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 2015

Contents

Chapter I

Report of the Board of Auditors on the financial statements: Audit Opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) as at 31 December 2015 which comprise the statement of financial position (Statement I), the statement of financial performance (Statement II), the statement of changes in net assets (Statement III), the cash flow statement (Statement IV), the statements of comparison of budgets to actual amounts (Statements V) for the year then ended and the notes to the financial statements.

Management's responsibility for the financial statements

The Executive Secretary of the UNFCCC is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as management deems necessary to permit the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing, which require that we 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.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers such internal controls as is relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the UNFCCC as at 31 December 2015 and its financial performance and cash flows for the period then ended, in accordance with IPSAS.

Report on other Legal and Regulatory Requirements

Further to 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 the United Nations and its legislative authority.

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

(Signed) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the United Nations Board of Auditors

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor-General of India
(Lead Auditor)

(Signed) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the United Kingdom of Great Britain and Northern Ireland

19 September 2016

Chapter II

Long form Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Framework Convention on Climate Change (UNFCCC) for the year ended 31 December 2015. 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

While UNFCCC had accumulated surplus and reserves of $136.65 million, there was a deficit of $43.25 million for the year ended 31 December 2015.

The Board identified deficiencies in the areas of financial reporting; disclosure, revenue recognition and collection of receivables in Clean Development Mechanism; Bank reconciliation; Training of officials and staff; Travel Management and Human Resource Management that merit attention.

Key findings and recommendations

Board's main findings are as follows:

(a) UNFCCC had unfunded Long term employee benefits liabilities. Absence of earmarked assets to fund these liabilities raises a risk to the financial ability of UNFCCC to liquidate these liabilities as and when they arise in future.

(b) UNFCCC had not disclosed any details of the Clean Development Mechanism (CDM) Loan Scheme in the Notes to Accounts. The item is material as the loan amount involved was $7.28 million.

(c) There were unissued Certified Emissions Reduction (CERs) certificates lying in the stock of the UNFCCC and the total potential revenue unrealised for the CERs certificates was $33.32 million as on 31 December 2015.

(d) Low levels of CER demand led to many projects remaining unimplemented, projects getting stranded and capacity getting reduced.

Recommendations

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

(a) Initiate work on provisioning for the unfunded liabilities in order to mitigate the risk of failure to pay employee benefits liabilities.

(b) Make detailed disclosure of the design and performance of the CDM Loan Scheme in the notes to the financial statements.

(c) Speed-up the measures to streamline the CDM.

(d) Make suitable disclosure in the notes to the financial statements on the unissued CERs which were lying in the stock of the UNFCCC and the total potential revenue unrealised for the CERs certificates.

Key Facts

$79.73 million:	**Revenue**
$122.97 million:	**Expenses**
$43.24 million:	**Deficit for the year**
$136.65 million:	**Accumulated Surpluses and Reserves**
$235.74million:	**Assets**
$99.09 million:	**Liabilities**

A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change 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. It has currently 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 programme and is administered under the United Nations Regulations and Rules.

2. The Board of Auditors (Board) has audited the financial statements of the UNFCCC and reviewed its operations for the year ended 31 December 2015 in accordance with General Assembly (GA) resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations (UNFRR) 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 2015 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 legislative 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). 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 UN financial regulation 7.5. This allows 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 and these matters are addressed in the relevant sections of this report.

5. 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

6. The Board noted that of the total five recommendations that remained outstanding as at 31 December 2014, three (60 *per cent*) had been implemented and two (40 *per cent*) were under implementation. 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) and non-adherence to the advance purchase policy. The implementation rate shows a decrease compared to the previous year when 83 *per cent* were fully implemented and 17 *per cent* were under implementation. Details of the status of the implementation of the recommendations are presented in **Annex**.

2. Financial overview and management

7. The total revenue of UNFCCC for the year ended 31 December 2015 was $79.73 million while total expenses amounted to $122.97 million resulting in a deficit of $43.24 million. The assets totalled $235.74 million while the total liabilities were $99.09 million as on 31 December 2015 leaving an accumulated surplus and reserves balance of $136.65 million (2014: $152.96). The important financial ratios are presented in the table below.

Table 2.1: Ratio analysis

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

Source: UNFCCC's financial statements 2014 and financial statements 2015

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 by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

8. There was little change in the total assets to total liabilities ratio as at 31 December 2015 as compared to those of the previous year, however, there was a minor decrease in Quick ratio and the Cash ratios.

9. Of the total assets of $235.74 million, $212.33 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 UN treasury in New York.

10. The post-employment long term benefits granted to employees of UNFCCC include After

Service Health Insurance (ASHI), repatriation grant, annual leave and death benefit apart from pension benefits paid through the United Nations Joint Staff Pension Fund (UNJSPF). While UNJSPF is a funded, multi-employer defined benefit plan, the remaining long term employee benefits are financed through 'pay as you Go' system. Employee benefit liabilities in respect of the following post-employment benefits calculated on the basis of an actuarial valuation carried out in December 2015 were as under:

Table 2.2 Employee benefit liabilities

(Figures in million USD)

Particulars	Current	Non-Current	Total
After Service health Insurance	0.19	67.52	67.71
Repatriation grant	1.02	8.18	9.20
Annual Leave	0.68	5.76	6.44
Death benefit	0.01	0.15	0.16
Grand Total			**83.51**

Source: UNFCCC

11. These liabilities were unfunded and there were no earmarked assets for these liabilities. Absence of earmarked assets to fund these liabilities raises a risk to the financial ability of UNFCCC to liquidate these pay-as-you-go liabilities as and when they arise in future.

12. UNFCCC stated that the Finance and Budget Network of the United Nations has established a working group to explore the possibilities for funding these long term liabilities. A report was presented to the Chief Executive Board (CEB) – High Level Committee on Management (CEB/2016/HLCM/FB/2) with a call for adequate funding. The sub-working group of the Task Force on Accounting Standards has been tasked with reviewing this and presenting their findings by the end of 2016.

13. **Board recommends that UNFCCC work on provisioning for the unfunded liabilities in order to mitigate the risk of failure to pay these liabilities.**

3. Strengthening process of financial reporting

Reconciliation of the Balances with UNOPS for the funds advanced towards CDM Loan Scheme and its disclosures in the Notes to Accounts

14. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided in the year 2012 to allocate financial resources from the interest accrued on the principal of the Trust fund for the Clean Development Mechanism (CDM). This was done to provide loans to support the following activities in countries with fewer than 10 registered CDM project activities:

a) To cover the costs of the development of project design documents (PDDs);

b) To cover the costs of validation and first verification for these project activities.

15. The COP/CMP further directed that the UNFCCC secretariat shall calculate and identify annually, as at 1 January, the interest accrued on the principal of the CDM Trust Fund as the financial resources to be allocated for loan scheme and associated administrative costs for that year. UNFCCC secretariat appointed United Nations Office for Project Services (UNOPS) as the implementing agency for the CDM Loan Scheme.

16. The UNFCCC had transferred $8.38 million to UNOPS for the Loan Scheme including administrative charges of $1.34 million payable to UNOPS over the period.

17. The UNOPS provided the interim financial statements as on 31 December 2015. As per these statements, the UNOPS had disbursed only $ 2.96 million for the purpose of Loan Scheme and the remaining funds of $4.28 million were held in cash balance by the UNOPS. The balance reported by the UNOPS also included the interest earned on the cash balances by UNOPS, collections on account of loan refunds and setting off of the administrative charges receivable by UNOPS.

18. Board observed that :

a. UNFCCC in its Statement of Financial Position as on 31 December 2015 had shown in Note 7, Table 18 Other Current Assets –'CDM Loan Scheme Advance $ 7.28 million. However, the balance reported by the UNOPS as per its interim Financial Statement statements was $7.24 million.

b. UNFCCC has not disclosed any detail about the design and performance of the Loan Scheme in Notes to Financial Statements. The item is significant to be reported to the Users and Stakeholders of the UNFCCC.

19. UNFCCC agreed with the audit finding and stated that it was in a process of evaluating and reconciling the CDM Loan Scheme with UNOPS.

20. **The Board recommends that UNFCCC (i) reconcile the differences of balance with UNOPS and (ii) make disclosure of the design and performance of the CDM Loan Scheme in Notes to Financial Statements.**

4. Clean Development Mechanism

21. The Clean Development Mechanism (CDM) is a mechanism to allow emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one ton of CO_2. Under the Kyoto protocol, these CERs can be traded and sold and used by industrialized countries to meet a part of their emission reduction targets. It stimulates sustainable development and emission reductions in developing countries, while giving industrialized countries some flexibility in how they meet their emission reduction limitation targets. The mechanism is overseen by the CDM Executive Board (EB), answerable to the countries that have ratified the Kyoto protocol. There are 10 members and 10 alternate members in EB who are representatives from their regions.

Revenue trend:

22. As per the 2015 financial statements, income under trust fund for CDM was US $13.13 million whereas expenditure accounted for US $29.74 million leaving a deficit of US $16.61 million. UNFCCC attributed the declining revenue to reduced demand for Certified Emission Reductions leading to fewer CDM projects getting registered or having CERs issued- the two main sources of income to the CDM trust fund.

23. However, the Board noted that on the basis of income and expenditure analysis, the Executive Board and CMP have requested the secretariat to ensure prudent management of resources so that the system may survive on reserves up to 2023. Consequently supporting staff in the CDM program was reduced from 133 to 87 by the end of 2015 resulting in reduction of staff costs of approximately 35%.

24. CDM is a tried and tested mechanism which has served as a pioneer in international climate policy and as per Management Plan 2015, tangible achievements of CDM included over

7500 projects, over 1.5 billion credits and more than 200 methodologies. Board noted that the number of projects decreased from 297 in 2013 to 91 in 2015 and that applications for certified emission reduction (CER) for projects declined from 1510 in 2013 to 574 in 2015, while processed and disposed of applications decreased from 2030 in 2013 to 474 in 2015. Number of CERs issued decreased from 265.31 million in 2013 to 121.23 million in 2015. Applications for initial accreditation of Designated Operational Entities (DOE) came down from 3 in 2013 to 0 in 2015.

25. The Board noted that the current low levels of CER demand led to many projects remaining unimplemented, some projects getting stranded and some functioning with reduced capacity. The Board noticed that the systems performed well up to the first commitment period (2008-12) of the Kyoto Protocol when sufficient demand existed resulting in registration of more than 7000 projects and issuance of more than 1.4 billion CERs. However, due to restriction on the use of CERs from some type of projects and/or countries, lack of clarity whether subsequent commitment periods under the KP would be ratified, the demand for CERs has reduced significantly. In order to tackle the issue, UNFCCC initiated several measures like giving incentives to specialized CDM projects such as methane and N_2O reduction through some institutions. In addition, the International Civil Aviation Organization (ICAO) was also considering use of CERs for neutralizing emissions due to flights of commercial aircrafts.

26. To streamline the CDM, the Secretariat undertook revision of regulatory documents with regard to simplification and streamlining of CDM. The Board noted that these documents were still under finalization and work was scheduled for completion in 2016.

27. UNFCCC stated that the Secretariat was taking all measures to revise its regulatory documents by the end of the 2016 and was closely working with other institutions such as ICAO for emission related to N_2O and aviation.

28. **The Board recommends that UNFCCC should speed-up the measures to streamline the CDM.**

CDM Accreditation Process Related Fee due from the DOEs

29. The UNFCCC has appointed the Designated Operational Entities (DOEs) to perform various functions for the Clean Development Mechanism (CDM). The accredited DOEs earn their revenue by charging fees from the project participants. The UNFCCC charges certain travel related claims and fees in this process from the DOEs as well.

30. The Board observed that claims worth $204,882 (including overdue payment of accreditation fee of $96,554) raised by the UNFCCC against DOEs relating to the period 2010 to 2015 were unpaid. Two DOEs did not have their accreditation renewed with the UNFCCC and the chance of recovering outstanding fees and travel related claims amounting to $11,774 due from them are remote.

31. UNFCCC accepted the audit finding and stated that the secretariat was following up with DoEs for overdue payments.

32. **The Board recommends that the UNFCCC devise a suitable mechanism to ensure timely recoveries of the fees and other claims from DOEs.**

Non-disclosure of unrealised potential revenue for rendering CER services and related administrative expenses incurred

33. As per the para 39 of IPSAS 9, an entity shall disclose the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion

of transactions involving the rendering of services.

34. The Board observed that the Clean Development Mechanism (CDM) provides the services of issuance of Certified Emission Reduction (CER) certificates for the projects after registering, monitoring, examining and verifying projects for issuance of CER. In respect of the certificates, the CDM recovers a fee to cover its administrative expenses as under:

i) \$ 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) \$ 0.20 per CER for any amount in excess of 15,000 tonnes of CO_2 equivalent for which issuance is requested in a given year.

35. As per the accounting policy of UNFCCC the fee for issuance of certified emission reductions (CER) certificate is due and considered earned on the date on which the CER is transferred to the UNFCCC's own registry account for issuance to the project participant.

36. The Board's analysis revealed that there were a large number of projects for which the due process for issuance of the CER had been completed by the CDM and administrative expenses had been incurred related to providing the service. The only item of work left to be done was final forwarding of the CER to the CDM registry for issuance to the project participants. The unissued CER were lying in the stock of the UNFCCC and the total potential revenue for rendering CER services was \$33.32 million as on 31 December 2015. Since the market for CER is weak, the project participants are not forthcoming to pay the fees and take the CER.

37. UNFCCC replied that as per UNFCCC IPSAS accounting policy, administration fees for issuance of CER is earned on the date on which the CER are transferred to the UNFCCC's own registry account but before transfer of the CER to the project participant. Income would be recognized in the amount of the fee net of any credit due to the project for project registration on the date of transfer to UNFCCC's own registry.

38. The Board observed that, if the Project Participants change their mind and do not collect the CERs for their own reasons, though the UNFCCC has completed the whole process of certification by incurring its expenses, the UNFCCC cannot enforce the payment from Project Participants. Therefore, the UNFCCC need to reach out to the project participants and encourage them to pay the fees and take the CER. Further UNFCCC need to consider collection of advance payment to avoid such losses in future as the volumes are significant for the CDM Trust Fund and as a whole for the UNFCCC.

39. The Board further observed that Para 114 (c) of Note 15 'Revenue-Fee Income' does not have clear disclosure with regards to revenue recognition policy of CER fees. It merely mentions about the CER rates and netting of the fees from registration fee. It does not explain the stage of completion of transactions and the policy with regards to recognition of revenue and the amount of fee not realized despite administrative expenses incurred by the CDM/UNFCCC towards the rendering of services.

40. **The Board recommends that UNFCCC make suitable disclosure in the notes to the financial statements on the unissued CERs which were lying in the stock of the UNFCCC and the total potential revenue unrealised for the CER certificates**.

5. Cash and Bank management

Non-reconciliation of bank statement

41. As per Rule 104.11 of Financial Regulations and Rules of the United Nations, every month, unless an exception is authorised by the Under-Secretary-General for Management, all

financial transactions, including bank charges and commissions, must be reconciled with the information/statement submitted by the bank.

42. The Board noted that UNFCCC operated a bank account for day to day official transactions. Scrutiny of the bank reconciliations statements for the year 2015 revealed that these were prepared only up to October 2015. Bank reconciliation statements for the month of November and December 2015 were not prepared. The Board also noted that Bank reconciliation statements from January to October were prepared from 15 days to 5 months after the end of the month. Such delays in reconciling bank statements, increases the risk of misstated bank balances and that erroneous charges against the UNFCCC bank accounts will not be detected promptly. This could result in erroneous payments, loss or misappropriation of funds remaining undetected.

43. UNFCCC agreed with the Board’s observation.

44. **The Board recommends that UNFCCC ensure bank reconciliation of accounts is done within 15 days after the closure of each month.**

6. Training of Officers/Staff

45. Training is an important instrument to enhance the skills of staff and plays a crucial role in human resource development. The Board observed that the Sustainable Development Mechanism (SDM) programme assesses its internal training and development needs while prioritizing the Management Plan (MAP) goals and objectives for each year. Further, specific training needs are identified keeping in view specific programme projects.

46. The Board analyzed the actual number of staff trained (695) compared to the number planned (893) and found a shortfall of 22 per cent in 2015.

47. UNFCCC stated that due to work exigencies some staff was required to cancel the training programmes. It assured that the Secretariat would look into the planning of the training events to ensure that it was better aligned with unit and team work plans and also implement a reserve waiting list for all training.

48. **The Board recommend that UNFCCC ensure the achievement of training targets.**

7. Travel management

Adherence to advance purchase policy

49. As per Paragraph 32 of UNFCCC travel policy and procedures, “Heads of programmes shall ensure that all certified requests to purchase ticket for individuals travelling on official business are finalized at least 16 calendar days in advance of commencement of any official travel. The number of, and reasons for late purchases or changes of tickets by programme and category of traveller shall be reported to the Executive Secretary at regular interval.” The explanatory notes to this guideline also state that “fares go up exponentially as the departure date approaches, with the steepest increase starting approximately 14 days prior to departure. Advance purchase of tickets is therefore one of the most effective ways to save resources.

50. From the information shared with audit, the Board noted that out of 585 air tickets, the UNFCCC purchased 196 tickets (34 per cent) less than 16 days before the commencement of official travel. Analysis of justifications of late purchases of 196 air tickets submitted to audit revealed that in 158 cases (81 per cent) delay was mostly due to late invitation/selection/nomination or internal reasons which could have been avoided.

51. Purchasing tickets closer to flight days might result in increased costs to UNFCCC, hindering the agency’s efforts to economize costs through its travel policy.

52. **The Board recommends that UNFCCC enforce compliance to its advance purchase policy for air tickets.**

8. Human resource management

53. As per Paragraph 7.2 of Recruitment and Selection Standard Operating Procedure 2014 of UNFCCC, a selection panel will be established with a mandate to provide support in the short listing process and evaluate the shortlisted candidates using competency based assessment. All interview panel members should have undertaken the competency based interview training offered by Human Resources Unit (HRU).

54. The Board noted that in 25 recruitment cases for 2015, 100 panel members (four for each recruitment) participated in interviewing candidates. The Board found that only in 5 out of 25 recruitment cases, interviews were conducted by panel members who had all been trained in competency based interviewing (CBI). Further out of 100 panel members, 28 members had not undertaken the competency based interview course. The Board learnt that the Executive Secretary has extended time for imparting competency based interview to all panel members till June 2016.

55. The Board considers that conducting interview processes by panel members without the appropriate training in competency based interview training programme may lead to inadequate evaluation of candidates, resulting in loss of opportunity to identify the best available candidates.

56. UNFCCC stated that several factors have contributed to falling short of full compliance including availability of CBI training and available resources, but accepted the need to ensure that interview panel members are trained in competency based interviewing techniques prior to serving as panellists.

57. **The Board recommends that UNFCCC ensure all recruitment exercises in future are conducted by interview panel members who have successfully completed competency-based interview courses**.

C. Disclosures by management

58. 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.

59. 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. Board also inquire 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.

60. Management reported to the Board that there were no write-off of cash and receivables and losses of property; no cases of fraud or presumptive fraud; and no ex gratia payments were made during the year ended 31 December 2015.

D. Acknowledgement

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

(Signed) Mussa Juma **Assad**
Controller and Auditor-General of the
United Republic of Tanzania
Chair of the United Nations Board of Auditors

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor-General of India
(Lead Auditor)

(Signed) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

19 September 2016

Annex

(Refer para 6)

Status of implementation of outstanding recommendations as on 31 December 2014

Sl. No	**Reference to Report and Financial period**	**Recommendations**	**Action Reported by the Management**	**Status after Verification**				
				Board's Assessment	**Implemented**	**Under Implementation**	**Not implemented**	**Overtaken by events**
1	Para 13 of Board Report 2012-2013	Expedite the settlement of the outstanding balance of the accounts in respect of COP 16 and COP 17.	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. To date to response has been received. This will be followed up when the new Executive Secretary takes office.	Further follow up on regular basis is required to achieve full and final settlement of the matter.		X		
2	**Para 15 of Board Report 2014**	Strengthening its internal mechanisms to eliminate the possibility of such errors in its future financial statements and ensure their accuracy.	UNFCCC has set up a review team of professional finance staff to examine the draft financial report in order to review and check the financial statements errors and accuracy. This review is done before submission to the UN Board of Auditors and has proven very useful in finding and correcting errors and inaccuracies. Subsequently, the draft financial statements are checked by the Chief of Finance as well as the Chief of Administrative Services. Further improvements are foreseen with continuous improvement of the use of UMOJA which uses sub-ledger accounting and other features that should improve the accuracy of the draft financial statements.	Implemented	X			
3	**Paragraph 22 of Board Report 2014**	**Ensuring adherence to the formal method of solicitation for procurement actions and they resort to waiver only when the proposed procurement falls clearly within the ambit of the exceptions provided for in the UNFRRs.**	In reviewing and recommending waiver request for approval and in approving, Chief PGSU and Deputy Executive Secretary, respectively, are interpreting UN Financial Rule 105.16 (a) with utmost conservatism.	Implemented	X			

4	**Paragraph 27 of Board Report 2014**	**Ascertaining the reasons for non-adherence to the advance purchase policy and take effective measures to improve adherence.**	Measures in place to improve compliance with the advance purchase policy ("16 day rule"): • Programmes Heads must endorse justifications in all cases on 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 follow up accordingly. A report summarizing reasons provided and recommending action is under preparation and will be submitted to the Executive Secretary on an annual basis, starting with the first report would be presented before 31 December 2016.	However, it is noticed that though justifications are endorsed in all cases, justifications for delayed purchase of tickets are not strong. The observations are included in current report.		X		
5	**Paragraph 32 of Board Report 2014**	**Developing a monitoring and recovery mechanism to ensure recovery of outstanding travel claims.**	UMOJA is set up to recover any outstanding travel advance from staff members if the travel expense report has not been processed within 14 calendar days after completion of the trip. If this deadline has passed, the advance is deducted from the next salary payment.	Implemented	X			
		Total	**5**		3	2		
		Percentage	**100**		60	40		

United Nations

Framework Convention on Climate Change

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 2015 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 2015 are correct.

(Signed) Christiana **Figueres**
Executive Secretary
30 June 2016

IV. Narrative financial report

Financial report on the 2015 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.

2015 Financial Highlights

2015 Financial Results (thousands of United States dollars)

Total revenue:

2. Revenue in 2015 totaled USD 80 million as follows:
   (a) The indicative contributions to the core budget. The indicative contributions for 2015 totaled USD 35 million;
   (b) Voluntary contributions from donors totaled USD 31 million;
   (c) Fees for the CDM and JI mechanisms USD 12 million.

3. **Total expenses**: Expenses in 2015 totaled USD 120 million mainly consisting:
   (a) Personnel expenses amounting to USD 75 million;
   (b) Travel USD 16 million;
   (c) Contractual services for USD 11 million;
   (d) Exchange loss of USD 10 million resulting mainly from the loss of value of assets held in foreign currencies in the United Nations Treasury cash pool.

4. **Operating result**: The net deficit of expense over revenue in 2015 is USD 43 million. The main reasons for this deficit are the strong decline in activities and related revenues under the Sustainable Development mechanisms as well as the increase in the employee benefits liabilities during 2015.

5. **Assets**: Assets as of 31 December 2015 decreased by USD 33 million to USD 239 million compared to the balance at 31 December 2014 of USD 272 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)

	2015	*2014*
Cash and cash equivalents	34 050	61 728
Investments	178 218	188 741
Indicative contributions receivable	4 755	6 713
Other accounts receivable	4 375	2 029
Other assets	11 811	10 814
Property, plant and equipment	625	923
Intangible assets	1 844	1 224
Total assets	**235 740**	**272 172**

6. The major assets at 31 December 2015 are cash, cash equivalents and investments totaling USD 212 million representing 89 per cent of the total assets and indicative contributions from signatories to the convention receivable of USD 4.8 million, or 2 per cent. The remaining assets consist of other accounts receivable, other assets (primarily advances), equipment and software.

7. **Cash, cash equivalents and investments**: Cash and cash equivalents of USD 34 million are primarily held in the UN Treasury euro and main cash pool. The amounts for short- and long-term investments reduced by USD 10.5 million which is due to the deficit incurred mainly in the CDM trust fund.

8. **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.

9. **Liabilities**: Liabilities as of 31 December 2015 totaled USD 101 million (USD 119 million as at 31 December 2014) as follows:

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

	2015	*2014*
Accounts payable and accruals	6 386	5 429
Advance receipts	6 182	8 836
Employee benefit liabilities	83 210	98 003
Provisions	3 049	0
Other liabilities	268	6 945
Total liabilities	**99 094**	**119 213**

10. 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 84 million, represent 84 per cent of UNFCCC's total liabilities and are explained in detail in the respective note to the financial statements. The decrease of USD 14.8 million in employee benefit liabilities is caused primarily by the adjustment of financial and demographic assumptions in the actuarial calculations of these liabilities.

11. 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.

12. **Net assets**: The movement in net assets during the year reflects a decrease of USD 16.3 million from USD 153 million in 2014 to USD 136.7 million at the end of 2015 due to the positive actuarial change of 26.9 million and an operating loss of USD 43.2 million. Net assets include the operating reserves which amount to USD 48.5 million at the reporting date.

Core budgets

13. The Conference of the Parties approved a Core expenditure budget for the 2014–15 financial period, amounting to EUR 54.6 million. The approved budget for the International Transaction Log for the 2014–15 financial period amounted to EUR 5.5 million.

14. As at 31 Dec 2015, 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 approved budget.

15. 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 2014–15 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.

V. Financial statements for the year ended 31 December 2015

A. Statement I: Statement of Financial Position as at 31 December 2015

(Thousands of United States dollars)

	Note	*2015*	*2014*
ASSETS			
Current Assets			
Cash and cash equivalents	5	34 050	61 728
Short-term investments	5	105 776	120 649
Indicative contributions receivable	6	4 755	6 713
Other receivables	6	4 375	1 782
Other current assets	7	11 811	10 814
Total current assets		**160 766**	**201 686**
Non-current assets			
Other receivables	6	0	247
Long-term investments	5	72 505	68 092
Property, plant and equipment	8	625	923
Intangible assets	9	1 844	1 224
Total non-current assets		**74 973**	**70 486**
TOTAL ASSETS		**235 740**	**272 172**
LIABILITIES			
Current Liabilities			
Payables and accruals	10	6 386	5 429
Advance receipts	11	6 182	8 589
Employee benefits	12	2 837	2 521
Provisions		3 049	0
Other current liabilities	14	268	6 945
Total non-current liabilities		**18 721**	**23 484**
Non-current liabilities			
Employee benefits	12	80 373	95 482
Advance receipts	11	0	247
Total non-current liabilities		**80 373**	**95 729**
TOTAL LIABILITIES		**99 094**	**119 213**
NET ASSETS			
Accumulated surpluses/(deficits)		88 139	104 238
Reserves	17	48 507	48 721
TOTAL NET ASSETS		**136 646**	**152 959**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**235 740**	**272 172**

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 2015

(Thousands of United States dollars)

	Note	*2015*	*2014*
REVENUE	15		
Indicative contributions		34 797	37 605
Voluntary contributions		31 094	31 714
CDM and JI service fees		12 370	9 707
Interest Revenue		901	1 446
Other/miscellaneous revenue		563	480
TOTAL REVENUE		**79 725**	**80 952**
EXPENSES	16		
Personnel expenditure		75 048	71 935
Travel		15 972	12 074
Contractual services		10 886	9 929
Operating expenses		7 096	12 322
Other expenses		1 721	2 251
Depreciation of equipment		336	483
Amortization of intangible assets		137	8
Return of donor funding		2 079	1 378
Loss on foreign exchange		9 695	8 089
TOTAL EXPENSES		**122 971**	**118 468**
SURPLUS/(DEFICIT) FOR THE PERIOD		**(43 246)**	**(37 516)**

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 2015

(Thousands of United States dollars)

	Accumulated Surplus	*Reserves*	*Total Net Assets*
Balance as at 01 January 2015	104 238	48 721	152 959
Surplus/(Deficit) for the current period	(43 246)		(43 246)
Adjustment Appendix D reserve		(31)	(31)
Actuarial gains (losses) on employee benefits liabilities	26 953		26 953
Adjustment to operating reverses amounts against accumulated surplus	183	(183)	0
Adjustment Project Balance for conversion	11		11
Balance as at 31 December 2015	**88 139**	**48 507**	**136 646**

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

D. Statement IV: Cash Flow Statement for the year ended 31 December 2015

(Thousands of United States dollars)

	2015	*2014*
Cash flows from operating activities		
Surplus/(deficit) for the period	(43 246)	(37 516)
Depreciation expense	336	483
Amortization of intangible assets	137	8
(Increase)/decrease in accounts receivable	(387)	(1 102)
(Increase)/decrease in other assets	(986)	(53)
Increase/(decrease) in payables and accruals	957	(1 993)
Increase/(decrease) in advance receipts	(2 655)	500
Increase/(decrease) in employee benefit liabilities	12 130	8 107
Increase/(decrease) in other liabilities	(3 629)	6 748
Net cash flows from operating activities	**(37 344)**	**(24 817)**
Cash flows from investing activities		
(Increase)/decrease in equipment	(38)	(185)
(Increase)/decrease in intangible assets	(756)	(1 232)
(Increase)/Decrease in short-term investments	14 874	(12 066)
(Increase)/Decrease in long-term investments	(4 414)	38 293
Net cash flows from investing activities	**9 666**	**24 811**
Cash flows from financing activities		
Net increase/(decrease) in cash and cash equivalents	**(27 677)**	**(6)**
Cash and cash equivalents at the beginning of the year	61 728	61 734
Cash and cash equivalents at the end of the year	34 050	61 728
Overall increase/(decrease)	(27 678)	(6)

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 2015 and the biennium 2014–2015

2015	*2014 Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Executive Direction and Management	2 198 976	2 226 173	(27 197)	2 681 678	2 449 923	231 755
Mitigation, Data and Analysis	7 829 005	8 222 739	(393 734)	9 547 567	9 033 141	514 426
Finance, Technology and Capacity-building	2 770 796	2 737 270	33 526	3 379 020	3 013 756	365 263
Adaptation	2 392 068	2 756 227	(364 159)	2 917 156	3 029 429	(112 273)
Sustainable Development Mechanisms	535 609	478 720	56 889	653 182	525 675	127 507
Legal Affairs	1 283 320	1 190 129	93 191	1 565 024	1 311 311	253 713
Conference Affairs Services	1 680 167	1 452 057	228 110	2 048 984	1 597 240	451 744
Communication and Outreach	989 577	1 054 584	(65 007)	1 206 801	1 164 666	42 135
Administrative Services (SWC)	1 530 527	1 905 509	(374 982)	1 866 496	2 080 485	(213 989)
Information Technology Services	2 861 092	2 957 567	(96 475)	3 489 137	3 248 880	240 256
Knowledge Management	573 181	652 194	(79 013)	699 001	719 991	(20 989)
Total	**24 644 318**	**25 633 169**	**(988 851)**	**30 054 046**	**28 174 498**	**1 879 548**
Programme support costs (overheads)	3 203 761				**3 346 996**	
Adjustment to working capital reserve	294 231				(154 067)	
Grant total	**28 142 310**	**25 633 169**	**(988 851)**	**30 054 046**	**31 521 494**	**1 879 549**
Income from Indicative Contributions					31 454 188	
Net result (budgetary)					**(67 306)**	

2014–2015	*2014 Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Executive Direction and Management	4 387 243	4 337 806	49 437	6 051 370	5 266 601	784 769
Mitigation, Data and Analysis	14 395 820	14 222 210	173 610	19 856 303	16 960 591	2 895 712
Finance, Technology and Capacity-building	5 436 347	5 444 093	(7 746)	7 498 410	6 611 701	886 709
Adaptation	4 796 164	4 943 642	(147 478)	6 615 399	5 923 367	692 032
Sustainable Development Mechanisms	1 071 218	1 012 920	58 298	1 477 542	1 237 996	239 547
Legal Affairs	2 594 770	2 292 030	302 740	3 578 993	2 778 439	800 554
Conference Affairs Services	3 340 449	3 372 615	(32 166)	4 607 516	4 148 751	458 764
Communication and Outreach	2 004 626	1 993 987	10 639	2 765 001	2 411 839	353 163
Administrative Services (SWC)	3 231 717	3 387 196	(155 479)	4 457 541	3 986 460	471 081
Information Technology Services	5 721 861	5 845 715	(123 854)	7 892 222	7 071 248	820 974
Knowledge Management	1 120 890	1 227 056	(106 166)	1 546 055	1 486 025	60 030
Total	**48 101 105**	**48 079 271**	**21 834**	**66 346 352**	**57 883 017**	**8 463 335**
Programme support costs (overheads)	6 253 144				7 209 103	
Adjustment to working capital reserve	294 231					

Grant total	**54 648 480**	**48 079 271**	**21 834**	**66 346 352**	**65 092 120**	**8 463 336**

2. Budget to Actual Comparison International Transaction Log Budget for the year 2015 and the biennium 2014–2015

2015	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Staff costs	733 730	719 134	14 596	894 793	798 608	96 184
Consultants and contractors	1 516 403	1 060 685	455 718	1 849 272	1 115 243	734 029
Experts	10 000	3 993	6 007	12 195	3 355	8 840
Travel	25 000	7 484	17 516	30 488	9 078	21 410
Training	10 000	1 678	8 322	12 195	1 739	10 456
General operating expenses	52 000	2 208	49 792	63 415	2 312	61 103
Supplies and materials/equipment	-	55	(55)	-		210
Contributions to common services	83 500	131 252	(47 752)	101 829	150 995	(49 166)
Subtotal	**2 430 633**	**1 926 489**	**504 144**	**2 964 187**	**2 081 119**	**883 067**
Programme support costs	315 983				200 445	
Adjustment to working capital reserve	(11 710)				(28 592)	
Total	**2 734 906**	**1 926 489**	**504 144**	**2 964 187**	**2 252 972**	**883 067**
Income from Indicative Contributions					3 342 390	
Net Result (budgetary)					1 089 418	

2014–2015	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Staff costs	1 467 460	1 307 895	159 565	1 906 834	1 582 594	324 241
Consultants and contractors	3 032 806	2 780 403	252 403	3 940 862	3 347 862	593 000
Experts	20 000	21 473	(1 473)	25 988	26 273	(285)
Travel	50 000	9 609	40 391	64 971	11 757	53 213
Training	20 000	6 756	13 244	25 988	8 018	17 970
General operating expenses	104 000	7 077	96 923	135 139	8 659	126 480
Supplies and materials/equipment		16 599	(16 599)	-	20 301	(20 301)
Contributions to common services	167 000	193 120	(26 120)	217 002	227 684	(10 683)
Subtotal	**4 861 266**	**4 342 932**	**518 334**	**6 316 784**	**5 233 148**	**1 083 636**
Programme support costs	631 965				609 868	
Adjustment to working capital reserve	(11 710)					
Total	**5 481 521**	**4 342 932**	**518 334**	**6 316 784**	**5 843 016**	**1 083 636**

3. Budget to Actual Comparison Conference Services Contingency Budget for the year 2015

2015	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Interpretation	982 300		982 300	1 197 927		1 197 927
Documentation						
Translation	1 815 000		1 815 000	2 213 415		2 213 415
Reproduction and distribution	614 200		614 200	749 024		749 024
Meetings service support	199 900		199 900	243 780		243 780
Subtotal	**3 611 400**	**0**	**3 611 400**	**4 404 146**	**0**	**4 404 146**
Programme support costs	469 500		469 500	572 561		572 561
Working capital reserve	9 900		9 900	12 073		12 073
Total	**4 090 800**	**0**	**4 090 800**	**4 988 780**	**0**	**4 988 780**

F. Notes to the 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:

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.

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.

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 GEF). The SBI also advises the COP on budgetary and administrative matters.

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 IGOs and NGOs, 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 2014–2015, 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 2015 financial statements are presented on an annual basis covering the period 1 January 2015 to 31 December 2015. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 May 2016. Sequentially, the reports of the Board of Auditors together with the audited financial statements are submitted to the Conference of 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 exceeds 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 (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension 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 plan 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, is not in a position to identify UNFCCC's proportionate share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes and hence 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 plan 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 recognised 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 recognised 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 nine 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 the Participation in the UNFCCC process financed from voluntary contributions;

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

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

(e) 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;

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

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

(h) Cost recovery fund;

(i) 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 2015, 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 0.4 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 Cash Pools. 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 Pools assets (cash and cash equivalents, short-term investments and long-term investments) and income is based on each participating entity's principal balance.

57. The Organization participates in two UN Treasury managed Cash Pools: The Main Cash Pool which comprises operational bank account balances in a number of currencies and investments in United States dollars; and the Euro Pool which comprises investments in Euro. The pool participants are mostly Offices of the United Nations Secretariat away from Headquarters who may have surplus of euros from their operations.

58. As at 31 December 2015, the Cash Pools held total assets of USD 7,827.4 million (2014: USD 9,608.8 million), of which USD 215.6 million was due to the UNFCCC (2014: USD 250.4 million), and its share of net income from Cash Pools was negative USD 4.9 million (2014: negative USD 4.2 million). The net loss was due to a negative USD 5.9 million foreign exchange loss relating to the euro currency weakening against the United States dollars.

Table 3
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 4

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**

Table 5

Summary of assets and liabilities of the Cash Pools as at 31 December 2014

(Thousands of United States dollars)

	Main Pool	Euro Pool	Total
Fair value through the surplus or deficit			
Short-term investments	3 930 497	97 011	4 027 508
Long-term investments	3 482 641	–	3 482 641
Total fair value through the surplus or deficit investments	**7 413 138**	**97 011**	**7 510 149**
Loans and receivables			
Cash and cash equivalents	2 034 824	48 819	2 083 643
Accrued investment income	14 842	119	14 961
Total loans and receivables	**2 049 666**	**48 938**	**2 098 604**
Total carrying amount of financial assets	**9 462 804**	**145 949**	**9 608 753**
Cash pool liabilities			
Payable to UNFCCC	185 012	65 383	250 395
Payable to other cash pool participants	9 277 792	80 566	9 358 358
Total liabilities	**9 462 804**	**145 949**	**9 608 753**
Net assets	**–**	**–**	**–**

Table 6

Summary of net income and expenses of the Cash Pools for the year ended 31 December 2014

(Thousands of United States dollars)

	Main Pool	Euro Pool	Total
Investment revenue	62 511	132	**62 643**
Foreign exchange gains/(losses)	(7 064)	(14 396)	**(21 460)**
Unrealized gains/(losses)	(3 084)	9	**(3 075)**
Bank fees	(214)	(2)	**(216)**
Net income from cash pools	**52 149**	**(14 257)**	**37 892**

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.

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

Main Pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*			
Bonds (Long term ratings)							
	AAA	**AA+/AA/AA-**	**NR**	**AAA**	**AA+/AA/AA-**	**A+**	**NR**
S&P	37.7 per cent	54.2 per cent	8.1 per cent	31.2 per cent	59.8 per cent	1.3 per cent	7.7 per cent
Fitch	61.9 per cent	26.5 per cent	11.6 per cent	52.2 per cent	21.4 per cent	-	26.4 per cent
	Aaa	**Aa1/Aa2/Aa3**		**Aaa**	**Aa1/Aa2/Aa3**		
Moody's	65.8 per cent	34.2 per cent	-	69.3 per cent	30.7 per cent	-	-
Commercial papers (Short term ratings)							
	A-1+			**A-1+**			**NR**
S&P	100.0 per cent			100.0 per cent			-
	F1+			**F1+**			
Fitch	100.0 per cent			90.0 per cent			10.0 per cent
	P-1			**P-1**			
Moody's	100.0 per cent			70.0 per cent			30.0 per cent
Reverse repurchase agreement (Short term ratings)							
	A-1+						
S&P	100.0 per cent						
	F1+			No reverse repurchase agreements were held as at 31 December 2014			
Fitch	100.0 per cent						
	P-1						
Moody's	100.0 per cent						
Term deposits (Fitch viability ratings)							
	aaa	**aa/aa-**	**a+/a**	**aaa**	**aa/aa-**	**a+/a**	
Fitch	-	53.6 per cent	46.4 per cent	-	64.1 per cent	35.9 per cent	

Euro Pool	*Ratings as at 31 December 2015*	*Ratings as at 31 December 2014*		
Bonds (Long term ratings)				
		AAA	**AA+**	**NR**
S&P	No bonds were held as at 31 December 2015	-	100.0 per cent	-
Fitch		-	-	100.0 per cent

				Aaa	**Aa1**		
Moody's				100.0 per cent	-		-
Term deposits (Fitch viability ratings)							
	aaa	**aa/aa-**	**a+**	**aaa**	**aa-**	**a+/a/a-**	
Fitch	-	-	100.0 per cent	-	22.1 per cent	77.9 per cent	

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

Financial risk management: interest rate risk

67. The Cash Pools comprise 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 Cash Pools had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2014: five years). The average durations of the main pool and the euro pool were 0.86 years (2014: 1.10 years) and 0.21 years (2014: 0.22 years) respectively, which are 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 Cash Pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at FVTSD, the change in fair value represents the increase/decrease of 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 one per cent). These basis point shifts are illustrative.

Table 8
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)**

Table 9
Cash Pools interest rate risk sensitivity analysis as at 31 December 2014

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	205.45	154.08	102.71	51.35	–	(51.34)	(102.67)	(154.00)	(205.31)
Euro pool total	0.61	0.49	0.37	0.12	–	(0.12)	(0.37)	(0.49)	(0.61)
Total	**206.06**	**154.57**	**103.08**	**51.47**	–	**(51.46)**	**(103.04)**	**(154.49)**	**(205.92)**

Other market price risk

69. The Cash Pools are not exposed to significant other price risk, as they do not sell short, or borrow securities, or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value – Cash Pool

70. 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.

71. The levels are defined as:

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

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).

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

72. 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 Cash Pools is the current bid price.

73. 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.

74. 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 2015			*31 December 2014*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	149 682	–	149 682	–	–	-
Bonds - Non-United States agencies	2 190 965	–	2 190 965	2 154 956	–	2 154 956
Bonds - Non-United States sovereigns	124 612	–	124 612	691 489	–	691 489
Bonds - Supranational	139 828	–	139 828	440 169	–	440 169
Bonds - United States treasuries	1 092 139	–	1 092 139	1 297 290	–	1 297 290
Main Pool - Commercial papers	949 112	–	949 112	999 234	–	999 234
Main Pool - Term deposits	–	1 860 000	1 860 000	–	1 830 000	1 830 000

Main pool total	**4 646 338**	**1 860 000**	**6 506 338**	**5 583 138**	**1 830 000**	**7 413 138**
Euro Pool – Bonds: non-United States sovereigns	–	–		6 157	–	6 157
Euro Pool - Term deposits	–	10 941	10 941	–	90 854	90 854
Euro pool total	**–**	**10 941**	**10 941**	**6 157**	**90 854**	**97 011**
Total cash pools	**4 646 338**	**1 870 941**	**6 517 279**	**5 589 295**	**1 920 854**	**7 510 149**

Table 11

Summary Financial Instruments

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Cash and cash equivalents	34 050	61 728
Short-term investments	105 776	120 649
Long-term investments	72 505	68 092
Accounts receivable	9 130	8 742
Accounts payable	(3 276)	(1 409)
Total financial instruments	**218 185**	**257 802**

Table 12

Carrying amounts of the contributions receivable

(Thousands of United States dollars)

	Indicative Contributions	*Voluntary Contributions*
USD	248	197
EUR	5 508	2 824
Total contributions receivable as at 31 December 2015	**5 756**	**3 021**

Table 13

Indicative contributions past due as at 31 December 2015

(Thousands of United States dollars)

Indicative contributions past due	*Indicative Contributions*
Up to 1 year	1 531
1 to 2 year	2 103
2 to 3 years	851
Above 3 years	1 271
Total indicative contributions past due as at 31 December 2015	**5 756**

Table 14

Indicative provisions for impaired receivables as at 31 December 2015

(Thousands of United States dollars)

Provision for impaired receivables	*Indicative Contributions*
As at 1 Jan 2015	797
Less receivables written off during the year	0
Decrease in provision during 2015	51
Total as at 31 December 2015	**746**

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 2015	*31 December 2014*
Cash at bank and on hand	0	74
Cash held in cash pools	32 113	61 654
Total cash and cash equivalents	**32 113**	**61 728**

Table 16

Breakdown of short-term and long-term investments

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Short-term investments (cash pool)	107 713	120 649
Long-term investments (cash pool)	72 505	68 092
Total investments	**180 217**	**188 741**

75. Most of 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 2015*	*31 December 2014*
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International Transaction Log		
Current	5 501	7 510
Less provision for doubtful debts	-746	-797
Subtotal for indicative contributions	**4 755**	**6 713**
Voluntary contributions		
Current	2 960	1 020
Non-current	0	247
Subtotal voluntary contributions	**2 960**	**1 267**
Other receivables (current)	1 415	762
Total accounts receivable	**9 130**	**8 742**

76. Indicative contributions reflects 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

77. Other current assets consist of the following:

Table 18

Other current assets

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Prepayments	2 680	1 591
CDM Loan Scheme Advance	7 281	6 219
Project Clearing	497	1 351
Travel Advances	242	514
Education Grant Advances	1 111	1 139
Total	**11 811**	**10 814**

Note 8: Property, plant and equipment

Table 19

Property, plant and equipment

	Vehicles	*Communication & IT equipment*	*Furniture & Machinery*	*Total*
Cost				
At 1 January 2015	37	2 807	45	2 889
Additions	38			38
Disposal				
Translation				
Total as at 31 December 2015	**75**	**2 807**	**45**	**2 927**
Accumulated depreciation				
At 1 January 2015	31	1 902	33	1 966
Depreciation during the year	3	332	3	338
Disposal				
Translation				
Total as at 31 December 2015	**34**	**2 234**	**36**	**2 304**
Net Book Value				
Total as at 31 December 2015	**41**	**573**	**9**	**623**
At 31 December 2014	6	905	12	923

78. Assets are reviewed annually to determine if there is any indication that assets may be impairment in their value. During 2015 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 2015	1 232
Additions	757
Disposal	
Total as at 31 Dec 2015	**1 989**
Accumulated Amortization 1 Jan 2015	8
Amortization during the year	137
Disposal	
Total as at 31 Dec 2015	**145**
Net book Value 31 Dec 2015	1 844
Net book Value 01 Jan 2015	1 224

79. 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 2015	*31 December 2014*
Vendor payables	1 777	710
Other payables	1 499	0
CDM/JI withdrawals and rejections	0	699
Accruals for goods and services	2 935	3 925
Repatriation grant payable	175	95
Total payables and accruals	**6 386**	**5 429**

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

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

Note 11: Advance receipts and deferred revenue

Table 22

Advance receipts and deferred revenue

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Conditional voluntary contributions	2 634	3 804
Indicative contributions received in advance	2 029	2 902
CDM fees received in advance	1 519	1 798
Other advance receipts	0	85
Subtotal current advance receipts	**6 182**	**8 589**
Conditional voluntary contributions (long term)	0	247
Total	**6 182**	**8 836**

82. 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 recognised 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 recognised.

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

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

85. 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

86. The employee benefit liabilities outstanding at the reporting date are as follows:

Table 23

Employee benefit liabilities

(Thousands of United States dollars)

	31 Dec 2015	31 Dec 2014
Current employee benefit liabilities		
After service health insurance	186	149
Repatriation grant	1 017	829
Annual leave	678	431
Death benefit	14	14
Home leave travel	493	659
US tax reimbursement	449	439
Total current employee benefit liabilities	**2 837**	**2 521**
After service health insurance	67 523	78 575
Repatriation grant	7 017	10 644
Annual leave	5 602	6 015
Death benefit	153	172
Home leave travel	78	76
Total non-current employee benefit liabilities	**80 373**	**95 482**
Total employee benefit liabilities	**83 210**	**98 003**

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

88. **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% of the advance is expensed in the current year while the balance of 60% is recorded as staff advances under other current assets.

89. **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.

90. **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.

91. **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.

92. **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.

93. **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.

94. An actuarial valuation at 31 December 2015 carried out in 2015 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. During late 2015 a restructuring exercise has been undertaken and separate provision was set up for the related costs (see note 13). The amounts relating to annual leave balances and repatriation costs have been subsequently deducted from the estimates from actuarial report for the two respective categories.

95. 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.

96. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2015.

Table 24
Key financial assumptions

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*	*Death Benefit*
Discount rate at beginning of period	0.84%	3.59%	3.63%	3.27%
Discount rate at end of period	0.55%	3.86%	3.91%	3.52%
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%			

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

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

98. The liabilities established for defined benefit obligations and the net service costs for 2015 are as follows:

Table 26
Liabilities established for defined benefit obligations and the net service costs for 2015
(Thousands of United States dollars)

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*	*Death Benefit*
Reconciliation of defined benefit obligation				

Defined benefit obligation, beginning of year	78 724	11 473	6 446	186
Current service cost	10 642	902	931	19
Interest cost	661	396	226	6
Benefits paid (net of participant contribution)	- 149	- 858	- 447	- 15
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	-22 170	-2 715	- 717	- 29
Total liability recognized on Statement of Financial Position	**67 708**	**9 198**	**6 439**	**167**
Annual expense for calendar year				
Current service cost	10 642	902	931	19
Interest cost	661	396	226	6
Benefits paid (net of participant contribution)	- 149	- 858	- 447	- 15
Total charge/(credit) recognized on statement of financial performance	**11 154**	**440**	**710**	**10**
Estimated benefit payments net of participant contributions payable in 2015	187	1 056	705	14
Cumulative amount of actuarial (gain)/loss recognized in net assets				
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	-22 170	-3 879	- 876	- 29
Total portion of cumulative liability recognized in net assets at end of year	**-22 170**	**-3 879**	**- 876**	**- 29**

99. 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.

100. 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.

101. 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)

102. The Pension 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.

103. 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 Pension 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 Pension 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.

104. 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.

105. 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.

106. 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.

107. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as of 31 December 2013.

108. During 2015, contributions paid to UNJSPF amounted to USD 7.6 million (USD 8.1 million in 2014). Expected contributions due in 2016 are about USD 6.5 million.

109. 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

	31 December 2015	*31 December 2014*
Provision for restructuring	3 049	0
Total	**3 049**	**0**

110. The provision relates to restructuring costs for which the decision on restructuring was taken during 2015 and not all costs have been settled at the end of the year.

Note 14: Other current liabilities:

Table 28

Other current liabilities

	31 December 2015	*31 December 2014*
Unapplied Cash	145	0
Cash Payments Rejected by Bank	74	0
Other Liabilities	48	0
Funds held in trust for the Green Climate fund	0	231
Interfund liability (UNOG)	0	6 714
Total	**268**	**6 945**

Note 15: Revenue

111. 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

	2015	*2014*
Core budget to the convention	31 454	33 825
International transaction log	3 343	3 780
Total	**34 797**	**37 605**

112. Voluntary contributions are recognised 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

	2015	*2014*
Voluntary contribution to the core budget	848	1 041
Participation trust fund	5 190	3 557
Trust fund for supplementary activities	16 011	18 532
Clean Development Mechanism	28	12
Special annual contribution from the host country	2 029	2 428
Special account for activities for conferences	6 987	6 144
Total	**31 094**	**31 714**

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

Table 31
Fee income

	2015	*2014*
CDM fees	12 370	9 685
JI fees	0	22
Total	**12 370**	**9 707**

114. 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);

(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).

115. 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 2015	*31 December 2014*
Investment income – Interest earned	901	1 446
TOTAL	**901**	**1 446**

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

117. 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)

	2015	*2014*
Personnel expenditure	75 048	71 935
Travel	15 972	12 074
Contractual services	10 886	9 929
Operating expenses	7 096	12 322
Other expenses	1 721	2 251
Depreciation of equipment	336	483
Amortization of intangible assets	137	8
Return of donor funding	2 079	1 377
Loss on foreign exchange	9 695	8 089
Total	**122 971**	**118 468**

118. 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.

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

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

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

Note 17: Reserves

122. 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.

Table 34

Reserves as at 31 December 2015
(Thousands of United States dollars)

Reserves for Core Budget and ITL	2 778
CDM trust fund reserve	45 000
Reserve for appendix D	729
Total reserves	**48 507**

Note 18: Fund Accounting and Segment Reporting

123. 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.

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

125. 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 costss	Cost Recovery	UNFCCC Employee liabilities fund	TOTAL
Current Assets											
Cash and cash equivalents	24 541	711		11	4 630	1 401	635	2 121	0		34 050
Short-term investments	75 458	2 232	983	34	14 278	4 309	1 953	6 528	1		105 776
Indicative contributions receivable	0	4 714			0	41					4 755
Other receivables	321	133	548	2	3 171	17	96	39	48		4 375
Other current assets	8 592	1 334	3		991	10	91	792			11 811
Total current Assets	108 912	9 123	1 534	47	23 069	5 778	2 775	9 480	49		160 766
Non-current assets											
Other receivables	0										
Long-term investements	50 793	1 503	1 966	23	9 611	2 901	1 314	4 394	0		72 505
Propery, plant and equipment	56	61			246		238	24			625
Intangible assets	285	593			963	2					1 844
Total non-current assets	51 135	2 156	1 966	23	10 820	2 903	1 552	4 419	0		74 973
TOTAL ASSETS	**160 047**	**11 279**	**3 500**	**70**	**33 889**	**8 681**	**4 327**	**13 898**	**50**		**235 740**
LIABILITIES											
Current Liabilities											
Payables and accruals	783	1 321	358	98	2 183	99	1 474	69	1		6 386
Advance receipts	1 519	1 662	29		2 605	367					6 182
Employee benefits	278	429		18	98	16	5	99		1 895	2 837
Provisions	3 049										3 049
Other current liabilities	12	144			57	6			48		268
Total non-current liabilities	5 641	3 556	387	116	4 943	487	1 479	168	50	1 895	18 721
Non-current liabilities											
Employee benefits	23	36			11			8		80 295	80 373
Advance receipts	0										
Total non-current liabilities	23	36			11			8		80 295	80 373
TOTAL LIABILITIES	5 664	3 593	387	116	4 953	487	1 479	176	50	82 190	99 094
NET ASSETS											
Accumulated surpluses/(deficits)	109 383	4 429	3 113	(47)	28 936	7 945	2 848	13 723	(0)	(82 190)	88 139
Reserves	45 000	3 258				249					48 507
TOTAL NET ASSETS	154 383	7 686	3 113	(47)	28 936	8 194	2 848	13 723	(0)	(82 190)	136 646
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**160 047**	**11 279**	**3 500**	**70**	**33 889**	**8 681**	**4 327**	**13 898**	**50**		**235 740**

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 costss	Cost Recovery	UNFCCC Employee liabilities fund	Elimination	TOTAL
Indicative contributions		31 454				3 342						34 797
Voluntary contributions	28	848	5 190	2 029	16 011		6 987					31 094
CDM and JI service fees	12 370											12 370
Interest Revenue	725	14	4	1	64	34	12	47	(0)			901
Gain on foreign exchange												
Other/miscellaneous revenue	7	19	8		(149)		648	30				563
Programme support income								9 869			(9 869)	
Cost allocation income	499				356						(855)	
TOTAL REVENUE	13 630	32 336	5 202	2 030	16 282	3 376	7 647	9 947	(0)		(10 724)	79 725
EXPENSES												
Personnel expenditure	21 960	21 857		785	8 761	801	726	7 844		12 314		75 048
Travel	1 425	562	5 611	129	1 876	13	6 292	65				15 972
Contractual services	1 578	3 614			4 263	1 125	182	124				10 886
Operating expenses	328	618		902	3 219	71	1 429	531				7 096
Other expenses	570	223	0	4	114		100	710				1 721
Depreciation of equipment	28	37			123		141	7				336
Amortization of intangible assets	57	54			25							137
Return of donor funding	568				37		1 474					2 079
Loss on foreign exchange	531	4 090	342	98	3 297	496	169	673	0			9 695
Programme support	3 320	3 347	768	232	2 059	210	(67)		0		(9 869)	
Cost allocation expenditure				75		73	84	623			(855)	
TOTAL EXPENSES	30 365	34 401	6 722	2 224	23 774	2 788	10 531	10 576	0	12 314	(10 724)	122 971
TOTAL SURPLUS/(DEFICIT)	(16 735)	(2 066)	(1 520)	(194)	(7 492)	588	(2 884)	(630)	(0)	(12 314)	0	(43 246)

Note 19: Budget Comparison and Reconciliation

126. 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.

127. 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.

128. 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.

129. 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.

130. 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.

131. 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

Actual net result on the Statement of budgets to actual comparison	
Statement V-A Core Budget	(67)
Statement V-B International Transaction Log	1 089
Statement V-C Contingent budget of conference services	
Actual net result on budgetary basis	**1 022**
Presentation differences	
Additional income components under IPSAS	915
Exchange losses	(4 586)
Timing differences	989
Capitalization of equipment & intangible assets	40
Changes in provision for doubtful debts	51
Changes in employee benefit provisions	91
Sub-total presentation differences	**(2 500)**
Entity differences on IPSAS Basis	
Participation in UNFCCC process	(1 520)
Supplementary activities	(7 492)
Clean development mechanism	(16 735)
Special contribution from Germany	(194)
Special account for conferences	(2 884)
Programme support costs	(630)
End of service and post-employment benefits	(12 314)
Sub-total entity differences	**(41 768)**

Actual net result on the Statement of Financial Performance	(43 246)

Note 20: Budget to Actual variance analysis
132. 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
133. 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.

134. 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.

135. The charges paid to the United Nations (UN Office at Geneva – UNOG) of USD 0.6 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 4.3 million in 2015.

136. 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 [a]	*Aggregate remuneration (in thousands of USD)*	*Outstanding advances at 31 Dec 2015 (in thousands of USD)*
12	2,780	137

[a] During 2015 one member of key management personnel left the organization.

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

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

140. 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
141. UNFCCC’s reporting date is 31 December 2015. The financial statements were authorized for issue on 31 May 2016, 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
142. 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.