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**Convention to Combat
Desertification**

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Item 7 (b) of the provisional agenda

Programme and budget

Financial performance for the Convention trust funds

**Audited financial statements for the Convention
trust funds for the biennium ended 31 December
2009, including the audit report of
PricewaterhouseCoopers for the Global
Mechanism***

Note by the secretariat

* Please note that this document is issued as received, without formal editing.

PricewaterhouseCoopers SpA
To the attention of Mr. John McQuiston
Largo Angelo Fochetti 29
00154 Rome

Rome, 15 April 2010

Management Representation Letter

Dear Sirs,

We confirm to the best of our knowledge and belief, the following representations made to you during your examination of the Financial Statements (Appendix A to E) of the Core Budget Administrative Account of the Global Mechanism of the UN Convention to Combat Desertification administered by IFAD in accordance with the "Memorandum of Understanding between the Conference of the Parties of the United Nations Convention to Combat Desertification in those countries experiencing serious drought and/or desertification, particularly in Africa, and IFAD regarding the modalities and administrative operations of the Global Mechanism", hereinafter called the CBAA, which show a total comprehensive income for the year ended 31 December 2009 of USD 76.660 , transferred to Retained Earnings, which, as at 31 December 2009, amounts to USD 509.896 and Total assets amounting to USD 1.489.252

1. We acknowledge our responsibility for the fair presentation of the Balance Sheet and Statement of Comprehensive Income in conformity with International Financial Reporting Standards.
2. We confirm to you that the Financial Statements constitute a complete and proper presentation of the state of affairs of the Fund at 31 December 2009 and of the results of operations and cash flows for the year then ended and are free of material misstatements, including omissions; there have been no events subsequent to period which require adjustment of or disclosure in the financial statements and related disclosures for the year ended 31 December 2009 or although not affecting such Financial Statements or disclosures, have caused or are likely to cause any material change, adverse or otherwise, in the state of affairs, results of operations or cash flows of the Fund. We have no plans or intentions that may adversely affect the carrying value or classification of assets and liabilities.
3. All minutes of meetings of the steering committee (or summaries of actions or recent meetings for which minutes have not yet been prepared) and all financial and accounting records and related data have been made available to you.
4. We are not aware of any accounts, transactions or material agreements not fairly described and properly recorded in the financial and accounting records underlying the Financial Statements.
5. We are not aware of any irregularities involving management or employees who have significant roles in the system of internal accounting control or any irregularities involving other employees which could have a material effect on the Financial Statements. The Fund



has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non compliance.

6. All cash and bank accounts and all other assets of which we are aware are included in the Financial Statements at 31 December 2009.
7. The accounts show Contributions Receivable of USD 897.470 which the UNCCD – Conference of the Parties - is expected to fully pay by the end of the biennial budget cycle scheduled for 31/12/2011
8. All liabilities of the Fund of which we are aware are included in the Financial Statements at 31 December 2009. We have carefully reviewed the position in respect of commitments, contingent liabilities or possible claims and consider that the provisions and the disclosures in the Financial Statements in respect thereof are adequate. All liabilities and provisions included in the Financial Statements at 31 December 2009 represent amounts due to third or related parties and/or the best estimate of the likely liability towards such parties which management expects will materialise in future, such estimates being effected on a prudent basis.
9. There are no undisclosed:
 - (a) related party transactions and related amounts receivable or payable, including purchases, loans, transfers, leasing arrangements and guarantees;
 - (b) arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements;
 - (c) agreements to repurchase assets previously sold;
 - (d) other agreements not in the ordinary course of business
10. We confirm our understanding that no liability concerning deficiency payments under Article 26 of the United Nations Joint Pension Fund will be determined to have existed at 31 December 2009.
11. We confirm that in relation to the After-Service Medical Coverage Scheme administered by FAO, based on current arrangements the Fund will not be recharged by IFAD for any portion of the share of unfunded liabilities as of 31 December 2009 with respect to the participation of Fund's employees in the After-Service Medical Coverage Scheme. No change in such arrangements is currently envisaged.
12. We confirm our understanding that under the terms of the agreement between the Parties of the UN Convention and the Agreement Establishing IFAD and the Agreement with the Government of Italy covering the permanent Headquarters of the Fund, the exemptions from any form of direct taxation and social insurance on salaries, emoluments and indemnities paid to IFAD officials apply equally to all employees of the Fund including those working for the Global Mechanism.

Yours truly

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Christian Mersmann
Managing Director, Global Mechanism

**GLOBAL MECHANISM
OF THE UN CONVENTION TO
COMBAT DESERTIFICATION**

Core Budget Administration Account

Financial Statements

For the year ended 31 December 2009

Appendix A - Balance Sheet

Appendix B - Statement of Revenues and Expenses

Appendix C - Statement of Total Retained Earnings

Appendix D - Cash Flow Statement

Appendix E - Notes to the Financial Statements

Report of the External Auditor

Appendix F - Statement of Resources Available for Commitment

Balance Sheet**Appendix A**

As at 31 December 2009 and 2008 (expressed in United States dollars)

	2009	2008
Assets		
Contributions receivable (Note 3)	897 470	802 916
Provisions on Contributions Receivable (note 2 - e)	(503 200)	(214 723)
Interfund receivables (Note 4)	1082 157	692 693
Other receivables	12 825	38 945
Total Assets	1 489 252	1 319 831
Liabilities and equity		
Payables and liabilities (Note 5)	944 979	742 005
Interfund payables (Note 4)	454 537	107 365
Deferred contribution revenues (Note 3)	599 632	1 057 017
Retained earnings	(509 896)	(586 556)
Total Liabilities and equity	1 489 252	1 319 831

The accompanying notes in Appendix E form an integral part of the financial statements.

Appendix B**Statement of Comprehensive Income**

For the years ending 31 December 2009 and 2008 (expressed in United States dollars)

	2009	2 008
Revenues		
Operational revenues	3 113 290	1 686 733
Impact of foreign exchange rate movements	76 660	(99 781)
Total Revenues	3 189 950	1 586 952
Operating Expenses		
Staff salaries and benefits (Note 6)	(2 324 269)	(1 581 508)
Consultants and other non-staff costs	(253 100)	(150 000)
Office and general expenses	(47 153)	-
Service charges	(200 291)	(190 270)
Provisions on receivables	(288 477)	235 045
Total Operating Expenses	(3 113 290)	(1 686 733)
Comprehensive Income	76 660	(99 781)

The accompanying notes in Appendix E form an integral part of the financial statements

Statement of changes in Total Retained Earnings**Appendix C**

For the years ended 31 December 2009 and 2008 (expressed in United States dollars)

	Total Retained Earnings
Retained Earnings as at 1 January 2008	(486 775)
Total Other Comprehensive Income/(Losses)	<u>(99 781)</u>
Retained Earnings as at 31 December 2008	(586 556)
Total Other Comprehensive Income/(Losses)	<u>76 660</u>
Retained Earnings as at 31 December 2009	(509 896)

The accompanying notes in Appendix E form an integral part of the financial statements

Cash Flow statement**Appendix D**

For the years ended 31 December 2009 and 2008 (expressed in United States dollars)

	2009	2008
Cash flows from operating activities		
Contributions to Core Budget Administration Account	2 849 828	3 342 801
Payments of operating and administrative expenses	(2 893 485)	(1 992 598)
Payments from / (to) other funds	17 537	(1 349 144)
Other income	26 120	(1 329)
Net cash flows from operating activities	-	(270)
Effects of exchange rate movements on cash	-	270
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalent at beginning of the period	-	-
Cash and cash equivalent at end of the period	-	-

The accompanying notes in Appendix E form an integral part of the financial statements.

Notes to the Financial Statements

Note 1: Brief Description of the Global Mechanism

The United Nations Convention to Combat Desertification (UNCCD) created the Global Mechanism as a means of mobilising resources to protect dryland areas. At the First Conference of the Parties of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The Global Mechanism has a Collaborative Institutional Arrangement to support it, involving UNDP, IFAD and the World Bank. The Managing Director of the Global Mechanism reports directly to the President of IFAD.

The Global Mechanism aims to mobilise funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, sub-regional and regional Action Plans. In addition, the Global Mechanism is involved in partnership building; establishing broad contacts among international organisations, the NGO community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the Global Mechanism is developing a database, collecting and managing data on desertification and “matching” resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

In order to meet the requirements of individual donors, from 2000, separate financial statements have been prepared for the three accounts of the Global Mechanism, namely the Core Budget Administration Account (CBAA), which contains contributions from the UNCCD; the Voluntary Contributions Administrative Expenses Account (VCAEA), which contains voluntary contributions from donors as well as Technical Assistance Grants (TAG) contributions from IFAD; and the Special Resources for CCD Finance account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

Note 2: Summary of Significant Accounting and Related Policies

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

(a) Basis of Preparation

The Financial Statements of the Global Mechanism are prepared in accordance with International Financial Reporting Standards (IFRS). Revenues and expenses are recognised as they occur and reported in the period to which they relate. The excess of revenues over expenses is transferred to the retained earnings and to date all the amounts have related to foreign exchange rate movements.

(b) Administrative and Operating Expenses, including Service Charge

The President’s Bulletin - Accounts of the Global Mechanism (GM) of 4 October 1999, defines the use of funds in the following way: the CBAA is used for administrative costs of GM such as staff and office costs. It can also be used for operating costs directly relating to GM such as (a) employment of consultants to prepare action plans; (b) marketing functions of the GM; and (c) organisation of financing conferences.

In 2009, as previously, operating expenses have been financed from the contributions received from the UNCCD, as permitted by the terms of the related letter of agreement.

The service charge has been charged to the CBAA in accordance with IFAD’s rules and regulations.

(c) Donor Contributions

Contributions are recorded in receivables and as resources available on the date of receipt of formal communication from the Donor or actual receipt of funds, whichever occurs earlier. Contributions received and interest earned thereon, where specified in the donor agreements, are recorded as revenue in the period in which the related expenditures occur. Contributions for which no direct expenditures have yet been incurred are deferred until future periods to be matched against the related costs.

(d) Translation and Conversion of Currencies

IFAD, on behalf of the Global Mechanism, conducts its operations in several currencies, and at the present time maintains its accounting records in United States dollars. The Financial Statements are expressed in United States dollars solely for the purpose of summarising the financial position.

The Global Mechanism has translated all items in its Balance Sheet in currencies other than United States dollars at market rates of exchange ruling as at the balance sheet date.

Revenue and expense items in currencies other than the United States Dollar have been recorded at the rates of exchange ruling when the transaction occurred. The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States dollar are credited or charged to an exchange rate adjustment account and included in the Statement of Revenue and Expenses.

(e) Provisions

Provisions are established when the Global Mechanism has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. In 2007, management started setting up provisions on receivable amounts due for non current biennium approved budgets. In 2009 such provision was increased of USD 288 477 to reflect the status of receivable amounts exceeding the 2 years. UNCCD confirmed the uncertainty for liquidation. Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service separation entitlements as a result of services rendered by employees up to the balance sheet date.

(f) Taxation

Under the terms of the agreement between the Parties of the UN Convention and the Agreement Establishing IFAD and the Agreement with the Government of Italy covering the permanent Headquarters of the Fund, the exemptions from any form of direct taxation and social insurance on salaries, emoluments and indemnities paid to IFAD officials apply equally to all employees of the organisation including those working for the Global Mechanism.

(g) Resources Available for Commitment

Resources available for commitment are those resources that have been contributed by UNCCD. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes. The amount of receivable is displayed with reference to each specific biennium to which is related.

In practice, resources available may be defined as cash, amounts receivable from UNCCD less liabilities and balances owed to IFAD and other funds administered by IFAD.

Note 3: Statement of Contributions and Deferred Revenue

Donor	Approved Budget USD	Received	Received in 2009	Receivable	Recognised Revenues	Recognised in year	Deferred Revenues
UNCCD 1999	986 974	986 974	-	-	725 686		261 288
UNCCD 2000	1 404 000	1 404 000	-	-	1 418 621		(14 621)
UNCCD 2001	1 458 000	1 386 946	-	-	1 499 141		(41 141)
UNCCD 2002	1 876 284	1 200 200	-	162 092	1 794 067		82 217
UNCCD 2003	1 930 284	1 570 000	-	360 284	2 152 115		(221 831)
UNCCD 2004	1 969 920	1 603 743	-	366 177	1 881 744		88 176
UNCCD 2005	2 027 160	2 701 000	-	(673 840)	1 842 062		185 098
UNCCD 2006	2 068 200	2 004 723	-	-	2 007 782		60 418
UNCCD 2007	2 128 680	1 589 950	-	288 477	2 528 284		(399 604)
UNCCD 2008	2 743 751	2 444 025	-	299 726	1 686 733		1 057 018
UNCCD 2009*	2 655 905	-	2 561 351	94 554	3 113 290	3 113 290	(457 385)
Balance at 31 December 2009	21 249 158	16 891 561	2 561 351	897 470	20 649 525	3 113 290	599 633
Balance at 31 December 2008	18 593 253	14 447 536		802 916	17 536 235	1 686 733	1 057 017

* 2009 GM Budget was approved at EUR 1 884 600 of which EUR 139 600 as overhead for IFAD.

USD amounts presented are translated as at 31/12/2009

2009 receivables were reduced of USD 47 152 as GM shared UNCCD-GM joint meeting costs.

The trend of provision of old receivable contributions is disclosed in the following table:

Provision on receivables as at 1 January 2009	(214 723)
2009 movements	(288 477)
Total provision on receivables as at 31 December 2009	(503 200)

Note 4: Interfund Receivables and Payables

Interfund receivables and payables represent receivables due from/payables due to IFAD and other GM funds, during the course of operations.

Note 5: Payables and Liabilities

This comprises the following balances, in terms of US dollars:

	2009	2008
Staff salaries and benefits	757 903	588 929
Duty travel	3 076	3 076
Consultants	184 000	150 000
Administrative expenditures		-
Total	944 979	742 005

Note 6: Staff Salaries and Benefits

The Global Mechanism-CBAA had 14 employees as at 31 December 2009 (31 December 2008: 12 employees). These employees are on IFAD's payroll and are therefore part of the benefit system offered by IFAD. These benefits include the participation in the United Nations Joint Staff Pension Fund and in the After Service Medical Coverage administered by FAO.

IFAD charges the Global Mechanism for the costs incurred on behalf of the employees of the Global Mechanism.

Note 7: Net Foreign Exchange (Losses)/Gains

The movements in the foreign exchange rate account are explained as follows, in terms of US dollars:

	2009	2008
As at 1 January	(586 556)	(486 775)
Net foreign exchange rate movements:	76 660	(99 781)
As at 31 December	(509 896)	(586 556)

Note 8: Contingent liability

Arising from a ruling by the International Labour Organization Administrative Tribunal (ILOAT) on a case involving a former staff member of the GM, there is a probable obligation in form of reimbursement to be made to IFAD in the amount of approximately USD 300,000 in damages awarded to the staff member by the ILOAT.

Statement of Resources Available for Commitment

As at 31 December 2009 and 2008 (expressed in United States dollars)

	2009	2008
Cash	-	-
Contributions receivable	897 470	802 916
Provisions on Contributions Receivable	(503 200)	(214 723)
Interfund receivables	1082 157	692 693
Other receivables	12 825	38 945
	1 489 252	1 319 831
Less: Payables and liabilities	(944 979)	(742 005)
Interfund payables	(454 537)	(107 365)
	(1 399 516)	(849 370)
Resources Available for Commitment	89 736	470 461

Note to Resources Available for Commitment	2009	2008
Resources available	89 736	470 461
Cumulative retained earnings	514 036	586 556
Deferred contribution revenues (Note 3)	603 772	1 057 017