements are presented on an annual basis covering the period 1 January 2016 to 31 December 2016. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 March 2017. Sequentially, the reports 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 Operations Rates of Exchange (UNORE) which represents the prevailing rate at the time of transaction. Assets and liabilities in currencies other than United States dollar are translated into United States dollar at the UNORE year-end closing rate. Resulting 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 Conference of the Parties (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.

2.3 Materiality and the use of judgement and estimates

12. 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

13. 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

14. 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).

15. 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.

16. 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.

17. 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.

18. 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 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

19. UNFCCC does not maintain an inventory of tangible assets that are held for resale or consumed in the distribution in rendering of 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

20. 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.

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

Table 1
The estimated useful life for equipment classes

Class of equipment	*Estimated useful live (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

22. 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, subcontractors and consultants.

23. Amortization is provided over the estimated useful life using the straight line method.

Table 2
The estimated useful lives for intangible asset classes

Class of intangible assets	*Estimated useful life (in years)*
Software acquired externally	3
Internally developed software	3–5
Copyrights	Set 8 years or period of copyright, whichever is shorter

24. 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 Employee Benefits

25. 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 and death benefit;

(c) Other Long Term employee benefits including accumulated leave payable on separation; and

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

26. 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.

27. 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.

28. 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.

29. UNFCCC is a member organization participating in the United Nations Joint Staff Pension Fund (the UNJSPF or 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.

30. 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 plan. UNFCCC and the UNJSPF, 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 25. UNFCCC's contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

3.7 Provisions

31. 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.

3.8 Contingent liabilities and contingent assets

32. 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 probably, a provision is recognized in the financial statements in the period in which probability occurs.

3.9 Leases

33. 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.

3.10 Non-exchange revenue and receivables

34. **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.

35. **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.

36. 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.

37. **Goods in kind** are recognised at their fair value, measured as of the date the donated assets are acquired.

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

3.11 Exchange revenue

39. 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, taking into account the effective yield.

3.12 Expenses

40. 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.

3.13 Segment reporting

41. 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.

42. UNFCCC classifies all projects, operations and fund activities into 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;

(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;

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

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

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

3.14 Budget comparison

45. UNFCCC's budget is prepared on a modified cash basis and the financial statements are prepared on an accrual basis. 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.

46. Statements V-A to V-C, Comparison of budget and Actual amounts, compare the final budget to actual amounts calculated on the same basis as the corresponding approved budget.

47. As the basis used to prepare the budget and financial statements differ, Note 20 provides reconciliation between the actual amounts presented in statement V-A to V-C and the actual amounts presented on the Statement of Financial Performance.

48. 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.

Note 4
Financial Risks

4.1 Financial risk factors

49. 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

50. 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.

51. As of 31 December 2016, 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 0.5 million higher/lower due to the change in the asset value of receivables denominated in euro.

Price risk

52. 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.

4.3 Credit risk

53. 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

54. Voluntary contributions from governments representing the member countries 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

55. 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

56. 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.

57. 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.

58. As at 31 December 2016, UNFCCC participated in the main pool that held total assets of $9,033.6 million (2015: $7,827.4 million), of which $203.7 million was due to the Organization (2015: $215.6 million), and its share of revenue from the main pool was $1.6 million (2015: negative $4.9 million).

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Table 3
Summary of assets and liabilities of the Cash Pools as at 31 December 2016
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	4 389 616
Long-term investments	2 125 718
Total fair value through the surplus or deficit investments	**6 515 334**
Loans and receivables	
Cash and cash equivalents	2 493 332
Accrued investment revenue	24 961
Total loans and receivables	**2 518 293**
Total carrying amount of financial assets	**9 033 627**
Cash pool liabilities	
Payable to UNFCCC	203 699
Payable to other cash pool participants	8 829 928
Total liabilities	**9 033 627**
Net assets	–

Table 4
Summary of net income and expenses of the Cash Pools for the year ended 31 December 2016
(Thousands of United States dollars)

	Main pool
Investment revenue	73 903
Unrealized gains/(losses)	(13 474)
Investment revenue from main pool	**60 429**
Foreign exchange gains/(losses)	(5 105)
Bank fees	(646)
Net income from cash pools	**54 678**

Table 5
Summary of assets and liabilities of the Cash Pools as at 31 December 2015
(Thousands of United States dollars)

	Main Pool	*Euro Pool*	*Total*
Fair value through the surplus or deficit			
Short-term investments	3 888 712	10 941	3 899 653
Long-term investments	2 617 626	–	2 617 626

	Main Pool	*Euro Pool*	*Total*
Total fair value through the surplus or deficit investments	**6 506 338**	**10 941**	**6 517 279**
Loans and receivables			
Cash and cash equivalents	1 265 068	32 637	1 297 705
Accrued investment income	12 462	3	12 465
Total loans and receivables	**1 277 530**	**32 640**	**1 310 170**
Total carrying amount of financial assets	**7 783 868**	**43 581**	**7 827 449**
Cash Pool liabilities			
Payable to UNFCCC	215 603	1	215 604
Payable to other cash pool participants	7 568 265	43 580	7 611 845
Total liabilities	**7 783 868**	**43 581**	**7 827 449**
Net assets	**–**	**–**	**–**

Table 6
Summary of net income and expenses of the Cash Pools for the year ended 31 December 2015
(Thousands of United States dollars)

	Main Pool	*Euro Pool*	*Total*
Investment revenue	51 944	48	51 992
Foreign exchange gains/(losses)	(11 720)	(15 300)	(27 020)
Unrealized gains/(losses)	(10 824)	(4)	(10 828)
Bank fees	(525)	–	(525)
Net income from cash pools	**28 875**	**(15 256)**	**13 619**

Financial risk management

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

60. 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.

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

Financial risk management: credit risk

62. 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.

63. 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.

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64. 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
Credit ratings

Investments of the cash pool by credit ratings as at 31 December 2016

Main pool	*Ratings as at 31 December 2016*					*Ratings as at 31 December 2015*		
Bonds (Long term ratings)								
	AAA	**AA+/AA/AA-**	**BBB**	**NR**		**AAA**	**AA+/AA/AA-**	**NR**
S&P	33.6%	55.1%	5.6%	5.7%	S&P	37.7%	54.2%	8.1%
Fitch	62.4%	28.3%		9.3%	Fitch	61.9%	26.5%	11.6%
	Aaa	**Aa1/Aa2/Aa3**				**Aaa**	**Aa1/Aa2/Aa3**	
Moody's	50.3%	49.7%			Moody's	65.8%	34.2%	
Commercial papers (Short term ratings)								
	A-1					**A-1+/A-1**		
S&P	100.0%				S&P	100.0%		
	F1					**F1+**		
Fitch	100.0%				Fitch	100.0%		
	P-1					**P-1**		
Moody's	100.0%				Moody's	100.0%		
Reverse repurchase agreement (Short term ratings)								
	A-1+					**A-1+**		
S&P	100.0%				**S&P**	100.0%		
	F1+					**F1+**		
Fitch	100.0%				**Fitch**	100.0%		
	P-1					**P-1**		
Moody's	100.0%				**Moody's**	100.0%		
Term deposits (Fitch viability ratings)								
	aaa	**aa/aa-**	**a+/a**			**aaa**	**aa/aa-**	**a+/a**
Fitch	-	48.1%	51.9%		Fitch	-	53.6%	46.4%

65. 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

66. The main 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 main pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

67. The main 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 five years (2015: five years). The average duration of the main pool was 0.71 years (2015: 0.86 years), which is considered to be an indicator of low risk.

Cash Pool interest rate risk sensitivity analysis

68. 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. The investments, being 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.

69. During 2016, UNFCCC has moved its holdings from the Euro pool into the main pool. At the end of 2016, all UNFCCC investments are managed in the main pool.

Table 8
Cash Pools interest rate risk sensitivity analysis as at 31 December 2016

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	124.35	93.26	62.17	31.08	–	(31.08)	(62.14)	(93.21)	(124.27)

Table 9
Cash Pools interest rate risk sensitivity analysis as at 31 December 2015

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	128.99	96.74	64.48	32.24	–	(32.23)	(64.46)	(96.69)	(128.91)
Euro pool total	0.04	0.03	0.02	0.01	–	(0.01)	(0.02)	(0.03)	(0.04)
Total	**129.03**	**96.77**	**64.50**	**32.25**	**–**	**(32.24)**	**(64.48)**	**(96.72)**	**(128.95)**

Other market price risk

70. 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

71. 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.

72. The levels are defined as:

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

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(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).

73. 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.

74. 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.

75. 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: Cash Pools
(Thousands of United States dollars)

	31 December 2016			*31 December 2015*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	697 676	-	697 676	149 682	-	149 682
Bonds - Non-United States agencies	1 903 557	-	1 903 557	2 190 965	-	2 190 965
Bonds - Non-United States sovereigns	124 854	-	124 854	124 612	-	124 612
Bonds - Supranational	213 224	-	213 224	139 828	-	139 828
Bonds - United States treasuries	586 739	-	586 739	1 092 139	-	1 092 139
Main pool - Commercial papers	149 285	-	149 284	949 112	-	949 112
Main pool - Term deposits	–	2 840 000	2 840 000	–	1 860 000	1 860 000
Main pool total	**3 675 334**	**2 840 000**	**6 515 334**	**4 646 338**	**1 860 000**	**6 506 338**

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

	31 December 2016	*31 December 2015*
Cash and cash equivalents	55 869	34 050
Short-term investments	98 981	105 776
Long-term investments	47 933	72 505
Accounts receivable	10 853	9 130
Accounts payable	(1 463)	(3 276)
Total financial instruments	**212 173**	**218 185**

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

	Indicative Contributions	*Voluntary Contributions*
EUR/NZD	6 845	3 124
USD	225	716
Total contributions receivable as at 31 December 2016	**7 070**	**3 840**

Table 13
Indicative contributions past due as at 31 December 2016
(Thousands of United States dollars)

Indicative contributions past due	*Indicative Contributions*
Up to 1 year	3 727
1 to 2 year	1 709
2 to 3 years	517
Above 3 years	1 117
Total indicative contributions past due as at 31 December 2016	**7 070**

Table 14
Indicative provisions for impaired receivables as at 31 December 2016
(Thousands of United States dollars)

Provision for impaired receivables	*Indicative Contributions*
As at 1 Jan 2016	746
Less receivables written off during the year	0
Decrease in provision during 2016	250
Total as at 31 December 2016	**996**

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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 2016	*31 December 2015*
Cash held in cash pools	55 869	34 050
Total cash and cash equivalents	**55 869**	**34 050**

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

	31 December 2016	*31 December 2015*
Short-term investments (cash pool)	98 981	105 776
Long-term investments (cash pool)	47 933	72 505
Total investments	**146 914**	**178 281**

76. 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.

Note 6
Accounts receivable

Table 17
Accounts receivable
(Thousands of United States dollars)

Accounts receivable	*31 December 2016*	*31 December 2015*
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International Transaction Log		
Current	7 070	5 501
Less provision for doubtful debts	(996)	(746)
Subtotal for indicative contributions	**6 074**	**4 755**
Voluntary contributions		
Current	2 629	2 960
Non-current	1 211	0
Subtotal voluntary contributions	**3 840**	**2 960**
Other receivables (current)	939	1 415
Total accounts receivable	**10 853**	**9 130**

77. Indicative contributions reflect the contributions receivable from Parties to the Convention to fund the Core Budget, contingent budget for Conferences and the International Transactions log in accordance with the Financial Procedures adopted by the COP. Current voluntary contributions receivable are for confirmed contributions that are due within twelve months from the reporting date. Other receivables represent amounts invoiced to member governments, other UN agencies and individuals for services provided. Provisions 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.

Note 7
Other current assets

78. Other current assets consist of the following:

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

	31 December 2016	*31 December 2015*
Prepayments	1 645	2 680
CDM Loan Scheme Advance	6 519	7 281
Project Clearing	227	497
Travel Advances	354	242
Education Grant Advances	1 037	1 111
Total	**9 782**	**11 811**

79. The UNFCCC loan scheme for CDM is administered by the UN Office for Project Services and the United Nations Environment Programme. The advances provided are covering the requirements for loans to be handed out to participants of the scheme as well as to cover related administrative expenses.

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 2016	75	2 806	45	2 927
Additions				
Disposal	(26)			(26)
Translation				
At 31 December 2016	**49**	**2 806**	**45**	**2900**
Accumulated depreciation				
At 1 January 2016	34	2 233	36	2 303
Depreciation during the year	5	275	2	283
Disposal	(26)			

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	Vehicles	*Communication and IT equipment*	*Furniture and machinery*	*Total*
Translation				
At 31 December 2016	**13**	**2 507**	**38**	**2 558**
Net Book Value				
At 31 December 2016	**36**	**298**	**6**	**342**
At 31 December 2015	41	574	10	625

80. Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2016 there was no indication for any equipment being impaired.

Note 9
Intangibles

Table 20
Intangibles
(Thousands of United States dollars)

	Internally developed software
Opening balance 1 Jan 2016	1 989
Additions	330
Disposal	
Total as at 31 Dec 2016	**2 319**
Accumulated Amortization 1 Jan 2016	145
Amortization during the year	355
Disposal	
Total as at 31 Dec 2016	**500**
Net book Value 31 Dec 2016	1 819
Net book Value 01 Jan 2016	1 844

81. 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 2016	*31 December 2015*
Vendor payables	1 376	1 777
Other payables	167	1 499
Accruals for goods and services	2 319	2 935
Repatriation grant payable	402	175
Total payables and accruals	**4 264**	**6 386**

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

83. 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 and deferred revenue

Table 22
Advance receipts and deferred revenue
(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Conditional voluntary contributions	905	2 634
Indicative contributions received in advance	9 114	2 029
CDM fees received in advance	1 707	1 519
Subtotal current advance receipts	**11 726**	**6 182**
Total	**11 726**	**6 182**

84. 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.

85. Voluntary contributions received in advance include amounts received before an agreement is reached on the allocation of the contribution.

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

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

Note 12
Employee Benefits

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

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

	31 Dec 2016	*31 Dec 2015*
Current employee benefit liabilities		
After service health insurance	226	186
Repatriation grant	732	1 017
Annual leave	465	678
Death benefit	13	14
Home leave travel	609	493
US tax reimbursement	22	449
Total current employee benefit liabilities	**2 067**	**2 837**
After service health insurance	69 716	67 523
Repatriation grant	8 520	7 017
Annual leave	6 092	5 602
Death benefit	166	153
Home leave travel	67	78
Total non-current employee benefit liabilities	**84 561**	**80 373**
Total employee benefit liabilities	**86 628**	**83 210**

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

90. **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.

91. **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.

92. **US taxes**: American citizens that are officials of UNFCCC are reimbursed for the amount of income taxes payable on the compensation they earn from the organization.

93. **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.

94. **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.

95. **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.

96. An actuarial valuation at 31 December 2016 carried out in 2017 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, death benefit, accumulated leave and after-service health insurance at the reporting date. For 2016, the actuarial study was conducted as a roll-forward of the actuarial valuation of the End-of-Service schemes as of 31 December 2015.

97. 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. The resulting single discount rate was rounded to the nearest 1/2 basis point.

98. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2016.

Table 24
Key financial assumptions

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*	*Death Benefit*
Discount rate at beginning of period	0.55%	3.86%	3.91%	3.52%
Discount rate at end of period	0.77%	3.72%	3.75%	3.40%
General inflation rate at beginning of period		2.25%		
General inflation rate at end of period		2.25%		
Salary increase 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	4.00%			
Healthcare cost trend rate at end of period	4.00%			

99. The effect of a one per cent change in the health trend rate on UNFCCC's defined benefit obligation for ASHI is as follows.

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

	Change	*After service health insurance*
On total defined benefit obligation	1%	25 452
	(1)%	(17 803)
On current service cost and interest cost component of liability	1%	3 298
	(1)%	2 164

100. The liabilities established for defined benefit obligations and the net service costs for 2016 are as follows:

Table 26
Liabilities established for defined benefit obligations and the net service costs for 2016
(Thousands of United States dollars)

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*	*Death Benefit*
Reconciliation of defined benefit obligation				
Defined benefit obligation, beginning of year	67 709	9 198	6 439	167
Current service cost	6 995	632	479	18
Interest cost	372	335	238	6
Benefits paid (net of participant contribution)	(187)	(1 056)	(705)	(14)
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	(4 947)	143	106	2
Total liability recognized on Statement of Financial Position	**69 942**	**9 252**	**6 557**	**179**
Annual expense for calendar year				
Current service cost	6 995	632	479	18
Interest cost	372	335	238	6
Benefits paid (net of participant contribution)	(187)	(1 056)	(705)	(14)
Total charge/(credit) recognized on statement of financial performance	**7 180**	**(89)**	**12**	**10**
Estimated benefit payments net of participant contributions payable in 2017	226	732	465	13
Cumulative amount of actuarial (gain)/loss recognized in net assets				
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	(4 947)	143	106	2
Total portion of cumulative liability recognized in net assets at end of year	**(4 947)**	**143**	**106**	**2**

101. Under IPSAS 25, the liabilities for ASHI, repatriation grant and travel, death benefit and accumulated 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.

102. 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, death benefits and accumulated leave are recognized on the statement of financial performance as a component of staff costs. 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.

103. 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.

United Nations Joint Staff Pension Fund (UNJSPF)

104. 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.

105. 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.

106. 106. The latest actuarial valuation was performed as of 31 December 2013. The valuation revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2013 was 24.42 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent.

107. 107. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127 per cent (130 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

108. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2013, 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 Fund. 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.

109. During 2016, UNFCCC's contributions paid to UNJSPF amounted to 7.8 million (2015 7.6 million). Expected contributions due in 2017 are 7.4 million.

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110. 7. 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 27
Provisions
(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Provision for restructuring	0	3 049
Total	**0**	**3 049**

111. At year end, UNFCCC had three pending cases with the United Nations Administrative Tribunal. Due to the uncertainty of the outcomes, no reliable estimates of potential losses could be made.

Note 14
Other current liabilities:

Table 28
Other current liabilities
(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Unapplied Cash	0	145
Cash Payments Rejected by Bank	3	74
Other Liabilities	0	48
Total	**3**	**268**

Note 15
Revenue

112. Indicative contributions are contributions received from Parties to the Convention toward funding the Core Budget the International Transaction Log under the Financial Procedure, based on the United Nations scale of assessment. The contributions are based on a biennium budget adjusted for changes in exchange rates and post adjustments and are recognized as of the first day of the year to which they relate. Indicative contributions are considered to be without conditions.

Table 29
Indicative contributions
(Thousands of United States dollars)

	2016	*2015*
Core budget to the convention	29 036	31 454
International transaction log	2 847	3 343
Total	**31 884**	**34 797**

113. 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 30
Voluntary contributions
(Thousands of United States dollars)

	2016	*2015*
Voluntary contribution to the core budget	839	848
Participation trust fund	2 093	5 190
Trust fund for supplementary activities	18 075	16 011
Clean Development Mechanism	0	28
Special annual contribution from the host country	2 018	2 029
Special account for activities for conferences	4 279	6 987
Total	**27 304**	**31 094**

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

Table 31
Fee Income
(Thousands of United States dollars)

	2016	*2015*
CDM fees	10 834	12 370
Total	**10 834**	**12 370**

115. Income from the Clean Development Mechanism and Joint Implementation includes fee-based income to finance CDM activities consisting of:

(a) Accreditation and related fees from commercial bodies to become designated operational entities to validate CDM project activities. The fee is calculated on the basis of the estimated average cost per application. Entities from non-Annex I Parties may have the possibility of paying 50 per cent of the non-reimbursable fee when they apply for accreditation, provided that they state their inability to pay the full fee at application. The remaining 50 per cent of the fee should be paid at a later stage once and if the applicant entity is accredited and designated and starts operation. The non-reimbursable application fee is USD 15,000 per application. In addition, fees are received to cover the costs for the work provided by CDM accreditation team (daily fee of USD 400);

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(b) Registration fees charged for the formal acceptance by the CDM Executive Board of a validated project as CDM project activity. It is based on the expected average annual Certified Emission Reductions for the proposed project activity over its crediting period. No registration fee shall be payable for activities and programmes of activities hosted in least developed countries. No registration fee shall be payable until after the date of the first issuance of CERs in countries with fewer than 10 registered CDM project activities. The registration fee is a) USD 0.10 per CER issued for the first 15,000 tonnes of CO_2 of the expected annual CERs; b) USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO_2 equivalent of the expected annual CERs. The maximum registration fee is USD 350,000;

(c) Share of proceeds to cover administrative expenses is:

(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 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 year;

(iii) No share of proceeds shall be due for project activities and PoAs hosted in least developed countries. The registration fee shall be deducted from the share of proceeds due for the issuance of CERs. In effect, the registration fee is an advance payment of the share of proceeds due for the issuance of CERs likely to be achieved during the first year.

(d) Methodology fees for the proposal of a new methodology to the Executive Board for consideration and approval. The non-reimbursable methodology fee is USD 1,000. The fees also include accreditation fees and fees for processing verification reports to cover administrative costs relating to the activities of the Joint Implementation Supervisory Committee (JISC). The fee charge has been discontinued from May 2016 onwards.

116. 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 EC funded projects, the rate varies from 7 per cent to 13 per cent.

Table 32
Interest revenue

	31 December 2016	*31 December 2015*
Investment income – Interest earned	2 342	901
TOTAL	**2 342**	**901**

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

118. Exchange revaluation differences 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 33
Expenses
(Thousands of United States dollars)

	2016	*2015*
Personnel expenditure	54 410	75 048
Travel	7 970	15 972
Contractual services	16 691	10 886
Operating expenses	1 460	7 096
Other expenses	2 024	1 721
Depreciation of equipment	282	336
Amortization of intangible assets	355	137
Return/transfer of donor funding	6 076	2 079
Loss on foreign exchange	630	9 695
Total	**89 897**	**122 971**

119. Employee salaries, allowances and benefits are for 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.

120. Non-employee compensation and allowances cover the cost of contracting with individual experts and consultants, including insurances and travel expenses.

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

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

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

Note 17
Reserves

124. 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 million has been established. The total reserves at the reporting date amount to USD 48.5 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 34
Reserves as at 31 December 2016
(Thousands of United States dollars)

Reserves for Core Budget and ITL	2 607
CDM trust fund reserve	45 000
Reserve for Appendix D	868
Total reserves	**48 475**

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Note 18
Fund Accounting and Segment Reporting

125. 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.

126. 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 projects financed from voluntary contributions 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

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

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

ASSETS	Trust Fund for the Clean development mechanism	Trust Fund for the Core Budget of UNFCCC	Trust Fund for participation in the UNFCCC process	Special Annual Contribution from the Government of	Trust Fund for Supplementary Activities	Trust Fund for the International Transaction Log	conferences and other recoverable costs	UNFCCC programme support costs	Cost Recovery	UNFCCC Employee liabilities fund	TOTAL
Current Assets											
Cash and cash equivalents	39 352	2 582	549	131	6 692	2 658	559	2 833	514		55 869
Short-term investments	69 141	4 523	1 569	222	11 792	4 652	986	5 192	904		98 981
Indicative contributions receivable		6 074									6 074
Other receivables	458	96	251	36	2 102	29	495	47	54		3 568
Other current assets	7 576	1 130	(4)	(299)	260	9	(88)	1 018	181		9 782
Total current Assets	116 526	14 404	2 364	90	20 845	7 349	1 953	9 091	1 652		174 274
Non-current assets											
Other receivables	0				1 211						1 211
Long-term investements	33 482	2 190	760	107	5 710	2 253	478	2 514	438		47 933
Propery, plant and equipment	27	46			138		114	18			342
Intangible assets	217	498			1 102	2					1 819
Total non-current assets	33 726	2 734	760	107	8 160	2 255	591	2 532	438		51 305
TOTAL ASSETS	**150 252**	**17 139**	**3 124**	**197**	**29 006**	**9 604**	**2 545**	**11 623**	**2 090**		**225 579**
LIABILITIES											
Current Liabilities											
Payables and accruals	974	910	64	22	864	210	243	177	801		4 264
Advance receipts	1 707	8 580			905	535					11 726
Employee benefits	152	269			76	14	7	60	53	1 436	2 067
Provisions											
Other current liabilities	2		1								3
Total non-current liabilities	2 835	9 758	65	22	1 845	759	249	236	854	1 436	18 060
Non-current liabilities											
Employee benefits	26	31			4	2		2	2	84 494	84 561
Advance receipts											
Total non-current liabilities	26	31			4	2		2	2	84 494	84 561
TOTAL LIABILITIES	2 861	9 790	65	22	1 849	761	249	239	856	85 930	102 621
NET ASSETS											
Accumulated surpluses/(deficits)	102 391	4 106	3 060	175	27 157	8 610	2 296	11 384	1 234	(85 930)	74 483
Reserves	45 000	3 243				233					48 475
TOTAL NET ASSETS	147 391	7 349	3 060	175	27 157	8 843	2 296	11 384	1 234	(85 930)	122 958
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**150 251**	**17 139**	**3 124**	**197**	**29 006**	**9 604**	**2 545**	**11 623**	**2 090**		**225 579**

REVENUE	Trust Fund for the Clean Development Mechanism	Trust Fund for the Core Budget of UNFCCC	Trust Fund for participation in the UNFCCC process	the Special Annual Contribution from the Government of	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
Indicative contributions		29 036				2 847						31 884
Voluntary contributions		839	2 093	2 018	18 075		4 279					27 304
CDM and JI service fees	10 834								4 511		(4 511)	10 834
Interest Revenue	1 651	79	56	8	281	101	35	118	12			2 342
Gain on foreign exchange												
Other/miscellaneous revenue*	7	62	406	21	(211)			20	2 412		(2 383)	333
Programme support income								8 123			(8 123)	
Cost allocation income												
TOTAL REVENUE	**12 492**	**30 017**	**2 554**	**2 046**	**18 146**	**2 948**	**4 314**	**8 261**	**6 935**		**(15 017)**	**72 697**
EXPENSES												
Personnel expenditure	9 061	20 485		513	5 091	821	528	7 464	3 334	7 113		54 410
Travel	1 502	1 352	2 792	37	2 027	9	144	104	2			7 970
Contractual services	3 441	4 299	95	935	5 356	1 096	1 022	703	2 125		(2 383)	16 691
Operating expenses	754	559			(260)		(126)	499	34			1 460
Other expenses	2 125	305	15	188	1 067	140	700	1 801	194		(4 511)	2 024
Depreciation of equipment	29	15			108		124	7				282
Amortization of intangible assets	69	124			162	0						355
Return/transfer of donor funding	11				4 047		2 018					6 076
Loss on foreign exchange**	462	(71)	9	(70)	211	(18)	74	22	11			630
Programme support	2 030	3 426	268	222	1 545	250	382		0		(8 123)	(0)
TOTAL EXPENSES	**19 484**	**30 494**	**3 179**	**1 825**	**19 353**	**2 299**	**4 866**	**10 600**	**5 701**	**7 113**	**(15 017)**	**89 897**
TOTAL SURPLUS/(DEFICIT)	**(6 992)**	**(477)**	**(625)**	**222**	**(1 208)**	**649**	**(552)**	**(2 339)**	**1 234**	**(7 113)**	**0**	**(17 200)**

* negative amounts relate to a transfer of funding between different trust funds.

**amounts for specific funds are presented following the overall net position (loss) regardless of result of the specific fund.

Note 19
Budget Comparison and Reconciliation

127. 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. Statements V-A, V-B-V-C. 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.

128. 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, entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

129. 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 un-liquidated obligations, payments against prior year obligations and outstanding indicative contributions are included as basis differences.

130. 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.

131. 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.

132. 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 35
Reconciliation of net result on budgetary and IPSAS basis

Reconciliation of net result on budgetary and IPSAS basis	
Actual net result on the Statement of budgets to actual comparison	
Statement V-A Core Budget	(374)
Statement V-B International Transaction Log	556
Statement V-C Contingent budget of conference services	
Actual net result on budgetary basis	**182**
Presentation differences	
Additional income components under IPSAS	1 081
Exchange gains/losses	89
Conversion of unliquidated obligations to delivery principle	(1 041)
Capitalization of equipment & intangible assets	(135)
Changes in provision for doubtful debts	(253)

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Reconciliation of net result on budgetary and IPSAS basis	
Changes in employee benefit provisions	252
Sub-total presentation differences	**(6)**
Entity differences on IPSAS Basis	
Participation in UNFCCC process	(625)
Supplementary activities	(1 208)
Clean development mechanism	(6 992)
Special contribution from Germany	222
Special account for converences	(552)
Programme support costs	(2 339)
Cost Recovery	1 234
End of service and post-employment benefits	(7 113)
Sub-total entity differences	**(17 372)**
Actual net result on the Statement of Financial Performance	**(17 200)**

Note 20
Budget to Actual variance analysis

133. Explanations of material differences between the original budget and final budget and, final budget and the actual amounts are presented in the financial report from the Executive Secretary accompanying these statements.

Note 21
Related Parties

134. 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.

135. 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.

136. The charges paid to the United Nations (UN Office at Geneva – UNOG) of USD 0.5 million for services related to security, payroll, treasury and other services are considered to be provided on a normal supplier basis. The United Nations Secretariat also provides support services on a normal supplier basis such as translation and editing of documents related to the meetings of the Conference of Parties to the Organization from its Regular Budget at a value of EUR 5.3 million in 2016.

137. 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 36
Summary of senior management and related compensation

Number of individuals	*Aggregate remuneration (in thousands of USD)*	*Outstanding advances at 31 Dec 2016 (in thousands of USD)*
13	2,536	190

138. During 2016, two individuals of key management left the organization while one individual joined the organization during 2016.

139. The key management personnel of UNFCCC are the Executive Secretary, Deputy Executive Secretary and Directors of programmes, who have the authority and responsibility for planning, directing and controlling the activities of UNFCCC and influencing its strategic direction.

140. 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

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

142. 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

143. UNFCCC's reporting date is 31 December 2016. The financial statements were authorized for issue on 31 March 2017, the date at which they were submitted to the External Auditor by the Executive Secretary. 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

144. 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.