



**UNITED  
NATIONS**



**Convention to Combat  
Desertification**

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Distr.  
GENERAL

ICCD/COP(7)/2/Add.3 (C)  
24 August 2005

Original: ENGLISH

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CONFERENCE OF THE PARTIES  
Seventh session  
Nairobi, 17–28 October 2005  
Item 6 (b) of the provisional agenda

## **PROGRAMME AND BUDGET**

### Addendum

#### **Report on the performance of the Convention's trust funds in the biennium 2004–2005**

#### **Audited financial statements for the biennium 2004–2005 as at 31 December 2004**

Note by the Global Mechanism\*

### **EXECUTIVE SUMMARY**

This document contains the report of an external auditor, as well as the financial statements of the Global Mechanism (GM) as at, and for the year ended, 31 December 2004.

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<sup>2</sup> The notes and annex form an integral part of the financial statements.

## I. AUDIT REPORT

The International Fund for Agricultural Development (IFAD)  
as Administrators for the Global Mechanism of the UN Convention  
to Combat Desertification (the Global Mechanism)  
Rome

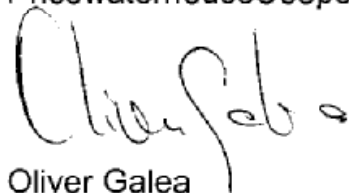
We have audited the accompanying financial statements of the Core Budget Administration Account of the Global Mechanism as at and for the year ended 31 December 2004. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Core Budget Administration Account of the Global Mechanism as at 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Rome, 30 March 2005

PricewaterhouseCoopers SpA



Oliver Galea  
(Partner)

**II. FINANCIAL STATEMENTS**

**A. Statement of revenues and expenses**  
(in United States dollars)

	<b>2004</b>	<b>2003</b>
<b>Total revenues</b>	<b>1,881,744</b>	<b>2,152,115</b>
<b>Expenses</b>		
<b>Staff costs</b>		
Professional and General Service	(1,403,551)	(1,439,753)
Temporary support staff	(132,185)	(139,543)
	<b>(1,535,736)</b>	<b>(1,579,296)</b>
<b>Office and general expenses</b>		
External auditor's fees	(6,796)	(5,500)
Office equipment and maintenance, telecommunications	(118,059)	(93,212)
Hospitality	(3,324)	(3,285)
Consultants fees	(50,588)	-
Media communications and networking	(14,880)	(17,323)
Publications	(4,775)	(21,023)
Duty travel	(630)	(289,493)
Bank charges	(1,036)	-
Service charge	(145,920)	(142,983)
	<b>(346,008)</b>	<b>(572,819)</b>
<b>Total expenses</b>	<b>(1 881 744)</b>	<b>(2,152,115)</b>
Total Revenues less expenses	-	-
Add: Net foreign exchange rate movements	(85,744)	(44,130)
<b>Transfer to retained earnings</b>	<b>(85,744)</b>	<b>(44,130)</b>

B. Statement of changes in retained earnings  
(in United States dollars)

<b>Opening balance as at 1 January 2003</b>	<b>(7,297)</b>
Total revenues less expenses	-
Net exchange rate movements	<b>(44,130)</b>
<b>Retained earnings as at 31 December 2003</b>	<b>(51,427)</b>
Total revenues less expenses	-
Net exchange rate movements	<b>(85,744)</b>
<b>Retained earnings as at 31 December 2004</b>	<b>(137,171)</b>

C. Balance sheet  
(in United States dollars)

	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Cash	1,788,258	88,258
Contributions receivable (Note 3)	1,738,489	1,468,568
Interfund receivables	1,159,755	3,179,887
<b>Total assets</b>	<b>4,686,502</b>	<b>4,736,713</b>
<b>Liabilities, deferred revenues and retained earnings</b>		
Payables and accrued liabilities (Note 5)	660,955	694,876
Interfund payables	4,008,630	4,027,353
Deferred contributions revenue (Note 3)	154,088	65,911
Retained earnings	(137,171)	(51,427)
<b>Net assets</b>	<b>(137,171)</b>	<b>(51,427)</b>
<b>Total liabilities, deferred revenues and retained earnings</b>	<b>4,686,502</b>	<b>4,736,713</b>

**D. Statement of cash flows**  
(in United States dollars)

	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities</b>		
Contributions to Core Budget Administration Account	1,700,000	1,570,000
Operating and administrative expenses paid	0	(1,874,241)
<b>Net cash provided by/(used from) operating activities</b>	<b>1,700,000</b>	<b>(304,241)</b>
<b>Net increase/(decrease) in cash</b>	<b>1,700,000</b>	<b>(304,241)</b>
<b>Cash at beginning of the year</b>	<b>88,258</b>	<b>392,499</b>
<b>Cash at the end of the year</b>	<b>1,788,258</b>	<b>88,258</b>
<b>Reconciliation of total revenues less expenses to net cash provided by operating activities</b>		
Total revenues less expenses	0	0
(Decrease)/increase in accrued liabilities	(33,921)	211,458
Change in interfund payables/receivables	2,001,409	110,546
Increase/(decrease) in deferred revenues	88,177	(221,832)
(Increase)/decrease in contributions receivable	(269,921)	(360,283)
Net exchange rate movements	(85,744)	(44,130)
	<b>1,700,000</b>	<b>(304,241)</b>

**E. Statement of revenues available for commitment**  
(in United States dollars)

	<b>2004</b>	<b>2003</b>
Cash	1,788,258	88,258
Contributions receivable	1,738,489	1,468,568
Interfund receivables	1,159,755	3,179,887
	<b>4,686,502</b>	<b>4,736,713</b>
Less:		
Accrued liabilities	(660,955)	(694,876)
Interfund payables	(4,008,630)	(4,027,353)
	<b>(4,669,585)</b>	<b>(4,722,229)</b>
<b>Resources available (Note 2 (g))</b>	<b>16,917</b>	<b>14,484</b>
<b>Reconciliation of resources available</b>	<b>2004</b>	<b>2003</b>
Resources available	16,917	14,484
Plus cumulative exchange movements	137,171	51,427
Deferred contributions revenue (Note 3)	154,088	65,911

### **III. NOTES TO THE FINANCIAL STATEMENTS**

#### **Note 1. Brief description of the Global Mechanism**

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

2. The GM aims to mobilize funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, subregional and regional action programmes. In addition, the GM is involved in partnership building, establishing broad contacts among international organizations, the non-governmental organizations (NGOs) community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the GM 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.

3. In order to meet the requirements of individual donors, from 2000, separate financial statements have been prepared for the three accounts of the GM, namely the Core Budget Administration Account (CBAA), which contains contributions from 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 UNCCD Finance Account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

#### **Note 2. Summary of significant accounting policies**

##### **(a) Basis of accounting**

4. The financial statements of the GM are prepared in accordance with International Financial Reporting Standards (IFRS) (formerly called International Accounting Standards) and under the historical cost convention. Revenue and expenses are recognized as they occur (and not as cash is received or paid) and reported in the period to which they relate. The excess of expenses over revenue is transferred to the retained earnings and to date the amounts have related to exchange rate movements.

5. The use of funds is restricted in accordance with the individual agreements with donors.

##### **(b) Administration and operating expenses, including service charge**

6. The President’s Bulletin - Accounts of the GM of 4 October 1999, defines the use of funds in the following way: the CBAA is used for administrative costs of the GM such as staff and office costs. It can also be used for operating costs directly relating to the GM such as: (a)

employment of consultants to prepare action plans; (b) marketing functions of the GM; and (c) organization of financing conferences.

7. In 2004, as in 2003, operating expenses have been financed from the contributions received from UNCCD, as permitted by the terms of the related letter of agreement.

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

(c) Donor contributions

9. 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 revenues 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

10. The GM, 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 summarizing the financial position.

11. The GM has translated all items in its balance sheet at market rates of exchange at year-end.

12. 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.

13. The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States dollar are credited or charged to the statement of revenue and expenses.

14. The movements in the foreign exchange rate account are explained as follows, in terms of United States dollar:

	<u>2004</u>	<u>2003</u>
Opening balance at 1 January	(51,427)	(7,297)
Exchange movements for the year on:		
Payables and accrued liabilities	<u>(85,744)</u>	<u>(44,130)</u>
Closing balance at 31 December	<u>(137,171)</u>	<u>(51,427)</u>

(e) Provisions

15. Provisions are established when the GM 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. Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision 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. A provision is also made for the estimated liability applicable to the GM for After-Service Medical Coverage.

(f) Statement of cash flows

16. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(g) Resources available for commitment

17. Resources available for commitment are those resources that have been contributed by UNCCD. Uncommitted resources available are the afore-mentioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes; such as earmarked workshops.

18. 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**

<b>Donor</b>	<b>US\$</b>	<b>Received</b>	<b>Receivable</b>	<b>Recognized revenue</b>	<b>Recognized in 2004</b>	<b>Deferred revenue</b>
UNCCD 1999	986,974	986,974	0	725,687		261,287
UNCCD 2000	1,404,000	1,404,000	0	1,418,621		(14,621)
UNCCD 2001	1,458,000	1,458,000	0	1,499,141		(41,141)
UNCCD 2002	1,876,284	1,876,284	0	1,794,067		82,217
UNCCD 2003	1,930,284	1,930,284	0	2,152,115		(221,831)
UNCCD 2004	1,969,921	231,432	1,738,489	1,881,744	1,881,744	88,177
<b>Balance at 31 December 2004</b>	<b>9,625,463</b>	<b>7,886,974</b>	<b>1,738,489</b>	<b>9,471,375</b>	<b>1,881,744</b>	<b>154,088</b>
Balance at 31 December 2003	7,655,542	6,186,974	1,468,568	7,589,631	2,152,115	65,911

**Note 4. Staff salaries and benefits**

19. The GM had 15 employees as at 31 December 2004 (31 December 2003: 18 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. For further information regarding these benefits, refer to the Financial Statements of IFAD.

20. IFAD charges the GM for the costs incurred on behalf of the employees of the GM.

**Note 5. Payables and accrued liabilities**

21. This comprises the following balances:

	<b>2004</b>	<b>2003</b>
Staff salaries and benefits	(569,862)	(525,140)
Staff travel	(25,965)	(63,412)
Consultants	(4,790)	(4,790)
Administrative expenditures	(60,338)	(101,534)
<b>Total</b>	<b>(660,955)</b>	<b>(694,876)</b>

**Note 6. Taxation**

22. Under the terms of 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 organization including those working for the GM.

Annex

**STATEMENT OF THE CORE BUDGET ADMINISTRATION ACCOUNT**

	2004	2003
<b>Total amount of contribution</b>	<b>1,969,921</b>	<b>1,930,284</b>
<b>Amount available to commit brought forward from prior year</b>	<b>14,484</b>	<b>197,010</b>
<b>Funds released from unused commitments</b>		<b>83,435</b>
<b>Expenses</b>		
<b>Staff costs</b>		
Professional and General Service	(1,403,551)	(1,439,753)
Temporary support staff	(132,185)	(139,543)
	<b>(1,535,736)</b>	<b>(1,579,296)</b>
<b>Office and general expenses</b>		
External auditor's fees	(6,796)	(5,500)
Office equipment and maintenance, telecommunication	(118,059)	(93,212)
Hospitality	(3,324)	(3,285)
Consultants fees	(50,588)	-
Media communications and networking	(14,880)	(17,323)
Publications	(4,775)	(21,023)
Duty travel	(630)	(289,493)
Bank charges	(1,036)	-
Service charge	(145,920)	(142,983)
	<b>(346,008)</b>	<b>(572,819)</b>
<b>Total amount expensed in the period</b>	<b>(1,881,744)</b>	<b>(2,152,115)</b>
	<b>102,661</b>	<b>58,614</b>
Add: Net exchange rate movements	(85,744)	(44,130)
<b>Total amount available for commitment</b>	<b>16,917</b>	<b>14,484</b>

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