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 2020

Note

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

Contents

Chapter I

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

Opinion

We have audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) which comprise the statement of financial position (statement I) as at 31 December 2020, the statement of financial performance (statement II), the statement of changes in net assets (statement III), the cash flow statement (statement IV) and the statement of comparison of budgets to actual amounts (statement V) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNFCCC as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

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

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

Management is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2020 included in chapter IV, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

Jorge **Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

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

Hou Kai
Auditor General of the People's Republic of China

22 July 2021

Chapter II

Long-form Report of the Board of Auditors

Summary

The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty adopted in 1992 that entered into force in 1994. Its objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2020. The Board conducted the final audit of the financial statements remotely due to the COVID-19 pandemic.

Audit opinion

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

Overall conclusion

UNFCCC is mainly funded through contributions and service fees. In 2020, total contributions amounted to $52.2 million (in 2019: $69.2 million) of total revenue of $72.7 million (in 2019: $85.2 million). The contributions included $33.7 million (in 2019: $32.9 million) of indicative assessed contributions and $18.5 million (in 2019: $36.4 million) of voluntary contributions.

The 2020 financial statements were presented for audit on 31 March 2021. The Board did not identify significant errors, omissions or misstatements from the review of financial records of UNFCCC for the year ended 31 December 2020.

The Board found certain areas for further improvement such as for the adherence to recommended practice guidelines published by the IPSAS Board and for an enhanced planning on the processes of cost recovery and programme support costs by developing guidelines that merit attention.

The Board noted that out of the 32 outstanding recommendations up to the year ended 31 December 2019, 17 (53 per cent) had been implemented, 13 (41 per cent) were under implementation, 1 (3 per cent) was not implemented and 1 (3 per cent) was overtaken by events.

Key findings

IPSAS RPG 2 "Financial Statement Discussion and Analysis"

Chapter IV of the financial statements did not include information of all areas recommended in the IPSAS Board's Recommended Practice Guideline (RPG2). The Board holds that following the guidelines would enhance UNFCCC's financial statement discussion and analysis and would also contribute to further comparability of United Nations entities' financial reporting. UNFCCC started to discuss and analyse chapter IV of the financial statements to enhance adherence to RPG 2. Nevertheless, the Board holds that further information can improve the value of UNFCCC's financial statements to readers.

Cut-off of expenses of Regional Collaboration Centres

UNFCCC collaborates with several partners to establish Regional Collaboration Centres ("RCC"). Basis of the collaboration are memorandums of understanding ("MoU").

UNFCCC prefinances the activities of the RCC. The selection of samples for the Financial Year 2020 covered one sample to a financial report dated 24 April 2020 for expenses of $193,135 of RCC funds spent in 2019. UNFCCC recorded the expenses in the accounts of financial year 2020 because the RCC partner submitted the financial report late. In order to comply with the principles of accrual accounting, UNFCCC needs to receive financial information from the RCC partner in a timely manner to recognize expenses as incurred in the financial statements of the respective year.

Guideline on the process of cost recovery

In prior years, the net assets in the special account for cost recovery have continuously increased to $2.9 million. UNFCCC has not presented an analysis because of the comparatively high amount of net assets. The Board holds that a complete and reliable description of the process is still lacking. UNFCCC should draft a procedural guideline that should incorporate the results of the analyses of prior years to develop potential measures in case of excessive surpluses or deficits. A calculation model for service rates might be helpful.

Guideline on the process of programme support costs

In 2020, the accrued net assets in the special account for programme support costs (PSC) only slightly decreased from $12.7 million to $12.4 million. The Board holds that this is still far too high. The Board noted that UNFCCC started to analyse prior years' reasons for such high levels of net assets and began to develop a financial planning tool for PSC. Standard operating procedures for PSC planning and execution were not present.

UNFCCC agreed to enhance the financial planning model in the financial plan and intends to draft a procedural guideline for the periodic financial review of the special account for programme support costs with an overview of potential measures to be taken in case of excessive surpluses or deficits.

Videoconferencing software

UNFCCC purchased a licence of a videoconferencing software. A guidance from the Office of Information and Communications Technology warns of the risks for information security by using these software. UNFCCC needs an appropriate risk treatment.

Low value acquisition

The Board found 10 purchases of non-standard hardware/software without technical review by the Office of Information and Communications Technology. Six out of them had been paid by credit card, thereby accepting the terms and conditions of the vendor. UN OICT issuances provide best practice orientation for UNFCCC ICT operations.

Consultants and individual contractors

The Board found 10 consultants or individual contractors whose contracts overlapped in time with other contracts. If consultants and individual contractors enter into multiple contracts, internal controls are needed to provide an overview of the contracts in order to ensure compliance with the policy.

Key recommendations

The Board recommends that UNFCCC:

IPSAS RPG 2 "Financial Statement Discussion and Analysis"

(a) **Review its financial statement discussion and analysis (chapter IV) to improve adherence to RPG 2;**

Cut-off of expenses of Regional Collaboration Centres

(b) **Enhance the financial reporting process with RCC partners in order to ensure relevant information for actual expenditures to be available at the time of financial statements preparation;**

Guideline on the process of cost recovery

(c) **Describe the annual process and management of cost recovery in a procedural guideline approved by the Executive Secretary;**

Guideline on the process of programme support costs

(d) **Describe the annual process and management of programme support costs in a procedural guideline approved by the Executive Secretary;**

Videoconferencing software

(e) **Evaluate if the videoconferencing software is considered indispensable and either apply an appropriate risk treatment or terminate the contractual relationship immediately;**

Low value acquisition

(f) **Comply with the Procurement Manual in further low value acquisition processes;**

Consultants and individual contractors

(g) **Improve internal controls to ensure that contracts with consultants and individual contractors that overlap in time with other contracts comply with ST/AI/2013/4.**

Previous recommendations

Of the 32 outstanding recommendations up to the financial year ended 31 December 2019, 17 (53 per cent) had been implemented, 13 (41 per cent) were under implementation, 1 (3 per cent) was not implemented and 1 (3 per cent) was overtaken by events. Details of the implementation of the outstanding recommendations are provided in annex I.

The Board noted that overall, positive progress had been made as more than half of the recommendations were implemented by year-end. Nevertheless, actions need to be taken by Management to address 41 per cent of recommendations which are yet to be implemented. Some recommendations which were still marked as 'Under Implementation' covered important topics such as reviewing the funding policy for after-service health insurance and repatriation liabilities and drawing a realistic timetable and a priority list for filling vacancies.

Key facts

$72.72 million	Revenue
$73.23 million	Expenses
$0.51 million	Deficit for the year
$259.85 million	Assets
$197.69 million	Liabilities
$62.16 million	Total net assets
€29.92 million	Core budget
383	Staff

A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty that entered into force in 1994. Its objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. In 1997, the Kyoto Protocol was concluded. It established legally binding obligations for developed countries to reduce their greenhouse gas emissions. In 2015, the Paris Agreement was adopted governing emission reductions as from 2020 by means of countries committing to Nationally Determined Contributions. Currently, the Convention has 197 parties. The work of UNFCCC is facilitated by its secretariat located in Bonn, Germany.

2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2020 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations and the annex thereto and in accordance with the International Standards on Auditing (ISAs). 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 2020 and the results of its operations, changes in net assets and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the bodies and whether revenue and expenses had been properly classified and recorded in accordance with the United Nations Financial Regulations and Rules and financial procedures approved by the Conference of the Parties (COP) in Decision 15/CP.1 and IPSAS. The audit included a general review of the financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

5. The audit was carried out remotely from 7 to 11 December 2020 and from 12 April to 16 May 2021 due to the COVID-19 pandemic. This included the final audit of the financial statements. The examination of UNFCCC included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of our examination.

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

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

B. Follow-up of previous recommendations and findings

1. Previous recommendations

8. Of the 32 outstanding recommendations up to the financial year ended 31 December 2019, 17 (53 per cent) had been implemented, 13 (41 per cent) were under implementation, 1 (3 per cent) was not implemented and 1 (3 per cent) was overtaken by events. Details of the implementation of the outstanding recommendations are provided in annex I.

9. The Board noted that overall, positive progress had been made as more than half of the recommendations were implemented by year-end. Nevertheless, actions need to be taken by Management to address 41 per cent of recommendations which are yet to be implemented. Some recommendations which were still marked as ‘Under Implementation’ covered important topics such as reviewing the funding policy for after-service health insurance and repatriation liabilities and drawing a realistic timetable and a priority list for filling vacancies.

2. Impact of COVID-19

10. Since the outbreak of the COVID-19 pandemic has been declared a global pandemic by the World Health Organization on 11 March 2020, it has shaken the world and has not yet come to an end. This unprecedented global public health crisis has required and continues to require significant adjustments to the operations of the United Nations Common System organizations worldwide.

11. On 31 March 2020, the United Nations Secretary-General launched the United Nations COVID-19 Response and Recovery Multi-Partner Trust Fund (COVID-19 MPTF), which is a United Nations inter-agency finance mechanism aimed at supporting low- and middle-income programme countries in overcoming the health and development crisis caused by the pandemic. The United Nations COVID-19 MPTF helps finance the three objectives of the United Nations Secretary-General’s Call for Solidarity, a plea for global action to stop the COVID-19 pandemic and the suffering it has caused. The Call’s objectives are to a) tackle the health emergency; b) focus on the social impact, and the economic response and recovery; and c) help countries recover better.

12. UNFCCC follows the guidance of the Designated Official for Germany and the Crisis Response Team (CRT), which comprises United Nations representatives in Bonn, namely the head of WHO, the Chair of the Representatives of Agencies (UNFCCC), United Nations Volunteers as Designated Official and UNCCD. It was developed to make decisions regarding the United Nations Bonn Campus, including how best to maintain a safe environment for staff working on the Campus. The Guidelines have been updated regularly, based on the local evolution of the pandemic and on policies of local authorities. The UNFCCC Deputy Executive Secretary is a member of the CRT and has been actively contributing to the work of the CRT and has been updating all UNFCCC staff on CRT guidance regularly. Furthermore, the Deputy Executive Secretary assigned a staff member to ensure that the respective thresholds of physical occupancy on the campus is in compliance with the guidelines. In addition, a dedicated intranet page was established that has been regularly updated to provide UNFCCC staff with the latest relevant information and decisions on the pandemic. The COP Bureau has also been regularly informed about COVID-19 implications and measures. Additionally, the secretariat also undertook efforts in favour of staff well-being; e.g. in line with the United Nations Secretariat, the secretariat offered 7 additional days of uncertified sick leave, and the Executive Secretary reached out to staff members who were in difficult personal situations and encouraged directors to do the same.

13. UNFCCC amended its work programme to align its priorities with the situation. With regards to the programmatic amendments, most UNFCCC staff have been working remotely since March 2020 and in-person meetings have been converted to virtual meetings. For example, meetings of the constituted bodies have taken place virtually, while meetings of the subsidiary bodies were postponed. In 2020, the secretariat organized the June Momentum and the climate dialogue in November and December to advance the work. UNFCCC was able to continue all projects but due to travel restrictions some were delayed. The COVID-19 pandemic had a distinct impact on Nationally Determined Contributions (NDC) submissions. UNFCCC expected about 150 submissions of new or revised NDCs by the end of December 2020 but UNFCCC only received 21. Communications with the countries and with the organizations providing support to NDC preparation revealed that, in most countries, the delay was due to the impact of the pandemic.

14. Administrative processes were streamlined. Nonetheless, internal controls as set up in Umoja remained in place and unchanged. Electronic signatures were already in place before the pandemic, but their use has been expanded. Where physical signatures were required (e.g. in human resources), exceptionally secure electronic signatures were accepted. Most former paper-based processes are now carried out electronically and with electronic signatures where needed.

15. Due to the remote working conditions since March 2020, cybersecurity measures have been taken. UNFCCC rolled out a two-factor authentication to minimize risks of credential stealing and unauthorized access to UNFCCC resources. Furthermore, additional security measures and tools have been deployed to enhance the protection of telecommuting users against viruses, malwares and email-based threats, both at endpoint level and on corporate cloud-based collaboration services.

16. Regarding the financial aspect, the PSC income has dropped from $9.5 million in 2019 to $7.8 million in 2020 due to the postponement of large events such as the COP. Travel was understandably infrequent in 2020, which resulted in a significant decrease of expenditure for all travel by more than $11 million from $12.5 million to $0.6 million. Moreover, Information and Communication Technology (ICT) procured virtual meeting end user tools and meeting room facilities to facilitate hybrid meetings. End user accessories and software were procured to support staff working from home and those supporting virtual meetings from the office. Nevertheless, savings would only be delivered if the UNFCCC budget was fully funded. Therefore, all savings have been used to cover other budgeted but underfunded areas.

17. Overall, the main financial risk for UNFCCC is the level to which parties pay their core contributions and provide supplementary contributions. There has been a delay in the payment of core and voluntary contributions. An enhanced outreach and collection of core contributions was launched in March 2020 in anticipation of the potential risk to core funding.

3. Financial overview

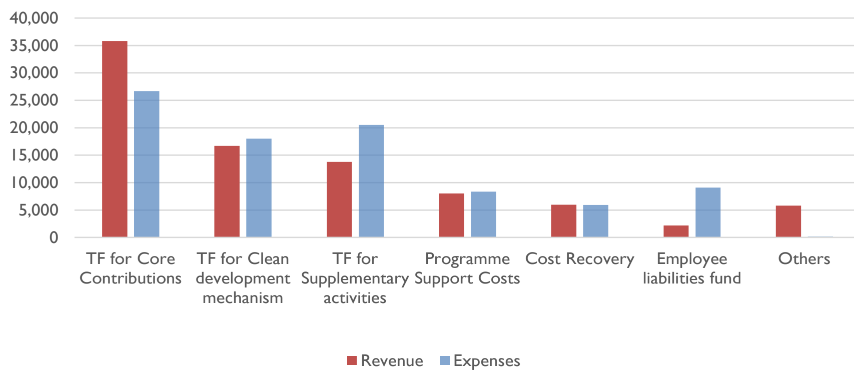
18. UNFCCC is mainly funded through contributions and service fees. In 2020, total contributions amounted to $52.2 million (in 2019: $69.2 million) of total revenue of $72.7 million (in 2019: $85.2 million). The contributions included $33.7 million (in 2019: $32.9 million) of indicative assessed contributions and $18.5 million (in 2019: $36.4 million) of voluntary contributions. UNFCCC collected Clean Development Mechanism (CDM) and Joint Implementation (JI) service fees of $14.4 million (in 2019: $10.4 million). Other revenues of $6.5 million (in 2019: $5.6 million) mainly consisted of investment revenues and foreign exchange gains.

19. Expenses for the year amounted to $73.2 million (in 2019: $91.7 million), resulting in

a deficit of $0.5 million (in 2019: $6.4 million). The deficit largely resulted from the impacts of the COVID-19 pandemic. Large conferences and project implementation were postponed or delayed which resulted in lower levels of voluntary contributions. The revenue decrease was not counterbalanced by savings due to lower travel expenses or spending for contractual services.

Table 1: Revenue and expenses for the main funds and special accounts

(thousands of United States Dollars)



Source: Analysis made by the Board of the UNFCCC financial statements for the year ended 31 December 2020 in thousands of USD

The figure shows revenue and expenses before elimination of internal transactions and sums are thus bigger than shown in statement II.

20. The Board's analysis of capital structure ratios (table 2) demonstrates that, despite the competitive environment for donor funds, the current financial position of UNFCCC remains sound and stays at similar levels compared to 2019, with an assets to liabilities ratio of 1.31. The current ratio is even better with a value of 6.20. The analysis of ratios shows relative consistency over the last financial years. 2018 figures show higher ratios due to a lower amount of employee benefits in the financial statements.

Table 2: Capital structure ratios

Description of ratio	*31 December 2020*	*31 December 2019*	*31 December 2018*
Total assets: total liabilities[a]	1.31	1.37	2.07
Assets: liabilities			
Current ratio[b]	6.20	6.16	12.81
Current assets: current liabilities			
Quick ratio[c]	6.10	6.02	12.29
Cash + short term investments + accounts receivable: current liabilities			
Cash ratio[d]	5.36	5.20	11.37
Cash + short-term investments: current liabilities			

Source: Calculations based on the UNFCCC financial statements for 2020, 2019 and 2018

a A high ratio is a good indicator of solvency.

b A high ratio indicates an entity's ability to pay off its current liabilities.

c The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

d The cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

21. The two major components of the UNFCCC asset base are cash and investment balances, which totalled $230.3 million (in 2019: $214.7 million) and contributions receivable of $24.0 million (in 2019: $29.3 million). Cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNFCCC cash balances and investments totalled $2.5 million (in 2019: $5.1 million). Contributions receivable represent amounts already due and the remaining sums due over the lifetime of current agreements with donors, of which an amount of $0.3 million (in 2019: $3.0 million) is due in more than one year's time. The level of voluntary contributions receivable decreased by 26 per cent during 2020, which was caused mainly by the lower implementation due to the COVID-19 pandemic in 2020.

22. The most significant element of UNFCCC liabilities results from employee benefits of $166.5 million (in 2019: $152.6 million). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate for the cost of after-service health insurance (ASHI) of $150.7 million (in 2019: $138.0 million). The effect of a decreased discount rate resulted in an overall net actuarial valuation loss of $4.7 million (in 2019: $48.3 million) on the ASHI liability; as disclosed in note 12 to the financial statements. In order to avoid that past project activities will have to be substantively funded by future donors, a monthly accrual has been implemented to fund ASHI liabilities resulting from extrabudgetary activities.

23. UNFCCC's second most significant liability is for the advance receipt of conditional voluntary contributions of $14.1 million (in 2019: $14.3 million). The advance receipts represent agreements where the revenue will be recognized as the conditions set down in the agreements are met in future financial periods. Seen from UNFCCC's perspective, these advance receipts represent commitments to donors for providing future services. The amount recognized represents UNFCCC's best estimate that would be required to settle the obligations set down in the conditions of the agreements.

4. IPSAS RPG 2 "Financial Statement Discussion and Analysis"

24. The IPSAS Board's Recommended Practice Guideline 2 (RPG2) provides guidance on preparing and presenting financial statement discussion and analysis. The purpose of the financial statement discussion and analysis is to assist users to understand the financial position, financial performance and cash flows presented in the general purpose financial statements (RPG 2, para. 1). This contributes to the objective of IPSAS to provide information about the entity that is useful to users for accountability purposes and for decision-making.

25. Adherence to RPG 2 is not mandatory to comply with IPSAS. However, reporting in accordance with RPG 2 represents good practice.

26. RPG 2 suggests that the financial statement discussion and analysis should include the following information:

a) An overview of the entity's operations and the environment in which it operates;

b) Information about the entity's objectives and strategies;

c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and

d) A description of the entity's key risks and uncertainties that affect its financial position, financial performance and cash flows.

27. The Board noted that UNFCCC, together with its financial statements, provided a narrative financial report on the accounts (chapter IV). The Board compared the information under chapter IV for 2019 to the requirements of RPG 2.

28. The Board found that UNFCCC provided a summary of financial highlights for the year, including some analysis of important figures and trends over time and a brief discussion of actual versus budgeted expenses (corresponding to (3)). However, UNFCCC provides almost no organizational context such as mandate, mission, vision and key operations of the year (corresponding to (1)). Information on strategy, operations and governance is lacking (corresponding to (2)). Also, UNFCCC does not report on risk management and uncertainties (corresponding to (4)). As an example, information on mandate or the accountability system would add value to readers.

29. A financial statement discussion should not merely repeat what is in the financial statements, but should analyse and explain how items, transactions and events affect the entity's financial position, financial performance and cash flows. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information (RPG 2, para. 18). An example of this information could be "an overview of the entity's operations and the environment in which it operates" as per RPG 2, para. 16 (a) and "(a) the domicile and legal form of the entity, and the jurisdiction within which it operates; (b) a description of the nature of the entity's operations and principal activities" as per IPSAS 1.150, that is included in note 1. However, in this case, IPSAS 1.150 would also enable UNFCCC to prepare briefer notes and present the information only in chapter IV.

30. Moreover, for individual entities such as UNFCCC, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to (a) current and expected performance; (b) potential and announced restructuring of organizational units (which is of importance for UNFCCC at the current state); (c) estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base; and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate. All these information may also be imparted in the context of chapter IV analysis.

31. The Board is of the opinion that additional information in chapter IV would enhance accountability and decision-making by users of financial statements, thus contributing to the objectives of IPSAS. RPG2 is considered "good practice" but is not considered mandatory. However, since chapter IV does not include information of all four areas, enhancing UNFCCC's financial statement discussion and analysis would improve the comparability of United Nations entities' financial reporting. It would also enhance user-friendliness.

32. During the audit of the 2020 financial statements, the Board noted that UNFCCC started to discuss and analyse chapter IV of the financial statements to enhance adherence to RPG 2. Nevertheless, the Board holds that further information can improve the value of UNFCCC's financial statements to readers.

33. **The Board recommends that UNFCCC review its financial statement discussion and analysis (chapter IV) to improve adherence to RPG 2.**

34. *UNFCCC accepts the recommendation.*

5. Cut-off of expenses of Regional Collaboration Centres

35. UNFCCC collaborates with several partners to establish Regional Collaboration Centres ("RCC"). Basis of the collaboration are memorandums of understanding ("MoU") between UNFCCC and the respective partner. Areas of cooperation are joint activities defined in the MoUs.

36. The MoU stipulates that the parties should transfer any financial resources required within two weeks of an approval of the budget by the Steering Committee.

37. UNFCCC established five MoUs that led to payments from UNFCCC to RCC in 2019 and six MoUs that led to payments to RCC in 2020. UNFCCC signed another MoU which represented a Framework MoU without payments to an RCC fund. In 2019, payments to the RCC funds totalled $543,855, and in 2020, they totalled $879,687.

38. The respective partner is responsible for providing financial reports giving detailed account of how the funds were utilized. The partner shall provide the financial reports to UNFCCC by 1 March, in one case by 1 April of the following year (MoU, article 6).

39. The selection of samples for the Financial Year 2020 covered one sample to a financial report dated 24 April 2020 for expenses of $193,135 of RCC funds spent in 2019. UNFCCC recorded the expenses in the accounts of financial year 2020. UNFCCC explained that this financial report had been received after the submission/audit of the financial statements and therefore UNFCCC could not record the expenses in financial year 2019 already. UNFCCC pointed out that sometimes there were considerable delays in receiving the financial reports from the partners and there was no reliable way to estimate the expenditures for year-end as UNFCCC did not have visibility on the actual delivery of services under the agreement.

40. The Board holds that the financial resources transferred to partners due to the approval of budgets by the budget approval committee represent advances to RCC. RCC reports show that UNFCCC is thus not in the position to record expenditure until the work is delivered. Due to the delayed delivery of the financial report, UNFCCC received the evidence about the 2019 work delivery only after the reporting date for the 2019 financial statements and thus UNFCCC correctly recorded expenses in financial year 2020.

41. Anyway, to comply with the principles of accrual accounting, expenses need to be recognized as incurred in the financial statements of the respective year. The Board holds that UNFCCC has room to improve the process to receive relevant information on expenses of RCC funds in a timely manner, at least to receive reliable estimates of expenses.

42. This could be done by ensuring the timely delivery of financial reports as stipulated in the MoUs by means of established reminder processes. A well-established process in other United Nations agencies to receive a good estimate for the total expenditure of the year is to ask for an interim financial report, for example as at 30 November by 15 January of the following year.

43. **The Board recommends that UNFCCC enhance the financial reporting process with RCC partners in order to ensure relevant information for actual expenditures to be available at the time of financial statements preparation.**

44. *UNFCCC accepts the recommendation.*

6. Guideline on the process of cost recovery

45. The special account for cost recovery is primarily used for secretariat wide information and communications technology services as well as administrative services,

which is financed by internal service charges to the divisions. In accordance with the United Nations Controller, a cost recovery fund should not be used to collect significant amounts of accumulated surpluses. Furthermore, all cost recovery schemes shall have periodic rate card adjustments and cost plans, prior to the provision of services within the entity.

46. In its report on the financial statements 2018, the Board noted that UNFCCC accrued net assets in the special account for cost recovery of $2.0 million as at 31 December 2018. The Board recommended that UNFCCC analyse the reasons for the surplus accumulated and act on the results of the analysis (see annex 1, No. 5).

47. As at 31 December 2019, the net assets increased to $2.8 million. UNFCCC stated that it had planned to analyse the cost recovery schemes over a period of at least four years and to make appropriate adjustments. Any balance would be used for a subsequent reduction of the rates under the same mechanism resulting in a reduction of net assets for the cost recovery fund in line with standard procedures.

48. At the end of 2020, the net assets further increased to $2.9 million. Also, UNFCCC has not yet presented the announced analysis.

49. During the audit UNFCCC provided a draft guideline of principles for the management of cost recovery activities and the cost recovery fund based on multiple guidance materials from the UN Secretariat. In March 2021, UNFCCC applied these principles when the service rates for one head-count based service for 2021 were approved by the Deputy Executive Secretary including a reserve level of 25 per cent of the budgeted cost recovery requirements and taking into account surpluses from previous years. The next review of the rates is planned for early 2022 in line with the annual rate-setting process outlined in the draft guideline. The approved memo referred to draft guidelines for financing support services to extra-budgetary activities, adopted June 2007 by the Management Team. The Board noted that the guidelines from June 2007 were not part of the policies and guidelines listed in UNFCCC's intranet and thus were not obligatory.

50. The Board considers UNFCCC to be on a good track because revenue and expenses were almost balanced in 2020. Although good progress has been made with the draft guideline of principles for the management of cost recovery activities and the cost recovery fund, the Board holds that a complete and reliable description of the process is still lacking. UNFCCC should draft a procedural guideline. Such guidelines should incorporate the results of the analyses of prior years to develop potential measures in case of excessive surpluses or deficits. A calculation model for service rates might be helpful. To ensure future application, UNFCCC should publish the guidelines in the intranet under "Policies and guidelines".

51. **The Board recommends that UNFCCC describe the annual process and management of cost recovery in a procedural guideline approved by the Executive Secretary. This guideline should include potential measures in case of excessive surpluses or deficits from the cost recovery scheme.**

52. *UNFCCC accepts the recommendation.*

7. Guideline on the process of programme support costs

53. The special account for programme support costs was established to manage income and expenditures related to the administrative overhead of UNFCCC. Income is generated through a 13 per cent charge on expenditures under the various UNFCCC trust funds.

54. In its report on the financial statements 2019, the Board noted that UNFCCC accrued

net assets in the special account for programme support costs of $12.7 million as at 31 December 2019. The United Nations administrative instruction on “Procedures for the approval and management of programme support accounts” (ST/AI/286) stipulates that an operating reserve of 20 per cent of the annual programme support income should be held to finance unpredictable issues. In 2019, UNFCCC accounted for net assets at a level of 130 per cent of revenue from programme support costs. The Board recommended that UNFCCC analyse the net assets of the special account for programme support costs and act on the results of this analysis. In addition, the Board recommended that UNFCCC establish annual plans and a reconciliation with the actual figures to monitor the level of the reserve (see annex 1, Nos. 17 and 18).

55. In 2020, the net assets decreased to $12.4 million. However, due to reduced revenue compared to 2019, the net assets increased to 154 per cent of revenue from programme support costs.

56. During the audit, UNFCCC provided a draft for a financial plan for programme support costs for the period from 2021 to 2023. The financial plan forecasts income based on estimated implementation rates for funds that contribute to programme support costs which ranged from 80 per cent to 95 per cent. The plan takes into account the implementation rates of the previous year and estimated developments in future years. According to the draft plan, the secretariat would reduce the net assets by up to 5 per cent per year from 2021 to 2023.

57. UNFCCC intends to draft a procedural guideline for the periodic financial review of the special account for programme support costs with an overview of potential measures to be taken in case of excessive surpluses or deficits. The guideline will provide a summary of the reasons for the high cash level in the special account up to 2019.

58. UNFCCC stated that it started to analyse prior years’ PSC but explained that an analysis of differences between planned and actual figures was difficult for the years before 2020 as the planning at that time did not have the necessary level of detail. The Board holds that UNFCCC needs to further analyse prior years to establish potential measures to identify and address excessive annual surpluses or deficits at an early stage.

59. UNFCCC agreed to enhance the financial planning model in the financial plan. UNFCCC will add 2016-2019 actuals, update 2020 actuals and 2021-2025 forecast and break down the expenditures into expenditure categories as shown in the statement of financial performance.

60. The Board holds that the procedural guideline for PSC should be approved by the Executive Secretary and published on the intranet to establish a sustainable and consistent approach over the following years. The guideline should refer to the relevant rules and regulations. The guideline should make reference to the planning model and define responsibilities. The Board holds that the guideline should define “excessive surpluses or deficits” and demand that deviations from the specified 20 per cent are justified.

61. **The Board recommends that UNFCCC describe the annual process and management of programme support costs in a procedural guideline approved by the Executive Secretary. Based on further analysis of prior years – the guideline should include potential measures in case of excessive surpluses or deficits from programme support costs and incorporate them into the procedural guideline.**

62. *UNFCCC accepts the recommendation.*

8. Videoconferencing software

63. In April 2020, UNFCCC purchased a licence of a videoconferencing software. On the same day, UNFCCC/ICT sent an email to all UNFCCC staff with the subject “Further

guidelines on the use of that videoconferencing software" and attached a guidance of the Office of Information and Communications Technology (OICT) that should be adhered to. The email sent by UNFCCC/ICT also stated what should be considered when using the videoconferencing software and eventually warned against using the software.

64. The guidance of OICT stipulated that the use in the United Nations Secretariat was only authorized to participate in meetings that were organized by third parties. It also stipulated that any derogations had to be requested by submission to OICT for consideration.

65. UNFCCC/ICT distributed a guidance on the UNFCCC intranet in July 2020 titled "Response from ICT to using the videoconferencing software as video conferencing application; Best practices for security and privacy". It claims to give security-related recommendations "when using the service to attend or organize meetings, where inevitable."

66. The use of the videoconferencing software involves risks for information security and data protection. In the United Nations Secretariat, it may only be used in exceptional cases, when third parties suggest the use and therefore leave no alternative. The email sent by UNFCCC/ICT (see para. 63) informed staff that the ban also applied to UNFCCC and asked staff to comply with this guidance.

67. By continuing to use the videoconferencing software, staff put information security of UNFCCC at risk. After UNFCCC/ICT had informed about the ban of it, all staff should have followed the recommendation. UNFCCC should have taken measures to ensure that staff members comply with the ban.

68. UNFCCC should assess whether the use for internal purposes is necessary. In case of continued use, appropriate risk treatment must be applied, and UNFCCC/ICT should state an endorsement. In case of a continued prohibition by UNFCCC/ICT, UNFCCC must take measures to ensure that all staff comply with the ban.

69. **The Board recommends that UNFCCC evaluate if that specific videoconferencing software is considered indispensable and either apply an appropriate risk treatment or terminate the contractual relationship immediately.**

70. *UNFCCC accepts the recommendation and stated that it will assess on recurring basis, if the videoconferencing software needs to be used. Its use has been and will be limited to justified cases and discontinued when the standard solution offers equivalent alternatives. UNFCCC holds that its ICT operations have not been made subject to the authority of OICT by Parties or by the UN Secretary-General. UNFCCC acknowledges that UN OICT issuances provide best practice orientation for the UNFCCC ICT operations.*

9. Low value acquisition

71. A low value acquisition (LVA) is a direct form of purchasing undertaken by the requisitioner or a procurement official and not conducted via a formal solicitation. An LVA is used for procuring readily available, off-the-shelf or standard specification goods or simple works/services up to or equal to the value of $10,000.

72. The Financial Regulations and Rules of the United Nations, rule 105.16 lists LVA as an exception to the use of formal methods of solicitation. Criteria for the use of LVAs are listed in 6.3.2.1 of the Procurement Manual.

73. The Procurement Manual applies special instructions to Information Technology software/hardware regarding LVA: standardized software/hardware can be procured by using LVAs. LVAs for non-standardized software/hardware require the technical review from OICT (see 6.3.2.1 Procurement Manual). Standardized software/hardware is listed

on the United Nations intranet.

74. Regarding LVAs and purchase orders for software, only the United Nations General Terms and Conditions of Contract are to apply and no additional terms or changes are to be accepted (6.3.2.1 g. Procurement Manual).

75. UNFCCC created 92 LVAs between 1 January and 31 December 2020. They had been awarded to 52 different vendors and added up to $135,312.26. The Board reviewed a sample of 16 LVAs.

Purchase of non-standard information technology software

76. The Board noted that 10 purchase orders were related to software applications that were not included in the current list of standards. The documentation uploaded to Umoja for the purchases did not contain a technical review from OICT. One of the cases is the purchase of the videoconferencing software that was already addressed under point 8.

77. The Board noted that 6 out of the 10 purchases for software had been paid by credit card. The Board must assume that terms and conditions of the vendor had been accepted when the purchase was concluded. When paying by credit card, UNFCCC can generally not ensure that only the United Nations General Terms and Conditions of Contract are applied and that no additional terms or changes are accepted.

78. For the sake of information security, UNFCCC needs to adhere to the rule that only the United Nations General Terms and Conditions of Contract are to apply for purchasing software/hardware. If, in exceptional cases, additional terms or changes have to be accepted when acquiring the software/hardware, a thorough assessment must be made as to whether the risks can be taken. Such an assessment would be too easy to circumvent when UNFCCC uses LVA.

79. The Procurement Manual literally demands that LVAs for non-standardized software/hardware require the technical review from OICT (Procurement Manual, no. 6.3.2.1.f). An endorsement by UNFCCC's own ICT unit would not be sufficient. UNFCCC should not have used the workflow for LVA for non-standardized software without technical review by OICT. The clearance should have been obtained prior to the purchase.

80. UNFCCC needs to comply with the procurement rules without exception. LVA must not be used to purchase software in violation of the rules.

81. **The Board recommends that UNFCCC comply with the Procurement Manual in further low value acquisition processes.**

82. *UNFCCC accepts the recommendation. UNFCCC stated that it was applying the Procurement Manual and intended to continue to do so with due consideration of its institutional and operational setting in line with the clarification received from the Office of Legal Affairs (HQ) regarding the institutional linkage and delegation of authority. UNFCCC holds that its ICT operations have not been made subject to the authority of OICT by Parties or by the UN Secretary-General. UNFCCC acknowledges that UN OICT issuances provide best practice orientation for the UNFCCC ICT operations.*

10. Consultants and individual contractors

83. Consultants and individual contractors (CiCs) are hired in order to respond quickly, flexibly and effectively to organizational priorities. UNFCCC applies the administrative instruction on "Consultants and individual contractors" (ST/AI/2013/4).

84. ST/AI/2013/4 stipulates (among others) that any potential conflict of interest for CiC candidates should be considered in the selection process (no. 4.5). Certain restrictions also apply to the duration of the contract. The services of an individual contractor shall

be limited to 6 or, in special circumstances, 9 work-months in any period of 12 consecutive months (No. 5.9).

85. UNFCCC stated that it maintained a database with relevant information on CiCs in accordance with annex II of ST/AI/2013/4. The information stored in this database is also uploaded to Umoja.

86. UNFCCC had entered into 391 contracts with CiCs whose terms were within or overlapped with 2020. These contracts were concluded with 222 individual persons and added up to $5.628.054,97.

87. The Board noted that 10 CiCs had contracts that overlapped in time with other contracts. Nine of those CiCs had concluded contracts with UNFCCC and also with other United Nations organizations. Three CiCs with overlapping contracts had documented in his/her personal history that he/she was also full-time employed with an employer outside the United Nations system. One individual contractor had been contracted twice by UNFCCC in a way that the work added up to 10 months of working time in 12 months.

88. If a consultant enters into multiple contracts with one or even multiple organizations, it is difficult to know if all required conditions have been met. Possibly all contracts within a three-year period have to be available for this assessment. This is usually not the case if the CiC has entered into the contracts with different organizations. However, even if he/she has entered into each of them with UNFCCC, internal controls must be built in to provide an overview of the contracts.

89. The Board considers the overlap of contracts with different organizations to be a potential conflict of interest. It is important that careful scrutiny should be considered in the final selection of a CiC. An Individual Contractor must not be contracted for work lasting longer than 9 months of working time in a row.

90. UNFCCC should consider requiring consultants and individual contractors, when entering into a contract with UNFCCC, to self-disclose that they have no contractual obligations that may cause conflict in time or interest.

91. **The Board recommends that UNFCCC improve internal controls to ensure that contracts with consultants and individual contractors that overlap in time with other contracts comply with ST/AI/2013/4.**

92. *UNFCCC accepts the recommendation. However, UNFCCC notes that Umoja does not provide the report of CICs who are working in other United Nations entities and hence, UNFCCC Human Resources is not in a position to cross-check the CICs that overlap in time with contracts issued by other United Nations entities. Regarding the consultant who is said to have been contracted twice in a way that the work added up to 10 month of working time, UNFCCC verified that the contract was only for 195 days in total, which is still within the policy ST/AI/2013/4.*

93. The Board welcomes the support of UNFCCC to this recommendation and advises UNFCCC to ask consultants to self-disclose any contractual obligations that may cause conflict in time or interest.

C. Disclosures by management

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

94. UNFCCC reported to the Board that write-offs of unrecoverable loans in the CDM loan scheme of $1.9 million and of advances for the conference of the parties venue amounting to $1.6 million occurred during the year ended 31 December 2020. No write-offs of losses of property were reported. Respective supporting documents were available

for all cases. The write-offs were conducted in accordance with Financial Rule 106.7 (a).

2. Ex-gratia payments

95. UNFCCC stated that *ex gratia* payments were not made in 2020.

3. Cases of fraud and presumptive fraud

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

97. During the audit, the Board made 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 that have been brought to their attention. The Board also enquired whether Management had any knowledge of any actual, suspected or alleged fraud. This includes enquiries of the Office of Internal Oversight Services. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

98. UNFCCC stated that there was no case of fraud and presumptive fraud for the financial year ended 31 December 2020.

99. The Board has not identified any instances of fraud in its audit, and no cases have come to our attention as a result of its testing.

D. Acknowledgement

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

Jorge **Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

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

Hou Kai
Auditor General of the People's Republic of China

22 July 2021

Annex
Status of implementation of recommendations up to the financial year ended 31 December 2019

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 60	The Board recommends that UNFCCC review its funding policy for after-service health insurance and repatriation liabilities, in particular the duration of the accumulation phase, and seek a COP decision on the funding plan.	A policy paper for after-service health insurance funding has been developed. A funding mechanism will be considered at the next meeting of the SBI. A corresponding memo, containing a proposal to be eventually be shared with Parties, has been sent to the DES for further consideration.	The next meeting of the Subsidiary Body for Implementation (SBI) is still outstanding. The memo does not contain a proposal for a decision, but only a proposal to put the issue on the agenda. The Board considers this recommendation to be under implementation.		X		
2	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 117	The Board recommends that UNFCCC expedite the revision process of its procurement policy and procedures in order to provide an up-to-date basis for its procurement activities.	A new draft policy has been prepared and is ready for internal review and subsequent endorsement.	UNFCCC still applies a deviating policy that lacks the legal basis. The Board considers this recommendation to be under implementation.		X		
3	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 138	The Board recommends that UNFCCC perform a fraud risk assessment in line with or embedded in the enterprise risk management.	The Head of Organizational Development and Oversight will oversee the secretariat enterprise risk management framework and, in this function, will be tasked to include a fraud risk assessment as part of the enterprise risk management in line with para. 20 of ST/IC/2016/25.0. The post is currently vacant	UNFCCC postponed the implementation of the fraud risk assessment. The new position of Organizational Development and Oversight has not yet been filled. The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				and will be filled as soon as possible.					
4	2017	FCCC/SBI/ 2018/ INF.11 chap. II, para. 139	The Board recommends that UNFCCC dedicate an organizational function which coordinates, implements and monitors the implementation of the anti-fraud and anti-corruption framework (focal point).	UNFCCC created an Organizational Development and Oversight function in its new structure This function will be tasked being a focal point for anti-fraud and anti-corruption.	The recruitment process for the function of Organizational Development and Oversight is still not completed. The Board considers this recommendation to be under implementation.		X		
5	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 37	The Board recommends that UNFCCC analyse the net assets of the cost recovery fund and act on the results of this analysis.	Service rates for 2021 were approved by the DES including a reasonable reserve level of 25% of the budgeted cost recovery requirements.	The Board considers this recommendation to be under implementation.		X		
6	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 47	The Board recommends that UNFCCC incorporate the liabilities incurred by staff financed from indicative contributions in its funding policy review for employee benefits and seek a COP decision.	A policy paper for after-service health insurance funding has been developed and was discussed by UNFCCC management. Once cleared, a corresponding discussion will be facilitated with the COP.	The Board considers this recommendation to be under implementation.		X		
7	2018	FCCC/SBI/ 2019/ INF.9	The Board recommends that UNFCCC assess the possibilities of investment approaches within the cash pool for the	UNFCCC is assessing possibilities with United Nations Treasury to check on	The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
		chap. II, para. 55	reserves set aside to cover for the after-service health insurance liabilities, in consultation with United Nations Treasury.	available options on how to separate and funds set aside for financing the after-service health insurance liabilities.					
8	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 65	The Board recommends that UNFCCC consult with the actuary and United Nations Headquarters on the data basis for the actuarial valuation of employee benefits liabilities to enhance the accuracy of the actuarial valuation.	UNFCCC will provide data as requested by the actuary, in alignment with requested data by the actuary through the United Nations Secretariat since UNFCCC's benefits and entitlements are aligned. During each valuation, UNFCCC will provide data in a timely fashion to ensure that any data problems can be identified and rectified before the data final due date.	The Board considers this recommendation to be under implementation.		X		
9	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 70	The Board recommends that UNFCCC assess, in consultation with United Nations Headquarters, whether it is beneficial to conclude agreements with the organizations of incoming and leaving UNFCCC staff to gain legal assurance on the employee benefit liabilities incurred for those staff members.	UNFCCC stated it would bring this topic again to the attention of the appropriate United Nations forum, i.e. Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination.	The Board considers this recommendation to be under implementation.		X		
10	2018	FCCC/SBI/ 2019/ INF.9	The Board recommends that UNFCCC review the accounting process for	Accounting procedures have been adjusted for 2019.	The Board assessed the adjustments and the	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
		chap. II, para. 77	appendix D benefits and for death benefits.		complex accounting treatment. The Board considers this recommendation to be implemented.				
11	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 101	The Board recommends that UNFCCC improve data quality of the grants created in Umoja.	Grants management concept and the checklist for grants creation was shared and endorsed by the Deputy Executive Secretary of UNFCCC.	The Board considers this recommendation to be implemented.	X			
12	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 109	The Board recommends that UNFCCC use Umoja to its full extent to manage the donor agreements within Umoja, to store documents related to donor agreements and to produce automated donor reports.	Grants management concept and the checklist for grants creation was shared and endorsed by the Deputy Executive Secretary of UNFCCC.	The Board considers this recommendation to be implemented.	X			
13	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 135	The Board recommends that UNFCCC adopt the United Nations staff selection policies system in the then applicable version or request approval of deviations by the end of December 2019.	The policy review has not yet been concluded.	The Board considers this recommendation to be under implementation.		X		
14	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 146	The Board recommends that UNFCCC evaluate whether it is beneficial to use the United Nations recruitment tool and to participate in shared human resources services where possible.	UNFCCC signed the SLA. IT backend implementation has already started.	The Board considers this recommendation to be implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
15	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 161	The Board recommends that UNFCCC transparently report on actual vs. budgeted figures for all of its funding sources, taking into account differences of timing and reporting basis.	The budget performance report has been provided in a draft status.	The Board considers this recommendation to be implemented.	X			
16	2018	FCCC/SBI/ 2019/ INF.9 chap. II, para. 168	The Board recommends that UNFCCC include an analysis of the reasons for the differences between budgeted and actual occupancy rate and its impact on its budget performance report.	The budget performance report has been provided in a draft status.	The Board noted that no impact of unfilled posts was described in the Budget Performance Report, probably because none had been identified. The Board considers this recommendation to be implemented.	X			
17	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 54	The Board recommends that UNFCCC analyse the net assets of the special account for programme support costs and act on the results of this analysis.	The net assets have been analyzed and the results will be incorporated into the financial plan for the PSC fund.	The Board considers this recommendation to be overtaken by events.				X
18	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 55	The Board recommends that UNFCCC establish annual plans and a reconciliation with the actual figures for the special account for programme support costs to monitor the level of the reserve.	A financial plan for the PSC fund for 2021-2023 is being prepared. The figures for 2022-2023 remain a draft until the budget for 2022-2023 is approved at the COP in November 2021.	The Board considers this recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
19	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 61	The Board recommends that UNFCCC document the case-by-case analysis of the asset and revenue recognition criteria in the grant management module in Umoja.	Criteria for revenue recognition of voluntary contributions was prepared and provided to the grants management team.	The Board considers this recommendation to be implemented.	X			
20	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 66	The Board recommends that UNFCCC change its guideline AG/2012/3 on the policy for advancing funds to projects to reflect the methodology for recording internal borrowings between trust funds as mentioned in paragraph 1.8 of guideline AG/2017/2.	New guideline AG/2020/4 was approved and published replacing AG/2012/13.	The Board considers this recommendation to be implemented.	X			
21	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 75	The Board recommends that UNFCCC complete the allocation of the total cost incurred for the COP 25 to the respective donors and refund the internal borrowings made from other trust funds to cover for these costs.	Total cost were allocated and internal borrowings refunded.	The Board considers this recommendation to be implemented.	X			
22	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 76	The Board recommends that UNFCCC implement an internal control function to prevent a situation that a trust fund has a negative cash balance.	AG/2020/4 has been introduced to address the audit recommendation on interfund transfer. which should also ensure that sufficient cash is always available when returning loans. In addition, all internal borrowings that can be settled for year end, will be processed before 31 Dec of any financial year to ensure the correct cash allocation between funds.	The Board considers this recommendation to be implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				This will be part of the annual closure instructions.					
23	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 104	The Board recommends that UNFCCC liaise with the United Nations Secretariat to review the institutional linkage and update it as appropriate, including a transparent and consistent issuance and acceptance of a delegation of authority to the Executive Secretary regarding human resources and finance and budget.	UNFCCC received a clarification from OLA regarding the institutional linkage.	UNFCCC has liaised with the United Nations Secretariat concerning institutional linkage and delegation of authority. The Board considers this recommendation to be implemented.	X			
24	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 114	The Board recommends that UNFCCC issue the lacking human resources subdelegations to its staff members.	UNFCCC issued delegation of authority in HR matters to staff that perform HR Partner functions.	The outstanding human resources subdelegations have been issued. The Board considers this recommendation to be implemented.	X			
25	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 120	The Board recommends that UNFCCC raise the issue of the inconsistencies in using the delegation of authority portal with the United Nations Secretariat.	The Business Transformation and Accountability Division, UNHQ, confirmed that only those entities which received delegations under ST/SGB/2019/2 are allowed to use the DoA portal and UNFCCC did not receive a delegation under ST/SGB/2019/2.	The issue has been raised with the United Nations Secretariat. The Board considers this recommendation to be implemented.	X			
26	2019	FCCC/SBI/ 2020/ INF.9	The Board recommends that UNFCCC align the provisioned Umoja roles with the authorities delegated.	Revised DoAs have been issued.	The Umoja roles are aligned with the authorities delegated.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
		chap. II, para. 126			The Board considers this recommendation to be implemented.				
27	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 133	The Board recommends that UNFCCC liaise with the United Nations Secretariat for an exception of the segregation of duties violation and raise the issue of the potential risk of combining the Umoja role FM.06 with other finance roles.	All SoD violations were identified using the new SoD report in Umoja. SoD violations not covered by the UNFCCC exception were resolved.	No further conflicting roles observed. The Board considers this recommendation to be implemented.	X			
28	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 145	The Board recommends that UNFCCC ensure that the intended results of the restructuring such as efficiency gains and "being fit for purpose" are measured, tracked and evaluated.	. The summary report has been received from Fitch Consulting on 09 February 2021. The secretariat is fully aware of the need for establishing KPIs to evaluate the effectiveness of the new organizational structure. This will be carried out once the new structure is fully staffed and implemented, allowing adequate time for it to produce the desired results.	Within the last 12 months, UNFCCC has made no progress in ensuring that the intended results of the restructuring such as efficiency gains and "being fit for purpose" are measured, tracked and evaluated. The final report of the Structure Review Implementation from Fitch Consulting does not describe any efficiency gains. The Board considers this recommendation to be not implemented.			X	

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
29	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 162	The Board recommends that UNFCCC draw a realistic timetable and a priority list for filling vacancies.	UNFCCC is in the process of finalizing the priority recruitments for the remainder of 2021. Priority review of recruitments is determined based on the function and availability of funds. Planning for 2021 will be finalized by at the beginning of the 3rd quarter 2021.	111.5 vacant posts have not been prioritized so far. UNFCCC intends to develop the next list of priority positions in May 2021. The Board considers this recommendation to be under implementation.		X		
30	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 175	The Board recommends that UNFCCC explain deviations between its structure as per the budget decision and the implemented structure of posts, and ensure adequate reporting on budget performance.	The Mitigation org chart 30.09 has 99 posts. The Work Programme indicates 92 posts for Mitigation. -14 in Suppl and +7 in CDM. The 14 Suppl. posts are not included due to the fact that Article 6 negotiations are not yet finalized by Parties. The 7 CDM posts that are not in the org chart are not planned to be filled. This reduction is in accordance with the approved CDM two-year business and management plan 2020–2021.	UNFCCC has published the revised work programme for 2020-2021 in June 2020 which has been been used as updated reference for the Budget Performance Report as at 31 December 2020, annex III. The Board considers this recommendation to be implemented.	X			
31	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 188	The Board recommends that UNFCCC address the risks it is exposed to through an up-to-date enterprise risk management that includes owners and due dates and a documentation.	The enterprise risk management will be taken up by the Manager of the new function 'Organizational Development and Oversight' (ODO). This	The status is unchanged. The Board considers this recommendation to be under implementation.		X		

No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management's response*	*Board's assessment*	*Status after verification* *Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				position is currently under recruitment with interviews being scheduled on 14 and 15 April 2021. Recruitment process is expected to be completed in April/May 2021.					
32	2019	FCCC/SBI/ 2020/ INF.9 chap. II, para. 199	The Board recommends that UNFCCC, in coordination with the Office of Internal Oversight Services, take steps to re-establish internal audit coverage and to prepare an internal audit plan for the biennium 2020-2021.	UNFCCC has entered into agreement with OIOS for OIOS to conduct one internal audit each year for the 2020-2021 biennium. The adequacy and effectiveness of this arrangement will be reviewed at the end of this period to determine its continuity.	The Board considers this recommendation to be implemented.	X			
Total number of recommendations				**32**		**17**	**13**	**1**	**1**
Percentage of the total number of recommendations				**100**		**53**	**41**	**3**	**3**

United Nations Framework Convention on Climate Change

Chapter III

Certification of the Financial Statements

The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the year ending 31 December 2020 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 2020 are correct.

(Signed) **Patricia Espinosa**
Executive Secretary
04 June 2021

Chapter IV

Narrative financial report

Financial report on the 2020 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 operations under the direct authority of the Executive Secretary including the core budget, extra-budgetary financed activities and activities under the Sustainable Development Mechanisms.

2020 Financial Highlights

2020 Financial Results

Total revenue:

2. Revenue in 2020 totalled USD 72.7 million as follows:

(a) The indicative contributions to the core budget of USD 32.5 million and USD 1.2 million to the budget of the International Transaction Log;

(b) Voluntary contributions from donors totalled USD 18.1 million;

(c) Fees for the CDM and JI mechanisms USD 14.4 million.

Total expenses:

3. Expenses in 2020 totalled USD 73.2 million mainly consisting:

(a) Personnel expenses amounting to USD 55.6 million;

(b) Travel USD 0.6 million;

(c) Contractual services for USD 10.7 million.

(d) Operating and other expenses for USD 5.0

4. While income on indicative contributions level remained at comparable levels, fees for the CDM and JI saw an increase in 2020. Voluntary contributions have seen a significant reduction during the reporting period given that more agreements have been treated as conditional under IPSAS 23 and considerable less funding for major events as those could not take place due to Covid. This decrease relates mostly to voluntary funding received in the trust for supplementary activities (USD 13.1 million in 2020 compared to USD 26.4 million in 2019) but also in the special account for conferences and other events (USD 2.2 million in 2020 compared to USD 3.7 million in 2019). There was also the significant decrease of funding received under the trust fund for participation which received USD 3.3 million in 2019 comparing almost no contributions for 2020.

5. In its 2019 financial statements, UNFCCC indicated that the extent of the impact of the Covid-19 pandemic on the financial performance of the UN agency will depend on future developments, including (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the global economy, all of which are highly uncertain and cannot be reliably predicted.

6. The Covid-19 pandemic manifested itself in a variety of ways in the activities of UNFCCC during 2020. While the impact on the way UNFCCC conducted its business was significant, the direct, visible and measurable impact on the financial performance for 2020 and the financial position at the end of the year was limited. Furthermore, there can be no exact or systematic determination of the impact of COVID on these financial statements as accounting and reporting systems are not intended or designed to report costs, revenues and balances based on a specific underlying cause, such as a pandemic.

7. Operating result: The deficit of revenue over expenditure in 2020 is USD 0.5 million (compared to a deficit of USD 6.4 million in 2019). The main reasons for total deficit under IPSAS are the deficits under Trust Fund for Supplementary Activities (USD 6.8 million) and under the Sustainable Development Mechanisms amounting to USD 1.3 million offset by a surplus under the special account for conferences and other recoverable costs of USD 5.2 million in 2020 comparing to a deficit of USD 4.2 million for 2019. Relating to employee benefits liabilities, UNCCC recorded a deficit in the employee liabilities fund of USD 6.9 million and an actuarial loss resulting from the valuation of these liabilities amounting to USD 4.7 million.

8. **Assets**: Total assets as of 31 December 2020 increased by USD 8 million to USD 260 million compared to the balance at 31 December 2019 of USD 252 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 2020
(Thousands of United States dollars)

	2020	*2019*
Cash and cash equivalents	25 199	57 698
Investments	205 077	156 981
Indicative contributions receivable	15 011	14 555
Voluntary contributions receivable	9 011	14 732
Other accounts receivable	1 104	1 634
Other assets	3 351	4 711
Property, plant and equipment	349	214
Intangible assets	743	1 232
Total assets	**259 845**	**251 756**

9. The major assets at 31 December 2020 are cash, cash equivalents and investments totalling USD 230 million representing 89 per cent of the total assets and outstanding indicative contributions from members Stats of USD 15.0 million, or 5.8 per cent. The remaining assets consist of other accounts receivable, other assets (primarily advances), equipment and software.

10. **Cash, cash equivalents and investments**: Cash and cash equivalents as well as investments of USD 230 million are held in the UN Treasury main cash pool. While the overall levels for these assets have slightly increased comparing to 31 Dec 2019, the share of short-term and long-term investments has increased with a corresponding decrease in cash and cash equivalents.

11. **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. Delays in receiving contributions for 2020 during the financial year resulted in an increase of indicative contributions outstanding of USD 0.5 million or 3 per cent when comparing to amounts outstanding as at 31 December 2019. The increase in indicative contributions receivable is resulting from the late payment of amounts due from member states.

12. **Other assets** amounting to a total of USD 3.4 million mainly consist of prepayments of USD 2.0 million and education grant advances of USD 1.1 million. The closure of the

CDM loan scheme activities resulted in a reduction of USD 1.3 million when comparing to 2019.

13. **Liabilities**: Liabilities as of 31 December 2020, totalled USD 198 million (USD 184 million as at 31 December 2019) as follows.

Table 2
Summary of liabilities as at 31 December 2020
(Thousands of United States dollars)

	2020	*2019*
Accounts payable and accruals	4 067	3 753
Advance receipts	27 087	28 051
Employee benefit liabilities	166 538	152 549
Other liabilities	0	2
Total liabilities	**197 692**	**184 355**

14. 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 151 million, represent 76 per cent of UNFCCC’s total liabilities and are explained in detail in the respective note to the financial statements. The level of overall employee benefit liabilities increased by USD 14.0 million when comparing to 2019, mainly resulting from actuarial losses under the ASHI liability due to further decline in interest rates worldwide.

15. The other significant liability, advance receipts 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 CDM 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.

16. During 2020, neither the meetings of the subsidiary bodies nor the meeting of the Conference of the Parties could take place due to the Covid pandemic. The secretariat continued to provide its service to its constituency through virtual means supporting Parties preparing reports to be presented at the next sessions of the COP and SBI as well as facilitating assistance to Parties in the compilation and communication of information required by the Convention and other workstreams of the UNFCCC process. The main objectives of the secretariat for the biennium 2020-2021 include

(a) Facilitate intergovernmental engagement on responding to the threat of climate change

(b) Enable constituted bodies to fulfil their mandates

(c) Manage a trusted repository of data and information

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

(e) Manage and administer the secretariat effectively

17. Net assets: The movements in net assets during the year shows an overall decrease of USD 5.2 million from USD 67.4 million in 2019 to USD 62.2 million at the end of 2020 due to the actuarial losses of USD 4.7 million and an operating deficit of USD 0.5 million. Net assets include the operating reserves which amount to USD 49.7 million at the reporting date.

Comparison of budgets to actual amounts

18. The Conference of the Parties approved a Core expenditure budget for the 2020–21 financial period, amounting to EUR 59.8 million. The approved budget for the International Transaction Log for the 2020–21 financial period amounted to EUR 4.6 million.

19. Total expenditure as at 31 December 2020 under the core budget for 2020 represented 78 per cent of the core budget for 2020. The low level of expenditure for staff (77% implementation rate) are attributed to unfilled core budget posts, and adverse impact of the COVID-19 pandemic, resulting in the postponement of the sessional meetings of the governing and subsidiary bodies. More detailed information on implementation performance under is available in the Budget Performance Reports presented to the Subsidiary Body for Implementation.

20. The overall expenditure rate under the Trust Fund for the International Transaction Log was 63 per cent as at 31 December 2020. Owing to several staff departures, the restructuring of the secretariat and the decrease in operational activities, the staffing level of the ITL during the reporting period was below the requirements included in its budget.

21. The core budget as well as the budget for the international transaction log continues to be prepared on a modified accrual basis in accordance with the UN Financial Regulations. The overall budgetary results of the 2020 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 2020

A. Statement I: Statement of Financial Position as at 31 December 2020

(Thousands of United States dollars)

	Note	*2020*	*2019*
ASSETS			
Current Assets			
Cash and cash equivalents	5	25 199	57 698
Short-term investments	5	154 191	119 489
Indicative contributions receivable	6	15 011	14 555
Voluntary contributions receivable	6	8 741	11 775
Other receivables	6	1 104	1 634
Other current assets	7	3 351	4 711
Total current assets		**207 597**	**209 862**
Non-current assets			
Voluntary contributions receivable	6	270	2 957
Long-term investments	5	50 886	37 492
Property, plant and equipment	8	349	214
Intangible assets	9	743	1 232
Total non-current assets		**52 248**	**41 894**
TOTAL ASSETS		**259 845**	**251 756**
LIABILITIES			
Current Liabilities			
Payables and accruals	10	4 067	3 753
Advance receipts	11	27 087	28 051
Employee benefits	12	2 332	2 252
Other current liabilities	14	0	2
Total current liabilities		**33 486**	**34 058**
Non-current liabilities			
Employee benefits	12	164 206	150 298
Total non-current liabilities		**164 206**	**150 298**
TOTAL LIABILITIES		**197 692**	**184 355**
NET ASSETS			
Accumulated surpluses/(deficits)		12 408	18 219
Reserves	17	49 748	49 181
TOTAL NET ASSETS		**62 153**	**67 401**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**259 845**	**251 756**

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 2020

(Thousands of United States dollars)

	Note	*2020*	*2019*
REVENUE	**15**		
Indicative contributions		33 714	32 861
Voluntary contributions		18 501	36 362
CDM and JI service fees		14 448	10 382
Interest Revenue		2 537	5 091
Gain on foreign exchange		3 745	0
Other/miscellaneous revenue		220	512
TOTAL REVENUE		**72 716**	**85 207**
EXPENSES	**16**		
Personnel expenditure		55 624	50 231
Travel		635	12 523
Contractual services		10 721	20 100
Operating expenses		2 049	1 016
Other expenses		2 961	5 620
Depreciation of equipment		68	82
Amortization of intangible assets		489	469
Return/transfer of donor funding		681	1 181
Loss on foreign exchange		0	435
TOTAL EXPENSES		**73 229**	**91 657**
SURPLUS/(DEFICIT) FOR THE PERIOD		**(513)**	**(6 449)**

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 2020

(Thousands of United States dollars)

	Accumulated Surplus	*Reserves*	*Total Net Assets*
Balance as at 01 January 2020	18 219	49 181	67 401
Surplus/(Deficit) for the current period	(513)		(513)
Adjustment Appendix D reserve	(184)	184	0
Actuarial gains (losses) on employee benefits liabilities	(4 734)		(4 734)
Adjustment to operating reverses amounts against accumulated surplus	(383)	383	
Balance as at 31 December 2020	**12 405**	**49 748**	**62 153**

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

D. Statement IV: Cash Flow Statement for the year ended 31 December 2020

(Thousands of United States dollars)

	2020	*2019*
Cash flows from operating activities		
Surplus/(deficit) for the period	(513)	(6 449)
Depreciation expense	68	82
Amortization of intangible assets	489	469
(Increase)/decrease in accounts receivable	5 795	(10 552)
(Increase)/decrease in other assets	1 360	4 048
Increase/(decrease) in payables and accruals	314	(377)
Increase/(decrease) in advance receipts	(964)	17 672
Increase/(decrease) in employee benefit liabilities	9 254	4 942
Increase/(decrease) in other liabilities	(2)	2
Net cash flows from operating activities	**15 802**	**9 837**
Cash flows from investing activities		
(Increase)/decrease in equipment	(204)	(40)
(Increase)/decrease in intangible assets	0	(809)
(Increase)/Decrease in short-term investments	(34 702)	52 638
(Increase)/Decrease in long-term investments	(13 394)	(24 096)
Net cash flows from investing activities	**(48 300)**	**27 693**
Cash flows from financing activities		
Net increase/(decrease) in cash and cash equivalents	**(32 498)**	**37 530**
Cash and cash equivalents at the beginning of the year	57 698	20 168
Cash and cash equivalents at the end of the year	25 199	57 698
Overall increase/(decrease)	**(32 498)**	**37 530**

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 2020

*2020**	Original Budget (EUR)	Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original Budget (USD)	Final Budget (USD)	Actual (USD)	Difference (USD)
Executive	1 667 860	1 811 920	1 531 944	279 976	1 861 451	2 022 232	1 751 314	270 918
Programmes Coordination	256 940	256 940	149 713	107 227	286 763	286 763	167 924	118 839
Adaptation	3 261 940	3 017 690	2 184 885	832 805	3 640 558	3 367 958	2 502 943	865 015
Mitigation	2 049 500	1 790 780	1 370 983	419 797	2 287 388	1 998 638	1 560 415	438 224
Means of Implementation	3 018 600	3 018 600	2 552 789	465 811	3 368 973	3 368 973	2 916 511	452 462
Transparency	6 159 920	6 177 560	5 093 885	1 083 675	6 874 911	6 894 598	5 821 329	1 073 269
Operation Coordination	588 980	588 980	279 728	309 252	657 344	657 344	321 118	336 226
Secretariat-wide costs	1 293 335	1 293 335	960 423	332 912	1 443 454	1 443 454	1 134 302	309 152
AS/HR/ICT	2 115 905	2 004 374	1 646 289	358 085	2 361 501	2 237 025	1 885 818	351 207
Conference Affairs	1 324 120	1 300 600	1 072 225	228 375	1 477 813	1 451 563	1 224 298	227 265
Legal Affairs	1 160 680	1 143 040	895 262	247 778	1 295 402	1 275 714	1 026 616	249 098
Intergovernmental Support and Collective Progres	1 579 820	1 824 070	1 443 997	380 073	1 763 192	2 035 792	1 648 916	386 876
Communications and Engagement	1 664 740	1 914 451	1 180 908	733 543	1 857 969	2 136 664	1 366 725	769 939
IPCC	244 755	244 755	244 755		273 164	273 164	269 851	3 313
Total appropriation	**26 387 095**	**26 387 095**	**20 607 787**	**5 779 308**	**29 449 883**	**29 449 883**	**23 598 079**	**5 851 804**
Programme support costs	3 430 322	3 430 322	2 598 922	831 400	3 828 485	3 828 485	3 034 341	794 144
Adjustment to working capital reserve	102 271	102 271			114 142	114 142		
Grand TOTAL	**29 919 688**	**29 919 688**	**23 206 709**	**6 610 708**	**33 392 509**	**33 392 509**	**26 632 420**	**6 645 948**
Contribution from the Host Government	766 938	766 938	766 938		855 958	855 958	855 958	
Income from Indicative Contributions	29 152 750	29 152 750	29 152 750		32 536 551	32 536 551	32 536 551	
Net result (budgetary)			6 712 979				6 760 089	

*Further information is contained in notes 19 and 20.

2. Budget to Actual Comparison International Transaction Log Budget for the year 2020

*2020**	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
Staff costs	769 400	467 676	301 724	858 705	534 239	324 467
Consultants	49 833		49 833	55 617		55 617
Travel of staff	15 000		15 000	16 741		16 741
Experts and expert groups						
Training	10 000		10 000	11 161		11 161
General operating expenses	1 102 509	735 677	366 831	1 230 478	870 781	359 697
Contributions to common services	104 000		104 000	116 071		116 071
TOTAL	**2 050 742**	**1 203 353**	**847 389**	**2 288 774**	**1 405 020**	**883 754**
Programme support costs (overheads)	266 596	145 651	120 945	297 540	169 519	128 022
Adjustment to working capital reserve	(11 951)			(13 338)		
Grant TOTAL	**2 305 387**	**1 349 004**	**968 334**	**2 572 977**	**1 574 538**	**1 011 776**
Income from indicative contributions	1 055 388	1 055 388		1 177 888	1 177 888	
Net result (budgetary)		**(293 616)**			**(396 650)**	

*Further information is contained in notes 19 and 20.

3. Budget to Actual Comparison Conference Services Contingency Budget for the year 2020

*2020**	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Interpretation	1 199 500		1 199 500	1 338 728		1 338 728
Documentation						
Translation	1 074 400		1 074 400	1 199 107		1 199 107
Reproduction and distribution	625 300		625 300	697 879		697 879
Meetings service support	239 000		239 000	266 741		266 741
Subtotal	**3 138 200**	**0**	**3 138 200**	**3 502 455**	**0**	**3 502 455**
Programme support costs	408 000		408 000	455 357		455 357
Working capital reserve	294 300		294 300	328 460		328 460
Total	**3 840 500**	**0**	**3 840 500**	**4 286 272**	**0**	**4 286 727**

*Further information is contained in notes 20 and 24.

F. Notes to the Financial Statements

Note 1: The Reporting Entity

22. 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, the Kyoto Protocol and the Paris Agreement and to provide them with services as required;

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

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

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

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

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

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

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

23. UNFCCC is governed by the following constituent bodies:

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

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

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

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

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

24. 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.

25. 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

26. 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 2020-2021, 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.

27. In accordance with IPSAS, the 2020 financial statements are presented on an annual basis covering the period 1 January 2020 to 31 December 2020. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 March 2021. Sequentially, the report of the Board of Auditors together with the audited financial statements are submitted to the Conference of the Parties.

28. The Cash Flow Statement is prepared using the indirect method.

29. 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

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

2.2 Foreign Currency Translation

31. 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.

32. 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.

33. For statements V, euro amounts from the approved budgets for the original and final budget are converted to USD using the UNORE as at 1 January 2020 while the euro amounts

for the actuals are converted to USD using the applicable monthly UNORE rate at the time of the transaction.

2.3 Materiality and the use of judgement and estimates

34. 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

35. 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

36. 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).

37. 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.

38. 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.

39. 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.

40. 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

41. 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

42. 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.

43. 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

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

45. 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

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

3.6 Payables, advance receipts and accruals

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

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

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

3.7 Employee Benefits

50. UNFCCC provides the following employee benefits:

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

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

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

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

51. 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.

52. 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.

53. 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.

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

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

3.8 Provisions

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

3.9 Contingent liabilities and contingent assets

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

3.10 Leases

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

3.11 Non-exchange revenue and receivables

59. **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.

60. **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.

61. 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.

62. **Goods in kind** are recognised at their fair value, measured as of the date the donated assets are acquired. **Services in kind** are not recognized on the face of the statements but as note disclosure describing the services received

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

3.12 Exchange revenue

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

3.13 Expenses

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

3.14 Segment reporting

66. 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.

67. UNFCCC classifies all projects, operations and fund activities into ten funds and special accounts:

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

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

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

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

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

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

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

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

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

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

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

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

3.15 Budget comparison

70. UNFCCC's budget is prepared on a modified accrual basis based on the applicable financial regulations and rules while the financial statements are prepared on a full accrual basis. Under the modified accrual basis, expense is recognized on the obligation principle, i.e. when the organization enters into a financial commitment to obtain goods or services. Costs of equipment acquisition are expensed when the equipment has been delivered and expense does not include costs related to changes in provisions for employee benefits liabilities or changes related to additions to or consumption of inventories. Income is recognized as per para 59 ff. also for statement V.

71. 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.

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

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

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

3.16 Update on IPSAS standards

75. IPSAS 41 Financial instruments was issued in 2018 with an initial effective date of 1 January 2022 which was postposed to 1 January 2023 due to the Covid-19 pandemic. Its impact on the financial statements of UNFCCC upon adoption is currently being assessed.

76. IPSAS 42: Social benefits was issued in 2019 with an effective date of 1 January 2022 which was postposed to 1 January 2023 due to the Covid-19 pandemic. The standard is not expected to be applicable to UNFCCC in the foreseeable future.

Note 4: Financial Risks

4.1 Financial risk factors

77. 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

78. 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.

79. As of 31 December 2020, 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 0.6 million higher/lower due to the change in the asset value of receivables denominated in euro.

Price risk

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

Interest rate risk

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

4.3 Credit risk

82. 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

83. 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

84. 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

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

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

87. As at 31 December 2020, UNFCCC participated in the main pool that held total assets of $10,652.4 million (2019: $9,339.4 million), of which $230.7 million was due to the Organization (2019: $215.6 million), and its share of revenue from the main pool was $3.7 million (2019: $5.4 million).

Table 3
Summary of assets and liabilities of the Cash Pools as at 31 December 2020
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	7 120 427
Long-term investments	2 349 880
Total fair value through the surplus or deficit investments	**9 470 307**
Loans and receivables	
Cash and cash equivalents	1 163 683
Accrued investment revenue	18 398
Total loans and receivables	**1 182 082**
Total carrying amount of financial assets	**10 652 389**
Cash pool liabilities	
Payable to UNFCCC	230 675
Payable to other cash pool participants	10 421 714
Total liabilities	**10 652 389**
Net assets	–

Table 4
Summary of revenue and expenses of the Cash Pools for the year ended 31 December 2020
(Thousands of United States dollars)

	Main pool
Investment revenue	113 031
Unrealized gains / (losses)	54 145
Investment revenue from main pool	**167 176**
Foreign exchange gains / (losses)	5 837
Bank fees	(578)
Operating gains (losses) from main pool	**5 259**
Revenue and expenses from main pool	**172 435**

Table 5
Summary of assets and liabilities of the Cash Pools as at 31 December 2019
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	5 177 137
Long-term investments	1 624 405
Total fair value through the surplus or deficit investments	**6 801 542**
Loans and receivables	
Cash and cash equivalents	2 499 953
Accrued investment revenue	37 867
Total loans and receivables	**2 537 820**
Total carrying amount of financial assets	**9 339 362**
Cash pool liabilities	
Payable to UNFCCC	215 553
Payable to other cash pool participants	9 123 809
Total liabilities	**9 339 362**
Net assets	**–**

Table 6
Summary of revenue and expenses of the Cash Pools for the year ended 31 December 2019
(Thousands of United States dollars)

	Main pool
Investment revenue	198 552
Unrealized gains/(losses)	14 355
Investment revenue from main pool	**212 907**
Foreign exchange gains/(losses)	3 287
Bank fees	(808)
Operating gains / losses from main pool	**2 479**
Revenue and expenses from cash pools	**215 386**

Financial risk management

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

89. 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.

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

Financial risk management: credit risk

91. 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.

92. 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.

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

Table 7
Credit ratings
Investments of the cash pool by credit ratings as at 31 December 2020

Main pool	*Ratings as at 31 December 2020*				*Ratings as at 31 December 2019*				
Bonds (Long term ratings)					**Bonds (Long term ratings)**				
	AAA	**AA+/AA/AA-**	**A+**	**NR**		**AAA**	**AA+/AA/AA-**	**A+**	**NR**
S&P	44.0%	53.2%		2.8%	S&P	35.8.%	58.8%		5.4%
Fitch	61.4%	15.5%		23.1%	Fitch	60.2%	23.8%	-	16.0%
	Aaa	**Aa1/Aa2/Aa3**	**A1**			**Aaa**	**Aa1/Aa2/Aa3**	**A1**	
Moody's	61.1%	34.9%	0.4%	3.6%	Moody's	54.8%	45.2%		
Commercial papers/ Certificates of Deposit (Short term ratings)					**Commercial papers (Short term ratings)**				
	A-1+/A-1					**A-1+/A-1**			
S&P	100%				S&P	100.0%			
	F1+/F1			**NR**		**F1+**			
Fitch	98.0%			2.0%	Fitch	100.0%			
	P-1					**P-1**			
Moody's	100%				Moody's	100.0%			
Term deposits (Fitch viability ratings)									
	aaa	**aa/aa-**	**a+/a**			**aaa**	**aa/aa-**	**a+/a/a-**	
Fitch	-	27.5%	72.5%		Fitch	-	84.2%	15.8%	

94. 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

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

Financial risk management: interest rate risk

96. The main pool comprises the Organization’s main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2019: five years). The average duration of the main pool was 0.72 years (2019: 0.74 years), which is considered to be an indicator of low risk.

Cash Pool interest rate risk sensitivity analysis

97. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. The investments, being accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 8
Cash Pools interest rate risk sensitivity analysis as at 31 December 2020

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	148.41	111.30	74.20	37.10	0	(37.10)	(74.18)	(111.26)	(148.34)

Table 9
Cash Pools interest rate risk sensitivity analysis as at 31 December 2019

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	134.47	100.84	67.22	33.61	-	(33.6)	(67.2)	(100.79)	(134.38)

Other market price risk

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

Accounting classifications and fair value – Cash Pool

99. 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.

100. The levels are defined as:

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

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

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

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

102. 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.

103. The following fair value hierarchy presents the cash pool assets that are measured at fair value at the reporting date. There were no Level 3 financial assets, nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 10

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

	31 December 2020			*31 December 2019*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds – corporate	452 281	–	452 281	148 473	–	148 473
Bonds – non-United States agencies	931 565	–	931 565	755 027	–	755 027
Bonds – supranational	787 362	–	787 362	423 230	–	423 230
Bonds – United States treasuries	502 462	–	502 462	497 829	–	497 829
Bonds – non-United States sovereigns	151 035	–	151 035	–	–	–
Main pool – commercial papers	–	2 062 987	2 062 987	–	347 398	347 398
Main pool – certificates of deposit	–	2 762 615	2 762 615	–	3 419 585	3 419 585
Main pool – term deposits	–	1 820 000	1 820 000	–	1 210 000	1 210 000
Total	**2 824 705**	**6 645 602**	**9 470 307**	**1 824 559**	**4 976 983**	**6 801 542**

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

	31 December 2020	*31 December 2019*
Cash and cash equivalents	25 199	57 698
Short-term investments	154 191	119 489
Long-term investments	50 886	37 492
Accounts receivable	25 126	30 921
Accounts payable	(2 049)	(464)
Total financial instruments	**253 354**	**245 135**

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

	Indicative Contributions	*Voluntary Contributions*
EUR and other currencies	17 054	8 898
USD	135	113
Total contributions receivable as at 31 December 2020	**17 189**	**9 011**

Table 13
Indicative contributions past due as at 31 December 2020
(Thousands of United States dollars)

Indicative contributions past due	*Indicative Contributions*
Up to 1 year	10 546
1 to 2 year	3 054
2 to 3 years	826
Above 3 years	2 763
Total indicative contributions past due as at 31 December 2020	**17 189**

Table 14
Provision for impaired indicative receivables as at 31 December 2020
(Thousands of United States dollars)

Provision for impaired receivables	*Indicative Contributions*
As at 1 Jan 2020	1 819
Increase in provision during 2020	359
Total as at 31 December 2020	**2 178**

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 2020	*31 December 2019*
Cash held in cash pools	25 199	57 698
Total cash and cash equivalents	**25 199**	**57 698**

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

	31 December 2020	*31 December 2019*
Short-term investments (cash pool)	154 191	119 489
Long-term investments (cash pool)	50 886	37 492
Total investments	**205 077**	**156 981**

104. 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.

105. UNFCCC cash and investments include USD 27.0 million that are subject to general stipulations which did not meet the requirements of conditionality under IPSAS 23. These stipulations include earmarking on the use of funding, mostly regarding their programmatic use and eligible expenditure periods. Historically, UNFCCC has had positive experiences with regard to receiving payment tranches from donors in accordance with the agreement and did not have cases where breach of stipulations prompted donors to demand refunds or reimbursement.

Note 6: Accounts receivable

Table 17
Accounts receivable
(Thousands of United States dollars)

Accounts receivable	*31 December 2020*	*31 December 2019*
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International Transaction Log		
Current	17 189	16 374
Less provision for doubtful debts	(2 178)	(1 819)
Subtotal for indicative contributions	**15 011**	**14 555**
Voluntary contributions		
Current	8 741	11 775

Accounts receivable	*31 December 2020*	*31 December 2019*
Non-current	270	2 957
Subtotal voluntary contributions	**9 011**	**14 732**
Other receivables (current)	1 104	1 634
Total accounts receivable	**25 126**	**30 921**

106. Indicative contributions reflect the contributions receivable from Parties to the Convention to fund the Core Budget 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 for doubtful receivables have been established covering indicative contributions receivables and other receivables equal to 50 per cent of amounts outstanding for more than three but less than four years and 100 per cent of amounts outstanding for more than four years.

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

Note 7: Other current assets

108. Other current assets consist of the following:

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

	31 December 2020	*31 December 2019*
Prepayments	2 016	1 974
CDM Loan Scheme Advance	0	1 296
Project Clearing	194	217
Travel Advances	54	129
Education Grant Advances	1 087	1 096
Total	**3 351**	**4 711**

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

110. The UNFCCC loan scheme for CDM was administered by the UN Office for Project Services and the United Nations Environment Programme and closed its operations in 2020. The advances were provided are covering the requirements for loans to be handed out to participants of the scheme as well as to cover related administrative expenses.

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

Note 8: Property, plant and equipment

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

	Vehicles	*Communication and IT equipment*	*Furniture and machinery*	*Total*
Cost				
At 1 January 2020	88	3 080	45	3 213
Additions		204		204
Disposal	(11)			(11)
At 31 December 2020	**77**	**3 284**	**45**	**3 406**
Accumulated depreciation				
At 1 January 2020	29	2 927	44	2 999
Depreciation during the year	8	59	1	68
Disposal	(10)			(10)
At 31 December 2020	**26**	**2 986**	**45**	**3 057**
Net Book Value				
At 31 December 2020	**51**	**298**	**0**	**349**
At 31 December 2019	59	153	1	214

112. Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2020 there was no indication for any equipment being impaired.

Note 9: Intangible assets

Table 20
Intangible assets
(Thousands of United States dollars)

	Internally developed software
Opening balance 1 Jan 2020	3 128
Additions	0
Disposal	0
Total as at 31 Dec 2020	**3 128**
Accumulated Amortization 1 Jan 2020	1 896
Amortization during the year	489
Disposal	0
Total as at 31 Dec 2020	**2 385**
Net book Value 31 Dec 2020	743
Net book Value 31 Dec 2019	1 232

113. 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 2020	*31 December 2019*
Vendor payables	704	211
Other payables	1 344	253
Accruals for goods and services	2 019	3 289
Total payables and accruals	**4 067**	**3 753**

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

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

Note 11: Advance receipts

Table 22
Advance receipts
(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Conditional voluntary contributions	14 092	14 345
Indicative contributions received in advance	8 030	7 684
Voluntary contribution received in advance	0	2 344
CDM fees received in advance	4 965	3 679
Total	**27 087**	**28 051**

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

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

118. 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

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

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

	31 December 2020	*31 December 2019*
Current employee benefit liabilities		
After service health insurance	425	359
Repatriation grant	830	969
Annual leave	203	248

	31 December 2020	31 December 2019
Home leave travel	832	585
US tax reimbursement	42	91
Total current employee benefit liabilities	**2 332**	**2 252**
After service health insurance	150 229	137 687
Repatriation grant	10 367	9 246
Annual leave	3 587	3 319
Home leave travel	23	46
Total non-current employee benefit liabilities	**164 206**	**150 298**
Total employee benefit liabilities	**166 538**	**152 550**

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

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

122. 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.

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

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

125. **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.

126. **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.

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

128. **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.

129. **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.

130. An actuarial valuation as of 31 December 2020 carried out in 2021 has been utilized to determine the UNFCCC's estimated liability and expenses recognized on the Statements of Financial Performance and Financial Position for repatriation grants and travel, accumulated annual leave and after-service health insurance at the reporting date. For 2020, the actuarial study was conducted as a roll-forward of the actuarial valuation of the End-of-Service schemes as of 31 December 2019.

131. 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.

132. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2020.

Table 24
Key financial assumptions

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*
Discount rate at beginning of period	1.02%	4.24%	4.27%
Discount rate at end of period	0.23%	3.09%	2.50%
General inflation rate at beginning of period		2.20%	
General inflation rate at end of period		2.20%	
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	3.91% decreasing to 3.65% in four years		
Healthcare cost trend rate at end of period	3.83% decreasing to 3.65% in three years		

133. The following assumptions were utilized by the actuary in determining the maturity profile of the defined benefit obligations at 31 December 2020:

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

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

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

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

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

	Change	*After service health insurance*
On total defined benefit obligation	0.50%	22 284
	(0.50)%	(19 312)
On current service cost and interest cost component of liability	0.50%	1 665
	(0.50)%	(1 371)

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

		ASHI		*Repatriation Grant*		*Annual Leave*
	Liability change	*Change in %*	*Liability change*	*Change in %*	*Liability change*	*Change in %*
Increase of discount rate by 0.5%	(21 919)	(15)	(459)	(4)	(174)	(5)
Decrease of discount rate by 0.5%	26 543	18	494	4	188	5
Duration	33		10		11	

138. The liabilities established for defined benefit obligations and the net service costs for 2020 are as follows:

Table 27
Liabilities established for defined benefit obligations and the net service costs for 2020
(Thousands of United States dollars)

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*
Reconciliation of defined benefit obligation			
Defined benefit obligation, beginning of year	138 048	10 157	3 567
Current service cost	8 031	621	310
Interest cost	315	299	86
Benefits paid (net of participant contribution)	(245)	(158)	(254)

Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	4 505	148	81
Total liability recognized on Statement of Financial Position	**150 654**	**11 067**	**3 790**
Annual expense for calendar year			
Current service cost	8 031	621	310
Interest cost	315	299	86
Benefits paid (net of participant contribution)	(245)	(158)	(254)
Total charge/(credit) recognized on statement of financial performance	**8 101**	**762**	**142**
Estimated benefit payments net of participant contributions payable in 2021	245	158	254
Cumulative amount of actuarial (gain)/loss recognized in net assets			
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	4 505	148	81
Total portion of cumulative liability recognized in net assets at end of year	**4 505**	**148**	**81**

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

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

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

142. 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.

143. During 2020, UNFCCC accrued USD 0.5 million for repatriation grant and travel and USD 1.3 million for ASHI from all funds except the core budget and the international transaction. These amounts are collected in the fund for employee benefits and will be used to (partially) fund future payment for ASHI and repatriation grants relating to the funds participating in the accrual. Based on the total liability for ASHI of USD 151 million and USD 11.1 million for repatriation grant and the overall accrued amounts of USD 3.8 million for ASHI and USD 2.0 million for repatriation, the current funding ratio amounts to 3 per cent for the ASHI and 18 per cent for repatriation grant liability. For 2021, the estimated amounts for accrual under ASHI and repatriation are USD 1.2 million and USD 0.5 million respectively.

144. As at 31 Dec 2020, 49.5 per cent of the total ASHI and repatriation liability equalling USD 74.6 million relates to core budget funded positions while 50.5 per cent of the ASHI and repatriation liability corresponding to USD 76.1 million relates to non-core funded positions.

United Nations Joint Staff Pension Fund (UNJSPF)

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

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

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

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

149. The latest actuarial valuation for the Fund was completed as of 31 December 2019, and a roll forward of the participation data as of 31 December 2019 to 31 December 2020 will be used by the Fund for its 2020 financial statements.

150. The actuarial valuation as of 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2% (139.2% in the 2017 valuation). The funded ratio was 107.1 (102.7% in the 2017 valuation) when the current system of pension adjustments was taken into account.

151. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2019, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

152. Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization’s contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2017, 2018 and 2019) amounted to USD 7,546.92 million, of which 0.3 per cent was contributed by UNFCCC.

153. During 2020, UNFCCC's contributions paid to UNJSPF amounted to 7.8 million (2019 7.6 million). Expected contributions due in 2020 are 7.8 million.

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

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

Note 13: Provisions

Table 28
Provisions
(Thousands of United States dollars)

	31 December-2020	*31 December 2019*
Provision for legal cases	0	0
Total	**0**	**0**

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

Note 14: Other current liabilities

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

	31 December-2020	*31 December 2019*
Other Liabilities	0	2
Total	**0**	**2**

Note 15: Revenue

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

Table 30
Indicative contributions
(Thousands of United States dollars)

	2020	*2019*
Core budget to the convention	32 537	31 317
International transaction log	1 178	1 544
Total	**33 714**	**32 861**

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

Table 31
Voluntary contributions
(Thousands of United States dollars)

	2020	*2019*
Voluntary contribution to the core budget	856	875
Participation trust fund	24	3 311
Trust fund for supplementary activities	13 056	26 398
Special annual contribution from the host country	1 997	2 043
Special account for activities for conferences	2 117	3 734
Total	**18 051**	**36 362**

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

Table 32
Fee Income
(Thousands of United States dollars)

	2020	*2019*
CDM fees	14 448	10 382
Total	**14 448**	**10 382**

160. 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 CO2 of the expected annual CERs; b) USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO2 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 CO2 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.

Table 33
Interest revenue

	31 December 2020	*31 December 2019*
Investment income – Interest earned	2 537	5 091
Total	**2 537**	**5 091**

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

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

Note 16: Expenses

Table 34
Expenses
(Thousands of United States dollars)

	2020	*2019*
Personnel expenditure	55 624	50 231
Travel	635	12 523
Contractual services	10 721	20 100
Operating expenses	2 049	1 016
Other expenses	2 961	5 620
Depreciation of equipment	68	82
Amortization of intangible assets	489	469
Return/transfer of donor funding	681	1 181
Loss on foreign exchange	0	435
Total	**73 229**	**91 657**

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

Table 35
Personnel expenditure
(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Salary and wages	33 517	32 911
Pension and insurance benefits	17 366	14 232
Other benefits	4 742	3 088
Total	**55 624**	**50 231**

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

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

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

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

168. Pursuant to rule 106.7(a) of the financial Regulations of the United Nations, write-off cases totalling USD 3.5 million were processed for the year 2020 which related mostly to unrecoverable advances due to the last minute change of the COP venue and unrecoverable loans amounts under the discontinued CDM loan scheme.

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

Note 17: Reserves

170. A reserve is established for the Core Budget and the Budget of the International Transaction log as part of the adoption of the budget by the COP. For the CDM trust fund, a reserve of USD 45.0 million has been established. The total reserves at the reporting date amount to USD 49.7 million. The Appendix D to the Staff Rules covers staff members for work related death, injury or illness attributable to the performance of official duties on behalf of the United Nations for which UNFCCC maintains a corresponding reserve.

Table 36
Reserves as at 31 December 2020
(Thousands of United States dollars)

Reserves for Core Budget and ITL	3 273
CDM trust fund reserve	45 000
Reserve for Appendix D	1 476
Total reserves	**49 748**

Note 18: Fund Accounting and Segment Reporting

171. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 37
Statement of financial position by fund
(Thousands of United States dollars)

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	14 466	2 070	652	88	4 347	995	267	1 335	325	655	25 199
Short-term investments	88 517	12 663	3 988	540	26 600	6 088	1 632	8 167	1 987	4 010	154 191
Indicative contributions receivable		15 001				10					15 011
Voluntary contributions receivable			8		8 171		562				8 741
Other receivables	727	71	10	28	140	35	18	33	31	10	1 104
Other current assets	437	590	6	11	1 726	64	2	255	241	19	3 351
Total current assets	104 147	30 394	4 664	667	40 984	7 192	2 480	9 790	2 583	4 695	207 597
Non-current assets											
Other receivables					270						270
Long-term investments	29 212	4 179	1 316	178	8 778	2 009	538	2 695	656	1 324	50 886
Propery, plant and equipment		79		141	47		82				349
Intangible assets					743						743
Total non-current assets	29 212	4 258	1 316	319	9 838	2 009	621	2 695	656	1 324	52 248
TOTAL ASSETS	**133 359**	**34 652**	**5 980**	**986**	**50 822**	**9 201**	**3 101**	**12 485**	**3 239**	**6 019**	**259 845**
LIABILITIES											
Current Liabilities											
Payables and accruals	1 816	297	(2)	300	963	339	21	21	312		4 067
Advance receipts	4 965	7 412	1 650		12 442	617					27 087
Employee benefits	260	464		6	114	22	6	63	68	1 328	2 332
Provisions											0
Other current liabilities											0
Total current liabilities	7 041	8 173	1 648	306	13 519	979	27	85	380	1 328	33 486
Non-current liabilities											
Employee benefits	6	9			3			5	0	164 183	164 206
Advance receipts											
Total non-current liabilities	6	9			3			5	0	164 183	164 206
TOTAL LIABILITIES	**7 047**	**8 182**	**1 648**	**306**	**13 522**	**979**	**27**	**89**	**381**	**165 511**	**197 692**
NET ASSETS											
Accumulated surpluses/(deficits)	81 312	21 957	4 332	680	37 300	7 986	3 074	12 396	2 859	(159 492)	12 405
Reserves	45 000	4 512				236					49 748
TOTAL NET ASSETS	126 312	26 470	4 332	680	37 300	8 222	3 074	12 396	2 859	(159 492)	62 153
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**133 359**	**34 652**	**5 980**	**986**	**50 822**	**9 201**	**3 101**	**12 485**	**3 239**	**6 019**	**259 845**

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

REVENUE		Trust fund for the Clean development mechanism	Trust fund for the Core Budget of UNFCCC	Trust fund for participation in the UNFCCC process	Trust fund for the Special Annual Contribution from the Government of Germany	Trust fund for Supplementary Activities	Trust fund for the International Transaction Log	Special account for conferences and other recoverable costs	Special account for UNFCCC programme support costss	Cost Recovery	UNFCCC Employee liabilities fund	Elimination	TOTAL
Indicative contributions	I1		32 537				1 178						33 714
Voluntary contributions	I2		856	24	1 997	13 056		2 117					18 051
CDM and JI service fees	I3	14 448							0	(0)			14 448
Interest Revenue	I4	1 494	140	52	22	500	100	20	120	37	53		2 537
Gain on foreign exchange	I5	771	2 255	29	6	399	58	109	69	17	32		3 745
Other/miscellaneous revenue	I6		18	106		(175)		0	44	5 914	2 107	(7 804)	208
Programme support income	PSC								7 792			(7 781)	11
TOTAL REVENUE		**16 713**	**35 806**	**211**	**2 025**	**13 780**	**1 336**	**2 246**	**8 026**	**5 967**	**2 192**	**(15 585)**	**72 715**
EXPENSES													
Personnel expenditure	E1	10 894	20 003		665	6 614	547	398	6 423	3 159	9 005	(2 084)	55 624
Travel	E2	424	211	(149)	5	980	(0)	(850)	15	(0)			635
Contractual services	E3	1 614	2 511	1	483	5 666	636	(1 090)	383	2 400	95	(1 980)	10 721
Operating expenses	E4	8	463		73	1 291	1	5		208			2 049
Other expenses	E5	2 884	386	2	210	2 771	61	(1 327)	1 540	173	0	(3 740)	2 961
Depreciation of equipment	E6		18		2	2		45					68
Amortization of intangible assets	E7	11	54			423							489
Return/transfer of donor funding	E8				124	483		75					681
Loss on foreign exchange	E9												
Programme support	PSC	2 164	3 034	(45)	215	2 404	170	(161)				(7 781)	
TOTAL EXPENSES		**18 000**	**26 681**	**- 190**	**1 778**	**20 634**	**1 415**	**- 2 905**	**8 361**	**5 940**	**9 100**	**(15 585)**	**73 229**
TOTAL SURPLUS/(DEFICIT)		**(1 287)**	**9 125**	**401**	**247**	**(6 854)**	**(80)**	**5 151**	**(336)**	**27**	**(6 908)**		**(513)**

Note 19: Budget Comparison and Reconciliation

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

176. The actual amounts presented on a comparable basis to the budget are not prepared on a comparable basis to the Statement of Financial Performance. A reconciliation of the budgetary amounts to the amounts presented on the financial statements, identifying separately any basis and entity differences is presented in table 38. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

177. Basis differences capture the differences resulting from preparing the budget on a modified accrual 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.

178. 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.

179. 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.

180. 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 39
Reconciliation of net result on budgetary and IPSAS basis

Reconciliation of net result on budgetary and IPSAS basis	
Actual net result on the Statement of budgets to actual comparison	
Statement V-A Core Budget	6 760
Statement V-B International Transaction Log	(397)
Statement V-C Contingent budget of conference services	
Actual net result on budgetary basis	**6 363**
Basis differences	
Additional income components under IPSAS	258
Exchange gains/losses	2 313
Conversion of unliquidated obligations to delivery principle	542
Capitalization of equipment & intangible assets	(72)
Changes in provision for doubtful debts	(360)
Sub-total basis differences	**2 682**
Entity differences on IPSAS Basis	
Trust fund for participation in UNFCCC process	401
Trust fund for supplementary activities	(6 854)
Trust fund for the Clean development mechanism	(1 287)
Trust fund for the Special Annual Contribution from the Government of Germany	247
Special account for conferences and other recoverable costs	5 151

Reconciliation of net result on budgetary and IPSAS basis	
Special account for UNFCCC programme support costs	(336)
Cost Recovery	27
UNFCCC employee liabilities fund	(6 908)
Sub-total entity differences	**(9 558)**
Actual net result on the Statement of Financial Performance	**(513)**

Note 20: Budget to Actual variance analysis

181. Explanations of material differences between the original budget and final budget and the actual amounts are presented in the financial report from the Executive Secretary accompanying these statements. See paragraph 18-21 for further details.

Note 21: Related Parties

182. 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.

183. 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.

184. The charges paid to the United Nations (UN Office at Geneva – UNOG) of USD 0.4 million for services related to security, payroll, treasury and other services are considered to be provided on a normal supplier basis. 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 Core Budget at a value of EUR 3.8 million budget for 2020.

185. 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 40
Summary of senior management and related compensation

Number of individuals	*Aggregate remuneration (in thousands of USD)*	*Outstanding advances at 31 Dec 2020 (in thousands of USD)*
9	2 207	149

186. During 2020, two individuals of senior management left the organization.

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

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

Note 22: Leases, commitments and contingencies

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

190. 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

191. UNFCCC’s reporting date is 31 December 2020. The financial statements were authorized for issue on 31 March 2021, the date at which they were submitted to the External

Auditor. On the date of signing these accounts, there have been no material events, favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issue that would have impacted these statements.

Note 24: In-kind contributions of services

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