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Framework Convention on Climate Change

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**Subsidiary Body for Implementation**
**Sixty-first session**
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Item 19 of the provisional agenda
**Administrative, financial and institutional matters**

# Financial report and audited financial statements for 2023 and report of the United Nations Board of Auditors

## Note by the secretariat

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

2. The United Nations Board of Auditors has audited the financial statements for 2023. The full text of the Board's report and of the audited financial statements is included in the annex and reproduced as received, with the original pagination. The secretariat's response to the audit recommendations is contained in the addendum to this document.[2]

3. The Subsidiary Body for Implementation is invited to take note of the information contained in the audited financial statements and the report of the Board. It may also wish to recommend appropriate actions in draft decisions on administrative and financial matters for consideration and adoption by the Conference of the Parties at its twenty-ninth session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its nineteenth session and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its sixth session.

[1] Decision 15/CP.1, annex I.
[2] FCCC/SBI/2024/INF.7/Add.1.

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# Annex



United Nations

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

# for the year ended 31 December 2023

*Note*

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

United Nations Framework Convention on Climate Change

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# 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 2023, 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, as well as the 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 2023, and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

***Basis for Opinion***

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

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

Management is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2023 included in chapter IV, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

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

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

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

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

*Report on other legal and regulatory requirements*

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

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

*(Signed)* **Hou** Kai
Auditor General of the People's Republic of China
Chair of the Board of Auditors

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

*(Signed)* Dorothy **Pérez Gutiérrez**
Acting Comptroller General of the Republic of Chile

24 July 2024

# 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 audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2023. The audit was carried out at the premises, in Bonn (Germany), from 6 to 17 November 2023 for the interim and the final audit was conducted on site, in Bonn (Germany) from 2 to 26 April 2024.

***Audit opinion***

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

***Overall conclusion***

Total revenue has increased by 2.7 per cent, reaching $115.7 million. UNFCCC is mainly funded through contributions and service fees. In 2023, total contributions amounted to $88. 0million. These contributions included $32.8 million of indicative contributions and $55.2 million of voluntary contributions. The total revenue increase is mainly due to the growth of voluntary contributions, a result of UNFCCC enhanced fund-raising efforts and the recognition of $7.5 million contribution for the Santiago network for loss and damage. Total expenses have decreased by 6.2 percent, reaching $124.3 million. This decrease is mainly due to a one-time transfer of $20.0 million from the Clean Development Mechanism Trust Fund surplus to the World Bank hosted Adaptation Fund, occurred in 2022. The total deficit noted in 2023 amounted to $8.6 million representing 7.5 per cent of total revenues received in 2023.

The 2023 financial statements were presented for audit on 31 March 2024. The Board highlighted and discussed a number of issues when reviewing the financial records of UNFCCC for the year ended 31 December 2023 that were well adjusted by UNFCCC in the final financial records submitted on 6 May 2024.

***Key findings***

This year, on top of reviewing the impletion of previous recommendations and auditing the financial statements, the Board focused its work on the audit of: the management of budget processes; the outcomes of the "fit for purpose" initiative launched in 2018 to better adapt the UNFCCC Secretariat to its evolving missions; and the remaining challenges in terms of matching the governance and resources of the UNFCCC Secretariat to its mandate.

***The management of budget processes***

*UNFCCC budgetary procedures applicable*

The UNFCCC Secretariat applies specific budgetary procedures set by first Conference of the Parties in 1995. The programme budget is bi-annual. It is adopted by consensus by the Conference of the Parties (COP), after consideration by the Subsidiary Body for Implementation. This budget, also called "core budget", is funded by contributions by the Parties which are paid annually, following an indicative scale based on the United Nations scale of assessments. The resources of the Secretariat also comprise voluntary contributions made by Parties, which can be earmarked and are channelled through various trust funds. To ease budget implementation, the COP regularly authorizes

the Executive Secretary to make transfers between the appropriation lines of the core budget, up to certain limits. The COP requests the Executive Secretary to prepare annual reports on budget performance and programme delivery covering 12 and 24 months of the biennium.

*Budget preparation, planning and appropriation*

The Secretariat's programme budget proposal is built on the identification of the needs over the two following years. Meant to provide detailed elements to inform the Parties, this proposal currently encompasses several scenarios which are cumbersome to elaborate and rely on the identification of different categories of activities of the Secretariat. The programme budget proposal has limited information regarding the justification of the categorization of activities. The internal preparation of this programme budget proposal also suffers from a lack of strategic guidance. Supplementary funding through voluntary contributions contribute as well to the financing of these missions, including on mandated activities, although these voluntary resources, agreed bilaterally with each donor, are by design not subject to an approval by the COP. In any case, the appropriation process remains largely a formality, with few inputs from Parties, even though the Secretariat is making every effort to involve them ahead of the session.

*Budget implementation*

Getting accurate data on budget implementation is not an easy task. The UNFCCC Secretariat relies more and more on voluntary resources to cover its needs, in a context of constraint core budget. However, raising these supplementary funds is challenging, and their lack of flexibility and predictability constrains budget execution. There is also a need to improve the tools and better define the rules related to the management and overseeing of budget implementation.

*Accountability on budget management and reporting on performance*

The reporting on budget management and performance to the Parties is lacking of consistency and transparency, not providing an understanding of the main dynamics, in particular consumption in relation to appropriation lines and different funding sources, as well as suffering from approximations and gaps. Numerous indicators exist to report on the work programs, but without allowing for an overall view. Other types of reporting are provided, but of a purely narrative nature and lacking coherence with one another.

***Outcomes of the "fit for purpose" initiative launched in 2018 to better adapt the UNFCCC Secretariat to its evolving missions***

*The broad ambition to adapt the UNFCCC Secretariat and the focus on organizational matters*

In 2018, the UNFCCC Secretariat set the objective of moving towards a "fit-for-purpose" Organization, in order to better support the Parties in the implementation of the Convention, the Kyoto Protocol and the Paris agreement in response to the climate change agenda. A thorough review of the Secretariat's organization was launched internally, with the meaningful support of a consulting firm. Although the initial ambition was broad, its implementation essentially focused on organizational issues.

*Reinforcement of oversight and cross-cutting functions*

The restructuring resulted in the creation of an organizational development and oversight unit, two cross-cutting divisions, as well as program and operations coordination departments. An important effort was made to appoint staff to implement the new organization. The creation of the intergovernmental support function was perceived as a success. The reform also resulted into a clustering of administrative teams, which has brought some advantages. However, for many staff, it was felt that administrative processes had not improved dramatically after the restructuring. Difficulties in terms of human resources management have also been highlighted, on which the UNFCCC Secretariat has recently taken action.

*The absence of assessment of the reform's impact*

No formal assessment of the restructuring has been carried out by the UNFCCC Secretariat in spite of demands expressed by the Parties and of a previous recommendation by the Board of Auditors. Some indicators were lately proposed, but they have barely been shared internally and have not been used as a tool to assess the benefits of the change or to steer further adjustments. A staff survey also raised concerns about the effects of restructuring on the personal situation of some staff.

*Recent adjustment of the restructuring on strategic functions*

An adjustment to the restructuring was announced by the Executive Secretary in March 2024. It entails a strengthening of the role of the Deputy Executive Secretary on strategic functions linked to human resources management, resource mobilization partnerships and legal affairs. This evolution overrides part of the previous restructuring, and the UNFCCC Secretariat specified that the aim of the realignment was to increase operational efficiency and facilitate better use of human and financial resources. An evaluation framework would be needed to measure the impact of the recent changes made better than was possible under the previous restructuring.

***Remaining challenges in terms of matching the governance and resources of the UNFCCC Secretariat to its mandate***

*The risk of being overwhelmed with new mandates*

The risk exists for the UNFCCC Secretariat of being overwhelmed with new mandates. The Secretariat does not rely on a single list of workstreams related to the implementation of mandates decided by the Parties, thus hindering the follow-up in the progress of the fulfilment of mandates. However, there is a consensus on the fact that the number of mandates continuously increases, in parallel to the increase of activities of the Convention's governing bodies.

*The budgetary risk associated with the heavy reliance on supplementary funding*

The inadequacy of the cycle of adoption of new mandates with the budgetary cycle leaves the implementation of new mandates largely if not exclusively dependent on voluntary resources for at least one or two years. The reliance on this supplementary funding is increased by the shortfall on core budget, as not all key mandated activities can be covered by the indicative contributions of the Parties. However, the mobilization of voluntary resources to meet the needs associated with the implementation of new mandates has so far only been targeted at a limited number of Parties.

*Cascading difficulties arising from the significant dependence on voluntary contributions*

The significant dependence on voluntary funding introduces many uncertainties, as the UNFCCC Secretariat relies less predictable and flexible resources to carry out core mandated activities. Earmarking can prevent the use of some voluntary funds on high-stake priorities identified by the Secretariat. The Secretariat, faced with high political expectations on new decisions by the Parties, tends to disregard the fact that actions of the Secretariat called for in COP/SB decisions should be undertaken subject to the availability of financial resources. It starts to fulfil mandated activities by using voluntary resources and shifting or borrowing financial resources and staff time from sufficiently funded workstreams, which does not represent a desirable management practice. In addition, the Secretariat finds it difficult to fill positions financed through voluntary funds. Concerns have also been expressed on the financing of support services in these conditions, even if the current levy of 13 per cent to support back office functions appears comparatively high.

*The UNFCCC Secretariat's strategy to overcome these challenges*

The UNFCCC Secretariat is aware of the challenges that this misfit between its objectives and its funding induces. It is thus working on strategic documents and an annual "executive workplan". Yet, the annual workplan is not linked to mandates, although it could have been the opportunity to clarify the contribution of the different activities and workstreams towards the achievement of the mandates. The Secretariat is establishing de facto priories at different stages of the elaboration and implementation of its work programme, in the absence of prioritization by the Parties in the mandates. The difficulty to raise sufficient funds to meet all objectives, the misalignment of the adoption of new mandates and budget decisions, and the hindrances entailed by the heavy reliance on voluntary funding argue in favour of establishing clear priorities that would allow the UNFCCC Secretariat to secure the delivery of high-stake expectations. However, this goal cannot be pursued if attention is not also paid to proposals that could increase collaboration between divisions, allow for efficiency gains and alleviate the collective burden of teams. In any case, these considerations on priority setting in the Secretariat's activities would benefit from being shared with Parties, and articulated with broader reflections on the efficiency of the Convention's processes.

***Recommendations***

The Board has made 8 new recommendations based on its audit. Details of how they can be implemented are provided throughout the report, notably in paragraphs immediately following the formulation of each recommendation.

The Board recommends that the UNFCCC Secretariat:

*The management of budget processes*

**(a) inform and consult the Parties far ahead of the budget appropriation process on the main elements and scenarios of the next budget cycle, to better take into account their concerns;**

**(b) develop a harmonized monitoring tool on budget implementation, enhance budget management oversight, and provide appropriate justification for any core budget reallocation;**

**(c) present to the Conference of Parties and implement a strategy to improve the quality and coherence of its reporting on budget management and performance.**

*Outcomes of the "fit for purpose" initiative launched in 2018 to better adapt the UNFCCC Secretariat to its evolving missions*

**(d) set up and monitor indicators on the effectiveness and efficiency of the most critical processes for the functioning of the Secretariat and staff engagement and well-being;**

*Remaining challenges in terms of matching the governance and resources of the UNFCCC Secretariat to its mandate*

**(e) widen the base of the contribution to mandated activities by sending fundraising letters for voluntary resources to an extended list of Parties;**

**(f) submit to the Parties a new methodology for budget proposal and approval, to better address challenges linked to: (i) the context of increasing new mandates, (ii) the misalignment of the timeframe for mandate adoption and budget appropriation, and (iii) the need to define and approve high stake priorities along with the budget necessary for their implementation.**

**(g) present to the Parties a strategy to increase significantly its efficiency and effectiveness in the next three years, and report yearly on the results reached;**

**(h) regularly report on its strategic approach (strategic plan, delivery of mandates, prioritization criteria) to the Parties, including through the Bureau of the Conference of Parties, to guarantee accountability and increase alignment with**

**considerations of the Subsidiary Body for Implementation concerning the efficiency of the Conference's processes.**

***Previous recommendations***

Out of 26 outstanding recommendations at the end of 2022, 17 have been implemented (representing 65 per cent of all outstanding recommendations, compared with 47 per cent in the report for 2022), while seven remain under implementation (27 per cent) and two are considered as overtaken by events (8 per cent). When excluding recommendations overtaken by event from the scope, the implantation rate in 2023 amounts to 71 per cent.

United Nations Framework Convention on Climate Change

*Key facts*

| | |
|---|---|
| **$115.7 million** | Revenue |
| **$124.3 million** | Expenses |
| **$8.6 million** | Deficit for the year |
| **$273.9 million** | Assets |
| **$195.5 million** | Liabilities |
| **$78.4 million** | Total net assets |
| **441** | 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 has been concluded and established legally binding obligations for developed countries to reduce their greenhouse gas emissions. In 2015, the Paris agreement has adopted governing emission reductions as from 2020 by means of countries committing to Nationally Determined Contributions. The work of UNFCCC is facilitated by its Secretariat located in Bonn, Germany.

2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2023 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations and the annex thereto and in accordance with the International Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNFCCC as at 31 December 2023, 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 focused its audit, among others, on finance, the management of budget processes and the “fit-for-purpose” approach of the Secretariat. The Board also followed up on its previous recommendations. These matters are addressed in the relevant sections of this report.

5. The audit was carried out at the premises from 6 to 17 November 2023 and from 2 to 26 April 2024. This included the final audit of the financial statements. The UNFCCC audit included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of our examination.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Conference of the Parties.

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

## B. Findings and recommendations

8. This year, on top of reviewing the impletion of previous recommendations (see sect. 1) and auditing the financial statements (see sect. 2), the Board focused its work on the audit of: the management of budget processes (see sect. 3), the outcomes of the "fit for purpose" initiative launched in 2018 to better adapt the UNFCCC Secretariat to its evolving missions (see sect. 4) and the remaining challenges in terms of matching the governance and resources of the UNFCCC Secretariat to its mandate (see sect. 5).

### 1. Follow-up of previous recommendations

9. Out of 26 outstanding recommendations at the end of 2023, 17 have been implemented (representing 65 per cent of all outstanding recommendations, compared with 47 per cent in the report for 2022), while seven remain under implementation (27 per cent) and two are considered as overtaken by events (8 per cent). When excluding recommendations overtaken by event from the scope, the implantation rate in 2023 amounts to 71 per cent.

10. Details of the status of implementation of the recommendations are shown in the annex to the present report.

### 2. Finance

11. The financial overview shows a total deficit of $8.6 million representing 7.5 per cent of total revenues received in 2023, and that net assets have decreased by 15.9 million at year-end 2023. The quality check of the financial statement has been strengthened, resulting in fewer errors of all kinds and there were no substantial adjustments during the audit, in contrast to last year. Implementation of compensatory measures have been taken to improve the mitigation of cybersecurity risks, including through part-time hiring of a dedicated agent and staff training. The review of the internal control process for access rights to the Umoja system also shows that risks remain limited in this field.

### 2.1. Financial overview

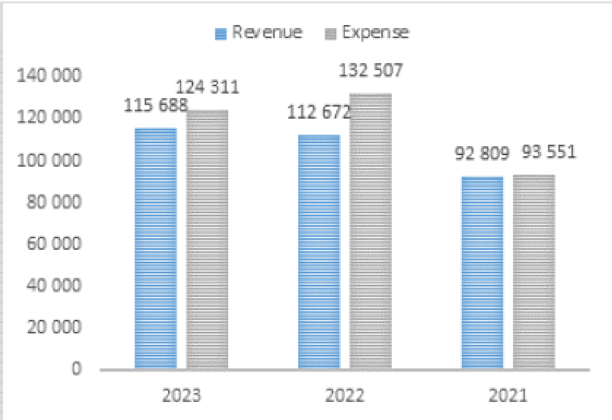
*Revenue and expenses*

12. Total revenue has increased by 2.7 per cent, reaching $115.7 million (in 2022: $112.7 million). UNFCCC is mainly funded through contributions and service fees. In 2023, total contributions amounted to $88. 0 million (in 2022: $75.8 million). These contributions included $32.8 million (in 2022: $35.6 million) of indicative contributions and $55.2 million (in 2022: $40.2 million) of voluntary contributions. UNFCCC collected Clean Development Mechanism (CDM) and joint implementation (JI) service fees of $13.9 million (in 2022: $32.1 million). The total revenue increase is mainly due to the growth of voluntary contributions, a result of UNFCCC enhanced fund-raising efforts and the recognition of $7.5 million contribution for the Santiago network for addressing loss and damage in developing countries that are particularly vulnerable to climate change. Indicative contributions decreased moderately mainly due to the weakening of the United States dollar against the Euro. There was also a significant decrease in CDM and JI fees of $18.2 million attributed to reduced volumes of Certified Emission Reduction issuances for emission reduction projects and programmes in 2023 compared to 2022.

13. Total expenses have decreased by 6.2 percent, reaching $124.3 million (in 2022: $132.5 million). This decrease is mainly due to a one-time transfer of $20.0 million from the CDM Trust Fund surplus to the World Bank hosted Adaptation Fund, which occurred in 2022 in accordance with the decision (2/CMP.16) of the Conference of the Parties

serving as the meeting of the Parties to the Kyoto Protocol. There were no such high value transactions in 2023. Expenses have globally increased in 2023. Travel expenses had a total amount of $21.9 million compared to $12.4 million in 2022. The growth of $9.5 million is attributed to increased activity, rise in cost of tickets, reduction in virtual meetings post Covid-19 pandemic to in-person meetings and coupled with increase in the in-person attendance at the COP 28 held in 2023. Contractual services amounting increased by $6.3 million compared to 2022 and reached $30.5 million (in 2022: $24.2 million). However, the operating expenses decreased to $2.7 million in 2023 compared to $6.4 million in 2022 and the losses on foreign exchange and investments amounted to $2.9 million in 2023 (2022: $6.0 million).

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




*Source*: Analysis made by the Board of Auditors on the basis the UNFCCC financial statements for the year ended 31 December 2023.

14. In 2023, the revenue/expenses ratio is higher than in 2022 mostly due to the decrease of expenses related to a one-time transfer of $20.0 million from the CDM Trust Fund surplus to the World Bank hosted Adaptation Fund, which occurred in 2022, as explain above.

15. The total deficit recorded in 2023 amounted to $8.6 million representing 7.5 per cent of the total revenue in 2023, compared to a deficit of $19.6 million in 2022, representing 17.6 per cent of the 2022 total revenue.

*Assets and liabilities*

16. As of 31 December 2023, the two main elements of the UNFCCC assets are cash and investment balances, which totaled $230.9 million (in 2022: $233.1 million), representing 84.3 per cent of the total assets, and $22.3 million of contributions receivables (in 2022: $23.2 million). Contributions receivables represent amounts already due and the outstanding over the lifetime of current agreements with donors, of which an amount of $1.4 million (in 2022: $4.1 million) is due in more than one year.

17. The cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNFCCC cash balances and investments totaled $9.9 million (in 2022: $4.0 million). Although, the overall levels of these assets decreased by $2.2 million compared to 31 December 2022. Following the implementation of IPSAS 41, fair value adjustment of $0.7 million has been recognized for investments including unrealized losses at 1 January 2023 of $2.5 million and a gain during the period of $1.8 million.

18. The most significant component of UNFCCC liabilities results from employee benefits liabilities of $147.8 million (in 2022: $130.9 million). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate cost of after-service health insurance (ASHI) of $133.9 million (in 2022: $120.0 million). In 2023, UNFCCC has accounted net actuarial loss of $6.4 million (in 2022: gain of $40.9 million) on the ASHI liability, as disclosed in note 14 to the financial statements, mainly due to the increase of the discount rate. In 2023, an independent actuarial firm has estimated UNFCCC's employee benefits liability, which represents the best estimate of this liability but remains subject to a degree of uncertainty. As at 31 December 2023, the employee benefits liabilities also include repatriation grant for $8.3 million, and accumulated annual leave ($4.5 million which are mainly booked as non-current liabilities).

19. The second most significant liability of UNFCCC relates to advance receipt of $24.7 million (in 2022: $29.8 million). The advance receipt of conditional voluntary contributions represents $18.6 million (in 2022: $19.3 million) and the indicative contributions received in advance amounted $3.2 million (in 2022: $2.9 million) as disclosed in note 13 to the financial statements. In accordance with IPSAS 23, the advance receipts represent agreements where the revenue is recognized when the conditions set out in the agreements are met in future financial periods. From UNFCCC's perspective, these advance receipts represent commitments to donors for the provision of future services. The recognized amount represents UNFCCC's best estimate that would be required to settle the obligations defined in the conditions of the agreements.

20. The Board' analysis of capital structure ratios (table II.1) shows that, despite the competitive environment for donor funds, the current financial position of UNFCCC remains sound, with a slightly decreased asset to liabilities ratio of 1.40 (1.55 in 2022). The other ratios show the same downtrend compared to 2022 as a result of the most important increase of current liabilities, than current assets).

Table II.1
**Capital structure ratios**

| Description of ratio | 31 December 2023 | 31 December 2022 | 31 December 2021 | 31 December 2020 |
|---|---|---|---|---|
| Assets-to-liabilities ratio[a] | 1.40 | 1.55 | 1.34 | 1.31 |
| Assets/liabilities | | | | |
| Current ratio[b] | 4.41 | 4.65 | 5.61 | 6.20 |
| Current assets/current liabilities | | | | |
| Quick ratio[c] | 4.06 | 4.53 | 5.49 | 6.10 |
| Cash + short-term investments + accounts receivable/current liabilities | | | | |
| Cash ratio[d] | 3.6 | 4.01 | 5.01 | 5.36 |
| Cash + short-term investments/current liabilities | | | | |

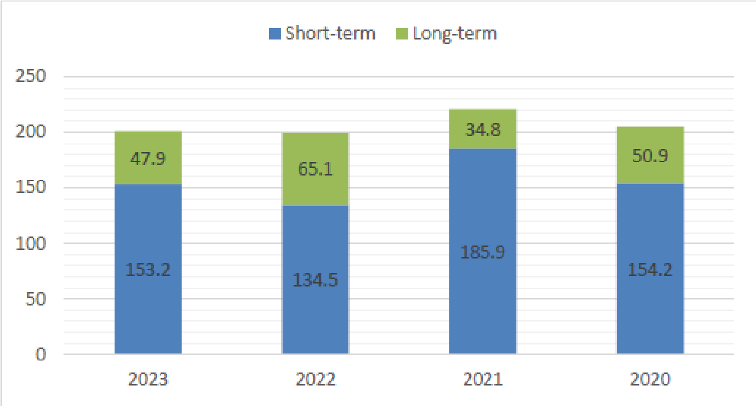
*Source*: Board's calculations based on the UNFCCC financial statements for 2023, 2022, 2021 and 2020.

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

Figure II.II

**Level of investments during the years 2019-2023**

(Millions of United States Dollars)




*Source*: Analysis made by the Board of Auditors on the basis the UNFCCC financial statements for 2023, 2022, 2021 and 2020- accrued interests are excluded.

21. Total investments, handled by the United Nations Secretariat for UNFCCC, have increased by 0.75 per cent in 2023 from $199.6 million to $201.1 million (see figure II.II above). Long-term investments have decreased (14 per cent) while short-term ones have increased (14 per cent). Cash and cash equivalents have decreased from $33.5 million to $29.7 million.

*Net assets*

22. Net assets have decreased by $15.9 million at year-end 2023 and reached $78.4 million compared to $94.3 million in 2022. As at 31 December 2023, it should be noted that the accumulated reserve of cash held in the UNHQ Main Pool set aside to cover the cost of end-of-service benefits amount to $12 million, to be compared with the total employee benefits liabilities amounted to $147 million.

23. The table below shows that the decrease on 2023 of the net assets is primarily noted in the increase of UNFCCC Employee Liabilities, as well as the decrease of Supplementary activities Trust Fund.

Table II.2

**Net assets by fund**

(Thousands of United States dollars)

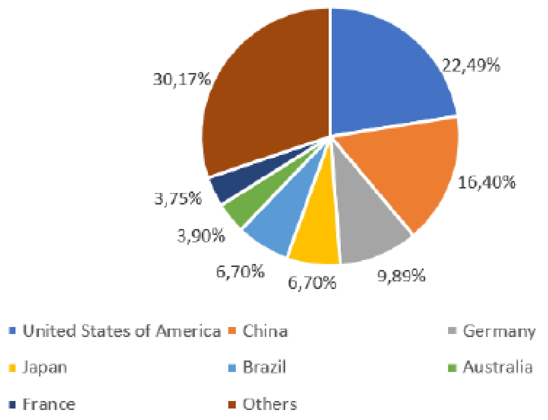
| | TF for the Clean development mechanism | TF for the core budget of UNFCCC | TF for Supplementary Activities | TF for the International Transaction Log | UNFCCC Employee liabilities fund | Other funds | **Total Net assets** |
|---|---|---|---|---|---|---|---|
| 2021 | 77.6 | 26.7 | 95.5 | 8.1 | -157.1 | 20.3 | **71.1** |
| 2022 | 75.1 | 26.7 | 87.5 | 7.6 | -120.5 | 17.9 | **94.3** |
| 2023 | 78.3 | 27.1 | 80.6 | 7.4 | -134.9 | 19.9 | **78.4** |

*Source*: Analysis made by the Board of Auditors on the basis the UNFCCC financial statements for 2023, 2022 and 2021.

*Main parties contributing to the core budget*

24. The figure below shows the top seven parties providing 70 percent of total contributions to UNFCCC core budget. The United States of America (22.49 per cent), China (16.40 per cent) and Germany (9.89 per cent) shares account for almost 50 percent of total contributions.

Figure II.III
**Main parties contributing to the core budget (percentage of total Core budget contributions)**




*Source*: Analysis made by the Board of Auditors on the basis the UNFCCC financial statements for 2023

### 2.2. Adjustments during the audit

25. In the course of the audit of UNFCCC's financial report and financial statements for the year ended 31 December 2023, the audit team reviewed the issued financial statements in the version submitted to the Board on 31 March 2024 and identified insignificant number of disclosure errors and some mistakes such as arithmetic errors and omissions of information in tables. These have been corrected by UNFCCC.

## 3. The management of budget processes

26. The Board examined, under the UNFCCC budgetary procedures applicable (see sect. 3.1), the key stages of the budget cycle: budget preparation, planning and appropriation (see sect. 3.2); budget implementation (see sect. 3.3); and accountability on budget management and reporting on performance (see sect. 3.4).

### 3.1. UNFCCC budgetary procedures applicable

27. The UNFCCC Secretariat applies specific budgetary procedures set by first Conference of the Parties in 1995. The programme budget is bi-annual. It is adopted by consensus by the Conference of the Parties, after consideration by the Subsidiary Body for Implementation. This budget, also called "core budget", is funded by contributions by the Parties which are paid annually, following an indicative scale based on the United Nations scale of assessments. The resources of the Secretariat also comprise voluntary contributions made by Parties, which can be earmarked and are channeled through various trust funds. To ease budget implementation, the COP regularly authorizes the Executive Secretary to make transfers between the appropriation lines of the core budget, up to certain limits. The COP requests the Executive Secretary to prepare annual reports on budget performance and programme delivery covering 12 and 24 months of the biennium.

28. In line with Article 7.2(k) of the Convention, the first Conference of the Parties (COP) in April 1995 adopted by consensus financial rules for itself, the UNFCCC Secretariat and the Subsidiary Bodies. These "financial procedures", contained in Annex

I of decision15/CP.1, apply mutatis mutandis to the Kyoto Protocol (Article 13.5 of the Kyoto Protocol) and to the Paris Agreement (Article 16.5 of the Paris Agreement).

29. These financial procedures set out the main budgetary principles applicable to the UNFCCC Secretariat, notably in articles 3 to 6: "3. The head of the Convention secretariat shall prepare the administrative budget for the following biennium, and shall dispatch it to all Parties to the Convention at least 90 days before the opening of the ordinary session of the Conference of the Parties at which the budget is to be adopted."; "4. The Conference of the Parties shall consider the proposed budget, and shall adopt a budget by consensus prior to the commencement of the financial period that it covers."; "5. Adoption of the budget by the Conference of the Parties shall constitute authority to the head of the Convention secretariat to incur obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved, provided always that, unless specifically authorized by the Conference of the Parties, commitments are covered by related income."; "6. The head of the Convention secretariat may make transfers within each of the main appropriation lines of the approved budget. He/she may also make transfers between such appropriation lines up to such limits as the Conference of the Parties may set from time to time."

30. Every two years, the Executive Secretary proposes a programme budget for consideration by the Subsidiary Body for Implementation (SBI), setting out the proposed activities and budget of the Secretariat for the forthcoming biennium. After having considered the proposal, the SBI recommends a programme budget to the Conference of the Parties for its approval and for endorsement by the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP) and the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (CMA). The budget is adopted by consensus[1].

31. This budget, also called "core budget", is funded by indicative contributions by the Parties which are paid annually. According to financial procedure 7(a), the COP and the CMP adopt by consensus as well scales of contributions that indicate the contributions by each Party to the Convention and the Kyoto Protocol, respectively. The scales are based on the United Nations scale of assessments adopted by the General Assembly every three years, "adjusted so as to ensure that no Party contributes less than 0.01 per cent of the total; that no one contribution exceeds 25 per cent of the total; and that no contribution from a least developed country Party exceeds 0.01 per cent of the total." The financial procedures also state that: "8. (a) Each Party shall, prior to 1 January of each year, inform the head of the Convention secretariat of the contribution it intends to make that year and of the projected timing of that contribution; (b) Contributions are due on 1 January of each calendar year."; "11. The head of the Convention secretariat shall acknowledge promptly all pledges and contributions and shall inform the Parties, at least twice a year, of the status of pledges and payments of contributions."[2]

32. The resources of the Conference of the Parties also comprise voluntary contributions made by Parties in addition to those under the indicative scale of contributions mentioned above, and other voluntary contributions, including contributions to support the participation of the representatives of developing country Parties and of other Parties with economies in transition in the Conference of the Parties and its subsidiary bodies (financial procedures 7(b) and (c)). These voluntary contributions can be earmarked, in the sense that they "shall be used in accordance with such terms and conditions, consistent with the objective of the Convention, as may be agreed by the head of the Convention secretariat and the contributor" (financial procedure 9).

33. Financial procedures 13 to 17 include the request to the United Nations Secretary-General to establish two trust funds which bear costs related to the Convention, namely:

[1] As recalled by UNFCCC: Financial and Budgetary Matters | UNFCCC.

[2] In 2023, the legislative bodies approved UNFCCC core budgets for the biennium 2024-2025: the COP adopted decision 19/CP.28 at its 28th session held in Dubai from 30 November to 12 December 2023; the CMP adopted decision 5/CMP.18 and therein endorsed decision 19/CP.28 as it applies to the Kyoto Protocol, as well as decision 6/CMP.18 on the budget for the international transaction log for the biennium; the CMA endorsed decision 19/CP.28 at its third session (CMA5 report para. 106).

the Trust Fund for the core budget of the Convention, which receives contributions from Parties (as defined by financial procedure 7(a)); the Trust Fund for Participation in the UNFCCC process, which receives voluntary contributions (as defined by financial procedures 7(b) and (c)). Subsequently, additional trust funds were established, including: Trust Fund for Supplementary Activities, which receives funding provided by Parties in addition to their contributions to the core budget and supports a large range of activities for the implementation of the biennial work programme; Trust Fund for the Special Annual Contribution of the Government of Germany (the "Bonn Fund"), which consists of an additional annual contribution from Germany, the host of the UNFCCC Secretariat, and primarily supports conferences and other meetings in Bonn (decision 16/CP.3); Trust Fund for the Clean Development Mechanism for the receipt of fees and shares of proceeds for the administration of CDM (decision 11/CMP.3).[3]

34. In order to facilitate the budget implementation, the COP regularly authorizes the Executive Secretary to make transfers between the appropriation lines of the core budget, up to certain limits as for the last biennium: an aggregate ceiling of 15 per cent of total estimated expenditure for those lines; a limitation of up to minus 25 per cent of each such appropriation line; such transfer shall have no negative impact on the activities under each division.

35. The COP requests the Executive Secretary to prepare annual reports on budget performance and programme delivery covering 12 and 24 months of the biennium.[4] The report as at 31 December 2023 related to the biennium 2022-2023 was not yet published at the time of the audit.[5]

36. COP 24 also requested the Secretariat to prepare, regularly update and publish, prior to each session of the subsidiary bodies, brief reports on standard costs for staff and non-staff[6]. These reflect the predetermined estimated costs of producing or delivering a service, good or output, based on an analysis of historical data and other estimated inputs or drivers of costs, including inflation.[7]

### 3.2. Budget preparation, planning and appropriation

37. The Secretariat's programme budget proposal is built on the identification of the needs over the two following years. Meant to provide detailed elements to inform the Parties, this proposal currently encompasses several scenarios which are cumbersome to elaborate and rely on the identification of different categories of activities of the Secretariat. The programme budget proposal has limited information regarding the justification of the categorization of activities. The internal preparation of this programme budget proposal also suffers from a lack of strategic guidance. Supplementary funding through voluntary contributions contribute as well to the financing of these missions, including on mandated activities, although these voluntary resources, agreed bilaterally with each donor, are by design not subject to an approval by the COP. In any case, the appropriation process remains largely a formality, with few inputs from Parties, even though the Secretariat is making every effort to involve them ahead of the session.

#### 3.2.1. A programme budget proposal with limited information regarding the justification of the categorization of activities

38. The Secretariat strives to present as much information as possible in its programme budget to the Parties, partly at their request. However, this is not always the most relevant

[3] In 2023, supplementary requirements as well as requirements for the Trust Fund for Participation in the UNFCCC Process were taken note of at the COP in decision 19/CP.28. The UNFCCC Secretariat depends on voluntary contributions to fund these requirements.

[4] See for instance the latest decision: Decision 23/CP.26, para. 10.

[5] The report on budget performance and programme delivery as at 31 December 2022 is contained the following document: FCCC/SBI/2023/6.

[6] Information on standard costs for the biennium 2022-2023 is contained in document FCCC/SBI/2021/4, annex I, section B and for the biennium 2024-2025 it is contained in document FCCC/SBI/2023/2, annex I, section B.

[7] In the development of the budget for 2024-2025, the secretariat used standard costing for salaries (staff costs) and for travel of staff and participants, and internal service charges (non-staff costs).

and intelligible information. The presentation by category is partial. In the main document, it mixes funding sources and trust funds, without differentiation.

39. The programme budget proposal is presented in biennium (FCCC/CP/1995/7/Add.1, para. 2). Yet, annual estimates are provided in the financial statements in accordance with the UN financial rules and regulations. 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.

40. The budget proposal presents an integrated budget (activities and support costs and staffing table). An addendum 1 is dedicated to the work programme of the Secretariat, while an addendum 2 provides information on the trust fund for the International Transaction Log (ITL).

41. Secretariat's requirements are funded thanks to the following funding sources:

a. Core budget;
b. Supplementary resources;
c. Article 6, paragraph 4, of the Paris agreement;
d. Joint Implementation;
e. International Transaction Log budget;
f. Clean Development Mechanism;
g. Trust Fund for Participation in the UNFCCC Process;
h. Bonn Fund;
i. Overheads (programme support cost) and cost recovery.

42. However, the Parties only adopt part of the budget proposal (core budget and international transaction log budget) during the COP process. They take note of the other budgets which are presented to them such as the supplementary or the PSC. Some budgets such as the budget regarding CDM, are approved by specific governing bodies (e.g. the CDM Executive Board). The overall programme budget proposal is presented to the Parties during session of the Subsidiary Body for Implementation. The SBI recommends decisions for consideration and adoption during the subsequent COP. In practice, the COP only approves the core budget, that rely on the indicative contributions and the ITL budget.

43. For the biennium 2024-2025, the programme budget documents comprise scenarios, including a zero nominal growth scenario as requested by the Parties (FCCC/CP/2015/10/Add.3, decision 22/CP.21, para. 22). At COP 28, the Parties requested the Secretariat to present a zero real growth scenario in the future budget proposals (FCCC/CP/2023/11/Add.2, decision 19/CP.28, para. 25). Alongside with the requested scenario, the Secretariat has presented a proposed scenario (which is not the zero real growth scenario nor an "actual needs" scenario and which has taken into account the results of the discussion with the Parties on their willingness to contribute), an "actual needs" scenario and a "proposed core budget". Each scenario needs to be examined in the light of a number of factors, such as the breakdown of activities by funding sources, by trust funds/special accounts, and by categories.

44. The resources requirements are indeed categorized. This work is done internally to support the arbitrages in the proposal for funding activities (including staff costs), whether core or supplementary. The categories are detailed in the annex I of the budget proposal and are the followings:

- Category 1: essential activities;
- Category 2: recurring or long-term activities;
- Category 3: temporary or short-term activities;
- Category 4: complementary activities beneficial to achieving the objectives and goals of the Convention, the Kyoto Protocol and the Paris agreement.

45. When this categorization was designed, the core budget was supposed to cover categories 1 and 2 needs. For the 2024-2025, the core budget only covers the category 1 needs and part of the category 2 needs. Category 3, even though this includes mandated activities, and category 4 are supposed to be covered by supplementary funding and other

sources of funding. In effect, projects are defined to achieve the mandates given by the COP (see part on mandates definition). These projects are structured into different activities. Activities aiming towards the same objective are used for the execution and the reporting of the budget. This categorization does not therefore appear explicitly in the detailed information of the budget proposal documents.

### 3.2.2. A weakened exercise of internal programme budget preparation due to insufficient strategic guidance

46. Although the budget is presented in biennium, there are still faces challenges regarding the planning of activities. Strategic guidance on critical activities, prioritization and a proposed budget trajectory needs to be provided early in the process in order to ensure an efficient budget preparation process.

47. The Financial Resources Management Unit (FRMU) is the owner of the budget preparation process. On 12 September 2022, it issued a support guide for the preparation of the 2024-2025 budget. Additional templates were provided to the Secretariat divisions, such as work programme to fill and an Excel sheet (details below). The guide provides key elements on the methodology, the objectives of the process and a detailed indicative timeline.

48. Budget preparation’s main tool is cumbersome, not user friendly and not processed through Umoja. An Excel sheet was developed. Each division has to fill in a tab with fifty-five manual entry columns per set of outputs, including the consideration of the multiple scenarios requested. Budget preparation is not carried out through Umoja, as the budget is presented in biennium and it was considered that Umoja budget module could not adequately respond to the requests (mandates) by the UNFCCC governing bodies. However, although the budget tool provides space to indicate whether a requirement is equal for both years of the biennium or different in year one from year two, in effect, each activity cost is split arbitrarily in half by year of the biennium, even though an activity might only occur one year. Also, objects of expenditure in the budget tool do not exactly match with commitment items in Umoja (they can be further refined to specify certain aspects for budgetary purposes). Standard staff costs are calculated by FRMU, considering costs of actual incumbered. An average is calculated per grade level.

49. So far, the budget preparation follows a bottom-up process that does not sufficiently considering the main challenges of each biennium and the budget estimations could be further refined.

50. In divisions, budget preparation relies mainly on the program administrative teams and budget focal points (one with financial expertise and one with programme expertise per division). PATs fill the documents provided by FRMU, according to the instructions of the division leadership. However, for the preparation of the 2024-2025 budget, the main inputs for each scenario and priorities (see details below) were not defined from the outset. No strategic guidance on priorities was provided. The lack of guidelines on major orientations induces tendency to propose similar expenses as in previous years, as well as some underestimations and overestimations of budget lines. The Secretariat told the Board that it intends to adopt a more top-down approach by taking into account strategic priorities in the next budget preparation exercise. Early guidance on priorities, critical activities and a proposed scenario could be provided by management team or the ES, to overcome the difficulties raised by the bottom-up approach by divisions that is currently adopted.

51. The arbitration between budget lines to fit in the overall envelope was carried out over a short period of time and the justifications were not made explicit enough to the divisions. During the process, divisions were asked to modify their scenarios to shift certain costs from one scenario to another and, even, to develop new scenarios. These changes were time consuming and had to be done in a very short period of time. The different management levels of divisions need to be made aware of any changes to their input, including down to the detail of exact budget lines.

52. The budget preparation process included a peer review, which is supposed to help to identify discrepancies and budget improvements. It appears to have a low level of efficiency. The review of a division is carried out by budget focal points of another division and by directors. The benefits of the peer review cannot be satisfying since the peer reviewer does not have an in-depth understanding of the division's budget entries and has no incentive to propose budget cuts. Also, for the 2024-2025 budget preparation, the timeframe for the peer review was inadequate. As initial stages of the preparation were delayed, it has shrunken the review phases. The peer review was supposed to take place mid-October. In the end, it happened after COP 27, in the second half of December 2022.

53. All regional collaboration centres (RCCs) are managed through a RCC coordination unit within the mitigation division. RCCs are not an independent entity and thus do not have a dedicated appropriation line and, in consequence, a clear estimation on their budget. They are not taking part in the budget process as an independent Secretariat's entity. RCCs financial organisation relies on financial arrangements between the Secretariat and the host institutions. The financial resources come from the Mitigation division, the Secretariat's divisions that request the RCCs, and from the Parties that request the RCCs. Hosting institutions provide only in-kind resources to support the RCCs work (office space, administrative support, etc.).

### 3.2.3. A need to strengthen outreach to the Parties

54. The current process of budget preparation hinders the consideration of external inputs and outreach possibilities, other than through informal outreach with the Executive Secretary and/or DES. Consultation with Parties need to be strengthened and started already at the previous COP. During COP 28, the Parties "request[ed] the Executive Secretary to exhibit further transparency in preparing and implementing the budget by undertaking enhanced consultations with Parties and increasing responsiveness of the Secretariat to mandates in preparing budget proposals for each biennium" (FCCC/CP/2023/11/Add.2, decision 19/CP.28, para. 29).

55. For the biennium 2024-2025, the set of documents was presented to the Parties in March 2023 (in accordance with the support guide). The main document, on budgetary matters, has not changed for the presentation during the fifty-eighth session of the SBI. Only the addendum 1 related to the work programme has been slightly changed. It means that the dialogue with Parties does not lead to a refined proposal that could reflect requests and propositions. Earlier and strengthened outreach would benefit to the Organization by raising the awareness among the Parties of the issues related to the budget and the difficulties encountered by the Secretariat, in particular the financing of activities through the core budget.

56. The Executive Secretary proposed a core budget of EUR 88.4 million. The programme budget proposal was presented to the Parties during the fifty-eighth session of the SBI. The SBI "recommended that COP 28 approve a core programme budget of EUR 74,105,511 for the biennium 2024–2025" (FCCC/SBI/2023/10, para. 151). As they were not involved in the budget preparation process at an early stage, the Parties did not discuss and challenged the needs in detail, they agreed on an overall reduction of the proposed envelope. As a result, the Secretariat had to adjust its planning and to transfer the financing of activities from the core budget to the "supplementary budget", built on voluntary resources.

57. **The Board recommends that the UNFCCC Secretariat inform and consult the Parties far ahead of the budget appropriation process on the main elements and scenarios of the next budget cycle, to better take into account their concerns.**

58. This consultation could start during the Conference of Parties preceding the budget adoption year.

59. The UNFCCC Secretariat accepted the recommendation.

### 3.3. Budget implementation

60. Getting accurate data on budget implementation is not an easy task. The UNFCCC Secretariat relies more and more on voluntary resources to cover its needs, in a context of constraint core budget. However, raising these supplementary funds is challenging, and their lack of flexibility and predictability constrains budget execution. There is also a need to improve the tools and better define the rules related to the management and overseeing of budget implementation.

#### 3.3.1. Opportunities to enhance extraction of accurate data on budget implementation

61. A comprehensive overview of the Secretariat's consumption trends, considering various parameters (appropriation line, fiscal year/biennium, trust fund, funding source, approved budget/allotted budget/ consumed budget) is difficult to obtain given the current tools, their interoperability and the analysis carried out by the Secretariat.

62. Different limits on the overview on budget execution by the Secretariat can be highlighted. In particular, it is difficult to obtain the following budgetary information:

- Consumption on supplementary (voluntary) funding: the data available in Umoja is sorted out considering the "fund". The Trust Fund for Supplementary Activities is a "fund" in Umoja. Yet, this trust fund is also used for activities related to Article 6, paragraph 4, of the Paris agreement and for the Joint Implementation mechanism;
- Ratio to compare the consumable and the consumed core budget: this ratio would be useful as currently, only the ratio to compare the approved budget to the consumed one (expenditures) is available; yet the latter does not allow to consider the outstanding contributions, which represent funds not received and which therefore cannot be allocated and consumed; the Secretariat is however able to produce regular overviews of receipts and outstanding indicative contributions and can produce a ratio comparing expenditure against annual or biennial budgets and against allotments;
- Consumable of a given year: the ERP gives the data per year; the budget allotments are issued quarterly or yearly, provided they are supported by the revenue received from the contributions made by the Parties and do not exceed the budget appropriations approved for the biennium budget period; however, if the core budget is not fully spent in the first year of the biennium, any balance can be used in the second year; in Umoja, this balance is not withdrawn from the consumable of the first year of the biennium (through a de-allocation for instance) and can be found in the consumable for the second year of the biennium, which can induce double counts when summing consumable over the biennium period;
- Ratio to compare the approved budget (or the consumable budget) and the consumed budget per year: it is currently not relevant as the Secretariat distributes arbitrarily the biennium allotment in two equal shares, not considering the specific needs of each year;
- Level of earmarking of supplementary (voluntary) funding: this information would be useful to know what the proportion of funds raised that UNFCCC Secretariat can allocate to the priorities it identifies; it would also be interesting to know which appropriation lines benefit more from earmarked funding; such an analysis would have to identify which contributions are "softly" earmarked, broadly earmarked to an area of work, partially earmarked, etc.;
- Ratio to compare the supplementary budget presented to COP for its information and the level consumed: it would be useful to get a synoptic view, regarding funding sources other than the core budget, on what was presented at the COP, what was finally effectively available and what was consumed.

### 3.3.2. The major role played by voluntary resources in the implementation of the budget

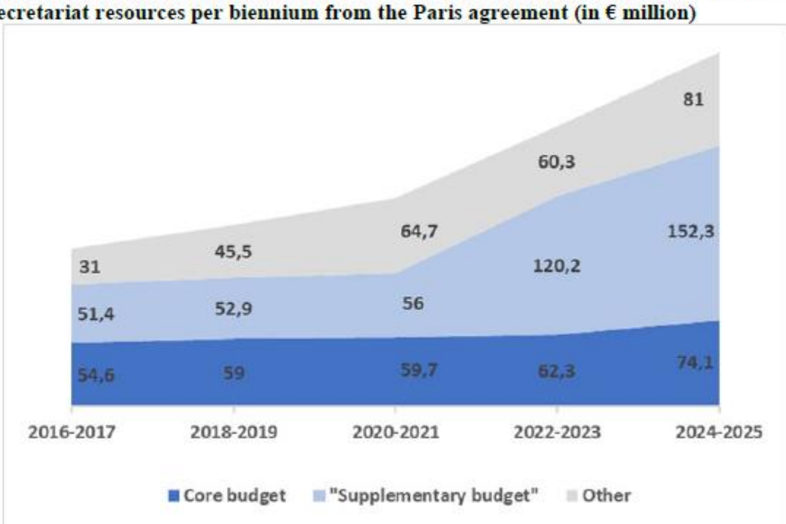
63. From the biennium 2016-2017 and the adoption of the Paris agreement the needs of the Secretariat have been constantly growing (see figure II.IV), and, recently, Secretariat activities were impacted by inflation of costs. This is reflected in the biennium budgets. For the biennium 2024-2025, the Parties agreed to increase the core resources by 19 per cent, going from € 62.3 million to € 74.1 million.

64. The share of voluntary funding in the overall resources is increasing, highlighting the fact that the UNFCCC Secretariat is more and more relying on less predictable and flexible resources to implement its programs. This share has more than doubled between the biennium 2020-2021 and 2022-2023, where a noteworthy shift happened: for the first time, voluntary resources became higher than the core resources. For the biennium 2024-2025, the supplementary (voluntary) resource requirements represent 206 per cent of the approved core resources.

65. It is worth to note, as well, that the current budget for Article 6, paragraph 4, of the Paris agreement budget is € 38.4 million. However, € 0.5 million out of € 25.4 million budgeted were consumed on the previous biennium[8]. The low consumption rate in the previous biennium is due to various delays. The Article 6.4 Supervisory Body approved the 2024-2025 budget considering that the mechanism would be fully operational by 2024 or 2025.

Figure II.IV

**Share of core budget, supplementary resources and other resources within the Secretariat resources per biennium from the Paris agreement (in € million)**




*Source*: Board of Auditors | Approved biennium budgets and amounts taken note of by the COPs approving the biennium budget.

66. The Board compared the approved budgets and the consumed budget[9] for the last two biennium (see figure II. V). For the core budget, the consumption rate stands between 88 and 95 per cent. Despite various difficulties on budget management and implementation (see below), the Secretariat managed to execute most of its core budget in the last biennium. Yet, the overall consumption rate is dragged down by the lower consumption rates on the other sources of funding: it reached 76 per cent for 2020-2021 (EUR 128.2 million consumed) and 78 per cent for 2022-2023 (EUR 195.0 million consumed). This is partially explained by the fact that some activities, including activities

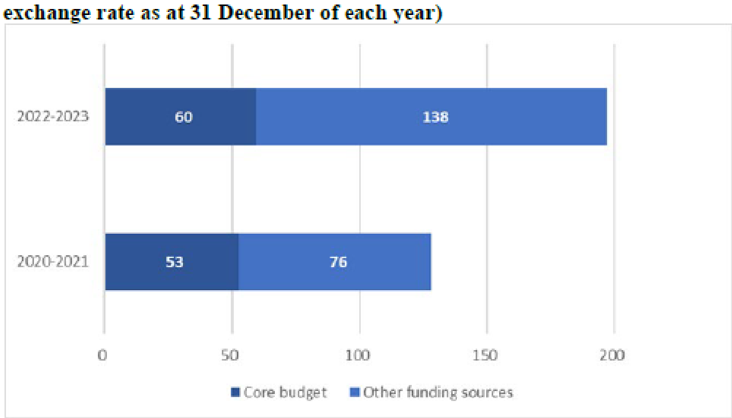
[8] As a rationale, the Board also mentions that it used the United Nations Treasury exchange rate of 31 December of each year to perform its analysis. Indeed, the programme budget is presented and reported in euro, while the consumption information extracted from Umoja are in dollar. It was chosen to present all the figures in euro.

[9] Data collected in Umoja.

relating to Article 6, paragraph 4, of the Paris agreement, were delayed as a result of external factors not controlled by the Secretariat. The UNFCCC Secretariat also faces difficulties to raise voluntary funding at the level expected. These supplementary resources can moreover be earmarked, constraining the use of funds.

Figure II. V

**Consumption of the Secretariat for all the funding sources broken down between the core budget and the other sources of funding for the two-last biennium (in € million – exchange rate as at 31 December of each year)**

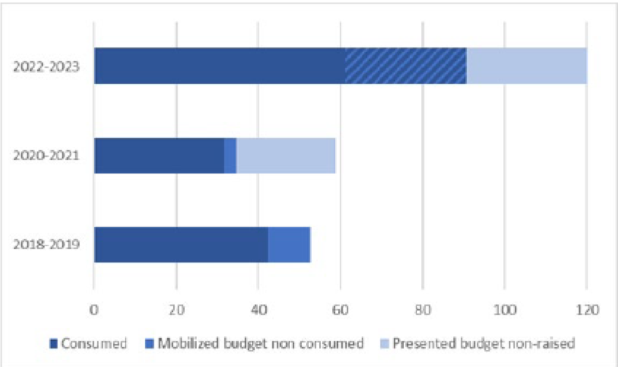



Source: Board of Auditors | Umoja.

67. The Secretariat provided indicators on the mobilization of supplementary funding as part of the response to one of Board's previous recommendation (2019-145). This information shows that although the budget programme is more relying on voluntary resources over the years, the Secretariat is having more difficulties in raising them (see figure II.VI). During the biennium 2018-2019, the Secretariat succeeded to mobilize € 52.6 million, i.e. almost the target of € 52.9 million presented in the budget programme. It consumed 80 per cent of these resources. The situation deteriorated in the following years, although the Secretariat has succeeded to mobilize more supplementary resources for the biennium 2022-2023. In 2020-2021, the Secretariat elaborated the budget by presenting a need of EUR 58.8 million of supplementary resources, but raised only EUR 34.7 million and consumed € 31.7 million, i.e. 54 per cent of the needs that had been identified. During the biennium 2022-2023, as the needs doubled, the Secretariat adapted its organization by reinforcing its resource mobilization partnerships team and by initiating a review of the processes of fundraising, which is still ongoing. Yet, only 76 per cent of the needs were addressed (€ 90.8 million consumed).

Figure II.VI

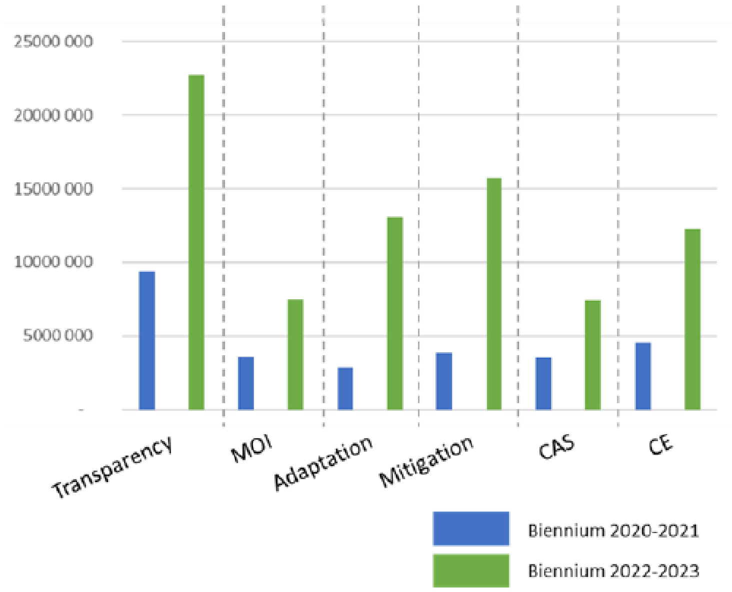
**Status of supplementary (voluntary) funding consumption since 2018 (in EUR million – exchange rate as at 31 December of each year)**



Source: Board of Auditors | April 2024 Note-to-file by the organizational development and oversight unit measuring, tracking and evaluating the intended results of the restructuring.
Reading note: the hatched area in 2022-2023 corresponds to the difference between the budget "mobilized" for the biennium and the budget consumed, which was higher because of carryovers of unused appropriations from the previous biennium.

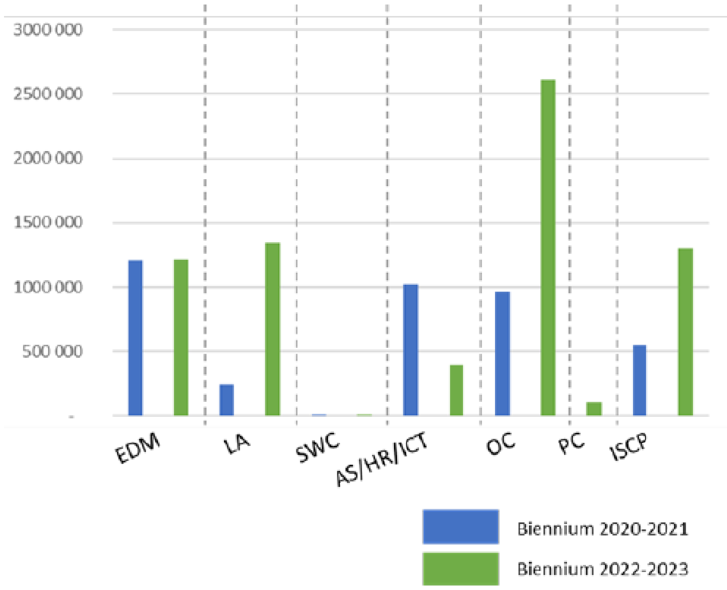
68. In light of the above findings, the Board focused on the consumption of supplementary funding per division (see figures VI and VII). It looked at the consumption on the Trust Fund for Supplementary Activities. The four program divisions (transparency division, means of implementation division, adaptation division, mitigation division) are the main consumers. Also, the conference affairs services and the communications and engagement services are noteworthy consumers of supplementary resources. The Board noticed a significant increase of supplementary funding consumption from one biennium to the other. In the meantime, the Executive office recourse to supplementary funding stayed stable, and the Administrative services/Human resources/Information and communication technology services (administrative support/human resources/information and communication technologies) use of supplementary funding was decreasing.

Figure II.VII
**Consumption of funds from the Trust Fund for Supplementary Activities above €3 million per division for the two-last biennium (in € – exchange rate as at 31 December of each year)**




*Source*: Board of Auditors | Umoja. *MOI, Means of Implementation; CAS, Conference Affairs; CE: Communications and Engagement*

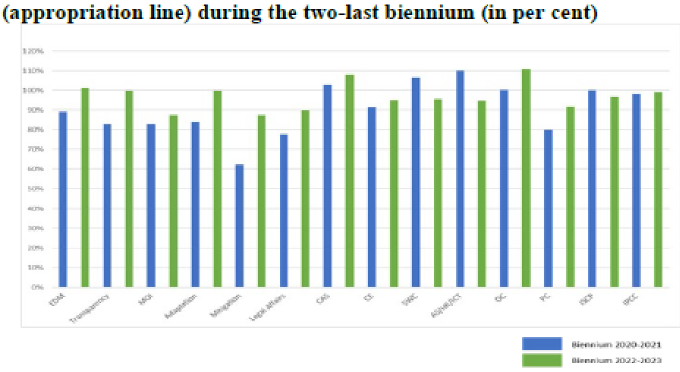
Figure II.VIII
**Consumption of funds from the Trust Fund for Supplementary Activities under €3 million per division (appropriation line) for the two-last biennium (in € – exchange rate as at 31 December of each year)**




*Source*: Board of Auditors | Umoja. EDM: LA: Legal Affairs; SWC: Secretariat-wide operating costs; AS/HR/ICT: Administrative Services, Human Resources, and ICT; OC: Operations Coordination; PC: Programme Coordination; ISCP: Intergovernemental Support and Collective Progress.

69. Overall, the consumption rate of the core budget improved over the last two biennia (see figure II.IX). For the divisions and services which were under-consuming in 2020-2021, their capacity to consume improved. For those who were over-consuming, they succeeded to reduce their consumption rate, almost often under 100 per cent. The Mitigation division is the programmes division who is having the most difficulties to consume its core budget (consumption rate of 63 per cent in 2020-2021 and 88 per cent in 2022-2023). Conference affairs services and Operations coordination did not stay within their approved core budget envelope, but benefit from reallocations. Finally, while AS/human resources/information and communication technologies reduced its reliance on supplementary funding between the two biennia, it happened that the divisions reduced as well their consumption of core budget.

Figure II.IX
**Consumption rate compared to the approved core budget per division (appropriation line) during the two-last biennium (in per cent)**

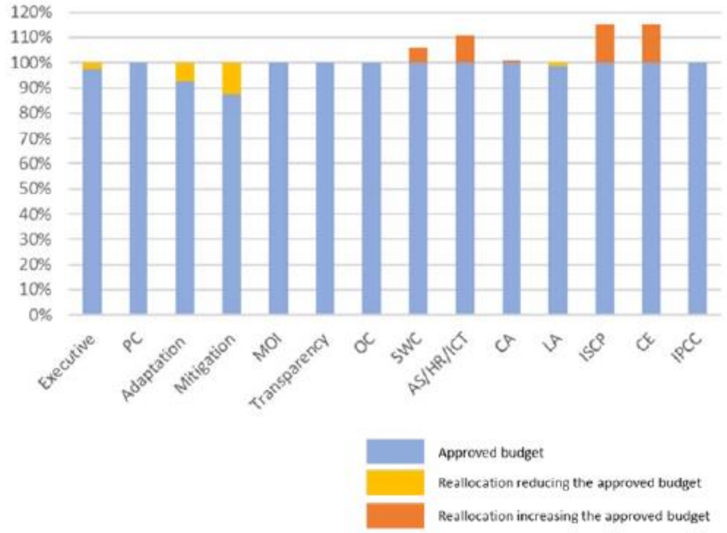


*Source*: Board of Auditors | Approved biennium budgets | Umoja.

70. Over-consumption is made possible thanks to a reallocation exercise (for details on the process, see below). The Board had a look on the "beneficiaries" and the "givers" (see figures IX and X). For the two-last biennia, the Mitigation division budget was reduced, by 10 per cent and 13 per cent, respectively. Whereas, the Transparency division benefitted only from a 3 per cent reallocation in 2021-2022. The Secretariat-wide operating costs appropriation line benefitted from a positive reallocation (6 per cent in 2020-2021 and 9 per cent in 2021-2022). As mentioned above, AS/human resources/information and communication technologies benefitted of +11 per cent of budget in 2020-2021 and its budget was reduced at the margin in 2022-2023.

Figure II.X

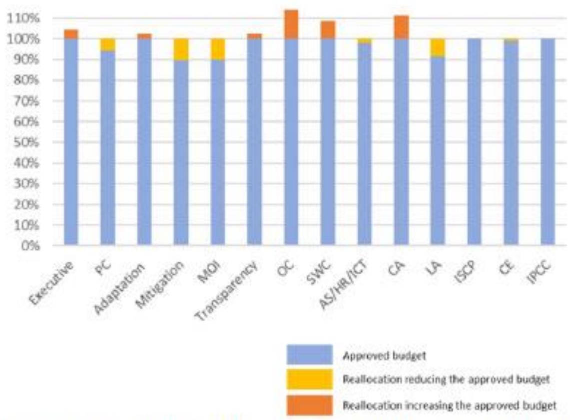
**Reallocation of core budget funds among appropriation line for the biennium 2020-2021 (in per cent)**




*Source*: Board of Auditors | Memorandums on reallocation for the biennium 2020-2021.

Figure II.XI

**Reallocation of core budget funds among appropriation line for the biennium 2022-2023 (in per cent)**




*Source*: Board of Auditors | Memorandums on reallocation for the biennium 2022-2023.

### 3.3.3. A need to improve the tools and better define the rules related to the management and overseeing of budget implementation

*Budget allocation to the divisions and services*

71. The core budget allocation is based on both the approved budget and the funding available for the purposes of the allotment, as the Parties' contributions come in all year round. As enounced above, during the budget preparation and approval, the yearly core budget represents 50 per cent of the biennium core budget. The Financial Resources Management Unit makes available approved allotments in Umoja representing a share of the approved budget on a regular (usually quarterly) basis. This allocation does not follow the 50/50 rule used for the budget preparation. Allotments may exceed the yearly budget amounts as long as the total allotments for the biennium are within budget.

72. The Management team sub-committee on finance (MTSCF) is a key governance body for budget implementation monitoring, especially for supplementary funding allocation. The members are in charge of advising the Executive Secretary and his Management Team on the allocation of non-earmarked and slightly earmarked supplementary funding. This mission given to the MTSCF contributes to limit the discretionary allocation of supplementary funding, in providing proposals for this allocation. Ahead of MTSCF meetings, all divisions who require supplementary funding are contacted to identify their respective needs. RMP, with the support of FRMU and PATs, then assesses the needs based on a prioritization matrix, with the support of a table on "scoring of funding request based on prioritization". It includes nine criteria: (1) mandated activity, (2) urgency of the funding need, (3) alignment with strategy, (4) staff contract obligation, (5) objectives achieved with initial tranche, (6) one time or multiple funding, (7) risk to project or to UNFCCC operations, (8) ease in accessing alternative funding, (9) completion of project with this allocation. The MTSCF members agreed on September 2023 to review the criteria to make them more oriented towards urgent needs of mandated projects. It is not yet operational.

73. The scoring allows the MTSCF members to prioritize the project requiring funding and to decide the range of funding given. The members keep an eye on the anticipated future contributions thanks to a table on "funding pipeline". It provides to them a view on the supplementary funding possibly available on a short-term perspective, the earmarking and the projects granted broken down per donor.

74. Although a process is in place and seems to be functional, the Board notes that the MTSCF mentioned twice that the allocation of supplementary funding to a project was approved by the Executive without going through the process explained above. Also, on June 2023, the MTSCF proposed to allocate supplementary funding, which are limited and do not cover all the mandated needs, to a non-mandated project. The remaining unearmarked balance that is reserved for future needs was targeted to be used. The MTSCF made this proposition "considering the urgency of the workshop to be held in Fiji." The Board questions this fait accompli decision to fund a non-mandated project by MTSCF members, since the division in charge of the project had already committed to it.

75. If the core budget allotted and made available in Umoja is not fully spent in the first year of the biennium, the balance can be used in the second year. It is transferred in Umoja to the second-year consumable, without being systematically de-allotted. It hinders the possibility to provide a quick and relevant analysis of the consumable budget. The approach is not the same for every trust fund or special account. For instance, for the supplementary resources, the funding may only be available for a limited period of time which does not correspond to calendar year or biennium budget programme, in accordance with the contribution agreement. The unspent balance at the end of the period under the grant would need to be de-allotted and returned to the donor. In Umoja, it will reduce the consumable budget.

76. The Board also examined the reallocation process. The final purposes of the reallocation process have changed over the last two biennium. It involves the transfer of budget from one appropriation line to another. One loses budget, while the other gains it. The Parties have authorized this operation within a constrained framework: "[the Parties] authorize the Executive Secretary to make transfers between each of the appropriation

lines set out in table 1, up to an aggregate limit of 15 per cent of total estimated expenditure for those appropriation lines, provided that a further limitation of up to minus 25 per cent of each such appropriation line shall apply, while ensuring no negative impacts on the activities under each division" (FCCC/CP/2021/12/Add.2, decision 22/CP.26, para. 12). The Executive Secretary approves the final decisions to reallocate, on the recommendation of senior directors. During the biennium 2020-2021, reallocation was used to adjust the budget of appropriation line based on specific and well-defined needs, such as staff transfer in consequence of the restructuring or the organization of a virtual SB session in mid-2021. Four reallocation operations were made during this biennium, from the early-days of 2020 to the financial closure of the biennium. During 2022-2023, marked by the arrival of a new Executive Secretary, only two reallocation operations were made, late on the biennium. The purpose of the reallocations was different. The aim was to support appropriation lines that had over-consumed, to the detriment of those who had not, without justifying the reasons for doing so. If this practice can represent an incentive to consume funds, it also favors appropriation lines that do not respect their budget constraints and could be considered as not managing efficiently their budget.

*Budget monitoring*

77. The core budget programme is implemented on a biennium basis, the first year corresponding to an even year. The supplementary funding, on its part, relies on resources that do not follow any specific schedule, insofar their timeline depends on the agreement between the donor and the Secretariat recorded in the grant. It makes the monitoring of supplementary resources tougher. Every expenditure is approved by the head of division. PMOs are certifying officers.

78. PATs are in charge to support the budget monitoring of divisions and services. Head of divisions can request to PATs specific reports and meetings on the budget consumption and staff. Monitoring process depends on each head of division. Regularity of meetings between heads and PATs is not clearly defined in an administrative instruction. Some heads meet every two weeks with their PATs to have an overview on spending, other meet on a monthly basis.

79. In addition, FRMU produces a standard monthly budget overview by appropriation line, which corresponds to a division. It details the allotted budget, actual, the committed budget and the consumed budget. Different tables are produced:

(a) Overview per fund;
(b) Overview per project, only for supplementary funding;
(c) Overview per expenditure class for each Trust fund.

80. Although this document is made available, budget monitoring at the division-level is not sufficiently strong to ensure a high quality of implementation in the entire Secretariat. The monitoring of committed resources can only really be done for non-staff contracts. PATs do not have access to staffing costs in UMOJA. So, each division and service built its own table for the forecast of staffing cost (the Board examined the Legal Affairs services and the Means of implementation division monitoring tables).

81. When a need of staff has to be filled on a project, head of divisions can consult their PAT on the budget availability for recruitment. However, they do not easily identify how much available consumable they have on their appropriation line for that purpose. The calculations should be done by the project manager based on historical costs and standard costs. There may be errors in how much is committed and to what. No SOP nor guidance are made available on the budget monitoring to the divisions and services.

82. The Board lacks evidence on the ability of management to adequately monitor budget implementation by divisions and services and challenge them. The MTSCF does not fully fulfil its role of "overseeing the Secretariat's financial situation". The MTSCF should be "monitoring expenditures, contributions, and budgetary surpluses" and "identifying emerging problems and proposing solutions". However, the Board did not notice any of these topics on the agenda of the MTSCF nor in the minutes.

83. **The Board recommends that the UNFCCC Secretariat develop a harmonized monitoring tool on budget implementation, enhance budget management oversight, and provide appropriate justification for any core budget reallocation.**

84. The tool could notably facilitate a regular review of the consumption rate of each division, staff costs included. The Secretariat could complement the implementation of this tool with improving budget oversight by management and the MTSCF, and elaborate management rules on budget reallocations, while complying with the applicable regulations and rules, as well as the internal promotion of the best practices in terms of budget implementation.

85. The UNFCCC Secretariat accepted the recommendation.

## 3.4. Accountability on budget management and reporting on performance

86. The reporting on budget management and performance to the Parties is lacking of consistency and transparency, not providing an understanding of the main dynamics, in particular consumption in relation to appropriation lines and different funding sources, as well as suffering from approximations and gaps. Numerous indicators exist to report on the work programs, but without allowing for an overall view. Other types of reporting are provided, but of a purely narrative nature and lacking coherence with one another.

### 3.4.1. A budget management and performance reporting to the Parties lacking of consistency and transparency

87. Despite displaying numerous information, the budget performance report could be improved to provide a broader overview and key figures on the budget execution of the Secretariat. Accountability and transparency towards Parties would be strengthened.

88. The Secretariat presents annual budget performance reports covering 12 and 24 months of each biennium (FCCC/CP/2021/12/Add.2, decision 23/CP.26, para. 10). Both reports consist of a main document called Budget performance for the biennium. and an additional addendum on "Programme performance data". The main document contains a narrative and figures. The annexes of the narrative document of each report:

- Annex 1 "General information on budget, income and availability of cash for the UNFCCC funds";
- Annex II "Budgets for the biennium year N-year N+1 for the UNFCCC funds and expenditure as at 31 December year N, by appropriation line";
- Annex III "Budget and expenditure by UNFCCC fund";
- Annex IV "Secretariat posts and staff";
- Annex V "Projects and events funded from the Trust Fund for Supplementary Activities in year N as at 31 at 31 December year N+1".

89. Numerous information is presented. Yet, it could be better contextualized and explained. The tables showing approved budgets and expenditure, as the one on the core budget in the Annex III, highlight under- and over-spending. However, these deviations are not explained or justified by the Secretariat. This observation can also be made for the Annex IV. The gaps between the budgeted posts and the filled posts, especially those funded by the core budget (less liable to recruitment difficulties, see part 5.3.2), are not justified. Also, the report does not allow to easily understand the trends, which would shed light on the figures, such as the evolution of the consumption rate over the years.

90. The information presented in the performance report is not fully consistent and clear with the budget proposal documents and even within the report. It is not an easy task to reconciliate the figures with the reality of the situation. The annexes (that include more detailed budgetary information than the narrative) present budget figures per Trust fund while the table in the narrative part of the document presents the budget figures per funding source. Yet, funding sources and Trust fund do not encompass the same realities. For instance, "supplementary budget" is composed of the voluntary contributions of donors (Party and non-Party) and is managed through the Trust fund for supplementary

activities. In the meantime, the Trust fund for supplementary activities is used for the "supplementary budget", the joint implementation mechanism and the Article 6, paragraph 4, of the Paris agreement activities. For that matter, the table in the part III of the narrative part of the report presents a line related to "Trust fund for supplementary activities", which is a wrong information, as to be accurate it should mention "supplementary budget", as Joint implementation mechanism and Article 6, paragraph 4, of the Paris agreement activities are being mentioned separately in the same table. Also, the approved core budget presented in the annex II is different to the approved core budget presented in the annex III, as in the latter adjustment to the working capital reserve is excluded. It is confusing for the reader who reads these pages that follow each other.

91. In addition, having a clear overview of the budget situation is made difficult insofar the information presented in the performance report seems to be incomplete. In the narrative part of the last report, the table "Budgets for 2022–2023 and 2022 and expenditure by funding source as at 31 December 2022" does not present the allotted budget (consumable) which would contribute to have a full accurate overview on the budget figures as it would provide an information on the Secretariat's capacity to spend allotted budgets. When only the approved budget is presented, it does not allow to assess the budget that was effectively made available on each fund to the different appropriation lines. On the "supplementary budget" it could allow to highlight the funding raised compared to the funding targeted, i.e. the amount presented in the biennium programme budget. It could present the share of the earmarked funding compared to the share of the non-earmarked funding raised.

92. Finally, in the interim performance report issued at the beginning of odd years, the figures presented do not give an accurate transcription of the situation. Indeed, in the report on the biennium 2022-2023 as at 31 December 2022, the "budget for 2022" presented in the tables is more or less equal to 50 per cent of the budget for the biennium. It is therefore difficult to know whether the Secretariat has met its objectives for the year.

### 3.4.2. Numerous indicators to report on the work programs, but without an overall view

93. The activities carried out by the UNFCCC Secretariat in response to its mandates are reported in the reporting of work programs (that can be found in budget performance reports as well), which list outputs planned for the biennium, outputs delivered and provide performance indicators and performance data, by department, division and fund.

94. An analysis of the work programme for 2022-2023 shows that out of 54 indicators in total, 6 lied with the Adaptation division, 15 with the Mitigation division, 12 with the Transparency division. As of 31 December 2022, the performance report showed that 13 indicators were reported upon on behalf of the Mitigation division's actions, of which 9 were completely fulfilled. However, there is no summary table allowing to have an overall view of the numbers of indicators across the Secretariat and per division, as well as an overall view of the achievement rate of these indicators.

### 3.4.3. Other types of reporting, purely narrative and lacking coherence with one another

95. The Secretariat gives to the Parties and to the public an account of its work through other reporting media: an annual report and quarterly reports. The latter documents are narrative and do not present detailed budgetary figures. The achievements are not associated with budgetary figures.

96. Complementary reporting processes that include financial matters are conducted by the Secretariat on some specific mechanisms and entities. For instance, RCCs issue an individual interim report on financial statements by June of year N and a final report by March of year N+1. On CDM, budget process is aligned with the Secretariat core budget proposal as it is in biennium. The Secretariat reports on a bi-annual basis to the CDM Executive Board. The Article 6, paragraph 4, of the Paris agreement mechanism reporting process follows the same scheme. To clearly provide an enlightening overview on the

budget considerations of the Secretariat, relevant information related to these points should be detailed and identified as such in the budget performance report.

97. The Secretariat is also issuing an annual report. It presents the main achievements of the Secretariat but also of the other bodies and instruments constituted under the Convention, the Kyoto Protocol and the Paris agreement. Since 2023, the Secretariat addresses Parties and Observers every quarter, through its quarterly reports. They present the main recent progresses toward climate change and the related activities as well as the upcoming events and activities. The reports are, according to the ES "one of the ways we are working to usher in a new era of accountability and transparency for our process" (Q4 2023). These reports provide a useful highlight on the most meaningful events of the past 3 months and the milestones ahead. However, there is no formal link to the work programme, or to any indicator that is being reported in the performance report, and this adds an additional layer to a reporting structure that is not easily grasped. Moreover, if identified agenda items can be found throughout the quarterly reports, they do not systematically appear in the reports (there appearance is linked to the events having taken place during the quarter), thus preventing to have an opinion on whether the absence of progress on the item is normal or not.

98. Additional improvements the budget reporting are needed. In the survey that the Board carried out (see part 5.2), several Parties also called for "better coherence between the different budget documents (programme, performance, annual report)".

99. **The Board recommends that the UNFCCC Secretariat present to the Conference of Parties and implement a strategy to improve the quality and coherence of its reporting on budget management and performance.**

100. UNFCCC Secretariat could in particular provide contextualized insights into major budget trends, in order to share comprehensive and consistent information. An overview of the fulfilment of key performance indicators could also be provided.

101. The UNFCCC Secretariat accepted the recommendation.

## 4. Outcomes of the "fit for purpose" initiative launched in 2018 to better adapt the UNFCCC Secretariat to its evolving missions

102. The "fit-for-purpose" initiative launched in 2018 had the broad ambition to adapt the UNFCCC Secretariat to the evolution of the climate change agenda and essentially focused on organizational matters (see sect. 4.1). The reform contributed to reinforce oversight and cross-cutting functions (see sect. 4.2) but its impact has not been assessed (see sect. 4.3). An adjustment of the restructuring on strategic functions was recently decided by the Executive Secretary (see sect. 4.4).

### 4.1. The broad ambition to adapt the UNFCCC Secretariat and the focus on organizational matters

103. In 2018, the UNFCCC Secretariat set the objective of moving towards a "fit-for-purpose" Organization, in order to better support the Parties in the implementation of the Convention, the Kyoto Protocol and the Paris agreement in response to the climate change agenda. A thorough review of the Secretariat's organisation was launched internally, with the meaningful support of a consulting firm. Although the initial ambition was broad, its implementation essentially focused on organizational issues.

#### 4.1.1. A thorough review of the Secretariat's organisation launched internally

104. As recalled in the Board's report on 2019 financial statements, the Secretariat, following the adoption of the Kyoto Protocol and the Paris agreement, started a re-examination of its processes and its organization in order to better respond to the

new challenges arising in particular from the ever-increasing number of Parties, mandates and financial stakes.

105. Consideration was given to the need to develop a long-term strategy for the Secretariat to provide effective and sustainable administrative support in the light of continuing financial constraints and changing circumstances. Hence it had the objective of moving towards a "fit-for-purpose" Secretariat that could support Parties in the implementation of the Convention, the Kyoto Protocol and the Paris agreement to address climate change challenges.

106. In 2018, the UNFCCC Secretariat embarked on a comprehensive participatory organization-wide restructuring process, which involved all staff members in various focus group discussions and surveys on a structure which would support delivery of results. The UNFCCC Secretariat carried out a thorough examination of its structure, operations and allocation of resources.

107. The Secretariat was composed at this time[10] of nine departments (called "programmes") under the overall guidance of the Executive Direction and Management programme. The nine departments included four technical programmes: Adaptation, Finance, Technology and capacity-building; in addition, five support departments existed: Administrative Services, Communications and Outreach, Conference Affairs, Information and communication technology and Legal Affairs.

108. The support of the process of organizational restructuring was based, in particular, on a "structure review implementation team" of selected staff members, appointed from May 2019 to December 2020, with the responsibility of managing the implementation process, both for structural and non-structural workstreams.[11] Special attention was given to assess gaps or overlaps in functions.

### 4.1.2. A meaningful report in February 2021

109. A consulting firm was contracted in January 2019 by the UNFCCC Secretariat to support the review. The review included a review of three interrelated areas: (i) organizational structures and operations  to better align the capacity and structure of the Secretariat to meet emerging government support needs under the Paris agreement, while fulfilling a broad portfolio of ongoing mandates that the Parties have entrusted to the Secretariat over the years; (ii) allocation of core and additional resources  to clarify the structure, functions and funding model required to deliver Secretariat services; (iii) back office, to improve profitability and sustainability.

110. The consultant was to provide critical support to the change process, especially with respect to efforts to bring about necessary cultural and behavioural changes. The assessment indeed revealed that the organisation was siloed with little inclination to work across departments, poor internal communication and a situation of mistrust with its hierarchy. The consulting synthesis report in support of the implementation of change within the UNFCCC was finalized in February 2021.

111. The recommendations were to move to a new organizational structure and respond to the changing context in which the Secretariat works: requirement for high levels of collaboration, innovation and agility, implementing cultural and behavioural change measures that can optimise expertise and skills within the Secretariat to ensure its sustainability. By a transversal approach, the change consisted, in particular, in defining the roles and working methods between the technical programs with the objective of moving the Organization away from the

[10] As described in an internal review of the structure.

[11] Internal UNFCCC Guidelines for the 2019-2020 Organizational Restructuring as it relates to implications on staff and/or staff post on the date of November 12th 2019.

"compartmentalized" working methods that led to duplication, overlap and inefficiency.

112. The consulting report stated that the Secretariat had to continually assess its way of working. This included examining "what" it does and "how" it works. This organizational change measurement framework was to be supported by metrics to assess progress made. According to consulting report, the Secretariat needed to regularly reflect on the work it does and find ways to determine whether the new organization delivered value to its stakeholders in the most effective way. This monitoring and evaluation required a planned and systematic approach. It was recommended that a new cross-cutting structure be designed to coordinate the implementation of these approaches in close coordination with the senior leadership of the entire Organization.

113. However, the report also stated that "a well-defined methodology is still needed to assess what the Secretariat does, and how it brings value to stakeholders" and did not conclude on the measurement of the overall and strategic performance of the Secretariat, remaining mainly focused on organizational issues.

### 4.2. Reinforcement of oversight and cross-cutting functions

114. The restructuring resulted in the creation of an organizational development and oversight unit, two cross-cutting divisions, as well as program and operations coordination departments. An important effort was made to appoint staff to implement the new organization. The creation of the intergovernmental support function was perceived as a success. The reform also resulted into a clustering of administrative teams, which has brought some advantages. However, for many staff, it was felt that administrative processes had not improved dramatically after the restructuring. Difficulties in terms of human resources management have also been highlighted, on which the UNFCCC Secretariat has recently taken action.

#### 4.2.1. An important effort to appoint staff to implement the new organization

115. A conclusion of the restructuring process12 which took place at the end of 2021 recalls the process flows involved on this restructuring. In particular, the staff selection process to fill the identified vacant positions started in 2020 and continued until 2021, when the positions were filled and all staff members mapped. 103 positions had been recruited as of end January 2022 and exceptional human resources management measures ended at this date.

116. In the Executive division, the organizational development and oversight unit was created, with a coordination role in supporting the planning, monitoring and evaluating of organizational activities, as well as implementation of associated decision-making processes (among others).

117. The intergovernmental support and collective progress division and the communications and engagement division were also created as cross-cutting divisions.

118. The intergovernmental support and collective progress division is meant to support the work of the governing and subsidiary bodies of the Convention, the Kyoto Protocol and the Paris agreement and facilitate progress overall in the climate change processes. The division ensures coherence and timeliness of the work of the bodies and enables and supports comprehensive processes, such as the periodic review of the adequacy of the long-term global goal under the Convention and the global stocktake under the Paris agreement. It has 21 staff positions as of April 2024, of which 16 positions are funded from the core budget, and expands

[12] Note to file conclusion of the Restructuring Process" dated on 8 April 2022, signed by Senior Director Operations and Deputy Executive Secretary.

during the COP period with people from different divisions, recruited through a call for temporary reassignment.

119. The communications and engagement division 13 serves multiple cross-cutting objectives, such as communicating authoritative, relevant and time information to Parties, non-Party stakeholders and the public regarding the process and action of the Secretariat on climate change, with a focus on proactively building support from all stakeholders to facilitate climate action and increase ambition. It also ensures that the communications work and engagement activities of the Secretariat are guided by the results of all processes and agencies.

120. The program administrative teams, who were initially in each division, have been pooled and regrouped. They initiate and carry out various administrative processes in the UNFCCC Secretariat, and are the one-stop-shop working with human resources, information and communication technologies, finance, procurement, travel and general services. They process all supplier invoices, review divisional budget and funding requirements, and monitor budget execution and funding status on an ongoing basis.

121. The objectives of the reorganisation for the program administrative teams included alignment with the strategic priorities of the divisions and the Secretariat, the definition of performance indicators with strategic reality and qualitative considerations, strengthened recruitments timelines and timelines for initiating travel requests.

### 4.2.2. Perceived successes and limits of the restructuring

122. In the opinion of the vast majority of operating divisions, the intergovernmental support and collective progress division's expertise and usefulness are recognized. They get temporary internal transferred staff during events such as the COPs, though the calls for proposals launched by the conference affairs division.

123. The scope of responsibility's perimeter between the conference affairs division and other operational divisions is not perfectly established, in the sense that the former is not centrally established as the conferencing division for the Secretariat nor staffed accordingly. Other divisions could focus on the programmatic work and meeting management should be handled by the conference affairs division.

124. A UNFCCC program administrative teams client survey 14 initiated by the operations coordination division, acknowledges the fruitful and essential work carried out by the program administrative teams in their respective divisions and demonstrates the relevance of decentralising administrative services. However, for some staff, these teams have not lightened the human resources workload. As part of a retreat to refine the program administrative teams value proposition and improve and align their support to divisions on November 2023, some agents expressed that the question of the scope of responsibility of the recruiting division in terms of human resources still existed and highlighted the need to clarify areas of responsibilities and to understand who reviewed the applications (human resources, hiring division, etc.) and who decided on the staff selection.

125. The staff selection process has been regulated in the new UNFCCC administrative instruction "Staff selection process" (AI/2023/5 and AI/2023/5/Corr.1). This administrative instruction came into force in February 2023, confirming the organizational need for streamlined and accelerated processes and procedures for selecting staff with the highest standards of efficiency, competence, and integrity in respect of the five guiding principles: a fair competition, objectivity, diversity, accountability, and non-discrimination. The

[13] As presented on the UNFCCC website.

[14] Survey conducted in October 2023.

corresponding standard operating procedure for the implementation of the administrative instruction clarifies the roles and the responsibilities of different staff, i.e. actors involved in these staff selection processes and procedures, including human resources and the program administrative teams' staff. The standard operating procedure further details the actions each of those actors take at a given stage of the staff selection process. Among other things, this standard operating procedure facilitates a better control over related deadlines and accountability of the relevant actors in the process The Executive Secretary retains the option to add a name to the list of selected candidates and makes the final choice of the candidate, after which the opening job is closed.

### 4.3. The absence of assessment of the reform's impact

126. No formal assessment of the restructuring has been carried out by the UNFCCC Secretariat in spite of demands expressed by the Parties and of a previous recommendation by the Board of Auditors. Some indicators were lately proposed, but they have barely been shared internally and have not been used as a tool to assess the benefits of the change or to steer further adjustments. A staff survey also raised concerns about the effects of restructuring on the personal situation of some staff.

#### 4.3.1. No formal assessment of the restructuring, no indicator used

127. Parties expected the UNFCCC Secretariat to improve its efficiency on the twenty-fifth session of the Conference of Parties held in Madrid from 2 to 15 December 2019, when requesting "the Secretariat to continue to seek efficiencies and streamline administrative services in order to save costs in the biennium 2020-2021" and to report thereon at the 54th session of the SBI" (see decision 17/COP.25, FCCC/CP/2019/13/Add.2).

128. On March 2021, the Parties asked to what extent the new Secretariat structure was "fit-for-purpose", where had there been efficiency gains in the budget for the current biennium and where could they expect to see further efficiency gains in the next biennium's budget.

129. The UNFCCC Secretariat answered that "fit-for-purpose" meant that the current structure of the Secretariat, with its better integrated programmatic and operational divisions, as well as two cross-cutting divisions, was designed to ensure effective and efficient support to the Parties in the implementation of the Convention, the Kyoto protocol and the Paris agreement. For example, efficiencies were gained by clustering administrative services, human resources and information and communication technology functions. The monitoring and evaluation of the ongoing efficiency and effectiveness of the new structure would be part of the organizational development and oversight function.

130. The Board notes that the UNFCCC's answer to Parties was focused on the benefits of the restructuring and that there was no mention of other benefits in view of the "value to its stakeholders" that the Secretariat could bring (cf. the February 2021 consulting report). This highlights the absence of a broader evaluation framework that could allow to assess the "fit-for-purpose" status of the Secretariat.

131. In its July 2020 report on the UNFCCC 2019 financial statements, the Board of Auditors recommended 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 Board considered that such major organizational changes needed a clear set of criteria against which to assess whether the restructuring has achieved its objectives.

132. This four-year old recommendation is not yet implemented. However, in order to meet with the recommendation's requirements, the Secretariat has recently developed eight key performance indicators, to measure the "fit-for-purpose",

"efficiency" and "cultural and behaviour change" objectives. The last version of the assessment of these indicators was provided to the Board in April 2024. The Secretariat rates nine indicators, including some linked to supplementary funding raising and budget consumption but also some human resources indicators (cf. part 3.4). Insofar as the restructuring was aimed at strengthening the core functions of the Secretariat and enforcing the importance of communication, engagement and efficiency, through the intergovernmental support and collective progress and the communications and engagement divisions, the Secretariat has set up a key indicator to measure the share of positions to these divisions financed by core budget. The rate was not measured in 2018 and 2019, but remains virtually unchanged from 2020 to 2023 at around 75 per cent.

133. In the same dynamic, the Secretariat has developed proxy indicators to track and evaluate the intended results of the restructuring. Indicators were developed to measure the number of positions remaining vacant for longer than 12 months and the vacancy rate as of 31 December for the core budget and for all funds. The first one fell from 16 percent to 13 percent, and the second increased from 18 percent to 23 percent with significant variations from year to year.

134. The average time to fill professional vacancies (in days), has been chosen because this is an indicator regularly tracked in other UN organizations and is important for efficient human resources management. 100-120 days are considered a benchmark. The average time to fill vacancies in the UNFCCC is also decreased from 162 days in 2021 to 144 days in 2023, but remains higher than the benchmark.

Table II.3
**Results for human resources key performance indicators for "fit-for-purpose" and "efficiency**

| Indicators | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Share of positions assigned to Program Department and cross-cutting divisions | n/a | n/a | 74,6 % (134 of 179,5) | 74,6 % (134 of 179,5) | 75,1 % (136 of 181) | 75,1 % (136 of 181) |
| Number of positions remaining vacant for longer than 12 months | 16,2 % | 16,2 % | 21,4 % | 14,8 % | 18,2 % | 13,3 % |
| Vacancy rate (across all funding sources) | 18,2 % | 18,2 % | 28,8 % | 23,2 % | 29,9 % | 23,7 % |
| Average time to fill professional vacancies (days) | n/a | n/a | n/a | 162 | 137 | 144 |

*Source:* UNFCCC Measure tracking and evaluating the results of the restructuring

135. The Secretariat recognises the limited relevance of these indicators, due in particular to the lack of a reference base, but nevertheless considers that they provide important information on trends. However, the Board notes that these indicators have barely been shared internally in the Secretariat, and that they have never been used as a tool to assess the benefits of the change or to steer further adjustments.

136. Moreover, the essential question of measuring the improvement in internal control, the delegation of responsibilities and the strengthening of the culture of responsibilities have not yet been measured.

### 4.3.2. Negative feedback of a staff survey on the effects of the restructuring

137. The above-mentioned note also refers to the staff satisfaction survey that was conducted from February to March 2023. The survey allows to measure staff satisfaction with the "overall satisfaction with internal communications" aspects; with decision-making, delegation and performance management; with the level of information on management team (MT) decisions; and finally, with the "UNFCCC Commitment to Staff Well-being". However, it should be noted that the survey was carried out after only one year of restructuring, when the new organisation was just settling in.

138. Asked about the effects of the restructuring on their personal situation, the vast majority of UNFCCC staff responded negatively, particularly in the areas of management and internal communications. The survey indicates that the aim to be more" fit-for-purpose" and to work more efficiently has not been fully reached. Contrary to the "fit-for-purpose" ambition, with the addition of layers to the hierarchy, the approval processes are felt by some to be longer and lengthier.

139. On most aspects, UNFCCC responses are below the other UN organization's response scores, even on the job satisfaction/engagement, which was the best UNFCCC score.

### 4.4. Recent adjustment of the restructuring on strategic functions

140. An adjustment to the restructuring was announced by the Executive Secretary in March 2024. It entails a strengthening of the role of the Deputy Executive Secretary on strategic functions linked to human resources management, resource mobilization partnerships and legal affairs. This evolution overrides part of the previous restructuring, and the UNFCCC Secretariat specified that the aim of the realignment was to increase operational efficiency and facilitate better use of human and financial resources. An evaluation framework would be needed to measure the impact of the recent changes made better than was possible under the previous restructuring.

#### 4.4.1. A strengthening of the role of the Deputy Executive Secretary

141. The 2019 choices focused on centralizing departments and support services within a single department called Operations, which was intended to provide the resources available to support the strategic priorities of the Secretariat. Human resources and legal affairs, among others, were grouped within this department.

142. With the arrival of a new Deputy Executive Secretary, the Executive Secretary of UNFCCC decided, as stated in the memorandum of March 2024, a re-alignment of organizational structures, to increase operational efficiency and facilitate better use of human and financial resources. He announced the adjustment to the restructuring by e-mail of February 2024 to all UNFCCC staff. This reorganization called "Increasing operational efficiency" is presented as an attempt to facilitate more efficient use of resources – both financial and human.

143. This new reorganization is focused on enhancing strategic oversight and the role of the Deputy executive secretary. The changes relate to the organizational realignment of the following divisions: Executive, Operations Coordination, AS/human resources/information and communication technologies, Legal Affairs, Transparency, communications and engagement and Intergovernmental Support and Collective Progress, Programmes Coordination.

144. The Head of the human resources department as well as the Head of the resource mobilization and partnership unit are due to report to the Deputy Executive Secretary. The Legal Affairs division is moving from the Operations department to the cross-cutting divisions group and its director reporting directly to the Deputy Executive Secretary.

145. The Tracking Recognition unit, previously located in the Communications and Engagement division, has been transferred to the Info Hub, Data, Systems and Tools subdivision of the Transparency division as a distinct unit to avoid duplication of technical resources, while not co-mingling functions of the Secretariat relating to Parties and non-Party stakeholders. The incoming manager of the Communications subdivision, under the supervision of the Director of the communications and engagement division, will have responsibility for developing a strategic Secretariat-wide communications plan. The Intergovernmental Support and Collective Progress division is strengthened by collaborations from the Programmes department, and in order to facilitate the alignment of work

programmes, the manager of the Collective progress division reports to the Programmes Department director. The implementation of all those changes is monitored by the organizational development and oversight unit.

### 4.4.2. An adjustment requiring an assessment framework

146. The adjustment in terms of restructuring has not been thoroughly justified, and KPIs have not been proposed to assess the success of the adjustment, as was the case in the prior restructuring. The reform, would benefit from clarifying the operational expected outcomes of the decision, and identify KPI in line with those objectives.

147. The ambition of the initial recommendation of the Board (2019-145) was to measure the progress made by the Secretariat in fulfilling its mandates, following the reorganization. Specific performance indicators measuring these expected developments and yet planned in principle, have only recently been developed and have not been used as a tool to steer MT decisions or to report to Parties. The few indicators produced in 2023 by the Secretariat, previously cited in this report, measured performance relating to certain operational tasks of certain divisions. But, in no case have these performance indicators reflected the measurement of the overall and strategic performance of the Secretariat. The Board considers that pursuing this objective, to be able to assess the "fit-for-purpose" status of the Secretariat is important.

148. However, the Board considers that the Secretariat should in the short term, and in the context of the organisation readjustment, focus on identifying indicators for assessing the quality of operation and well-being of staff, to assess whether changes in the organization are improving or deteriorating this situation. The experience and results of the staff survey demonstrate that the expectations of the staff are high and broad. The Secretariat would therefore benefit from regularly and carefully measuring this quality of operation and well-being.

149. These indicators could be linked directly to the length or transaction costs of certain procedures. To measure the progress made since March 2023, the indicators could, in particular, address the areas covered by the survey: leadership, ethical behaviour at work staff well-being, innovation, collaboration and creativity, performance management, internal communications, learning and career developments, restructuring results and job satisfaction. The rate of participation in the questions asked would, in itself, be an interesting indicator or staff involvement and confidence in the institution, with a particular focus on the critical areas, where the positive results were below 25 percent, which were internal communications and staff, well-being and workload, and restructuring (-15 percent).

150. **The Board recommends that the UNFCCC Secretariat set up and monitor indicators on the effectiveness and efficiency of the most critical processes for the functioning of the Secretariat and staff engagement and well-being.**

151. The UNFCCC Secretariat accepted the recommendation.

## 5. Remaining challenges in terms of matching the governance and resources of the UNFCCC Secretariat to its mandate

152. The risk exists for the UNFCCC Secretariat of being overwhelmed with new mandates (see sect. 5.1). The budgetary risk associated with the heavy reliance on supplementary funding also needs to be considered (see sect. 5.2). Cascading difficulties arise from the significant dependence on voluntary contributions (see sect. 5.3). The UNFCCC Secretariat set a strategy to overcome these challenges (see sect. 5.4).

## 5.1. The risk of being overwhelmed with new mandates

153. The risk exists for the UNFCCC Secretariat of being overwhelmed with new mandates. The Secretariat does not rely on a single list of workstreams related to the implementation of mandates decided by the Parties, thus hindering the follow-up in the progress of the fulfilment of mandates. However, there is a consensus on the fact that the number of mandates continuously increases, in parallel to the increase of activities of the Convention's governing bodies.

### 5.1.1 The absence of a single list of workstreams related to mandates decided by Parties

154. The main challenge that the Secretariat faces today is the perceived inadequacy of its means to its missions. This has been regularly expressed by the Executive Secretary, in different circumstances, including in the fundraising letters that were addressed to 43 Parties in September 2023: "*Lack of funding will jeopardize the completion of mandated activities, including critical category 1 (essential activities) and category 2 (recurring or long-term activities)*".

155. The functions of the UNFCCC Secretariat are stated in article 8 of the United Nations Framework Convention on Climate Change. The effective tasks requested by the Parties to the UNFCCC Secretariat stem from "mandates", that can be understood as requests by Parties that will need implementation by the Secretariat, on behalf of specific articles of the Convention, the Kyoto Protocol, the Paris agreement, but also on behalf of the decisions adopted by COP, CMA, CMP, or of the conclusions of SBI and SBSTA, that complement the international agreements' decisions or add new activities to be carried out by the Secretariat. These mandates thus give rise to "mandated activities", that Parties expect the Secretariat to carry out on a mandatory basis. They differ from "complementary activities", that can be carried out by the Secretariat on a voluntary basis. The latter are categorized as "category 4 activities" in the budget (see sect. 3.2.1).

156. However, there is no official definition of what a mandated activity is at the Secretariat's level. The UNFCCC Secretariat has established a list of workstreams that could encompass mandated activities. However, the status of this list is uncertain, and it is not used as a reference document across divisions. The Board has not seen an official document gathering this information in such a format.

157. Moreover, this structure in workstreams relating to mandates, is not reflected as such in the Secretariat's work program for the biennium 2024-2025, thus hampering the legibility of the founding principles of this work program. In the latter, mandates are listed division by division, as well as the corresponding list of activities. For instance, for the Transparency division, a long list of articles of the different international agreements is stated. If the corresponding activities listed in the work programme sometimes overlap with those in the list of workstreams related to mandates mentioned above, they do not correspond exactly, which means that the follow-up of the workstreams carried out on behalf of certain mandates is not stabilised, thus hindering the follow-up in the progress of the fulfilment of mandates.

158. Last, the workstreams identified in the above-mentioned list of mandates have not been broken down according to the six strategic objectives that have been used for budgeting purposes since 2020[15]. These different prisms of the Secretariat's action are not articulated and don't help to identify a clear structure to its action.

[15] 1) facilitating and supporting intergovernmental engagement; 2) operating established processes arising from decisions of the COP; 3) assisting constituted bodies to fulfil their mandates; 4) managing data and information relative to the response to the threat of climate change; 5) facilitating engagement process with UNFCCC processes; and 6) overseeing dans managing the UNFCCC secretariat.

### 5.1.2 A continuous increase in the number of mandates

159. Regardless of whether the list of workstreams relating to mandates could be improved, the effective number of mandates addressed to the Secretariat increases, as SBIs/SBSTAs/CMAs/CMPs/COPs adopt new mandates at each session. The surge in the number of mandates represents a risk for the UNFCCC Secretariat, should its funding lag behind this increase.

**Survey of the Parties carried out by the Board of Auditors**

In order to assess the Parties' perception of the Secretariat's constraints and collect their suggestions on the Secretariat's response to its mandate, the Board carried out an online survey, that was addressed to the focal points of Parties.

About 365 people were invited to fulfil anonymously the survey. The survey was open from 08 February 2024 to 04 March 2024.

47 representatives from Parties responded to the survey, representing a participation rate of 13 percent. Yet, 23 percent of UNFCCC Parties responded to the survey (45 Parties).

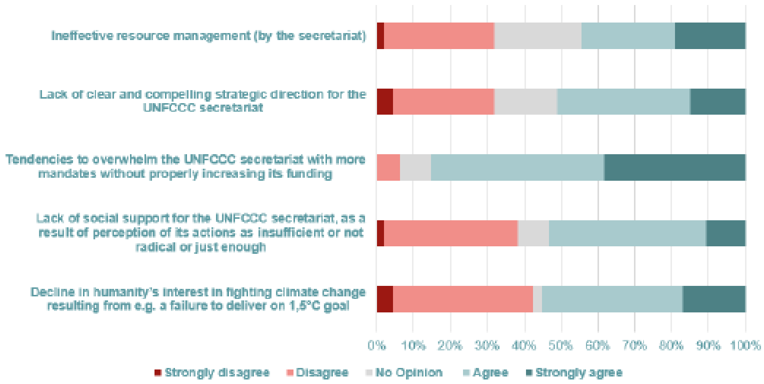
- The answers allowed for a fair representation among the groups of Parties: 19 Parties as part of Annex I (out of 43);
- 21 Parties as part of G-77 (out of 134);
- 6 Parties from the Least Developed Countries group (out of 45);
- 6 Parties from the Small Island Developing States group (out of 39).

The results from this survey are presented as corresponding issues are raised throughout the Board's report.

160. In the Board's survey of Parties (see dedicated box above), when asked "*What are, according to you, the main challenges* that *UNFCCC's Secretariat will have to face in the coming years in delivering on its mission and mandates?*", and invited to choose between several answers, Parties identified the increase of mandates as a real challenge for the Secretariat.

Figure II.XII

**Answer to the question "What are, according to you, the main challenges that UNFCCC's Secretariat will have to face in the coming years in delivering on its mission and mandates?"**




*Source:* Board of Auditors'survey of Parties.

161. The increase in the number of mandates reflects the general increase of activities of the Convention's governing bodies. This increase of activities has been documented by the UNFCCC Secretariat, in its information paper on "*past sessions and regional distribution of observe organisations*"[16], provided in the 58th session of the SBI. More specifically, it shows a surge in the number of items included in

[16] FCCC/SBI/2023/INF.5; Information on past sessions and regional distribution of observer organizations; Information paper by the Secretariat.

the adopted agendas for the sessions of the governing and subsidiary bodies between 2012 and 2022, from 131 items in 2012 to 164 items in 2022, with a peak of 203 items in 2021. It concludes that "*the increase in the scale of UNFCCC sessions reflects a growing awareness of the urgent need to address climate change. However, this is placing increasing pressure on host countries in terms of providing adequate facilities and on Parties, in particular small delegations, as well as presiding officers and the Secretariat, in terms of having to manage more complex agendas with broader scopes*".

### 5.2. The budgetary risk associated with the heavy reliance on supplementary funding

162. The inadequacy of the cycle of adoption of new mandates with the budgetary cycle leaves the implementation of new mandates largely if not exclusively dependent on voluntary resources for at least one or two years. The reliance on this supplementary funding is increased by the shortfall on core budget, as not all key mandated activities can be covered by the indicative contributions of the Parties. However, the mobilization of voluntary resources to meet the needs associated with the implementation of new mandates has so far only been targeted at a limited number of Parties.

#### 5.2.1. New mandates relying on voluntary funding because of the misalignment of their adoption with the budgetary cycle

163. In its July 2023 report on the UNFCCC 2022 financial statements, the Board underlined the critical risks on resources. This risk includes an increased dependence on supplementary funding (see part 3.3 for corresponding amounts) which entails difficulties for the UNFCCC Secretariat. Some Parties underlined this risk in their answers to the Board's survey, as they identified the following main challenges for the Secretariat: "*Dealing with outstanding contributions from Parties to the core budget; resuming balance between resources in core budget and in the Trust fund for Supplementary Activities; streamlining the agenda of multilateral fora*".

164. New mandates that are adopted between the approval of two biennium budgets by SBIs/SBSTAs/CMAs/CMPs/COPs, as well as by the CDM Executive Board and constituted bodies, are automatically considered as part of the "supplementary budget" requirements funded by voluntary resources, regardless of the nature of the mandates. Regarding COP's decisions two situations arise according to the position of the year in the biennium: at the end of the first year of the biennium, the budget was adopted a year earlier and could not reflect future decisions, at the end of the second year of the biennium, the budget proposal is adopted simultaneously as the negotiations leading to the adoption of new mandates. Hence, each new mandate given by the COP is unfunded at the time of its adoption, as stated by a Party: currently there is a "*disconnection between decision-making and budgetary implications*".

165. To address this issue, the Secretariat communicates at the end of each COP, on the administrative and budgetary implications of the decisions taken. Parties welcome this as summarised by one answer to the survey: "*we continue to encourage the Secretariat to inform Parties of the cost of certain of their decisions (e.g. creation of new bodies, addition of workshops)*", however some wish to have the information earlier: "*currently Parties only get a general overview of all additional funding requirements at the end of the closing COP plenary, so when everything is decided*".

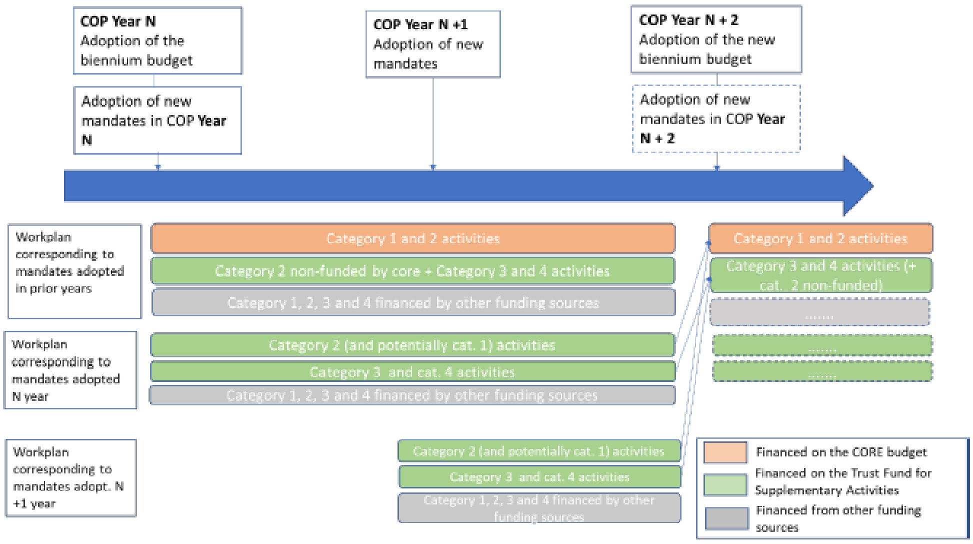
166. For instance, at the end of COP 27, a note on administrative and budgetary implications of the decisions adopted was presented by the Deputy Executive Secretary to the COP (a similar information has been addressed to CMP and CMA), and the information was registered in the proceedings of the Report of the

Conference of the Parties[17]. The UNFCCC thus stated that "*the decisions [the COP] adopted under six agenda items have financial and human resource implications beyond the provisions included in the budget for the biennium 2022–2023*". The UNFCCC Secretariat therefore listed the additional activities induced by decisions, their anticipated amount and their category. At the end of COP 28, a similar warning was issued[18]. The ES emphasized at this occasion that critical activities could be jeopardised by this situation: "*In addition, it is imperative that funding is available in order to start the work on the critical mandates. We will only be in a position to prepare and deliver the newly mandated outputs when – to say it in plain terms – money is in the bank!*". The additional funding requested amounts to € 17.7 million[19], of which € 2.3 million concern category 2 activities, and the rest either category 3 activities or a mix of category 2 and 3, € 645 thousand are absorbed from existing resources, and € 3.15 million are to be made available from operationalizing of the fund for responding to Loss and Damage.

167. Category 3 and 4 activities are meant to be financed on voluntary contributions under the Trust Fund for Supplementary activities as they always are. Category I and II activities are listed as to be funded "*from the core future (post 2023) budget periods if approved by the appropriate governing bodies*". However, for the year 2023, the funding of Category 2 (and possibly Category 1) activities adopted in COP 27 also relied on voluntary contributions. Without any budget adjustment, as has been the case until now, core activities newly decided in a COP, that could represent a high-stake priority, have no guarantee to be funded for at least the next year, or even the next two years, as shown in the graph below.

Figure II.XIII

**Inadequacy of the timing of new mandates (example for mandates decided by COPs) with the budgetary cycle**




*Source:* Board of Auditors.

[17] FCCC/CP/2022/10 §132 and following

[18] FCCC/CP/2023/11 § 131 and following

19 FCCC/CP/2023/11 § 131 and following: "*The secretariat informed the COP that estimated additional contributions of EUR 17.7 million will be required to the Trust Fund for Supplementary Activities to enable the secretariat to fulfil its mandates from COP 28, CMP 18 and CMA 5 in the biennium 2024–2025*"

168. The problem raised in COP 28 was identified as soon as during the SBI held in June 2023[20], but no solution was put forward. The 58th SBI did not propose to modify the new biennium budget proposal under negotiation: if it noted "*with concern the inadequacy of the budget for the biennium 2022-2023 to support all mandates from Parties and the increased reliance on supplementary funding*", when UNFCCC Secretariat presented the budgetary consequences of the conclusions adopted at this session, " *the representative concluded by noting that costs for 2026 and beyond will be reviewed in the context of preparing the budget for the biennium 2026–2027*". No solution was proposed by the COP[21] either, which only reflected in its report the Secretariat's statement that "*The Secretariat noted that such supplementary requirements will be set out in the fundraising letter sent to relevant Parties at the beginning of 2024 and that resource requirements for 2026 and beyond resulting from decisions taken at those sessions will be treated in line with the established budgetary process*".

### 5.2.2. A heavy reliance on fundraising to implement new mandates and offset the shortfall of the core budget

169. The UNFCCC Secretariat faces different challenges, that keep the UNFCCC Secretariat heavily reliant on voluntary funding:

- the lack of funding of all category 1 and 2 mandated activities through the core budget (see part 5.3). While the COP (FCCC/CP/2023/11/Add.2, decision 19/CP.28, para. 28) decided "*that Parties will seek to approve future core budgets that include all category 1 (essential) and 2 (long-term, recurring) activities that have been mandated by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris agreement*", it is indeed not the case today;
- the need to raise funding for category 3 activities that are mandatory to fulfil the mandates;
- the addition, throughout the biennium, of new mandated activities that are not financed until the next budget approval.

170. The Secretariat thus sends out fundraising letters to Parties at the beginning of each year, as well as mid-year. On 8 March 2023, the Secretariat addressed Fundraising letters to 43 Parties (mostly Annex I countries), specifying the revised funding requirements for the Trust Fund for Supplementary Activities and Trust Fund for Participation, based on the outcomes of COP 27 and 2022-2023 UNFCCC biennium budget approved by Parties for 2023. The letters listed specific commitments and expectations of Parties needing funding, some of critical importance to the negotiation process : "*launching the transparency regime under Article 13 of the Paris agreement (enhanced transparency framework) [...], delivering the first Global Stocktake at COP 28, [...] initiating the establishment and launch of work of the new funding arrangements to address loss and damage from climate change, and the operation of the Santiago Network on loss and damage". A second letter was sent on September the 6th 2023, specifying that "the Secretariat has received EUR 14.5 million for the Trust Fund for Supplementary Activities, against the initial funding requirement of EUR 72.3 million. Most of the funding received has been earmarked for specific mandates and activities [...]*". This letter was also addressed to the same 43 Parties. In the end the Secretariat received € 36.5 million for supplementary activities in 2023. In 2024, similar letters were sent out to 42 Annex I countries. In these letters, considering the huge supplementary funding needs for the 2024-2025 biennium, which exceed € 150 million, the Secretariat has proposed to focus on "critical mandates".

171. As these fundraising letters seek to secure the financing of new mandates, that should in principle be financed by the core budget, as well as category III activities

[20] FCCC/SBI/2023/10 § 155 and 162 and following.

[21] FCCC/CP/2023/11 § 131 and following.

that are crucial to the outcome of negotiations (such as the Global Stocktake) the Board considers that the Secretariat is entitled to address them to any Party who would be willing to provide financing, and that restricting requests mainly to Annex I countries represents a limitation to the fundraising capacity of the UNFCCC Secretariat.

172. **The Board recommends that UNFCCC Secretariat widen the base of the contribution to mandated activities by sending fundraising letters for voluntary resources to an extended list of Parties.**

173. The UNFCCC Secretariat accepted the recommendation.

### 5.3. Cascading difficulties arising from the significant dependence on voluntary contributions

174. The significant dependence on voluntary funding introduces many uncertainties, as the UNFCCC Secretariat relies less predictable and flexible resources to carry out core mandated activities. Earmarking can prevent the use of some voluntary funds on high-stake priorities identified by the Secretariat. The Secretariat, faced with high political expectations on new decisions by the Parties, tends to disregard the fact that actions of the Secretariat called for in COP/SB decisions should be undertaken subject to the availability of financial resources. It starts to fulfil mandated activities by using voluntary resources and shifting or borrowing financial resources and staff time from sufficiently funded workstreams, which does not represent a desirable management practice. In addition, the Secretariat finds it difficult to fill positions financed through voluntary funds. Concerns have also been expressed on the financing of support services in these conditions, even if the current levy of 13 per cent to support back office functions appears comparatively high.

#### 5.3.1. Recourse to internal borrowings across projects

175. In order to be able to deliver on urgent mandated activities, the UNFCCC Secretariat resolves some funding issues through reallocations and borrowing of funds from one project to the other. The Board already highlighted this practice in its July 2023 report on UNFCCC financial statements for 2022, when it observed that the financing of the 56th SB conference had led to internal lending: "in order to pay the suppliers, especially the World Conference Centre Bonn, UNFCCC had to temporally advance $ 3.1 million taken from the Programme Support Cost Fund. This loan was almost entirely returned to the Fund when UNFCCC succeeded to raising the required funding".

176. This has also been the case for the new "loss and damage" activities. The funding received to support the operationalisation of funding arrangements for loss and damage, including the Transitional Committee, was collected throughout 2023 and amounted to $ 2,759,684. It included $ 150,000 through non-earmarked supplementary funding allocation by the Executive Secretary in March 2023, as well as dedicated funds granted by donors. The main contribution was provided by Germany and consisted of two commitments amounting to approximately $ 1.8 million, the bulk of which was only received in October. Hence, before these funds arrived, other funds were mobilised, and specifically those of the Santiago Network project. They allowed to carry out the meetings held in Luxor on 27-29 March 2023 and in Bonn 23-27 May 2023. These amounts were then reimbursed to the project by December 2023.

177. This situation is far from being isolated, and the Executive Secretary mentioned this practice in the fund raising letters that it addressed to 42 Parties in March 2024 : "*Without timely, reliable and sustained funding, the Secretariat has had to find ways to continue supporting the work of critical areas such as data systems required for the ETF and the* Trust *Fund for Participation (TFP), by*

*advancing monies and continuously borrowing from internal sources. This practice cannot continue indefinitely, and urgent corrective action must be taken to address the funding gaps*".

178. This means that in effect, as acknowledged by the UNFCCC Secretariat[22], it frequently needs to disregard the fact that actions of the Secretariat called for in COP/SB decisions should be undertaken subject to the availability of financial resources. The organizational habit is instead to attempt to fulfil mandated activities regardless – by shifting (or borrowing) financial resources and staff time from sufficiently funded workstreams. This practice can affect the quality of delivery of the Secretariat, and downgrades the quality of projects' management by introducing permanent reallocations and uncertainty over the availability of funds. Moreover, it means that the UNFCCC Secretariat is confronted with the permanent prioritisation of activities.

### 5.3.2. Likely constraints on recruitments

179. Having a core budget both lagging behind the new mandates and not sufficient to cover all category 1 and 2 activities also puts a burden on human resources, though the number of total filled positions (including temporary positions) increased steadily over the past 3 years, including the number of filled positions financed with the Trust Fund for Supplementary activities. Indeed, the rate of filled positions compared to approved ones is low. As shown in the table below, core funding, which allows predictably on the funding for recruitments only represented 37 per cent of filled positions of the Secretariat in December 2022. The Trust Fund for Supplementary Activities should, for its part, have provided 32 per cent of total positions across the UNFCCC Secretariat, but in effect, it accounted only to 22 per cent of filled positions, the rate of filled positions compared to approved positions being very low since 2020 (it is only 47 per cent in 2022).

Table II.4

**End of year staffing compared to approved posts**

| | 31/12/19 | 31/12/20 | 31/12/21 | 31/12/22 |
|---|---|---|---|---|
| *Trust Fund for the Core Budget* | | | | |
| Approved | 173,5 | 179,5 | 179,5 | 181 |
| Filled[a] | 145,4 | 141 | 153 | 148 |
| *Trust Fund for Supplementary Activities* | | | | |
| Approved | 36 | 110 | 110 | 182 |
| Filled | 24,6 | 43 | 59 | 86 |
| *Trust Fund for the Clean Development Mechanism* | | | | |
| Approved | 87 | 85 | 85 | 78 |
| Filled | 76,8 | 70,5 | 63 | 54 |
| *Trust Fund for the International Transaction Log* | | | | |
| Approved | 7,5 | 6,5 | 6,5 | 6 |
| Filled | 4 | 4 | 4 | 3 |
| *Trust Fund for the Special Annual Contribution from the Government of Germany* | | | | |
| Approved | 8 | 9 | 9 | 1 |
| Filled | 7 | 7 | 9 | 1 |
| *Special account for conferences and other recoverable costs*[b] | | | | |
| Approved | 5 | 6 | 6 | 10 |
| Filled | 5 | 4 | 5 | 8 |
| *Special account for cost recovery related activities* | | | | |
| Approved | 28 | 28 | 28 | 32 |
| Filled | 23 | 23 | 24 | 25 |
| *Programme support (overhead)* | | | | |
| Approved | 81,5 | 74 | 74 | 76 |
| Filled | 63,1 | 62,3 | 66 | 71 |
| *Total* | | | | |
| **Approved** | **426,5** | **498** | **498** | **565** |
| **Filled** | **348,9** | **354,8** | **382,5** | **396** |
| **% of filled positions** | **82%** | **71%** | **77%** | **70%** |

*Note: Filled posts are occupied by staff members who have been awarded a fixed-term contract of one year or more and are appointed against established posts after a complete recruitment*

[22] Terms of reference of an internal working group on prioritisation of activities.

*process, including review by the Review Board. In 2019, it didn't include temporary assistant contracts, although it was the case for later years. The number of staff members in temporary positions was 24 in 2020, 36 in 2021 and 32 in 2022.*
*Source:* Board of Auditors | SBI reporting.

180. The low rate of filled positions funded by the Trust Fund for Supplementary Activities may have different causes. The Board already noted in its report on FS 2019, that "there is a contradiction between a high vacancy rate over the years and additional established posts. Therefore, it might be questionable whether additional posts were necessary to meet UNFCCC operational requirements". It is also questionable to maintain such a high level of established posts for such a low level of filled posts. However, the absence of visibility on the sustainability of funds is likely to have an effect. The Board has not carried out a thorough review of recruitment procedures. However, it noted that the UNFCCC Secretariat recently (6 March 2024) approved an internal memorandum stating that contract duration should not exceed the period of funding availability, reflected in the vacancy announcement. Such a policy, guaranteeing a sound management of human resources, can nevertheless become a hindrance to recruitments, as very short-term perspectives are provided to candidates (less than three years in general).

### 5.3.3. A decreasing share of funding granted through programme support costs and cost recovery mechanisms, although the current levy to support back office functions appears comparatively high

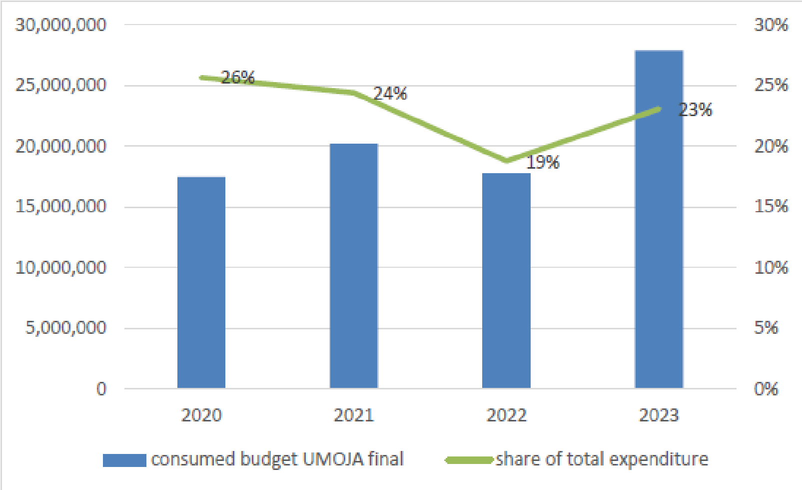
181. The financing of support teams raises concern. This is also linked to the difference of UNFCCC Secretariat compared with the UN Secretariat. Indeed, as stated in AI/2023/15 on program support costs (PSC): "*Funding of administrative support services at the UNFCCC Secretariat differs significantly from the approach taken at the UN Secretariat. Whereas the UN General Assembly approves appropriations for funding of most of its programme support services in the Regular Budget of the United Nations, the UNFCCC Secretariat's core budget, as adopted by its governing bodies, does not include such appropriations and instead includes a 13 % programme support costs (PSC) line. […]. Therefore, PSC forms a substantive part of the Secretariat's operational budget*".

182. This levy of 13 per cent to support back office functions appears comparatively high (the equivalent at UNDP is around 8 per cent).

183. Support services can also be funded from the cost recovery mechanism, that is detailed in AI/2023/14. The services that can be financed from the cost recovery mechanism are listed in annex 1 and 2 of the administrative instructive mentioned previously. Annex 1 specifies that "*The cost of the services, which are listed in paragraph 1 above must be covered from the same source of funding that is used to cover the cost of the personnel that receives the services*". This annex also specifies that "*The services covered by this mechanism are recurring and standardized*".

184. Hence, some services such as administrative services/human resources/information and communication technologies are funded according to three different mechanisms: direct funding from the core budget or other trust funds, PSC and cost recovery mechanism. An analysis on the past 4 years shows that on average, approximately € 21 million per year has been spent on AS/human resources/information and communication technologies. The Board was not in a position to assess the exact amounts, due to double counting issues (see note in figure below). Nevertheless, it shows that although a significant amount of UNFCCC's consumed budget is dedicated to support teams, its share of the total consumed budget remains relatively stable, and even decreases slightly.

Figure II.XIV
**Approximation of funds dedicated to AS/human resources/information and communication technologies**
(United States dollars)




*Note: doubles count exists on cost recovery expenditures as TCO (total cost of ownership) charges for AS/human resources/information and communication technologies employees on positions not funded from the cost recovery fund should be subtracted, as well as potential expenditures relating to services delivered by the information and communication technologies division in support of AS/human resources/information and communication technologies.*
*Source:* Board of Auditors | UNFCCC's Umoja data.

**The UNFCCC Secretariat's strategy to overcome these challenges**

185. The UNFCCC Secretariat is aware of the challenges that this misfit between its objectives and its funding induces. It is thus working on strategic documents and an annual "executive workplan". Yet, the annual workplan is not linked to mandates, although it could have been the opportunity to clarify the contribution of the different activities and workstreams towards the achievement of the mandates. The Secretariat is establishing de facto priories at different stages of the elaboration and implementation of its work programme, in the absence of prioritization by the Parties in the mandates. The difficulty to raise sufficient funds to meet all objectives, the misalignment of the adoption of new mandates and budget decisions, and the hindrances entailed by the heavy reliance on voluntary funding argue in favour of establishing clear priorities that would allow the UNFCCC Secretariat to secure the delivery of high-stake expectations. However, this goal cannot be pursued if attention is not also paid to proposals that could increase collaboration between divisions, allow for efficiency gains and alleviate the collective burden of teams. In any case, these considerations on priority setting in the Secretariat's activities would benefit from being shared with Parties, and articulated with broader reflections on the efficiency of the Convention's processes.

### 5.3.4. The first steps towards a strategic plan and an annual "executive workplan"

186. The growing sense of struggle to make means match objectives and the sense of having to set priorities, has led the Executive Secretary to initiate efforts for the development of a strategic plan of the Secretariat, since late 2022.As such, this approach could be considered to be the up-dated version of the "fit-for-purpose" initiative that was carried out in 2019, especially as it is considered to provide an

answer to the staff's concerns of a lack of direction, highlighted in the 2023 staff satisfaction survey.

187. The final Strategic plan's goal is to "*enhance the efficiency and effectiveness of the Secretariat*". It thus also allows to respond to a recent OIOS recommendation[23], which urged the UNFCCC Secretariat to "*develop a* strategic plan and framework which aligns its purpose, strategic objective and organization structure […]". Following preparatory work in 2023, and a Management Team meeting in March 2024, work has begun on developing the strategic plan under the coordination of the Manager, Organizational Development and Oversight unit, and the overall guidance and leadership of the Executive Secretary. External expertise will also be used, to provide in-kind support where needed.

188. In parallel to this medium-term approach, the UNFCCC Secretariat developed a short-term approach focusing on establishing priorities within its numerous activities, through the establishment of an "executive workplan". The first version of this executive workplan was established in 2023. A new executive workplan was also established for 2024 [24]. This workplan lists 19 "focus areas" and 39 "workstreams". Those workstreams are then specified with the identification of a desired outcome, key deliverables, impact (of deliverable), milestone description and milestone date. It thus allows the Executive Secretary to identify strategic activities more easily and to monitor the implementation of those activities.

### 5.3.5. The challenge of establishing priorities

189. Beyond the identification of activities that request a follow-up at the Executive level, the perceived mismatch between objectives and resources is leading the Secretariat to work on the prioritisation of activities. A "*working group on prioritization of mandated activities*" will indeed be set up. The draft terms of reference of this group indicate that the purpose of the group is to "*make recommendations and provide sustainable solutions for the capacity constraints facing the Secretariat in the context of ever-increasing demands from Parties*". The scope of the group is to focus on reviewing both mandated and non-mandated activities and to engage in a broader review for the 2026/27 budget proposal".

190. Prioritisation of activities is in effect carried out at several steps of the projects' cycle, even though the Secretariat tries to address all mandated activities, and involves all categories of activities. First the extent of the activities proposed in response to a specific mandate can reflect a prioritisation. Second the categorisation of activities is subject to appreciation: some activities that have been categorised as category 1 and 2 in the past may be re-categorized to category 3 according to their end-date, thus de-prioritising them as they will be subject to the availability of funding. Third, in the different budget scenarios presented by UNFCCC Secretariat, some category 2 activities were presented for core funding in some scenarios and for "supplementary budget", funded by voluntary resources, in others, meaning that they were de-prioritised effectively compared to the activities maintained in the core budget. Last, the allocation of non-earmarked funds from the Trust Fund for Supplementary Activities, that can finance category 2 and 3 mandated activities, follows a prioritisation strategy, whether explicit or not.

191. The working group on prioritization of mandated activities ambition is therefore laudable, and will provide useful reflection on the criteria used to prioritise or deprioritise the activities internally.

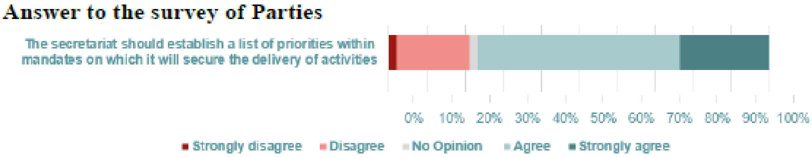
192. Parties do not seem to be reluctant to the UNFCCC's Secretariat proposing a prioritisation of activities. In the survey to Parties carried out by Board, when asked "*Some mandated activities are currently proposed to be funded by supplementary*

[23] OIOS, 2023/35, Audit of the Transparency division at the UNFCCC.

[24] As it was presented to the management team, "the 2024 workplan represents all relevant workstreams of the secretariat as proposed by divisions, thereby providing both (executive) focus and completeness".

*funds. How do you think the Secretariat should react to this?*", Parties answered with a large majority that the Secretariat should establish priorities, while being very transparent about the outcome of the exercise:

Figure II.XV
**Answer to the survey of Parties**




*Source:* Board of Auditors.

193. The real expectation of the Secretariat is however that Parties prioritize mandates, as requested by the Executive Secretary and stated in 2024 fundraising letters: "*the Parties will need to determine which mandates can be prioritized as it will be impossible for the Secretariat to implement mandates at the required level of quality*". The difficulty to raise sufficient funds to meet all objectives, the issue relating to the adoption of new mandates in parallel with budget elaboration and the hindrances entailed by the heavy reliance on supplementary funding argue in favour of establishing priorities that would allow UNFCCC Secretariat to secure the deliverance of high-stake priorities. For instance, one of the options to explore regarding new mandates could be the adoption of a contingency budgetary line that would explicitly refer to the launching of high-stake new mandates.

194. Another possible solution could be to adapt the budget to new mandates and new priorities on an annual basis. Indeed, the UNFCCC Secretariat is requested to present a biennium programme budget proposal at each even year (FCCC/CP/1995/7/Add.1, Annex 1, para. 2). As in every COP decision on the biennium budget, during COP 28, the Parties requested the UNFCCC Secretariat to propose at COP 29 "any adjustments that might be needed to the programme budget for the biennium 2024–2025" (FCCC/CP/2023/11/Add.2, decision 19/CP.28, para. 2). However, no adjustment was made since the creation of the Secretariat. The Board considers that an annual adjustment to the budget could allow to be more reactive and to adjust more quickly to the new requests of Parties. Shifting to an annual budget, as has been the case in the UN Secretariat, could also be a solution.

195. In any case, as stated by a Party, "*an overall conversation about the overload situation of mandates to the budget should be a part of the conversation between the Secretariat and the parties before the next budget*".

196. **The Board recommends that the UNFCCC Secretariat submit to the Parties a new methodology for budget proposal and approval, to better address challenges linked to: (i) the context of increasing new mandates, (ii) the misalignment of the timeframe for mandate adoption and budget appropriation, and (iii) the need to define and approve high stake priorities along with the budget necessary for their implementation.**

197. The Secretariat could notably propose to: (i) present a new methodology, beyond the approach per category, based on priorities setting; (ii) shift to an annual budget framework; (iii) recourse to programme budget adjustments as needed; and (iv) find other solutions such as setting a contingency budget line to cover the starting costs of new mandates. The pros and cons of the different solutions should be carefully studied ahead of any proposal to the SBI and the COP.

198. The UNFCCC Secretariat accepted the recommendation.

### 5.3.6. Necessary focus on increasing the UNFCCC's Secretariat's efficiency

199. However, considering the "breaking the silos" ambition of the past restructuring, special attention should also be paid to the proposals that could increase collaboration between divisions, allow for efficiency gains and alleviate the collective burden of teams. This approach could rationalise the work and decrease the cost of activities carried out by the Secretariat.

200. According to UNFCCC Secretariat, this kind of consideration prevailed for the organisation of the climate weeks in 2023: funds from several divisions were pooled to be able to make the event take place. As stated in UNFCCC's fourth 2023 quarterly report[25], the UNFCCC Secretariat, together with UNDP, UNEP and the World Bank, organized four regional climate weeks (Middle East and North Africa Climate, Latin America and the Caribbean, Asia-Pacific, Africa) which "*attracted 26,000 participants in 900 sessions, including 80 mandated UNFCCC events. UN Climate Change is trying to make better strategic use of the regional climate weeks, including by having mandated events at the climate weeks and linking a common theme each year to support the international negotiation process*".

201. However, the Board has not come across any consolidation of the efficiency gains identified, or any action plan to implement such efficiency gains. Moreover, current indicators relating to efficiency considered by the Secretariat (see part 3.4) do not measure renewed ways of working or synergies across divisions that could bring efficiency gains. However, several Parties have answered to the Board survey that they think that the Secretariat should "*undertake efforts to streamline the Secretariat, look for efficiency savings*".

202. **The Board recommends that the UNFCCC Secretariat present to the Parties a strategy to increase significantly its efficiency and effectiveness in the next three years, and report yearly on the results reached.**

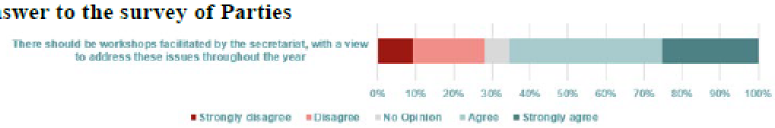
203. The UNFCCC Secretariat accepted the recommendation.

### 5.3.7. Necessary interactions with Parties and link with the evolution of the Convention' process

204. Considerations on priority setting and/or rationalising events would benefit from being shared with Parties. They could be usefully shared to question the impact of some of the Secretariat's activities and propose to downsize those that are deemed as having a low impact.

205. Parties would likely welcome the effort of accountability from the Secretariat. Indeed, when asked (see box on the survey of Parties) "*Do you think the format of the SBI sessions is appropriate to tackle possible issues in relation with adequation of the Secretariat's means with the expected outputs of mandated activities*?", Parties that do not agree with this statement, and would welcome workshops facilitated by the Secretariat.

Figure II.XVI
**Answer to the survey of Parties**




*Source:* Board of Auditors.

206. However, the UNFCCC Secretariat currently mainly shares insights with the Bureau of the COP, CMP and CMA, regarding the Convention's evolution of

[25] Message_to_Parties_and_observers-Quarterly_Report_4_2023.pdf (unfccc.int).

processes. Indeed, "*an exercise has been initiated for delivering a series of improvements to the UNFCCC process with a view to better supporting Parties and other stakeholders in a way that enhances the party-driven process and leads to implementation of climate action*". The reflections on the issue could include "*having multi-year agendas, involving outgoing and incoming Presidencies on a systematic basis and rationalizing mandated events*". Hopefully they will also address the issue of the closing of certain mandates that are obsolete.

207. These proposals are also discussed within a dedicated agenda item in SBI meetings, entitled "*increasing the efficiency of the UNFCCC process*". In its report on its 58th session[26], the SBI thus underlined "*the challenges posed by the increasing scale of the UNFCCC conferences, in particular the growing number of agenda items and mandated events since in-person sessions resumed at the end of 2021, following the postponement of sessions during the pandemic. It took note of the implications of this for the transparency, inclusiveness and effectiveness of the process and the implications for the budget and other organizational issues*". Parties were therefore invited to submit views on streamlining the provisional agendas of the governing and subsidiary bodies, by 31 March 2024. The SBI also "*requested the Secretariat to prepare a technical paper for consideration at SBI 60 (June 2024) on options for reducing overlapping items on the provisional agendas of the governing and subsidiary bodies taking into account the views referred to in paragraph 138 above*".

208. This agenda item allows to raise awareness on the operational difficulties that the current negotiation process entails and the corresponding suggestions should concur to the Secretariat's own reflections on priority setting. They could also support a broader approach towards the downsizing of events that have become difficult to carry out in such a format. Such "downsizing" proposals are currently considered for the COP 30 in Belém do Para (Brazil), due to the challenge of hosting 50,000 participants in this town, that can currently offer accommodation only for approximately 20,000 people. Indeed, the conclusions of the fact-finding mission to assess the feasibility of Belém as host city for COP 30, that the Government of Brazil requested UNFCCC to conduct, suggests that "*To mitigate the risk of sufficient numbers of beds not being available in the categories needed, consideration may need to be given to innovative ways of adjusting the scope of the COP programme in order to reduce participation*". It also offers other suggestions, such as considering "*reducing or eliminating other non-mandated aspects of the COP such as the pavilions offered on a commercial basis thereby reducing the number of participants who attend COPs to service and attend pavilion events. Consideration could be given to limiting non-mandated side-events.*"

209. However, the reconciliation between UNFCCC Secretariat's expectations on its strategic approach and the expected outcomes of this agenda item is not carried out at this stage. Even though the scopes of both approaches are not identical, the expected outcomes of the agenda item should influence the Secretariat's strategic considerations.

210. In any case, the strategic effort that is being carried out by the Secretariat, and its consequences in terms of short-term priority setting, should be discussed with the Parties in the appropriate setting, following the footsteps of the prior "fit-for-purpose" approach, which had been discussed with the Bureau. Indeed, in the Bureau's meetings on 3-4 September 2018 for instance, the Secretariat had "*informed the Bureau that the Secretariat had launched a process, using the help of external expertise, to ensure that the Secretariat was fit for purpose and to ensure enhanced efficiency of its structure and operations. [...] The Secretariat will keep the Bureau and Parties informed on progress of the review*".

211. This could in addition respond to the limit stated by several Parties, indicating that addressing the current challenges of the Secretariat should be done "*at the political level, in no new agenda item /disconnected negotiation room*", and that

[26] FCCC/SBI/2023/10, § 134 and following.

*"Workshops throughout the year are not accessible to many parties and very expensive, having more agenda items is difficult for small delegations to follow, there needs to be another way to communicate budget and mandate updates (e.g. through the Bureau)"*.

212. **The Board recommends that the UNFCCC Secretariat regularly report on its strategic approach (strategic plan, delivery of mandates, prioritization criteria) to the Parties, including through the Bureau of the Conference of Parties, to guarantee accountability and increase alignment with considerations of the Subsidiary Body for Implementation concerning the efficiency of the Conference's processes.**

213. The UNFCCC Secretariat accepted the recommendation.

## C. Transmission of information by management

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

214. UNFCCC reported to the Board that a total of $ 20,991 for long outstanding travel related advances paid to participants to UNFCCC events prior years and other unrecoverable account receivable balances. These advances were deemed uncollectible and subsequently written off. during the year ended 31 December 2023.

215. . 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

216. UNFCCC stated that *ex gratia* payments were not made in 2023.

### 3. Cases of fraud and presumptive fraud

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

218. During the audit, the Board made enquiries of Management regarding the oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that Management has identified or that have been brought to Management's attention. The Board also enquired whether Management had any knowledge of any actual, suspected or alleged fraud. This includes enquiries of the Office of Internal Oversight Services. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

219. UNFCCC stated that there was no case of fraud or presumptive fraud for the financial year ended 31 December 2023.

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

## D. Acknowledgement

221. 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.

*(Signed)* **Hou** Kai
Auditor General of the People's Republic of China
Chair of the Board of Auditors

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

*(Signed)* Dorothy **Pérez Gutiérrez**
Acting Comptroller General of the Republic of Chile

24 July 2024

## Annex
## Status of implementation of recommendations up to the financial year ended 31 December 2022

| | | | | | | *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. 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. | Procurement policy has been signed on 14 February 2024 | The Board reviewed the supporting document provided ant noted that the procurement policy has been signed in February 2024.<br>The Board considers this recommendation as implemented | X | | | |
| 2 | 2018 | FCCC/SBI/2019/INF.9 chap. II, para. 55 | The Board recommends that UNFCCC assess the possibilities of investment approaches within the cash pool for the reserves set aside to cover for the after-service health insurance liabilities, in consultation with United Nations Treasury. | FRMU consulted with EY and will consider cost benefit analysis based on the quoted price before proceeding with any study. UNFCCC continues to consider the possibilities of investment approaches with guidance from the UN HQ Treasury. | The Board considered after reviewed UNFCCC assessment on investment approach within the cash pool, that those investments will cover the ASHI long term liabilities Therefore, the Board considers that the recommendation is overtaken by events. | | | | X |
| 3 | 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 analysis of the KPIs has been completed and the MT will be informed of the results in April | A list of indicators has been communicated to the Board and shared at the level of senior managers.<br>However, an adjustment of the restructuring has been announced in March 2024. | | | | 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 recommendation is therefore considered overtaken by events, and the Board will propose a new recommendation adapted to the evolution of UNFCCC's restructuring. | | | | |
| 4 | 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 risk register is being developed and interviews with respective divisions are conducted for the inclusion of relevant risks in the register | The risk register is being developed and interviews with respective divisions have been conducted for the inclusion of relevant risks in the register.<br>A draft risk register exists but it has no accompanying risk mitigation plan at this stage.<br>The recommendation is considered under implementation. | | X | | |
| 5 | 2020 | FCCC/SBI/ 2021/INF.4 chap. II, para.51 | The Board recommends that UNFCCC describe the annual process and management of cost recovery in a procedural guideline approved by the Executive Secretary. This guideline should include potential measures in case of excessive surpluses or deficits from the cost recovery scheme. | The Cost Recovery policy was signed by the ES on 9 October 2023 and entered into force 1 November 2023 | The signed policy was provided. The Board considers this recommendation as implemented | X | | | |

United Nations Framework Convention on Climate Change

| *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* |
| 6 | 2020 | FCCC/SBI/ 2021/INF.4 chap. II, para.61 | The Board recommends that UNFCCC describe the annual process and management of programme support costs in a procedural guideline approved by the Executive Secretary. Based on further analysis of prior years – the guideline should include potential measures in case of excessive surpluses or deficits from programme support costs and incorporate them into the procedural guideline. | The PSC policy was signed by the ES on 9 October 2023 and entered into force 1 November 2023 | The signed policy, by ES, has been obtained; it precise the potential measures in case of deficit of PSC<br>The Board considers this recommendation as implemented | X | | | |
| 7 | 2020 | FCCC/SBI/ 2021/INF.4 chap. II, para.81 | The Board recommends that UNFCCC comply with the Procurement Manual in further low value acquisition processes. | The ES' new DoA is under discussion with the UN Secretariat, with a draft having been prepared. This is currently under review by both sides. | AI/2023/1 indicates that the UN Procurement Manual is higher in the hierarchy of norms than any UNFCCC's administrative instructions.<br>UNFCCC will only be able to deviate from the Procurement Manual if it is specified in the final delegation of authority from the UN Secretary General to the Executive Secretary on procurement.<br>The recommendation is considered to be under implementation | | X | | |

United Nations Framework Convention on Climate Change

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| 8 | 2021 | UNFCCC /2022/ chap. II, para.24 | The Board recommends that UNFCCC formalize alternative kinds of inventories such as permanent inventory of PP&E as alternatives to annual inventory. | ServiceNow for information and communication technologies inventories is operational. Non-information and communication technologies PP&E are, due to the funding constraints, maintained in Excel which is a permanent register updated as it comes and verified by the yearly physical verification. | The implementation of Service now is completed<br>The Board considers this recommendation as implemented | X | | | |
| 9 | 2021 | UNFCCC /2022/ chap. II, para.28 | The Board recommends that UNFCCC enhance the quality assurance for drafting the financial statements and the financial report. | UNFCCC has finalized a quality assurance process for the review of the Organization's financial statements.<br>The team has developed an error and notes checklist for the financial statements to ensure that numbers reported are correct and in line with expectations.<br>UNFCCC has also instituted a multi-layer review process where the financial statements are reviewed by the Chief Accountant, Chief, Financial Resources Management Unit, Directors and Executive Secretary prior to submission to the UNBoA | The Board had access to the new tool allowing the establishment of the financial statements with consistency.<br>The Board considers this recommendation as implemented | X | | | |
| 10 | 2021 | UNFCCC /2022/ chap. II, para.40 | The Board recommends that UNFCCC reconsider introducing a SIC based on the SIC signed by the Secretary-General in 2021. | 3 meetings with UNHQ have been held on IC framework and SIC, UN Framework has been reviewed and assessed for applicability to UNFCCC | The Board noted that UNFCCC provided the UN self-assessment questionnaire completed and has established a risk matrix on accounts payable process | | X | | |

United Nations Framework Convention on Climate Change

| *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* |
| | | | | | The next financial interim audit will give the opportunity to control their effectiveness. The Board considers this recommendation to be under implementation. | | | | |
| 11 | 2021 | UNFCCC /2022/ chap. II, para.65 | The Board recommends that UNFCCC have a catalogue of all rules, including those rules to which applicable rules refer, irrespective of whether they are UNFCCC's own rules or United Nations rules. This catalogue would need to be maintained on a regular basis. | The UNFCCC Policy Portal is available on the Secretariat's intranet, to which the Secretariat policies that are currently in force, as well as several from the UN Secretariat that apply to the Secretariat, have been uploaded. It is expected that more policies, including those from the UN Secretariat that are to be promulgated so as to apply to the UNFCCC Secretariat, will be developed and enter into force in the context of a project entitled "Strengthening the UNFCCC Secretariat's institutional legal framework", throughout which this Portal shall be regularly updated and maintained, as needed. | The Board considers this recommendation to be under implementation. | | X | | |
| 12 | 2021 | UNFCCC /2022/ chap. II, para.69 | In addition, the Board recommends that UNFCCC eliminate all shortcomings in UNFCCC policies that were identified in the policy review as soon as possible. | It is expected that the Secretariat's project "Strengthening the UNFCCC Secretariat's institutional legal framework" will review all existing UNFCCC policies as well as UN Secretariat policies that are to be applied to the UNFCCC Secretariat. Through this process, it is anticipated | Some policies should be up-dated but haven't been yet.<br>Therefore, the Board considers this recommendation to be under implementation. | | X | | |

United Nations Framework Convention on Climate Change

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | that the policies listed here as well as a number of others will be revised, including to address any identified shortcomings in the previous versions of such policies. | | | | | |
| 13 | 2021 | UNFCCC/2022/ chap. II, para.90 | The Board also recommends that UNFCCC, in case UNFCCC may deviate from the United Nations administrative instruction ST/AI/286, revise the administrative instruction in order to comply with 15/CP.1. | The deviation from administrative instruction ST/AI/286 (Programme Support Accounts) is covered in AI/2023/14 (PSC) | We have obtained the PSC procedure signed by the ES, which defines the process and specifies the potential measures to be taken in the event of a deficit or surplus.<br>The Board considers this recommendation as implemented | X | | | |
| 14 | 2021 | UNFCCC/2022/ chap. II, para.98 | The Board further recommends that UNFCCC should bring important changes to UNFCCC administrative issuances to the attention of the COP as the governing body of the UNFCCC. | The report FCCC/CP/2023/INF.2 has been published 11 Oct 2023 and will be considered at SBI59 under agenda item 20 Administrative, financial and institutional matters | A note by the Secretariat has been addressed to parties. It presents the policy review mechanism.<br>The SBI took note of the information (cf. https://unfccc.int/documents/637065 agenda item 20)<br>The Board considers this recommendation as implemented | X | | | |
| 15 | 2021 | UNFCCC/2022/ chap. II, para.116 | The Board recommends that UNFCCC publish summary information about donations from non-Party stakeholders and members of the public at large on its website. | The information on voluntary donations received through UNFIP managed platform has been published under DONATE button: on the https://unfccc.int/about- | The information on voluntary donations received through UNFIP managed platform has been published under DONATE button: on the | X | | | |

United Nations Framework Convention on Climate Change

| *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* |
| | | | | us/budget/status-of-contributions page | https://unfccc.int/about-us/budget/status-of-contributions page. The Board considers this recommendation as implemented | | | | |
| 16 | 2022 | UNFCCC /2023/ chap. II, para.60 | The Board recommends that the UNFCCC Secretariat formalize a suitable quality assurance process on the financial statements, notes and financial report. | UNFCCC has finalized a quality assurance process for the review of the Organization's financial statements.<br>The team has developed an error and notes checklist for the financial statements to ensure that numbers reported are correct and in line with expectations.<br>UNFCCC has also instituted a multi-layer review process where the financial statements are reviewed by the Chief Accountant, Chief, Financial Resources Management Unit, Directors and Executive Secretary prior to submission to the Board. | The Board considers this recommendation as implemented (id. 2021/28) | X | | | |
| 17 | 2022 | UNFCCC /2023/ chap. II, para.66 | The Board recommends the UNFCCC Secretariat to focus the information in the financial statements notes to its own assets and financial performance on investments. | The Secretariat requested the United Nations HQ Treasury team, to provide Investment and Cash information that specifically relates to UNFCCC. This is addition to the information on UNFCCC's share of the main cash pool and revenue from cash pool.<br>It must also be noted that, Cash and Investments are held in a Cash pool by the United | Detailed tables on the UNFCCC portion in the UN main cash pool have been provided and IPSAS 41 remeasurement has been applied. Recommendation is no longer applicable. The Board considers this recommendation as 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 |
| | | | | Nations and as a result, returns from performance and associated allocations are provided by United Nations Treasury. | | | | | |
| 18 | 2022 | UNFCCC/2023/ chap. II, para.116 | The Board recommends that the UNFCCC Secretariat define and implement a due diligence process to clear all types of financial and non-financial contributions, commitments and partnerships with non-Parties stakeholders. | The Due Diligence and the Partnership policies have been signed by the Executive Secretary and will go into effect on 1 June 2024. . | Administrative instruction AI/2024/4 on voluntary contributions from and partnerships with non-States entities has been approved and a due diligence process has been adopted.<br>The Board considers this recommendation to be implemented | X | | | |
| 19 | 2022 | UNFCCC/2023/ chap. II, para.132 | The Board recommends that the UNFCCC Secretariat systematically request to include provisions in Conference of Parties' host country agreements stipulating that its opinion would be sought on the sponsoring partnerships | | The draft agreement includes a provision that states that "15. The Government shall consult the Secretariat with a view to obtaining its advice on entities of concern with which the Government, as the host of the Conference, should | X | | | |

United Nations Framework Convention on Climate Change

| *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* |
| | | | | | not conclude sponsorship agreements in connection with the Conference. The Board considers this recommendation as implemented. | | | | |
| 20 | 2022 | UNFCCC /2023/ chap. II, para.150 | The Board recommends that the UNFCCC Secretariat secure without delay its sub-delegation of authority framework. | The revised DOA has been signed on 27 October and entering into force on 1 November 2023 | The revised signed DOA has been shared. The Board considers this recommendation as implemented. | X | | | |
| 21 | 2022 | UNFCCC /2023/ chap. II, para.163 | The Board recommends that the UNFCCC Secretariat identify, assess and mitigate in a systemic manner critical risks of a strategic nature, including those concerning financial resources, partnerships and the legal environment. | The ERM Policy has been promulgated effective 1 June 2024. The ERM SOPs are undergoing the review process. The risk register is being developed and an interview with LA has been conducted for the inclusion of relevant risks in the register | The risk register is being developed and interviews with respective divisions have been conducted for the inclusion of relevant risks in the register.<br>A draft risk register exists but it has no accompanying risk mitigation plan at this stage.<br>The Board considers this recommendation to be under implementation. | | X | | |
| 22 | 2022 | UNFCCC /2023/ chap. II, para.193 | The Board recommends that the UNFCCC Secretariat define and implement mitigation measures to better address cybersecurity risks. | 1. Request for a dedicated Cybersecurity position was rejected in in the last approved budget. Therefore, UNFCCC does not have a dedicated resource.<br>2. UNFCCC regularly engages cybersecurity services from | An IT security officer has been hired part time in 2023.<br>A cybersecurity training followed by a test has been | X | | | |

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| 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | UNICC and commercial vendors for SB and COP, thereby carrying out biannual assessments of the Secretariat cloud security posture.<br>3. UNFCCC has renewed its framework contract for cybersecurity services in June 2023 to ensure continued access to commercial vendors in addition to UNICC.<br>4. Security requirements are formulated at project level and security assessments for new services under Article 6 of the Paris agreement carried out, such as the ETF service and Article 6 Registries.<br>5. UNFCCC commissioned an ISO27001 cyber security maturity assessment from UNICC from January to March 2023 to identify gaps and define a prioritized implementation roadmap for a corporate cybersecurity program.<br>6. A compendium of UNFCCC cybersecurity policies is being established, including the development of 29 policies by 31 March 2024. | developed for all the employees.<br>A generic email account has been created to send awareness and training concerning cybersecurity to all employees each 3 months.<br>Phishing testing campaigns are also performed.<br>A work is performed with the UNICC to include cyber risk in the global risk matrix.<br>Intrusion testing has been performed in 2023 and remediation plan has been set up.<br>The Board considers this recommendation to be implemented | | | | |
| 23 | 2022 | UNFCCC /2023/ chap. II, para.204 | The Board recommends that the UNFCCC Secretariat enhance its oversight on risks linked to the evolving role of Regional Collaboration Centers. | The Mitigation division conducted an RCC Risk Assessment exercise in Q1 of 2024 in accordance with the UN Risk Framework and developed the necessary mitigation measures. The results of this | Identification of risks has been carried out, reviewed and approved by the Director, Mitigation Division, who is the one overseeing RCC | 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | exercise are presented in the corresponding RCC risk matrix | related risks on behalf of the Secretariat. The top risks will be included in the Secretariat wide risk register and monitored as part of the corporate oversight on risks. The recommendation is considered as being implemented | | | | |
| 24 | 2022 | UNFCCC /2023/ chap. II, para.224 | The Board recommends that the UNFCCC Secretariat better prevent the risks of fraud, corruption and misconduct by enhancing and updating detection and treatment systems. | The wrongdoing policy is being drafted | The Board has received the Terms Of Reference for P3 Programme Officer hired to summarize mechanisms for detecting and reporting wrongdoing. The Board considers this recommendation as under implementation | | X | | |
| 25 | 2022 | UNFCCC /2023/ chap. II, para.244 | The Board recommends that the UNFCCC Secretariat adopt its own risk management policy with the objectives of reinforcing the global oversight on risks and better articulating it with the wider accountability framework. | The ERM Policy has been promulgated effective 1 June 2024. | Administration instruction AI/2024/5 on ERM has been signed. The recommendation is considered as being implemented | X | | | |
| 26 | 2022 | UNFCCC /2023/ chap. II, para.264 | The Board recommends that the UNFCCC Secretariat conduct a review of all Umoja-related UNFCCC relevant internal processes and rules to mitigate risks related to access rights. | Completed<br>1. Development of Role Mapping by Job Function matrix - Completed<br>2. Development of SOP outlining process for management of Umoja access, | A SOP concerning Umoja role management has been written by UNFCCC in 2024, to ensure that the same rules are | 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | including SoD conflict procedures, and risk control matrix – Completed<br>3. Review of existing exceptions to SoD rules, following the new SOP - Completed | applied in all UNFCCC.<br>A matrix explaining which Umoja role should be link with which job has been defined to help role granting and limiting the risk of risky role combination.<br>A user access review has been performed in 2023, and several user accesses has been revoked.<br>The Board considers this recommendation as implemented | | | | |
| **Total number of recommendations** | | | | **26** | | **17** | **7** | **0** | **2** |
| **Percentage of the total number of recommendations** | | | | **100** | | **65%** | **27%** | **0%** | **8%** |

# 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 2023 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 2023 are correct.

*(Signed)* Simon **Stiell**
Executive Secretary
July 2024

United Nations Framework Convention on Climate Change

# Chapter IV
# Financial report for the year ended 31 December 2023

## A. Introduction

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

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

3. This financial report should be read in conjunction with the UNFCCC audited financial statements for 2023, but they do not form part of the statements. The financial report is intended to provide readers of the financial results with a more holistic understanding of the meaning of the numbers and inform stakeholders about how financial resources are being managed.

## B. 2023 Financial highlights

*Total revenue*

4. Revenue in 2023 totalled $115.7 million mainly consisting of:

(a) The indicative contributions to the core budget of $32.1 million and $0.7 million to the budget of the International Transaction Log;

(b) Voluntary contributions from donors totalled $55.2 million.

(c) Fees for the CDM and Joint Implementation mechanisms $13.9 million.

(d) Interest earned during the period amounted to $9.9 million.

(e) Miscellaneous revenue of $3.9 million.

*Total expenses*

5. Expenditure in 2023 totalled $124.3 million and mainly consisted of:

(a) Personnel expenses amounting to $62.8 million.

(b) Travel related expenses totalling $21.9 million.

(c) Contractual services for $30.5 million.

(d) Operating and other expenses for $5.5 million.

(e) Transfer to donor/ CDM Trust Fund transfer to the World Bank hosted Adaptation Fund in 2023 was $0.4 million ($20.0 million in 2022). It should be noted that the transfer in 2022 was treated as an expense that year. The transfer was in fulfilment of a decision by the Conference of Parties on 2 November 2021 and not a planned expenditure against the UNFCCC 2022 work programme.

*Combined revenue*

6. Voluntary contributions increased by $15 million (including $7.5 million funds channelled through the secretariat for the Santiago network for loss and damage) from $40.2 million in 2022 to $55.2 million in 2023 while the combined revenue from indicative contributions and fees for the Clean Development Mechanism (CDM) and the Joint Implementation (JI) decreased by $18.2 million from $32.1 million in 2022 to $13.9 million in 2023. Indicative contributions revenue decreased moderately to $32.8 million ($35.6 million in 2022) primarily due to the weakening of the United States dollar against the Euro (Ex Rate of €1 to $1.06 in 2023 vs exchange rate of €1.00 to $1.13 in Jan 2022). Voluntary revenue had a significant rise to $55.2 million ($40.2 million in 2022) mainly due to enhanced fund-raising effort, recognition of the Santiago secretariat contribution ($7.5 million) and an increased funding to $8.4 million for COP 28 ($5.4 million in 2022). There was also a significant decrease in CDM and JI fees to $13.9 million ($32.1 million in 2022) attributed to reduced volumes of Certified Emission Reduction issuances for emission reduction projects and programmes in 2023 compared to 2022. The increase in other revenue by $3.1 million is due to recognition of foreign exchange gain.

*Total expenses*

7. Total expenses have reduced to $124.3 million in 2023 ($132.5 million in 2022) mainly due to a one-time transfer of $20.0 million from the CDM Trust Fund surplus to the World Bank hosted Adaptation Fund which occurred in 2022 in fulfilment of the decision in 2/CMP.16 by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol did not have a similar occurrence in 2023. In addition, there was an increase of contractual services such as vendor payments to $30.5 million ($24.2 million in 2022) and travel to $21.9 million ($12.4 million in 2022). Both are a reflection of the increased activities, vendor procurements and travel during the year, following most meetings being moved from being held virtually to being held in person and coupled with the in-person participation at the COP 28 held in 2023.

*Operating results*

8. In 2023, there was an excess of expenditure over revenue of $8.6 million (compared to a deficit of $19.8 million in 2022). The total deficit is mainly due to a deficit on the employee benefit fund of $5.4 million due to the fund being mostly unfunded. In addition, travel costs were higher than anticipated mainly due to significant increases in airfare costs and increase in number of participants at UNFCCC meetings/events in 2023 compared to 2022. (SB, COP, regional climate weeks, etc). The Trust fund for the Clean Development Mechanism, Core Budget of UNFCCC, Special Annual Contribution from the Government of Germany, Special account for conferences, UNFCCC programme support and recovery costs had surplus balances during the year whiles the Trust fund for participation in the UNFCCC process, Supplementary Activities, International Transaction Log and UNFCCC employee liabilities had deficits during the year.

*Assets*

9. Total assets as at 31 December 2023 increased by $9.2 million to $273.9 million compared to total assets as at 31 December 2022 of $264.7 million. The major components of UNFCCC's assets are as follows:

Table 1
**Summary of assets as at 31 December 2023**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Cash and cash equivalents | 29 711 | 33 515 |
| Investments | 201 209 | 199 575 |
| Indicative contributions receivable | 8 650 | 11 424 |
| Voluntary contributions receivable | 13 694 | 11 729 |
| Other accounts receivable | 2 656 | 2 223 |
| Other assets | 17 621 | 5 577 |
| Property, plant, and equipment | 214 | 310 |

| | *2023* | *2022* |
|---|---|---|
| Intangible assets | 152 | 323 |
| **Total assets** | **273 907** | **264 676** |

10. The major assets at 31 December 2023 are cash, cash equivalents and investments totalling $230.9 million, representing 84.3 per cent of the total assets, outstanding indicative contributions from Parties of $8.7 million, (3.2 per cent) and Voluntary contributions of $13.7 million representing 4.4 per cent of the total assets. The remaining assets consist of other accounts receivable of $2.7 million, other assets (primarily advances) of $17.6 million, property, plant and equipment and intangible assets amounts to $0.4 million.

*Cash, cash equivalents and investments*

11. Cash and cash equivalents as well as investments of $230.9 million, are held in the UN Treasury main cash pool. The overall levels of these assets decreased by $2.2 million compared to 31 December 2022. Following the implementation of IPSAS 41, fair value adjustment of $0.7 million has been recognised for investments.

*Accounts receivable*

12. Similar to 2022, there continues to be improvement in the payment of contributions to the UNFCCC Secretariat by many Parties. In 2023 indicative contributions outstanding reduced by $2.8 million or 24.3 per cent compared to amounts outstanding as at 31 December 2022. This affirms strides made by the parties to ensure payment of amounts due in addition to concerted effort by UNFCCC Secretariat to follow up on outstanding contributions with the Parties.

*Other assets*

13. Other assets amounting to a total of $17.6 million mainly consist of prepayments of $13.3 million to vendors for services/projects in future periods and education grant advances of $1.2 million.

*Liabilities*

14. Liabilities as at 31 December 2023, totalled $195.5 million ($170.4 million as at 31 December 2022) and were as follows:

Table 2

**Summary of liabilities as at 31 December 2023**
(Thousands of United States dollars)

| | 2023 | 2022 |
|---|---|---|
| Accounts payable and accruals | 14 567 | 7 825 |
| Advance receipts | 24 733 | 29 767 |
| Employee benefit liabilities | 147 750 | 130 915 |
| Other liabilities | 8 481 | 1 878 |
| **Total liabilities** | **195 531** | **170 385** |

*Employee benefit liabilities*

15. Employee benefit liabilities accounts for 75.6 per cent of total liabilities for UNFCCC. As at 31 December 2023, the liability for employee end of-service benefits liability, after-service health insurance, repatriation grant for qualifying staff members, annual and home leave as well as other employee benefit liabilities stood at $147.8 million. An actuarial firm independently estimated this liability. The details of the calculations are contained in Note 14. While this amount represents the best estimate of the liability of UNFCCC, it remains subject to a degree of uncertainty, which is reported in the sensitivity analysis for actuarial liabilities. In recognition

of this uncertainty, the actuarial assumptions will be kept under review and the estimate of the liability will be updated on an annual basis.

16. The remaining liabilities relate to Accounts payable and accruals of $14.6 million, advance receipts of $24.7 million and other liabilities of $ 8.5 million. Advance receipts mainly comprise of indicative contributions received in advance of the start of the year to which they are relating to, voluntary contribution provided by donors that contain conditions requiring the return of funds (if not spent in accordance with the terms of the agreement), and CDM fees received in advance but not yet earned by UNFCCC. The balance represents the portion of the contributions as at 31 December that have not been recognized as revenue as they are not yet earned by UNFCCC by performing the services covered by the respective agreements.

*Net assets*

17. As at 31 December 2023, after an allowance had been made for all known liabilities, the net assets held by UNFCCC stood at $78.4 million. The net assets include $21.3 million actuarial gain/losses reserve pertaining to the valuation of employee benefits at year end, programme and staff related reserves of $49.7 million and accumulated surplus of $8.0 million. This is offset by a $0.7 million impact for financial instruments held at fair value through net assets following the implementation of IPSAS 41.

**Comparison of budgets to actual amounts**

18. The Conference of the Parties (COP) approved a Core expenditure budget for 2022-23 biennium, amounting to EUR 62.5 million. The 2022 - 2023 approved biennium budget for the International Transaction Log amounted to €3.9 million.

19. Actual expenditure was in line with approved budget for both the year and the biennium. Expenditure for the year ended 31 December 2023 under the core budget represented 101.9 per cent of the approved core budget and 99.2 per cent over the biennium period. Expenditure trends in 2023 increased marginally compared to the budget mainly due to increased expenditure associated with Subsidiary Bodies (SBs) and Conference of Parties (COP) travels following the elimination of restriction on travels post COVID 19 pandemic.

20. The overall expenditure rate under the Trust Fund for the International Transaction Log (ITL) was 64.8 per cent for the biennium 2022-2023. This is due to staff departures, the restructuring of the secretariat and the decrease in operational activities, the staffing level of the ITL during the reporting period was below the requirements included in its budget.

21. The core budget, as well as the budget for the international transaction log continues to be prepared on a modified cash basis in accordance with the UN Financial Regulations. The overall budgetary results of the 2023 year and biennium (2022 – 2023) financial period are summarized in Statement V-A to V-B. 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.

**Managing financial risk and uncertainties**

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

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

24. While fluctuating over time, voluntary contributions have been received at insufficient levels to cover the budgeted requirements for supplementary activities in line with the mandates given by the different bodies of the Conference of the Parties. Similar to the core budget,

expenditure is limited to funding received, and budgets are developed and implemented to ensure full cost recovery, taking into consideration all direct and indirect costs.

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

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

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

28. Key risk factors for the secretariat include: (i) geopolitical situation and/or energy and economic crisis impinging on parties' commitment to urgently combating climate change; (ii) unclear or incoherent approach to the development of the secretariat as an organization in support of the implementation of the Paris Agreement; and (iii) unpredictable or insufficient financial resources to finance all relevant mandates from parties.

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

**Strategic plan and objectives**

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

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

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

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

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

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

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

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

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

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

(e) Oversee and manage the secretariat effectively.

**Programme delivery highlights**

34. During the reporting period, the secretariat organized SB 58 and COP 28, both of which took place in person with a robust virtual component. These sessions increased in complexity and scope compared with previous sessions. It also organized around 196 workshops, capacity-building sessions, and meetings in and outside Bonn.

35. Work under all constituted bodies, processes, and work programmes supported by the secretariat progressed in line with the respective mandates and work plans. The secretariat continued to support the intergovernmental process in relation to mitigation, adaptation, means of implementation, and transparency, as well as other cross-cutting areas such as the Global Stocktake, just transition, and gender. Some of the highlights are included in the following paragraphs.

36. The secretariat facilitated intergovernmental engagement on cross-cutting areas such as the first global stocktake of the implementation of the Paris Agreement and the Just Transition work programme.

37. On mitigation, key areas the secretariat facilitated in 2023 include the Sharm el-Sheikh mitigation ambition and implementation work programme, Article 6 of the Paris Agreement, and the impact of the implementation of response measures. Facilitation for key areas related to adaptation and loss and damage includes supporting the process of the operationalization of the Loss and Damage fund and the Santiago Network, Glasgow–Sharm el-Sheikh work programme on the global goal on adaptation, formulation and implementation of the National Adaptation Plans (NAPs), the Nairobi Work Programme (NWP), the Warsaw International Mechanism for loss and damage (WIM) and management of the adaptation-related data and information.

38. In relation to the means of implementation of the Paris Agreement, the secretariat facilitated Parties' engagement in areas including climate finance flow, the establishment of a technology implementation programme, and related to the Paris Committee on Capacity-Building. While a series of substantial and technical support have also be provided on the current Measuring Reporting Verification (MRV) arrangements and the Enhanced Transparency Framework (ETF), including by providing technical assistance to developing countries and training to experts engaged in the reporting, review and analysis processes. It is facilitating the operationalization of the ETF and work on methodological issues, including in relation to GHG inventories, REDD+, agriculture, land use, land-use change and forestry, Intergovernmental Panel on Climate Change (IPCC) guidelines and common metrics.

39. Furthermore, the secretariat also facilitated intergovernmental engagement on and implementation of established processes relating to gender, Action for Climate Empowerment (ACE), youth engagement, observer engagement and global climate action, including by preparing reports and events under the gender action plan, organizing the ACE Dialogue, and supporting the Presidency and relevant observer constituencies in organizing Gender Day and Young and Future Generations Day events, including the youth-led forum and civil society events at COP 28.

United Nations Framework Convention on Climate Change

# Chapter V

## Financial statements for the year ended 31 December 2023

### United Nations Framework Convention on Climate Change

### I. Statement of financial position as at 31 December 2023

(Thousands of United States dollars)

| | *Reference* | *31 December 2023* | *31 December 2022* |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | Note 6 | 29 711 | 33 515 |
| Short-term Investments | Note 7 | 153 266 | 134 463 |
| Indicative contributions receivable | Note 8 | 8 650 | 11 424 |
| Voluntary contributions receivable | Note 8 | 12 259 | 7 565 |
| Other receivables | Note 8 | 2 656 | 2 223 |
| Other current assets | Note 9 | 17 621 | 5 577 |
| **Total current assets** | | **224 163** | **194 767** |
| Non-current assets | | | |
| Voluntary contributions receivable | Note 8 | 1 435 | 4 164 |
| Long-term investments | Note 7 | 47 943 | 65 112 |
| Property, plant and equipment | Note 10 | 214 | 310 |
| Intangible assets | Note 11 | 152 | 323 |
| **Total non-current assets** | | **49 744** | **69 909** |
| **Total assets** | | **273 907** | **264 676** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payables and accruals | Note 12 | 14 567 | 7 825 |
| Advance receipts | Note 13 | 24 733 | 29 767 |
| Employee benefits | Note 14 | 3 055 | 2 418 |
| Other current liabilities | Note 15 | 8 481 | 1 878 |
| **Total current liabilities** | | **50 836** | **41 888** |
| **Non-current liabilities** | | | |
| Employee benefits | Note 14 | 144 695 | 128 497 |
| **Total non-current liabilities** | | **144 695** | **128 497** |
| **Total liabilities** | | **195 531** | **170 385** |
| **Net of total assets and total liabilities** | | **78 376** | **94 291** |
| Net assets | | | |
| Accumulated surpluses/(deficits) | Note 19 | 8 011 | 44 888 |
| Reserves | Note 19 | 70 365 | 49 403 |
| **Total net assets** | | **78 376** | **94 291** |

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

## United Nations Framework Convention on Climate Change

### II. Statement of financial performance for the year ended 31 December 2023

(Thousands of United States dollars)

| | *Reference* | *2023* | *2022* |
|---|---|---|---|
| **REVENUE** | Note 17 | | |
| Indicative contributions | | 32 842 | 35 618 |
| Voluntary contributions | | 55 245 | 40 228 |
| CDM and JI service fees | | 13 857 | 32 072 |
| Interest revenue | | 9 894 | 4 008 |
| Other/miscellaneous revenue | | 3 850 | 746 |
| **TOTAL REVENUE** | | **115 688** | **112 672** |
| **EXPENSES** | Note 18 | | |
| Personnel expenditure | | 62 810 | 58 462 |
| Travel | | 21 872 | 12 418 |
| Contractual services | | 30 527 | 24 239 |
| Operating expenses | | 2 731 | 6 393 |
| Other expenses | | 2 729 | 4 405 |
| Depreciation of property, plant and equipment | | 96 | 133 |
| Amortization of intangible assets | | 171 | 171 |
| Return/transfer of donor/CDM Trust Fund Transfer | | 449 | 20 273[27] |
| Losses on foreign exchange and investments | | 2 926 | 6 013 |
| **TOTAL EXPENSES** | | **124 311** | **132 507** |
| **SURPLUS/(DEFICIT) FOR THE PERIOD** | | **(8 623)** | **(19 835)** |

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

[27] This amount includes $20.0 million transfer from the CDM Trust Fund to the World Bank hosted Adaptation Fund pursuant to the decision in 2/CMP.16 in 2022.

## United Nations Framework Convention on Climate Change

### III. Statement of changes in net assets for the year ended 31 December 2023

(Thousands of United States dollars)

| | *Reference* | *Accumulated Surplus* | *Reserves* | *Total Net Assets* |
|---|---|---|---|---|
| **Opening balance as at 01 January 2022** | | **21 527** | **49 505** | **71 032** |
| Surplus/(deficit) for the current period | | (19 835) | - | (19 835) |
| Actuarial gains/(losses) on employee benefits | Note 14 | 43 094 | - | 43 094 |
| Adjustment to operating reverses amounts against accumulated surplus | | 102 | (102) | - |
| **Opening balance as at 01 January 2023** | | **44 888** | **49 403** | **94 291** |
| Changes on initial application of IPSAS 41: | | | | |
| Fair value adjustment for investments | Note 19 | 2 519 | (2 519) | - |
| Transfer between reserves | Note 19 | (30 650) | 30 650 | - |
| **Restated opening balance as at 01 January 2023** | | **16 757** | **77 534** | **94 291** |
| Surplus/(deficit) for the period | | (8 623) | - | (8 623) |
| Actuarial gains/(losses) on employee benefits liabilities | Note 14 | | (9 102) | (9 102) |
| Adjustment to operating reserve amounts against accumulated surplus | | (123) | 123 | - |
| Fair value gains/losses on investments held at Fair value through net assets and equity | Note 19 | | 1 810 | 1 810 |
| **Balance as at 31 December 2023** | | **8 011** | **70 365** | **78 376** |

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

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**IV. Statement of cash flows for the year ended 31 December 2023**
(Thousands of United States dollars)

| | *Reference* | *31 December 2023* | *31 December 2022* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Deficit)/surplus for the year | | (8 623) | (19 835) |
| *Non-cash movements* | | | |
| Depreciation of property, plant and equipment | Note 10 | 96 | 133 |
| Amortization of intangible assets | Note 11 | 171 | 171 |
| **Net (deficit)/surplus before changes in working capital** | | **(8 356)** | **(19 531)** |
| (Increase)/decrease in indicative contribution | Note 8 | 2 774 | 1 037 |
| (Increase)/decrease in voluntary contribution | Note 8 | (1 965) | (2 435) |
| (Increase)/decrease in other receivables | Note 8 | (433) | (1 212) |
| (Increase)/decrease in other assets | Note 9 | (12 044) | (433) |
| Increase/(decrease) in accounts payables and accruals | Note 12 | 6 742 | 2 751 |
| Increase/(decrease) in advance receipts | Note 13 | (5 034) | (4 417) |
| Increase/(decrease) in employee benefit net of actuarial gains/losses | Note 14 | 7 733 | 8 197 |
| Increase/(decrease) in other liabilities | Note 15 | 6 603 | 1 132 |
| **Net cash flow (used in)/generated from operating activities** | | **(3 980)** | **(14 911)** |
| **Cash flows from investing activities** | | | |
| Net proceeds from sale/(purchase) of investments | Note 7 | 176 | 21 190 |
| **Net cash flow generated from/ (used in) investing activities** | | **176** | **21 190** |
| **Net cash flow generated from/ (used in) financing activities** | | - | - |
| **Net (decrease)/increase in cash and cash equivalent** | | **(3 804)** | **6 279** |
| **Cash and cash equivalents at the beginning of the year** | | **33 515** | **27 236** |
| **Cash and cash equivalents at the end of the year** | **Note 6** | **29 711** | **33 515** |

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

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**United Nations Framework Convention on Climate Change**

**V. Statement of comparison of the core budget and actual amounts for the year ended 31 December 2023**
(Thousands of United States dollars)

| *2023* | Original Budget (EUR) | Final Budget (EUR) | Actual (EUR) | Difference (EUR) | Original Budget (USD) | Final Budget (USD) | Actual (USD) | Difference (USD) |
|---|---|---|---|---|---|---|---|---|
| | '000' | '000' | '000' | '000' | '000' | '000' | '000' | '000' |
| Executive | 1 917 | 2 088 | 1 960 | 128 | 2 041 | 2 226 | 2 124 | 102 |
| Programmes Coordination | 257 | 228 | 207 | 21 | 274 | 243 | 225 | 18 |
| Adaptation | 3 255 | 3 410 | 3 071 | 339 | 3 466 | 3 631 | 3 329 | 302 |
| Mitigation | 1 870 | 1 481 | 1 850 | (369) | 1 992 | 1 577 | 2 000 | (423) |
| Means of Implementation | 2 971 | 2 332 | 3 212 | (880) | 3 164 | 2 484 | 3 473 | (989) |
| Transparency | 6 423 | 6 745 | 6 719 | 26 | 6 841 | 7 183 | 7 264 | (81) |
| Operation Coordination | 612 | 782 | 672 | 110 | 652 | 832 | 726 | 106 |
| Secretariat-wide costs | 1 435 | 1 684 | 1 333 | 351 | 1 529 | 1 793 | 1 448 | 345 |
| AS/HR/ICT | 1 877 | 1 813 | 2 002 | (189) | 1 999 | 1 930 | 2 167 | (237) |
| Conference Affairs | 1 301 | 1 590 | 1 415 | 175 | 1 385 | 1 693 | 1 531 | 162 |
| Legal Affairs | 1 187 | 989 | 996 | (7) | 1 264 | 1 053 | 1 079 | (26) |
| Intergovernmental Support and Collective Progress | 2 021 | 2 021 | 2 277 | (256) | 2 153 | 2 153 | 2 471 | (318) |
| Communications and Engagement | 2 045 | 2 008 | 2 011 | (3) | 2 178 | 2 140 | 2 176 | (36) |
| IPCC | 245 | 245 | 245 | - | 261 | 261 | 259 | 2 |
| **Total appropriation** | **27 416** | **27 416** | **27 970** | **(554)** | **29 199** | **29 199** | **30 272** | **(1 073)** |
| Programme support costs | 3 564 | 3 564 | 3 585 | (21) | 3 796 | 3 796 | 3 927 | (131) |
| Adjustment to working capital reserve | - | - | - | - | - | - | - | - |
| **Grand total** | **30 980** | **30 980** | **31 555** | **(575)** | **32 995** | **32 995** | **34 199** | **(1 204)** |
| Contribution from the Host Government | 767 | 767 | 767 | | 817 | 817 | 817 | |
| Income from Indicative Contributions | 30 213 | 30 213 | 25 268 | | 32 176 | 32 176 | 26 923 | |
| **Net result (budgetary)** | | | **(5 520)** | | | | **(6 459)** | |

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

**United Nations Framework Convention on Climate Change**

**V. 1. Statement of comparison of the core budget and actual amount for the biennium 2022-2023**

(Thousands of United States dollars)

| *2022-2023* | Original Budget (EUR) | Final Budget (EUR) | Actual (EUR) | Difference (EUR) | Original Budget (USD) | Final Budget (USD) | Actual (USD) | Difference (USD) |
|---|---|---|---|---|---|---|---|---|
| | '000' | '000' | '000' | '000' | '000' | '000' | '000' | '000' |
| Executive | 3 834 | 4 005 | 3 975 | 30 | 4 217 | 4 400 | 4 239 | 161 |
| Programmes Coordination | 514 | 485 | 478 | 7 | 565 | 535 | 511 | 24 |
| Adaptation | 6 510 | 6 665 | 6 655 | 10 | 7 161 | 7 326 | 7 082 | 244 |
| Mitigation | 3 740 | 3 351 | 3 339 | 12 | 4 114 | 3 700 | 3 567 | 133 |
| Means of Implementation | 6 284 | 5 645 | 5 640 | 5 | 6 925 | 6 244 | 6 026 | 218 |
| Transparency | 12 847 | 13 168 | 13 194 | (26) | 14 131 | 14 474 | 14 072 | 402 |
| Operation Coordination | 1 224 | 1 394 | 1 397 | (3) | 1 347 | 1 527 | 1 491 | 36 |
| Secretariat-wide costs | 2 870 | 3 120 | 2 947 | 173 | 3 158 | 3 423 | 3 127 | 296 |
| AS/HR/ICT | 3 754 | 3 690 | 3 663 | 27 | 4 130 | 4 061 | 3 919 | 142 |
| Conference Affairs | 2 601 | 2 890 | 2 889 | 1 | 2 861 | 3 169 | 3 087 | 82 |
| Legal Affairs | 2 374 | 2 176 | 2 174 | 2 | 2 611 | 2 401 | 2 319 | 82 |
| Intergovernmental Support and Collective Progress | 4 043 | 4 043 | 4 056 | (13) | 4 447 | 4 447 | 4 336 | 111 |
| Communications and Engagement | 4 090 | 4 053 | 4 038 | 15 | 4 499 | 4 459 | 4 320 | 139 |
| IPCC | 490 | 490 | 490 | - | 538 | 538 | 527 | 11 |
| **Total appropriation** | **55 175** | **55 175** | **54 935** | **240** | **60 704** | **60 704** | **58 623** | **2 081** |
| Programme support costs | 7 173 | 7 173 | 7 030 | 143 | 7 892 | 7 892 | 7 588 | 304 |
| Adjustment to working capital reserve | 103 | 103 | - | - | 117 | 117 | - | - |
| **Grand total** | **62 451** | **62 451** | **61 965** | **383** | **68 713** | **68 713** | **66 211** | **2 385** |
| Contribution from the Host Government | 1 534 | 1 534 | 1 534 | | 1 687 | 1 687 | 1 687 | |
| Income from Indicative Contributions | 60 917 | 60 917 | 55 170 | | 67 027 | 67 027 | 60 833 | |
| **Net result (budgetary)** | | | **(5 261)** | | | | **(3 691)** | |

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

**United Nations Framework Convention on Climate Change**

**V. 2. Statement of comparison of the International Transaction Log budget and actual for the year ended 31 December 2023 and the biennium 2022 – 2023.**

(Thousands of United States dollars)

| *2023* | Original and Final Budget (EUR) | Actual (EUR) | Difference (EUR) | Original and Final Budget (USD) | Actual (USD) | Difference (USD) |
|---|---|---|---|---|---|---|
| | '000' | '000' | '000' | '000' | '000' | '000' |
| Staff costs | 655 | 436 | 219 | 697 | 472 | 225 |
| Consultants | 23 | - | 23 | 24 | - | 24 |
| Travel of staff | 12 | - | 12 | 13 | - | 13 |
| Experts and expert groups | - | - | - | - | - | - |
| Training | 8 | - | 8 | 9 | - | 9 |
| General operating expenses | 924 | 648 | 276 | 984 | 709 | 275 |
| Contributions to common services | 97 | 46 | 51 | 103 | 50 | 53 |
| **Total** | **1 719** | **1 130** | **589** | **1 830** | **1 231** | **599** |
| Programme support costs (overheads) | 223 | 160 | 63 | 238 | 181 | 57 |
| Adjustment to working capital reserve | (16) | - | (16) | (17) | - | (17) |
| **Grand total** | **1 926** | **1 290** | **636** | **2 051** | **1 412** | **639** |
| Income from indicative contributions | 1 926 | 665 | | 2 051 | 720 | |
| **Net result (budgetary)** | | **(625)** | | | **(692)** | |

* Further information is contained in notes 21 and 22.

| *2022 – 2023* | Original and Final Budget (EUR) | Actual (EUR) | Difference (EUR) | Original and Final Budget (USD) | Actual (USD) | Difference (USD) |
|---|---|---|---|---|---|---|
| | '000' | '000' | '000' | '000' | '000' | '000' |
| Staff costs | 1 310 | 922 | 388 | 1 440 | 985 | 455 |
| Consultants | 45 | - | 45 | 50 | - | 50 |
| Travel of staff | 24 | - | 24 | 26 | - | 26 |
| Experts and expert groups | - | - | - | - | - | - |
| Training | 16 | - | 16 | 18 | - | 18 |
| General operating expenses | 1 848 | 1 174 | 674 | 2 033 | 1 255 | 778 |
| Contributions to common services | 194 | 97 | 97 | 213 | 108 | 105 |
| **Total** | **3 437** | **2 193** | **1 244** | **3 780** | **2 348** | **1 432** |
| Programme support costs (overheads) | 447 | 303 | 144 | 491 | 334 | 157 |
| Adjustment to working capital reserve | (31) | - | (31) | (34) | - | (34) |
| **Grand total** | **3 853** | **2 496** | **1 357** | **4 237** | **2 682** | **1 555** |
| Income from indicative contributions | 3 853 | 1 393 | | 4 237 | 1 487 | |
| **Net result (budgetary)** | | **(1 103)** | | | **(1 195)** | |

* Further information is contained in notes 21 and 22.

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

**United Nations Framework Convention on Climate Change**

**Notes to the financial statements**

**Note 1**
**Reporting entity**

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

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

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

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

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

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

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

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

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

2. UNFCCC is governed by the following constituent bodies:

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

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

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

(d) The Conference of the Parties, the supreme body of the Convention, shall serve as **the meeting of the Parties to the Paris Agreement (CMA)**. All States that are Parties to the

(e) 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.

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

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

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

**Note 2**

**Basis of preparation**

5. The financial statements of the UNFCCC have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS), using the historic cost convention except for investments held in the cash pool recorded at fair value through net asset. The financial statements cover the period from 1 January to 31 December 2023.The financial statements comply with IPSAS as issued by the International Public Sector Accounting Standards Board (IPSASB). Where IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard is adopted. The accounting policies have been applied consistently in the preparation and presentation of these financial statements.

6. These financial statements are prepared on the basis that UNFCCC will continue in operation and meet its mandate for at least a 12-month period after the financial statements have been approved. The going concern basis is based on the approval by the Conference of Parties of the programme budget appropriations for the biennium 2024-2025, 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 the operations of UNFCCC.

7. Materiality is central to the preparation and presentation of the Organization's financial statements and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

8. Preparing financial statements in accordance with IPSAS requires use of estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses.

9. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization methods for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments; fair

value measurements; and inflation and discount rates used in the calculation of the present value for employee liabilities.

**Changes in accounting policies and disclosures**

*New standards, amendments and interpretation adopted by the organization*

*IPSAS 41 – Financial instruments*

10. Effective 1 January 2023, the Organization adopted IPSAS 41: Financial instruments which was issued by the International Public Sector Standards Board (IPSASB) in August 2018. The Standard replaced IPSAS 29: Financial instruments: recognition and measurement and resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. It also substantially improves the relevance of information for financial assets and financial liabilities by introducing:

(a) Simplified classification and measurement requirements for financial assets.

(b) A forward-looking impairment model; and

(c) A flexible hedge accounting model.

11. As permitted by the transitional provisions of IPSAS 41, the Organisation elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening income surplus and other reserves of the current year. For notes disclosures, the consequential amendments to IPSAS 41 disclosures have also only been applied to the current year. The comparative year notes disclosures repeat those disclosures made in the prior year.

*New classification and measurement principles for financial assets*

12. IPSAS 41 introduces a principles-based approach to the classification of financial assets and requires the use of two criteria: the entity's model for managing its financial assets and the contractual cash-flow characteristics of those assets. Depending on these criteria, financial assets are classified into the following categories: 'financial assets at amortised cost' (AC), 'financial assets at fair value through net assets/equity' (FVNAE), or 'financial assets at fair value through surplus or deficit' (FVSD).

13. On 1 January 2023, the application of the new criteria led to the reclassification of all cash pool investments, from FVSD to FVNAE category. The fair value reserve was reclassified from accumulated surplus to a fair value reserve in Net Assets.

*New impairment model*

14. Whereas the previous impairment model was based on incurred losses, IPSAS 41 has introduced a forward-looking impairment model based on expected credit losses (ECL) over the lifetime of the financial asset or where the practical expediency is applied, management is allowed to use a simplified approach and measure impairment for financial assets using the twelve-month expected credit losses. The ECL considers possible default events and the evolution of the credit quality of the financial assets. The new impairment model applies to all financial assets measured at AC or at FVNAE.

15. No opening balance adjustments were made for allowance for doubtful debt in accordance with IPSAS 41 as differences noted were not material.

*Classification and measurement of financial instruments*

16. The measurement category and the carrying amount of financial assets and liabilities in accordance with IPSAS 29 as at 31 December 2022 and IPSAS 41 as at 1 January 2023 are compared as follows:

Table IV.1
**Measurement category of financial instruments based on IPSAS 29 and IPSAS 41**
(Thousands of United States dollars)

| | *IPSAS 29* | | *IPSAS 41* | |
|---|---|---|---|---|
| *Financial assets* | *Measurement Category* | *Carrying Amount* | *Measurement Category* | *Carrying Amount* |
| Pro rata share of investments in the cash pools (Note 7) | FVSD | 199 575 | FVNAE<br>AC | 198 392<br>1 183 |
| Cash and cash equivalents (investment pool Note 6) | Amortized cost (loans and receivables) | 33 515 | Amortized cost | 33 515 |
| Indicative contributions Receivable (Note 8) | Amortized cost (loans and receivables) | 11 424 | Amortized cost | 11 424 |
| Voluntary contributions Receivable (Note 8) | Amortized cost (loans and receivables) | 11 729 | Amortized cost | 11 729 |
| Other accounts receivables and other assets | Amortized cost (loans and receivables) | 4 344 | Amortized cost | 4 344 |

17. The following table analyses the impact of the transition to IPSAS 41 of the Organization's financial assets and receivables. It reconciles the carrying amounts from their previous measurement category IPSAS 29 as applied to the 2022 financial statements, to their new measurement categories upon transition to IPSAS 41 on 1 January 2023:

Table IV.2
**Measurement category of financial instruments based on IPSAS 29 and IPSAS 41**
(Thousands of United States dollars)

| | *Balance at 31/12/22* | *Reclassification* | *Remeasurement* | *Balance at 1/1/23* | | | |
|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | **FVSD** | **FVNAE** | **AC** | **Total** |
| Short-term investments (Note 7) | 134 463 | (134 463) | - | - | 133 280 | 1 183 | 134 463 |
| Long-term investments (Note 7) | 65 112 | (65 112) | - | - | 65 112 | - | 65 112* |
| Cash and cash equivalents (Note 6) | 33 515 | (33 515) | - | - | - | 33 515 | 33 515 |
| Indicative contributions receivable (Note 8) | 11 424 | (11 424) | - | - | - | 11 424 | 11 424 |
| Voluntary contributions receivable (Note 8) | 11 729 | (11 729) | - | - | - | 11 729 | 11 729 |
| Other accounts receivables and other assets | 4 344 | (4 344) | - | - | - | 4 344 | 4 344 |
| **Total** | **260 587** | **(260 587)** | - | - | **198 392** | **62 195** | **260 587** |

* includes $2.5 million of unrealized fair value loss recognized through net assets at opening balance following the implementation of IPSAS 41. Prior to 1 January 2023, unrealized fair value gains/losses were recognized through the statement of financial performance.

18. Remeasurement due to expected credit losses on receivables were not material. A fair value loss of $2.5 million recognised as expense in the statement of financial performance in 2022 was transferred from accumulated surplus to the fair value through net assets reserve as at 1 January 2023.

*IPSAS issued but not yet effective*

19. IPSAS 3: Accounting policies, changes in accounting estimates and errors requires disclosure of new IPSAS standards that have been issued but not yet effective. The following standards have been issued by the IPSAS Board. UNFCCC is in the process of assessing the impact of these new standards on its financial statements.

Table IV.3
**IPSAS standards issued but not yet effective**

| *Standard* | *Anticipated impact in the year of adoption* |
| --- | --- |
| IPSAS 43 | IPSAS 43: Leases, replaced IPSAS 13: Leases aligning guidance with International Financial Reporting Standard (IFRS) 16. The newly issued standard introduces new contract and leases definitions and prescribes a right-of-use recognition and measurement model for all leases apart from those meeting short-term and low-value exemption categories. IPSAS 43 also provides additional guidance on the application of the risks and rewards model for lessor accounting. Adoption of the standard is mandatory for UNFCCC for the year ending 31 December 2025. The impact of IPSAS 43 will be assessed over the 2023 and 2024 calendar years prior to the 1 January 2025 effective date. The broadened leases definition is estimated to result in the recognition of more binding arrangements as leases, with a corresponding increase in lease liabilities and right-of-use assets. |
| IPSAS 44 | IPSAS 44: Non-current assets held for sale and discontinued operations, promulgates accounting for assets held for sale and the presentation and disclosure requirements of discontinued operations, in alignment with International Financial Reporting Standard 5. Adoption of the standard is mandatory for the UNFCCC financial year ending 31 December 2025. This standard is not expected to have a material impact on the organization in the current or future reporting periods and on foreseeable future transactions. |
| IPSAS 45 | IPSAS 45: *Property, plant, and equipment* replaces IPSAS 17: Property, plant and equipment (PP&E). IPSAS 45 removes the scope exclusion for heritage PP&E, provides application and implementation guidance on infrastructure assets and captures PP&E-related measurement impacts from IPSAS 46. The effective date of the standard is 30 June 2026. This standard is not expected to have a material impact on the organization in the current or future reporting periods and on foreseeable future transactions. |
| IPSAS 46 | IPSAS 46: *Measurement* is the IPSASB's first measurement-dedicated standard which draws upon IFRS 13 Fair Value Measurement with the addition of public sector specific elements, including the current operational value measurement basis. Adoption of the standard is mandatory for UNFCCC financial year ending 30 June 2026.<br><br>The impact of IPSAS 46 will be assessed prior to the 1 January 2025 effective date. The adoption of IPSAS 46 is not expected to change the Organization's accounting policy choice applying the historical cost model to tangible and intangible assets. |
| IPSAS 47 | IPSAS 47: Revenue replaces the three existing revenue standards:<br>(a) IPSAS 9: Revenue from Exchange Transactions.<br>(b) IPSAS 11: Construction Contracts; and<br>(c) IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers).<br>IPSAS 47 aligns to the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) and presents two accounting models based on the existence of a binding arrangement.<br><br>Where a binding arrangement exists, revenue accounting is aligned with IFRS 15: Revenue from Contracts with Customers. Otherwise, the accounting model is consistent with the core principles of IPSAS 23.<br><br>Adoption of the standard is mandatory for the financial reporting for the year ending 31 December 2026. The impact of IPSAS 47 will be assessed prior to the 1 January 2026 effective date of the Standard. |
| IPSAS 48 | IPSAS 48: Transfer Expenses provides guidance on accounting for transfer expenses. The transfer expense model aligns with the Conceptual Framework and presents two accounting models based on the existence of a binding arrangement. Adoption of the standard is mandatory for the UNFCCC financial year ending 31 December 2026. The impact of IPSAS 48 will be assessed prior to its effective date. |
| IPSAS 49 | IPSAS 49: Retirement Benefit Plans aligns to International Accounting Standards ("IAS") 26: Accounting and Reporting by Retirement Benefit Plans and prescribes the accounting and reporting requirements for public sector retirement benefit plans, which primarily provide benefits to retired public sector employees. A retirement benefit plan that prepares and presents financial statements under the |

accrual basis of accounting shall apply IPSAS 49. The Standard does not deal with other forms of employment benefits such as employment termination benefit or health and welfare plans.

Adoption of the standard is mandatory for the UNFCCC financial year ending 31 December 2026. The detailed impact of IPSAS 49 will be assessed prior to the 1 January 2026 effective date of the Standard.

## Note 3

## Summary of significant accounting policies

20. The principal accounting policies applied in the preparation of these financial statements are set out below.

### Functional and presentation currency

*21.* The United States dollar is the functional currency of UNFCCC and is the currency of these financial statements. The amounts in the financial statements, schedules and notes are rounded to the nearest thousand United States dollars, unless otherwise stated. Transactions, including non-monetary items, in currencies other than dollars are translated into dollars at the United Nations operational rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and unrealized exchange differences (gains and losses) from the translation at period end are recognized in the statement of financial performance.

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

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

### Financial instruments

*Financial assets*

24. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. The Organization classifies its financial assets in one of the categories shown below at initial recognition and re-evaluates the classification at each reporting date. Note 2 describes a change in classification due to adoption of IPSAS 41 effective 1 January 2023.

Table IV.4
**Classification of financial assets**

| *Classification* | *Financial assets* |
|---|---|
| Fair value through net assets / equity (FVNAE) | Investments in cash pools |
| Amortized cost (AC) | Cash and cash equivalents and receivables. Accruals from investments are classified at amortized cost. |

25. All financial assets are initially measured at fair value. The Organization initially recognizes financial assets classified as amortized cost on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which the Organization becomes party to the contractual provisions of the instrument.

26. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of

exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

27. Financial assets at fair value through surplus or deficit are those that have been designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. With the adoption of IPSAS 41, such financial assets have been reclassified to fair value through net asset after an assessment of their contractual cash flows characteristics as well as the determination of the Organisation's management model of such financial assets, which is to both collect contractual cash flows and sell the financial assets. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of net assets in the year in which they arise. UNFCCC does not have any financial assets designated at fair value through surplus/deficit.

28. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value, plus transaction costs, and are subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

29. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise.

30. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Organization has transferred substantially all risks and rewards of the financial asset. Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

*Investment in cash pools*

31. UNFCCC participates in a cash pooling system where The United Nations Treasury invests funds pooled from Secretariat entities and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in a cash pool implies sharing the risk and returns on investments amongst participants. Given that the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investment portfolio to the extent of the amount of cash invested.

32. The Organization's investments in the cash pools are included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position depending on the maturity period of the investment.

33. The investment pools are subject to an Expected Credit Loss (ECL) for the reporting period. The ECL on investments is calculated using a reference default rating by rating agencies. Due to the conservative and risk averse investment strategy/model, the UN does not invest in risky low-grade instruments. As a result, most of the investments carry a zero-default rating and there has not been any history of non-collection in the past. Based on assessment by UNFCCC at the end of the year, the ECL on investment and cash is not material.

*Cash and cash equivalents*

34. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

*Receivables and non-exchange revenue*

35. 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.

36. 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.

37. 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.

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

*Other assets*

39. Other assets include education grant, advances and prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

40. Receivables are initially measured at fair value and subsequently at amortized cost less allowances for expected credit losses. For receivables, the loss allowance is calculated using objective historical evidence of collections of the portfolio of receivables.

41. Prepayments are not impaired as they do not qualify as financial assets.

**Property, plant and equipment**

42. UNFCCC recognizes property, plant and equipment at their historical cost less depreciation and impairment losses in line with IPSAS 17: Property, plant and equipment. For any item of property, plant and equipment received as a contribution in kind, the fair value at the date of acquisition is deemed to be its cost, in line with IPSAS 23: Revenue from non-exchange transactions.

43. UNFCC depreciates its property, plant, and equipment on a straight-line basis over their estimated useful life. Property, plant, and equipment are also subject to a systematic annual review to confirm the remaining useful life and to identify any impairment.

44. Individual items of property, plant and equipment are capitalized when their original acquisition value is equal to or greater than the threshold of $5,000 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.

45. UNFCCC performs an annual review of the useful economic lives of material property, plant, and equipment in line with the requirements of IPSAS 17. There were no extensions to useful economic lives during the year under review. The estimated useful life ranges and capitalization thresholds for the various classes of property, plant and equipment are as follows:

Table IV.5
**The estimated useful life for equipment classes**

| *Class of equipment* | *Estimated useful life (in years)* |
|---|---|
| Computer equipment | 5 |
| Communication and audio equipment | 5 |
| Furniture and fittings | 10 |
| Vehicles | 6-7 |
| Leasehold improvements | 10 (or lease term, whichever is shorter) |

46. Property, plant and equipment are reviewed for impairment at each reporting date if material, taking into consideration various impairment indicators. Any impairment loss is recognized in other expenses within the statement of financial performance when the carrying amount of an asset exceeds its recoverable service amount.

**Intangible assets**

47. UNFCCC's intangible assets comprise purchased software packages and internally developed software. Intangible assets are recognized at cost less accumulated amortization and impairment losses in line with IPSAS 31: Intangible assets. Annual software licences are expensed and adjusted as necessary for any element of prepayment.

48. Intangible assets acquired externally are capitalised if their costs exceed the threshold of $5,000. Internally developed software is capitalized if its cost exceeded a threshold of $100,000 excluding research and maintenance costs and including directly attributable costs such as staff assigned full time to a development projects, sub-contractors, and consultants.

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

Table IV.6
**The estimated useful lives for intangible asset classes**

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

50. 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.

**Leases**

51. UNFCCC has reviewed the property and equipment that it leases, and in no instance does it have a significant portion of the risks and rewards of ownership. Accordingly, all leases are recognized as operating leases.

52. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease. A provision is established to cover the cost of making good dilapidations on leasehold properties where required to do so under the terms of the lease.

**Payables, advance receipts, and accruals**

53. 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.

54. 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.

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

**Employee benefits**

56. UNFCCC provides the following employee benefits:

(a) Short-term employee benefits.

(b) Post-employment benefits.

(c) Other long-term employee benefits; and

(d) Termination indemnity.

*Short- term employee benefits*

57. Short-term employee benefits comprise salaries, annual leave and those elements of other employee benefits (including home leave, assignment grant, education grant, tax reimbursements and rental subsidy) payable within one year of period end and measured at their nominal values. Short-term employee benefits are due to be settled within 12 months after the end of the accounting period in which employees render the related service.

*Post-employment benefits*

58. 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.

59. 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.

60. 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.

61. 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.

62. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the 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.

63. UNFCCC contribution to the plan during the financial period are recognised as an expense in the statement of financial performance.

*Other long-term employee benefits*

64. Other long-term employee benefits comprise the non-current portion of home leave entitlements.

*Termination indemnity*

65. Termination indemnity is recognized as an expense only when UNFCCC is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan either to terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

**Provisions**

66. Provision is 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.

**Contingent liabilities and contingent assets**

67. 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.

**Exchange revenue**

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

69. Investment revenue includes the Organization's share of net cash pool revenue and other interest revenue. The net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue and the net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. The cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances.

**Expenses**

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

**Taxation**

71. UNFCCC enjoys privileged tax exemption, and its assets, income and other property are exempt from all direct taxation. Accordingly, no provision is made for any tax liability.

**Net assets/equity**

72. 'Net assets/equity' is the standard term used in IPSAS to refer to the residual financial position (assets less liabilities) at period-end, comprising contributed capital, accumulated surpluses and deficits, and reserves. Net assets/equity may be positive or negative.

73. In the absence of any capital contributions, UNFCCC net assets comprise accumulated surplus and reserves as detailed in Note 19.

**Segment reporting**

74. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and to make decisions about the future allocation of resources.

75. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Budget comparison**

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

80. 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.

81. Statements V-1 and V-2, comparison of budget and actual amounts, compare the final budget to actual amounts calculated on the same basis as the corresponding approved budget.

82. As the basis used to prepare the budget and financial statements differ, Note 21 provides a reconciliation between the actual amounts presented in statement V-1 and V-2 and the actual amounts presented on the Statement of Financial Performance.

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

**Note 4**

**Financial risks**

84. UNFCCC is exposed to a variety of financial management risks, including but not limited to market risk (currency risk, price risk and interest rate risk), credit risk and liquidity risk. UNFCCC's approach to risk management is performed in conjunction with the United Nations Office at Geneva (UNOG).

85. The United Nations Treasury (in New York) is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Guidelines.

86. 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.

87. An investment committee that oversees the United Nations Treasury periodically evaluates investment performance, assesses compliance with the Guidelines, and makes recommendations for updates thereto.

**Currency risk**

88. UNFCCC operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. UNFCCC receives contributions from funding sources and clients in currencies other than the United States Dollar and is therefore exposed to foreign currency exchange risk arising from fluctuations in currency exchange rates. UNFCCC also makes payments in currencies other than the dollar. Foreign exchange risk arises from operating revenue and expenses and recognized assets and liabilities.

89. 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.

90. The table below shows the potential impact of monetary revaluation of major currencies as at the reporting date and the increase or decrease in net assets and surplus by the amounts shown.

Table IV. 7
**Currency risk sensitivity analysis as at 31 December 2023**
(Thousands of United States dollars)

| | *EUR* | *SEK* | *AED* | *GBP* | *NOK* | *PLN* | *CAD* | *KRW* | *AUD* | *PEN* |
|---|---|---|---|---|---|---|---|---|---|---|
| + 10 per cent | 3 879 | (953) | (757) | (633) | (626) | (286) | 208 | 184 | 164 | 135 |
| - 10 per cent | (3 879) | 953 | 757 | 633 | 626 | 286 | (208) | (184) | (164) | (135) |

Abbreviations: EUR, Euro; SEK, Swedish Krona; AED, United Arab Emirates Dirham; GBP Great Britain Pound; NOK, Norwegian Krona; PLN, Poland Zloty; CAD, Canadian Dollar; KRW, Korean Won; AUD, Australian Dollar; PEN, Peru Sol.

Table IV. 8
**Currency risk sensitivity analysis as at 31 December 2022**
(Thousands of United States dollars)

| | *EUR* | *SEK* | *NOK* | *GBP* | *PLN* | *PEN* | *AUD* | *KRW* | *DKK* | *MAD* |
|---|---|---|---|---|---|---|---|---|---|---|
| + 10 per cent | (1 907) | 928 | 598 | 488 | 255 | (131) | (137) | (99) | 92 | (83) |
| - 10 per cent | 1 907 | (928) | (598) | (488) | (255) | 131 | 137 | 99 | (92) | 83 |

Abbreviations: EUR, Euro; SEK, Swedish Krona; NOK, Norwegian Krona; GBP, Great Britain Pound; PLN, Poland Zloty; PEN, Peru Sol; AUD, Australian Dollar; KRW, Korean Won; DKK, Danish Krone; MAD, Moroccan Dirham.

91. The foregoing sensitivities are calculated with reference to a single moment in time and are subject to change owing to a number of factors, including fluctuating trade receivable and trade payable balances, and fluctuating cash balances.

92. As the sensitivities are limited to period-end financial instrument balances, they do not take account of sales and operating costs, which are highly sensitive to changes in commodity prices and exchange rates. In addition, each of the sensitivities is calculated in isolation, while, commodity prices, interest rates and foreign currencies do not move independently.

*93.* The following assumptions are made in calculating the sensitivity: all income statement sensitivities also affect equity; and the sensitivity analysis disclosure relates to monetary items (as defined by IPSAS 4: The effects of changes in foreign exchange rates) at year-end.

**Price risk**

94. The cash pools are not exposed to significant other price risks because they do not sell short, borrow securities, or purchase securities on margin, which limits the potential loss of capital.

**Interest rate risk**

95. 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.

96. The cash pools comprise the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the cash pools had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2022: five years). The average duration of the main pool on 31 December 2023 was 0.65 years (2022: 0.77 years), which is considered to be an indicator of low risk.

97. The analysis below shows how the fair value of the cash pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through net asset/equity, the change in fair value represents the increase or decrease in 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 IV. 9
**Main pool interest rate risk sensitivity analysis as at 31 December 2023**
(Millions of United States dollars)

| *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 | 2.9 | 2.2 | 1.4 | 0.7 | 0 | (0.7) | (1.4) | (2.2) | (2.9) |

Table IV. 10
**Main pool interest rate risk sensitivity analysis as at 31 December 2022**
(Millions of United States dollars)

| *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 | 3.3 | 2.5 | 1.7 | 0.8 | 0 | (0.8) | (1.7) | (2.5) | (3.3) |

**Credit risk**

98. Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations resulting in a financial loss to the Organisation. UNFCCC applies the simplified approach to providing for expected credit losses prescribed by IPSAS 41, which permits the use of 12-month expected loss provision for all receivables.

Table IV.11
**Maximum exposure to credit risk**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Cash and cash equivalents | 29 711 | 33 515 |
| Investments | 201 209 | 199 575 |
| Indicative contributions receivable | 8 650 | 11 424 |
| Voluntary contributions receivable | 13 694 | 11 729 |
| Other accounts receivable | 2 656 | 2 223 |
| Other assets excluding prepayments | 4 304 | 2 121 |
| **Total assets** | **260 224** | **260 587** |

*Credit risks associated with the cash pool*

99. 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.

100. 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.

101. 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 IV.12
**Credit rating distribution for assets in the cash pool**

| *Main pool* | *Ratings as at 31 December 2023* | | | | *Ratings as at 31 December 2022* | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Bonds (Long term ratings)** | | | | | **Bonds (Long term ratings)** | | | | |
| | **AAA** | **AA+/AA-/AA** | | **NA** | | **AAA/ AAAu** | **AA+u/AA+/A A** | | **NA** |
| S&P | 37.1% | 62.9% | | | S&P | 33.8% | 65.9% | | 0.3% |
| Fitch | **AAA** 28.4% | **AA+/AA/AA-** 53.3% | **A+** 1.3% | **NA/NR** 17.0% | Fitch | **AAA** 61.9% | **AA+/AA/AA-** 22.5% | **A+** 0.2% | **NA/NR** 15.4% |
| | **Aaa** | **Aa1/Aa2/Aa3** | | **NA** | | **Aaa** | **Aa1/Aa2/Aa3** | | **NA** |
| Moody's | 61.9% | 30.5% | | 7.6% | Moody's | 66.7% | 30.9% | | 2.4% |

| *Main pool* | *Ratings as at 31 December 2023* | | | *Ratings as at 31 December 2022* | | |
|---|---|---|---|---|---|---|
| **Commercial papers/ Certificates of Deposit (Short term ratings)** | | | | **Commercial papers/ Certificates of Deposit (Short term ratings)** | | |
| | **A-1+/A-1** | | | | **A-1+/A-1** | |
| S&P | 100.0% | | | S&P | 100.0% | |
| | **F1+/F1** | | **NR** | | **F1+/F1** | **NR** |
| Fitch | 98.8% | | 1.2% | Fitch | 97.7% | 2.3% |
| | **P-1/P2** | | | | **P-1/P2** | |
| Moody's | 100.0% | | | Moody's | 100.0% | |
| **Term deposits/demand deposit account (Fitch viability ratings)** | | | | **Term deposits/demand deposit account (Fitch viability ratings)** | | |
| | aa/aa- | a+/a/a- | | | aa/aa- | a+/a/a- |
| Fitch | 23.8% | 76.2% | | Fitch | 35.9% | 64.1% |

102. 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.

103. UNFCCC assessed cash and cash equivalents and investment balances to determine their expected credit losses. Based on this assessment, the credit losses were identified to be insignificant as at 31 December 2023 (Nil for 31 December 2022).

*Credit risks associated with receivables*

104. Receivables consists of voluntary contributions, indicative contributions and other contributions. Strict credit control is exercised through monitoring of cash received from donors and where necessary provision is made for specific doubtful accounts.

105. The Expected loss rates for receivables are based on the payment profile of donors and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information. Due to the wide reach of donors of UNFCCC, management incorporates forward looking information into the impairment provisioning based on general economic conditions to pertains to all nations within the world.

106. On that basis, the loss allowance as at 31 December 2023 and 2022 is as follows:

Table IV.13
**Impairment loss analysis as at 31 December 2023**
(Thousands of United States dollars)

| | *Current* | *1 year to 2 years* | *2 years to 3 years* | *3 years to 4 years* | *Over 4 years* | *Total* |
|---|---|---|---|---|---|---|
| Gross carrying amount | 15 945 | 5 978 | 2 618 | 691 | 3 295 | 28 527 |
| Expected credit loss rate | 3.2% | 6.9% | 17.2% | 34.7% | 58.0% | |
| Loss allowance | 515 | 410 | 450 | 240 | 1 912 | 3 527 |

Table IV.14
**Impairment loss analysis – comparative; as at 31 December 2022**
(Thousands of United States dollars)

| | *Current* | *1 year to 2 years* | *2 years to 3 years* | *3 years to 4 years* | *Over 4 years* | *Total* |
|---|---|---|---|---|---|---|
| Gross carrying amount | 18 798 | 4 760 | 1 674 | 1 111 | 2 761 | 29 104 |
| Expected credit loss rate | 3.6% | 11.0% | 27.0% | 22.1% | 66.2% | |
| Loss allowance | 682 | 523 | 452 | 246 | 1 825 | 3 728 |

**Liquidity risk**

107. 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.

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

**Fair value hierarchy**

109. All investments are reported at fair value through net asset/equity. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

110. 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).

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

112. 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.

113. 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 IV.15
**Fair value hierarchy as at 31 December: main pool**
(Thousands of United States dollars)

| | *31 December 2023* | | | *31 December 2022* | | |
|---|---|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Total* | *Level 1* | *Level 2* | *Total* |
| **Financial assets at fair value through net assets/equity** | | | | | | |
| Bonds – corporate | 2 362 | – | 2 362 | 1 280 | – | 1 280 |
| Bonds – non-United States agencies | 49 362 | – | 49 362 | 38 764 | – | 38 764 |
| Bonds – supranational | 15 401 | – | 15 401 | 15 500 | – | 15 500 |
| Bonds – United States treasuries | 23 696 | – | 23 696 | 26 463 | – | 26 463 |
| Bonds – non-United States sovereigns | 1 956 | – | 1 956 | 1 899 | – | 1 899 |
| Main pool – commercial papers | – | 10 201 | 10 201 | – | 34 304 | 34 304 |
| Main pool – certificates of deposit | – | 59 632 | 59 632 | – | 52 112 | 52 112 |
| Main pool – term deposits | – | 68 310 | 68 310 | – | 62 768 | 62 768 |
| **Total** | **92 777** | **138 143** | **230 920** | **83 906** | **149 184** | **233 090** |

## Note 5

### Cash pool

114. 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.

115. 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.

116. As at 31 December 2023, the overall cash pools managed by the United Nations Treasury had total assets of $11,548.7 million (2022: $11,873.8 million), of which $230.9 million was due UNFCCC (2022: $233.0 million), and its share of revenue from cash pools was $9.9 million (2022: $4.0 million).

Table IV.16
**Summary of assets in the United Nation cash pool as at 31 December 2023**
(Thousands of United States dollars)

| | *Total pool* | *UNFCCC share* |
|---|---|---|
| **Fair value through net assets/equity** | | |
| Short-term investments* | 7 554 712 | 151 060 |
| Long-term investments | 2 397 703 | 47 943 |
| **Total fair value through net assets/equity** | **9 952 415** | **199 003** |
| **Loans and receivables** | | |
| Cash and cash equivalents in the cash pool | 1 485 897 | 29 711 |
| Accrued investment revenue (included to short-term investments) * | 110 348 | 2 206 |
| **Total loans and receivables** | **1 596 245** | **31 917** |
| **Total carrying amount of Investments and cash and cash equivalents** | **11 548 660** | **230 920** |

* - Short-term investments and accrued investment revenue makes up total short-term revenue in statement of financial position

117. The table below shows revenue earned by UNFCCC through its participation in the cash pool. Unrealised gains/(losses) are classified as fair value through assets/equity in accordance with IPSAS41.

Table IV.17
**Summary of gains/(losses) of the main pool for the year ended 31 December 2023**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Investment revenue | 9 894 | 4 008 |
| Unrealized gains/(losses) recognised in net assets/equity | (709) | (2 717) |

118. Unrealised gains/(losses) of $0.7 million include IPSAS 41 opening balance adjustment for unrealised losses at 1 January 2023 of $2.5 million and a gain during the period of $1.8 million.

**Note 6**

**Cash and cash equivalents**

119. As at 31 December 2023, UNFCCC held cash and cash equivalents totalling $29.7 million within the United Nations Treasury Main pool.

120. Cash and cash equivalents comprise cash at banks, time deposits and money market instruments held within the cash pool where the initial term was less than 90 days. They are held at nominal value less an allowance for any anticipated losses if any.

Table IV.18
**Cash and cash equivalents**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Cash and cash equivalents in cash pool | 29 711 | 33 515 |

**Note 7**

**Investments**

121. UNFCCC investments 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.

122. UNFCCC cash and investments include $24.7 million that are subject to general stipulations in the 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 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.

123. There have not been any impairments of investment assets held within the cash pool during the year.

Table IV.19
**Classification of investment portfolio**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December2022* |
|---|---|---|
| Short-term investments at fair value | 151 060 | 133 280 |
| Short-term investments at amortised cost | 2 206 | 1 183 |
| Total short-term investments | 153 266 | 134 463 |
| Long-term investments | 47 943 | 65 112 |
| **Total investments** | **201 209** | **199 575** |

Table IV.20
**Net proceeds from sale/purchase of investments**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Total investment at the beginning of the year | 199 575 | 220 765 |
| Less: Total investment at the end of the year | (201 209) | (199 575) |
| **Net investment** | **(1 634)** | **21 190** |
| Fair value adjustment | 1 810 | - |
| **Net proceeds from sale/(purchase) of investment** | **176** | **21 190** |

### Note 8

### Accounts receivable

124. Accounts receivables include indicative contribution, voluntary contribution and other receivables.

125. Indicative contributions reflect the contributions receivable from Parties to the Convention, the Kyoto Protocol and the Paris Agreement to fund the core budget and the International Transactions log in accordance with the Financial Procedures adopted by the COP.

126. Current voluntary contributions receivables are confirmed contributions that are due within twelve months from the reporting date.

127. Other receivables represent amounts invoiced to Parties, other UN agencies and individuals for services provided.

128. The full amount of voluntary contributions receivable is 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.

129. Provisions for doubtful receivables have been established covering indicative contributions, voluntary and other receivables in line with IPSAS 41. Refer to Note 4 on impairment rates applied to receivables.

Table IV.21
**Accounts receivable**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Indicative receivables (gross) | 11 412 | 13 614 |
| Less doubtful debt allowance | (2 762) | (2 190) |
| **Indicative receivables - net** | **8 650** | **11 424** |
| Voluntary receivables (gross) | 14 447 | 13 259 |
| Less doubtful debt allowance | (753) | (1 530) |
| **Voluntary receivables - net** | **13 694** | **11 729** |
| Other receivables | 2 668 | 2 231 |
| Less doubtful debt allowance | (12) | (8) |
| **Other receivables - net** | **2 656** | **2 223** |
| **Total receivables** | **25 000** | **25 376** |

130. The table below shows the split of voluntary receivables between current and non-current.

Table IV.22
**Voluntary receivables**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Current | 12 259 | 7 565 |
| Non-current | 1 435 | 4 164 |
| **Total voluntary receivables** | **13 694** | **11 729** |

131. The table below shows the split of voluntary receivables between current and non-current.

Table IV.23
**Movement in allowance for doubtful debt**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Opening balance | 3 728 | 3 111 |
| Net increase/(decrease) in provision for receivables | (201) | 617 |
| **Closing balance** | **3 527** | **3 728** |

**Note 9**

**Other current assets**

132. Other assets consist of the following:

Table IV.24
**Other assets**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Prepayments | 13 317 | 3 456 |
| Project clearing | 688 | 854 |
| Travel advances | 2 428 | 234 |
| Education grant advances | 1 188 | 1 033 |
| **Total** | **17 621** | **5 577** |

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

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

## Note 10

## Property, plant and equipment

135. The table below shows the movement in property, plant and equipment held by UNFCCC during the period.

Table IV.25
**Movement in property, plant and equipment**
(Thousands of United States dollars)

| | *Vehicles* | *Communication and IT equipment* | *Furniture and machinery* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2023 | 77 | 3 488 | 6 | 3 571 |
| Additions | - | - | - | - |
| Disposal | - | - | - | - |
| **At 31 December 2023** | **77** | **3 488** | **6** | **3 571** |
| **Accumulated depreciation** | | | | |
| At 1 January 2022 | 42 | 3 213 | 6 | 3 261 |
| Depreciation during the year | 8 | 88 | - | 96 |
| Disposal | - | - | - | - |
| **At 31 December 2022** | **50** | **3 301** | **6** | **3 357** |
| **Net book value** | | | | |
| **At 31 December 2023** | **27** | **187** | - | **214** |

Table IV.26
**Movement in property, plant and equipment – 2022 comparative**
(Thousands of United States dollars)

| | *Vehicles* | *Communication and IT equipment* | *Furniture and machinery* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | 77 | 3 488 | 45 | 3 610 |
| Additions | - | - | - | - |
| Disposal | - | - | (39) | (39) |
| **At 31 December 2022** | **77** | **3 488** | **6** | **3 571** |
| **Accumulated depreciation** | | | | |
| At 1 January 2022 | 34 | 3 088 | 45 | 3 167 |
| Depreciation during the year | 8 | 125 | - | 133 |
| Disposal | - | - | (39) | (39) |
| **At 31 December 2022** | **42** | **3 213** | **6** | **3 261** |
| **Net book value** | | | | |
| **At 31 December 2022** | **35** | **275** | **-** | **310** |

136. Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2023 there was no indication for any equipment being impaired.

**Note 11**

**Intangible assets**

137. The table below shows the movement in intangible assets during the period.

Table IV.27
**Intangible assets**
(Thousands of United States dollars)

| | *Internally developed software* |
|---|---|
| **Opening balance 1 Jan 2023** | 837 |
| Additions | - |
| Write-off | - |
| **Total as at 31 Dec 2023** | **837** |
| **Accumulated amortization at 1 Jan 2023** | 514 |
| Amortization during the year | 171 |
| Write-off | - |
| **Total as at 31 Dec 2023** | **685** |
| **Net book value 31 Dec 2023** | **152** |

Table IV.28
**Intangible assets – 2022 comparative**
(Thousands of United States dollars)

| | *Internally developed software* |
|---|---|
| **Opening balance 1 Jan 2022** | 3 156 |
| Additions | - |
| Write-off | (2 319) |
| **Total as at 31 Dec 2022** | **837** |
| **Accumulated amortization 1 Jan 2022** | 2 662 |
| Amortization during the year | 171 |
| Write-off | (2 319) |
| **Total as at 31 Dec 2022** | **514** |
| **Net book value 31 Dec 2022** | **323** |

### Note 12

### Accounts payables and accruals

Table IV.29
**Accounts payables and accruals**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Vendor payables | 4 491 | 1 439 |
| Other payables | 652 | 1 316 |
| Accruals for goods and services | 9 424 | 5 070 |
| **Total accounts payables and accruals** | **14 567** | **7 825** |

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

139. 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 13

### Advance receipts

140. The advance receipt balance as at 31 December 2023 are as follows:

Table IV.30
**Advance receipts**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Conditional voluntary contributions | 18 564 | 19 280 |
| Indicative contributions received in advance | 3 156 | 2 946 |
| CDM fees received in advance | 3 013 | 7 541 |
| **Total** | **24 733** | **29 767** |

141. 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.

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

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

**Note 14**

**Employee benefit**

144. The employee benefits liabilities of UNFCCC are composed of:

(a) current employee benefits: current portion of post-employment benefit, accrued annual leave, current portion of home leave and us tax reimbursement.

(b) non-current employee benefits: non-current portion of home leave; and non-current portion of post-employment benefit.

Table IV.31
**Employee benefit liabilities**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Current employee benefit liabilities | | |
| After service health insurance | 586 | 605 |
| Repatriation grant | 947 | 455 |
| Annual leave | 508 | 341 |
| Home leave travel | 665 | 715 |
| US tax reimbursement | 181 | 149 |
| Other employee benefit liabilities | 168 | 153 |
| **Total current employee benefit liabilities** | **3 055** | **2 418** |
| After service health insurance | 133 281 | 119 441 |
| Repatriation grant | 7 398 | 5 366 |
| Annual leave | 3 983 | 3 642 |
| Home leave travel | 33 | 48 |
| **Total non-current employee benefit liabilities** | **144 695** | **128 497** |
| **Total employee benefit liabilities** | **147 750** | **130 915** |

*145.* Post-employment benefits consist of after-service health insurance, repatriation grants, annual leave and pension plans. After-service health insurance (ASHI) is a plan that allows eligible retirees and their eligible family members to participate in the full medical insurance plan. A repatriation grant is an entitlement payable to Professional staff on separation, together with related costs in travel and shipment of household effects. The actuarial valuation of liabilities regarding ASHI, repatriation grant and annual was undertaken by an independent professional actuary. They are established in accordance with the Staff Regulations of the United Nations and Staff Rules for staff members in the Professional and General Service categories.

*After-service health insurance*

146. The year-end liabilities for after-service health insurance are derived from the actuarial valuation conducted at year-end 2023. The net present value of the UNFCCC accrued liability

as at 31 December 2023, net of contributions from plan participants, was estimated by actuaries at $133.9 million ($120.0 million in 2022).

147. Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements. These requirements include 10 years of participation in a United Nations health plan, for those who were recruited after 1 July 2007, and 5 years of participation, for those who were recruited prior to that date.

*Repatriation grant*

148. Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant based on length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits.

149. The net present value of the UNFCCC accrued liability as at 31 December 2023 was estimated by actuaries at $8.3 million ($5.8 million in 2022).

*Death benefit*

*150.* Death benefit is a post-employment defined-benefit plan, for which payment is made upon the death of an eligible employee who leaves behind a surviving spouse or dependent child. In line with the accounting practice of the UN secretariat, this liability is no longer recorded as a long-term employee benefit.

*Annual leave*

151. 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.

152. The net present value of UNFCCC's annual leave liability as at 31 December 2023 is estimated as $4.5 million ($4.0 million in 2022).

*Home leave*

153. Non-locally recruited UNFCCC staff are 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.

*US taxes*

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

*155.* An actuarial valuation as at 31 December 2023 carried out in 2024 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. The results of the actuarial valuation of the End-of-Service schemes are based on a full valuation conducted as at 31 December 2023.

*Accounting for post-employment benefits*

156. 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.

Table IV.32
**Post-employment benefits liabilities**
(Thousands of United States dollars)

| | *After-service health insurance* | *Repatriation* | *Annual leave* | *Total 2023* | *Total 2022* |
|---|---|---|---|---|---|
| **Liability at 1 January** | **120 046** | **5 821** | **3 983** | **129 850** | **164 814** |
| Current service cost | 5 389 | 480 | 219 | 6 088 | 9 147 |
| Interest cost | 2 468 | 284 | 194 | 2 946 | 593 |
| Benefits paid | (466) | (467) | (350) | (1 283) | (1 610) |
| Actuarial losses/(gains) | 6 430 | 2 227 | 445 | 9 102 | (43 094) |
| **Liability at 31 December*** | **133 867** | **8 345** | **4 491** | **146 703** | **129 850** |

* Home leave, tax reimbursement and other employee benefit liabilities do not form part of post-employment liabilities

Table IV.33
**Post-employment benefits liabilities: active and retired staff**
(Thousands of United States dollars)

| | *After-service health insurance* | *Repatriation* | *Annual leave* | *Total 2023* | *Total 2022* |
|---|---|---|---|---|---|
| Current retirees | 24 187 | - | - | 24 187 | 17 772 |
| Active employees - fully eligible | 39 256 | 6 172 | 4 491 | 49 919 | 36 912 |
| Active employees - not yet fully eligible | 70 424 | 2 173 | - | 72 597 | 75 166 |
| **Liability at 31 December** | **133 867** | **8 345** | **4 491** | **146 703** | **129 850** |

157. The amounts recognized in the statement of financial performance are as follows:

Table IV.34
**Impact of post-employment benefits on financial performance**
(Thousands of United States dollars)

| | *After-service health insurance* | *Repatriation* | *Annual leave* | *Total 2023* | *Total 2022* |
|---|---|---|---|---|---|
| Current service cost | 5 389 | 480 | 219 | 6 088 | 9 147 |
| Interest cost | 2 468 | 284 | 194 | 2 946 | 593 |
| **Impact at 31 December** | **7 857** | **764** | **413** | **9 034** | **9 740** |

158. The total expense has been included under “salaries and employee benefits” in the statement of financial performance.

*Actuarial gains/(losses)*

159. Actuarial gains/(losses) are recognised directly in net assets, and reflect changes in financial and demographic assumptions and experience adjustments:

Table IV.35
**Actuarial (gains)/losses**
(Thousands of United States dollars)

| | *After-service health insurance* | *Repatriation* | *Annual leave* | *Total 2023* | *Total 2022* |
|---|---|---|---|---|---|
| Changes in financial assumptions | 9 804 | (7) | 94 | 9 891 | (43 094) |
| Changes in demographic assumptions | (5 090) | (3) | (3) | (5 096) | - |
| Experience adjustments | 1 716 | 2 237 | 354 | 4 307 | - |
| **Total actuarial (gains)/losses** | **6 430** | **2 227** | **445** | **9 102** | **(43 094)** |

*Actuarial assumptions*

160. The key actuarial assumption used by the actuary to determine defined benefit liabilities is the discount rate. For the after-service health insurance liability, this also includes the healthcare cost trend rate.

161. The principal actuarial assumptions for 2023 were as follows:

Table IV. 36
**Principal actuarial assumptions**

| | *ASHI* | *Repatriation Grant & Travel* | *Annual Leave* |
|---|---|---|---|
| Discount rate at beginning of period | 2.06% | 5.09% | 5.10% |
| Discount rate at end of period | 2.09% | 4.95% | 4.92% |
| Salary increases rate at beginning and end of period | Based on the age of staff member calculated separately for professional and general service staff | | |
| Healthcare cost trend rate at beginning of period | United Nations scales | United Nations scales | United Nations scales |
| Healthcare cost trend rate at end of period | UNSJPF scales | UNSJPF scales | UNSJPF scales |

*Sensitivity analysis*

162. Sensitivity analysis outlines the potential impact of changes in certain key assumptions used in measuring post-employment benefits. If the assumptions about the discount rate and the health-care cost trends were to change, this would impact the measurement of the post-employment benefits as shown:

Table IV. 37
**Potential impact of changes in discount rates on post-employment benefits**

| | *ASHI* | *Repatriation* | *Annual Leave* |
|---|---|---|---|
| Increase of 0.5 per cent | (17 759) | (279) | (155) |
| Decrease of 0.5 per cent | 21 223 | 297 | 166 |

163. 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.

164. 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.

### Note 15

### Other current liabilities

Table IV.38
**Other current liabilities**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Other liabilities | 8 481 | 1 878 |
| **Total** | **8 481** | **1 878** |

**165.** Included in other liabilities are interfund transfers of $8.5 million that have a corresponding entry in other assets.

### Note 16

### United Nations Joint Staff Pension Fund (UNJSPF)

166. 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.

167. 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.

168. 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.

169. 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 proportional to the total contributions which each paid during the three years preceding the valuation date.

170. The latest actuarial valuation for the Fund was completed as of 31 December 2021, and the valuation as of 31 December 2023 is currently being performed. A roll forward of the participation data as of 31 December 2021 to 31 December 2023 will be used by the Fund for its 2023 financial statements.

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

172. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2021, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 2

173. 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 (2020, 2021 and 2022) amounted to $8,937.68 million, of which 0.38 per cent was contributed by UNFCCC.

174. During 2023, UNFCCC's contributions paid to UNJSPF amounted to $9.4 million (2022 $8.5 million). Expected contributions due in 2024 are $9.6 million.

175. 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.

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

## Note 17

## Revenue

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

Table IV.39
**Indicative contributions**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Core budget to the convention | 32 122 | 34 851 |
| International transaction log | 720 | 767 |
| **Total** | **32 842** | **35 618** |

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

Table IV.40
**Top ten parties contributing to the core budget**
(Thousands of United States dollars)

| | *2023* | *Per cent* |
|---|---|---|
| United States of America | 8 198 | 22.49 |
| China | 5 978 | 16.40 |
| Germany | 3 604 | 9.89 |
| Japan | 2 443 | 6.70 |
| Brazil | 2 443 | 6.70 |
| Australia | 1 422 | 3.90 |
| France | 1 369 | 3.75 |
| Italy | 999 | 2.74 |
| Canada | 919 | 2.52 |
| Republic of Korea | 841 | 2.31 |

179. 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 IV.41
**Voluntary contributions**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Voluntary contribution to the core budget | 871 | 871 |
| Participation trust fund | 2 738 | 1 982 |
| Trust fund for supplementary activities | 41 329 | 29 506 |
| Special annual contribution from the host country | 1 906 | 2 031 |
| Special account for activities for conferences | 8 401 | 5 838 |
| **Total** | **55 245** | **40 228** |

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

Table IV.42
**Fee Income**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| CDM fees | 13 857 | 32 072 |
| **Total** | **13 857** | **32 072** |

181. Income to finance the administration of Clean Development Mechanism (CDM) processes consists of accreditation fees and fees to be charged for issuance of certified emission reductions (CERs) (share of proceeds) to cover administrative expenses as follows:

(a) The accreditation fee for the application for accreditation or reaccreditation of an entity amounting to $15,000.

(b) The share of proceeds to cover administrative expenses:
(i) $0.10 per CER issued for the first 15 000 tonnes of CO2 equivalent for which issuance is requested in a given calendar year.

(ii) $0.20 per CER issued for any amount in excess of 15 000 tonnes of CO2 equivalent for which issuance is requested in a given calendar year.

(iii) No share of proceeds shall be due for activities hosted in least developed countries.

Table IV.43
**Interest revenue**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Investment income – Interest earned | 9 894 | 4 008 |
| **Total** | **9 894** | **4 008** |

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

183. 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.

Table IV.44
**Other/miscellaneous revenue**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Other revenue | 3 850 | 756 |
| **Total** | **3 850** | **756** |

184. Other revenue consisted of FX gains realised following the closure of long outstanding projects.

**Note 18**

**Expenses**

Table IV.45
**Expenses**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Personnel expenditure | 62 810 | 58 462 |
| Travel | 21 872 | 12 418 |
| Contractual services | 30 527 | 24 239 |
| Operating expenses | 2 731 | 6 393 |
| Other expenses | 2 729 | 4 405 |
| Depreciation of equipment | 96 | 133 |
| Amortization of intangible assets | 171 | 171 |
| Return/transfer of donor funding | 449 | 20 273 |
| Loss on foreign exchange and investments | 2 926 | 6 013 |
| **Total** | **124 311** | **132 507** |

185. 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 IV.46
**Personnel expenditure**
(Thousands of United States dollars)

| | *2023* | *2022* |
|---|---|---|
| Salary and wages | 38 804 | 34 414 |
| Pension and insurance benefits | 20 601 | 18 719 |
| Other benefits | 3 405 | 5 329 |
| **Total** | **62 810** | **58 462** |

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

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

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

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

190. Pursuant to rule 106.7(a) of the financial Regulations of the United Nations, write-off cases totalling $0.02 million were processed for the year 2023 for long outstanding travel related advances paid to participants to UNFCCC events for prior years. These advances were deemed uncollectible and subsequently written off.

191. 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 19**

**Net assets/equity**

192. UNFCCC's reserves are as follows:

Table IV.47
**Net assets/equity**
(Thousands of United States dollars)

| | *Actuarial gains/(losses)* | *Fair value reserve* | *Accumulated Surplus* | *Programme Reserves* | *Total Net Assets* |
|---|---|---|---|---|---|
| **Opening balance as at 01 January 2022** | **-** | **-** | **21 527** | **49 505** | **71 032** |
| Surplus/(deficit) for the current period | - | - | (19 835) | - | (19 835) |
| Actuarial gains/(losses) on employee benefits | - | - | 43 094 | - | 43 094 |
| Adjustment to operating reverses amounts against accumulated surplus | - | - | 102 | (102) | - |
| **Opening balance as at 01 January 2023** | **-** | **-** | **44 888** | **49 403** | **94 291** |
| Changes on initial application of IPSAS 41: | | | | | |
| Fair value adjustment for investments | - | (2 519) | 2 519 | - | - |
| Transfer between reserves | 30 650 | - | (30 650) | - | - |
| **Restated opening balance as at 01 January 2023** | **30 650** | **(2 519)** | **16 757** | **49 403** | **94 291** |
| Surplus/(deficit) for the period | - | - | (8 623) | - | (8 623) |
| Actuarial gains/(losses) on employee benefits liabilities | (9 102) | - | - | - | (9 102) |
| Adjustment to operating reserve amounts against accumulated surplus | - | - | (123) | 123 | - |
| Fair value gains/losses on investments held at Fair value through net assets and equity | - | 1 810 | - | - | 1 810 |
| **Balance as at 31 December 2023** | **21 548** | **(709)** | **8 011** | **49 526** | **78 376** |

*Actuarial gains/(losses)*

193. Actuarial gains or losses relate to the defined benefit pension plan as required by IPSAS 39. See Note 3 on accounting policies on employee benefits liabilities. The opening balance for actuarial gains/(losses) were transferred from accumulated surplus into a separate reserve as actuarial gains are not part of accumulated surplus.

*Fair value of investments classified at fair value through net assets/equity*

194. Fair value movements on investments classified at fair value through net assets/equity are recorded directly in net assets, in line with IPSAS 41. When a revalued investment is sold, the portion of net assets that relates to that financial asset is effectively realized and is recognized in the statement of financial performance.

*Programme reserves*

195. Programme reserves include reserve for core budget and ITL, CDM trust fund and Appendix D reserve.

196. 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 $45.0 million has been established. The total programme reserves at the reporting date amount to $49.5 million. The Appendix D to the Staff Rules covers staff members for work related death, injury or illness attributable to the performance of official duties on behalf of the United Nations for which UNFCCC maintains a corresponding reserve.

Table IV.48
**Programme reserves as at 31 December 2023**
(Thousands of United States dollars)

| | *Thousand $* |
|---|---|
| Reserves for core budget and ITL | 3 050 |
| CDM trust fund reserve | 45 000 |
| Reserve for Appendix D | 1 476 |
| **Total reserves** | **49 526** |

**Note 20**

**Fund accounting and segment reporting**

197. 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.

198. 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.

199. 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.

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

Table IV.49
**Statement of financial position by fund**
(Thousands of United States dollars)

| | *Trust fund for the clean development mechanism* | *Trust fund for the core budget of UNFCCC* | *Trust fund for participation in the UNFCCC process* | *Trust fund for the Special Annual Contribution from the Government of Germany* | *Trust fund for Supplementary Activities* | *Trust fund for the International Transaction Log* | *Special account for conferences and other recoverable costs* | *Special account for UNFCCC programme support costs* | *Cost Recovery* | *UNFCCC Employee liabilities fund* | ***TOTAL*** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | | |
| Cash and cash equivalents | 10 055 | 743 | 266 | 34 | 11 331 | 962 | 556 | 959 | 1 258 | 3 547 | **29 711** |
| Short-term investments | 51 869 | 15 768 | 1 374 | 174 | 58 452 | 4 961 | 2 866 | 5 843 | 5 594 | 6 365 | **153 266** |
| Indicative contributions receivable | - | 8 557 | - | - | - | 93 | - | - | - | - | **8 650** |
| Voluntary contributions receivable | - | - | 84 | - | 12 175 | - | - | - | - | - | **12 259** |
| Other receivables | 98 | 378 | - | 49 | 1 406 | 44 | 195 | 30 | 456 | - | **2 656** |
| Other current assets | 3 939 | 1 549 | 301 | 11 | 5 190 | 106 | 2 241 | 3 739 | 545 | - | **17 621** |
| **Total current assets** | **65 961** | **26 995** | **2 025** | **268** | **88 554** | **6 166** | **5 858** | **10 571** | **7 853** | **9 912** | **224 163** |
| **Non-current assets** | | | | | | | | | | | |
| Other receivables | - | - | - | - | 1 435 | - | - | - | - | - | **1 435** |
| Long-term investments | 16 225 | 4 932 | 430 | 54 | 18 285 | 1 552 | 896 | 1 828 | 1 750 | 1 991 | **47 943** |
| Property, plant and equipment | - | 32 | - | 63 | 17 | - | 75 | 27 | - | - | **214** |
| Intangible assets | - | - | - | - | 148 | - | 4 | - | - | - | **152** |
| **Total non-current assets** | **16 225** | **4 964** | **430** | **117** | **19 885** | **1 552** | **975** | **1 855** | **1 750** | **1 991** | **49 744** |
| **TOTAL ASSETS** | **82 186** | **31 959** | **2 455** | **385** | **108 439** | **7 718** | **6 833** | **12 426** | **9 603** | **11 903** | **273 907** |
| **LIABILITIES** | | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | | |
| Payables and accruals | 732 | 1 254 | 790 | 9 | 4 189 | 306 | 4 360 | 43 | 2 884 | - | **14 567** |
| Advance receipts | 3 012 | 3 157 | 998 | - | 17 566 | - | - | - | - | - | **24 733** |
| Employee benefits | 99 | 412 | - | 3 | 191 | 11 | - | 136 | 85 | 2 118 | **3 055** |
| Other current liabilities | - | - | 2 650 | - | 5 831 | - | - | - | - | - | **8 481** |
| **Total current liabilities** | **3 843** | **4 823** | **4 438** | **12** | **27 777** | **317** | **4 360** | **179** | **2 969** | **2 118** | **50 836** |
| **Non-current liabilities** | | | | | | | | | | | |
| Employee benefits | 1 | 11 | - | - | 18 | - | - | 3 | - | 144 662 | **144 695** |
| **Total non-current liabilities** | **1** | **11** | **-** | **-** | **18** | **-** | **-** | **3** | **-** | **144 662** | **144 695** |
| **TOTAL LIABILITIES** | **3 844** | **4 834** | **4 438** | **12** | **27 795** | **317** | **4 360** | **182** | **2 969** | **146 780** | **195 531** |
| **TOTAL ASSETS LESS LIABILITIES** | **78 342** | **27 125** | **(1 983)** | **373** | **80 644** | **7 401** | **2 473** | **12 244** | **6 634** | **(134 877)** | **78 376** |
| **NET ASSETS** | | | | | | | | | | | |
| Accumulated surpluses | 33 585 | 22 844 | (1 976) | 374 | 80 918 | 7 244 | 2 485 | 12 271 | 6 661 | (156 395) | 8 011 |
| Reserves | 44 757 | 4 281 | (7) | (1) | (274) | 157 | (12) | (27) | (27) | 21 518 | 70 365 |
| **TOTAL NET ASSETS** | **78 342** | **27 125** | **(1 983)** | **373** | **80 644** | **7 401** | **2 473** | **12 244** | **6 634** | **(134 877)** | **78 376** |

Table IV.50

**Statement of financial performance by fund**

(Thousands of United States dollars)

| | *Trust fund for the clean development mechanism* | *Trust fund for the core budget of UNFCCC* | *Trust fund for participation in the UNFCCC process* | *Trust fund for the Special Annual Contribution from the Government of Germany* | *Trust fund for Supplementary Activities* | *Trust fund for the International Transaction Log* | *Special account for conferences and other recoverable costs* | *Special account for UNFCCC programme support costs* | *Cost Recovery* | *UNFCCC Employee liabilities fund* | *Elimination* | *TOTAL* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | | | | | |
| Indicative contributions | - | 32 122 | - | - | - | 720 | - | - | - | - | - | 32 842 |
| Voluntary contributions | 11 | 871 | 2 738 | 1 906 | 41 319 | - | 8 400 | - | - | - | - | 55 245 |
| CDM and JI service fees | 13 847 | 10 | - | - | - | - | - | - | - | - | - | 13 857 |
| Interest Revenue | 3 485 | 923 | 110 | 51 | 3 856 | 330 | 191 | 322 | 222 | 404 | - | 9 894 |
| Gain on foreign exchange | - | - | - | - | - | - | - | - | - | - | - | - |
| Other/miscellaneous revenue | (3 244) | 33 | 7 | 13 | 6 991 | - | 34 | - | 18 023 | 2 412 | (20 424) | 3 845 |
| Programme support income | - | - | - | - | - | - | - | 13 101 | - | - | (13 096) | 5 |
| **TOTAL REVENUE** | **14 099** | **33 959** | **2 855** | **1 970** | **52 166** | **1 050** | **8 625** | **13 423** | **18 245** | **2 816** | **(33 520)** | **115 688** |
| **EXPENSES** | | | | | | | | | | | | |
| Personnel expenditure | 6 806 | 22 646 | 44 | 807 | 14 478 | 471 | 181 | 8 969 | 2 857 | 7 962 | (2 411) | 62 810 |
| Travel | 853 | 2 741 | 6 108 | 109 | 8 107 | 9 | 3 745 | 67 | 132 | - | - | 21 872 |
| Contractual services | 1 474 | 4 754 | - | 490 | 23 472 | 595 | 2 356 | 520 | 10 076 | 211 | (13 419) | 30 527 |
| Operating expenses | 116 | 578 | - | 1 | 991 | 1 | 49 | 5 | 990 | - | - | 2 731 |
| Other expenses | 763 | (254) | 27 | 259 | 2 873 | 61 | 1 012 | 2 332 | 250 | 1 | (4 594) | 2 729 |
| Depreciation of equipment | - | 10 | - | 32 | 11 | - | 34 | 9 | - | - | - | 96 |
| Amortization of intangible assets | - | - | - | - | 162 | - | 9 | - | - | - | - | 171 |
| Return/transfer of donor/CDM Trust Fund | - | - | 449 | - | - | - | - | - | - | - | - | 449 |
| Loss on foreign exchange | (65) | (775) | 102 | (1) | 3 662 | (11) | 28 | 13 | (18) | (8) | - | 2 926 |
| Programme support | 1 615 | 3 927 | 751 | 217 | 6 041 | 181 | 364 | - | - | - | (13 096) | - |
| **TOTAL EXPENSES** | **11 562** | **33 627** | **7 481** | **1 914** | **59 795** | **1 307** | **7 778** | **11 915** | **14 287** | **8 166** | **(33 520)** | **124 311** |
| **TOTAL SURPLUS/(DEFICIT)** | **2 537** | **332** | **(4 626)** | **56** | **(7 628)** | **(257)** | **847** | **1 508** | **3 958** | **(5 350)** | **-** | **(8 623)** |

## Note 21

### Budget comparison and reconciliation

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

202. 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 50. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

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

204. 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.

205. 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.

206. 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 iv.51
**Reconciliation of net result on budgetary and IPSAS basis**
(Thousands of United States dollars)

| *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 | (6 459) |
| Statement V-B International Transaction Log | (692) |
| Statement V-C Contingent budget of conference services | |
| **Actual net result on budgetary basis** | **(7 151)** |
| **Basis differences** | |
| Additional income components under IPSAS | 1 286 |
| Exchange gains/(losses) | 779 |
| Conversion of unliquidated obligations to delivery principle | 4 890 |
| Capitalization of equipment & intangible assets | (10) |
| Changes in provision for doubtful debts | 282 |
| **Sub-total basis differences** | **7 227** |
| **Entity differences on IPSAS Basis** | |
| Trust fund for participation in UNFCCC process | (4 626) |
| Trust fund for supplementary activities | (7 628) |
| Trust fund for the clean development mechanism | 2 536 |

| *Reconciliation of net result on budgetary and IPSAS basis* | |
|---|---|
| Trust fund for the Special Annual Contribution from the Government of Germany | 56 |
| Special account for conferences and other recoverable costs | 846 |
| Special account for UNFCCC programme support costs | 1 508 |
| Cost Recovery | 3 959 |
| UNFCCC employee liabilities fund | (5 350) |
| **Sub-total entity differences** | **(8 699)** |
| **Actual net result on the Statement of Financial Performance** | **(8 623)** |

## Note 22

### Budget to Actual variance analysis

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

## Note 23

### Related parties

208. UNFCCC has a range of working relationship with entities within the United Nation system as a whole. All payment for expenditure made is done through the cash pool which is managed by the United Nations Treasury. 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.

209. 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.

210. 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 IV.52
**Summary of senior management and related compensation**

| *Number of individuals* | *Aggregate remuneration (In thousands of $)* | *Outstanding advances at 31 Dec 2023 (in thousands of $)* |
|---|---|---|
| 16 | 2 975 | 125 |

211. The senior management personnel of UNFCCC are the Executive Secretary, Deputy Executive Secretary, Senior Directors of the departments and Directors of divisions, who have the authority and responsibility for planning, directing, and controlling the activities of UNFCCC and influencing its strategic direction.
212. Advances are those made against entitlements in accordance with the staff rules and regulations. There were no loans granted to key management personnel.

## Note 24

### Leases, commitments, and contingencies

213. Commitments relating to acquisition of goods and services contracted for, but not delivered as at 31 December 2023 amount to $9.6 million ($4.5 million in 2022). Details are shown in the table below.

Table IV.53
**Contractual commitments by category**
(Thousands of United States dollars)

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Goods and services | 5 974 | 4 051 |
| Travel related commitments | 3 586 | 498 |
| **Total** | **9 560** | **4 549** |

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

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

**Note 25**

**Events after the reporting date**

216. The financial statements were approved for issue on the date on which the Board of Auditors signed the audit opinion. None other than UNFCCC has the authority to amend these financial statements.

217. 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 26**

**In-kind contributions of services**

218. 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.