GREEN
CLIMATE
FUND

Commencement of Annual Reporting and the External Auditing Process

GCF/B.08/27
1 October 2014

Meeting of the Board
14-17 October 2014
Bridgetown, Barbados
Agenda item 24

Recommended action by the Board

It is recommended that the Board:

(a) Take note of the information presented in document GCF/B.08/30 *Commencement of Annual Reporting and the External Auditing Process*; and

(b) Adopt the draft decision presented in Annex I to this document.

Table of Contents

Commencement of Annual Reporting and the External Auditing Process

I. Accounting standards

1. The Green Climate Fund must determine which accounting standards to follow in accounting for its income and expenditure and in preparing and presenting its financial statements. 'Accounting standards' refer to the body of authoritative literature that comprises the accounting and reporting standards to be used by the Fund. Generally the choice is between three standards. These are the International Financial Reporting Standards (IFRS), the International Public Sector Accounting Standards (IPSAS), and US Generally Accepted Accounting Principles (USGAAP).

2. Annex II contains a paper prepared by the Secretariat with an explanation of each standard and some of the similarities and differences between them.

3. The Ethics and Audit Committee (EAC) reviewed and discussed the paper mentioned in paragraph 2 above at a virtual meeting on 22 July 2014. The EAC recommends that the Board adopt the IFRS as the accounting standard to be adopted by the Fund.

II. Draft terms of reference of the External Auditor

4. By its decision B.06/03[1] taken at its February 2014 meeting, the terms of reference (TOR) of the External Auditor will be approved by the Board on the recommendation of the EAC following their development by the Secretariat.

5. A draft TOR was prepared by the Secretariat and reviewed by the EAC at its meeting on 22 July 2014. The draft TOR was subsequently modified based on feedback from the EAC and is now presented in Annex III. The EAC recommends that the Board approve it.

III. Annual report

6. The Secretariat proposes that it produce an Annual Report. The primary purpose of the Fund's annual reports is to demonstrate transparency and accountability, in particular to its stakeholders and contributors. The annual reports of the Fund will be a critical reference document that serves to inform national parliaments, ministries, financial institutions, the media and the general public about the performance of the grants and loans provided by the Fund. It will also serve to inform all Parties to the United Nations Framework Convention on Climate Change (UNFCCC) who are stakeholders of the Fund.

7. A tentative table of contents of the annual report is likely to contain at least the following information:

- Preface
- List of abbreviations
- Statements from the Co-Chairs
- Statement from the Executive Director
- About the Green Climate Fund

[1] See Annex I to document GCF/B.06/18, paragraph 74.

- Status of contributions
- Appendix A: Financial statements
- Appendix B: Accredited entities

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.08/30 *Commencement of Annual Reporting and the External Auditing Process* and based on the recommendations of the Ethics and Audit Committee:

(a) Approves the adoption of the International Financial Reporting Standards as the accounting standard for the Fund;

(b) Approves the terms of reference of the External Auditor as set out in Annex III; and

(c) Authorizes the Secretariat to commence work on the annual report for 2014, which will be presented at the second Board meeting held in 2015.

Annex II: Selection of accounting standards

I. Introduction

1. The Green Climate Fund must determine which accounting standards to follow in accounting for its income and expenditure and in preparing and presenting its financial statements. 'Accounting standards' refer to the body of authoritative literature that comprises the accounting and reporting standards to be used by the Fund. Generally the choice is between three standards. These are the International Financial Reporting Standards (IFRS), the International Public Sector Accounting Standards (IPSAS), and US Generally Accepted Accounting Principles (USGAAP).

2. This annex gives an explanation of each standard and of some of the similarities and differences between them, and makes a recommendation as to which standard is the most appropriate for the Fund.

II. International Financial Reporting Standards

3. The IFRS are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They have developed as a consequence of the growth in international shareholding and trade over the past two decades. They have progressively replaced the many different national accounting standards.

4. The IFRS began as an attempt to harmonize accounting across the European Union, but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by their original name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). In 2001, the new International Accounting Standards Board (IASB) took over the responsibility for setting IAS from the IASC. During its first meeting the IASB adopted the existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards, calling the new standards International Financial Reporting Standards.

5. The IFRS consist of the 40 IAS adopted by the IASB, 14 IFRS developed by the IASB, 21 interpretations originating from the International Financial Reporting Interpretations Committee and 33 interpretations developed by the Standing Interpretations Committee. The 40 IAS and 14 IFRS are set out in Appendix 3.

6. IFRS are internationally recognized and used in many parts of the world, including the European Union, Gulf Cooperation Council countries, Hong Kong, Australia, Canada, Chile, India, Malaysia, Pakistan, the Russian Federation, Singapore, South Africa and Turkey. Currently it is estimated that more than 113 countries around the world, including all of Europe, require or permit IFRS reporting. The vision of global accounting standards has also been publicly supported by many international organizations, including the Basel Committee, Group of Twenty, International Federation of Accountants Committee (IFAC), International Monetary Fund (IMF), International Organization of Securities Committee (IOSCO) and the World Bank.

7. In the United States of America, the Securities and Exchange Commission (SEC) does not yet allow for or mandate the use of IFRS for publicly traded companies in the United States. However, the SEC has stated that it is looking to switch to IFRS by 2015. It should be noted that progress is slow towards the achievement of that goal. The SEC Statement in Support of Convergence and Global Accounting Standards dated 24 February 2010 reaffirmed the Commission's strong commitment to a single set of global standards and the recognition that

IFRS is best-positioned to be able to serve the role as that set of standards for the United States market.

III. International Public Sector Accounting Standards

8. IPSAS are a set of accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB), an independent organ of IFAC, for use by public sector entities in the preparation of financial statements. Financial statements prepared under IPSAS are designed to provide information about how an entity has utilized its resources and about the cost of service delivery, whereas IFRS are designed to provide investors, lenders and other users of the financial statements with information about the entity's financial performance and financial position to help those users make investment and credit decisions.

9. IPSAS are based on IFRS standards, and are adapted to a public sector context when appropriate. In the process, IPSAS attempts, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure.

10. IPSAS comprises 32 standards; 31 standards on the accrual basis of accounting and one standard on the cash basis of accounting. Specifically IPSAS 1 to 21 and 25 to 32 are based on IFRS standards. These are set out in Appendix 1 together with the IAS or IFRS upon which they are based. IPSAS 22, 23 and 24 are not based on IFRS, but address the following public sector matters:

(a) IPSAS 22: Disclosure of Financial Information about the General Government Sector;

(b) IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers);

(c) IPSAS 24: Presentation of Budget Information in Financial Statements.

11. IPSAS has been promoted and financed by the IMF and the World Bank, and they have been adopted by intergovernmental organizations, United Nations organizations and many national governments; however, they have not been widely implemented by non-governmental organization, and furthermore, IFAC, the promulgating body, is a private federation and the standards are not legally binding.

IV. U.S. Generally Accepted Accounting Principles

12. Accounting standards in the United States have historically been set by the American Institute of Certified Public Accountants (AICPA) subject to SEC regulations. The AICPA first created the Committee on Accounting Procedure in 1939, and replaced that with the Accounting Principles Board in 1959. In 1973, the Accounting Principles Board was replaced by the Financial Accounting Standards Board (FASB) under the supervision of the Financial Accounting Foundation with the Financial Accounting Standards Advisory Council serving to advise and provide input on the accounting standards.

13. In 2008, the FASB issued the FASB Accounting Standards Codification, which reorganized the thousands of US GAAP pronouncements into roughly 90 accounting topics. The codification changed what had been a standards-based model (with thousands of individual standards) to a topically based model (with roughly 90 topics).

14. The FASB Accounting Standards Codification is the source of authoritative US GAAP recognized by the FASB to be applied. The codification is effective for interim and annual periods ending after 15 September 2009. All previous-level US GAAP standards are now superseded.

15. Currently the Codification comprises the following literature issued by various standard setters:

(a) ***Financial Accounting Standards Board;***

(i) Statements;

(ii) Interpretations;

(iii) Technical bulletins;

(iv) Staff positions;

(v) Staff implementation guides (Q&A);

(vi) Statement No. 138 Examples.

(b) ***Emerging Issues Task Force;***

(i) Abstracts;

(ii) Topic D.

(c) ***Derivative Implementation Group issues;***

(d) ***Accounting Principles Board opinions;***

(e) ***Accounting Research Bulletins;***

(f) ***Accounting Interpretations;***

(g) ***American Institute of Certified Public Accountants;***

(i) Statements of Position;

(ii) Audit and Accounting Guides – contain only incremental accounting guidance;

(iii) Practice Bulletins (PBs), including the Notices to Practitioners, which were elevated to PB status by PB 1;

(iv) Technical Inquiry Service – only for software revenue recognition.

4.1 International Financial Reporting Standards and International Public Sector Accounting Standards

16. Set out below are the similarities and differences between the two standards.

4.1.1 Similarities between International Financial Reporting Standards and International Public Sector Accounting Standards

17. IPSAS and IFRS are largely the same in four main areas:

(a) **Accounting standard style**. As noted above, the majority of the IPSAS are based on IFRS. For this reason the accounting style principles, concepts and format are largely the same for both standards:

(i) ***Principles***: The standards adopt a principles-based approach as opposed to a rules-based approach;

(ii) ***Concepts***: The basic accounting concepts underlying the financial statements are the same, i.e. going concern, accrual basis of accounting, fair presentation, time period principle, monetary unit principle, materiality and aggregation, offsetting, frequency of reporting, comparative information, and consistency of information;

(iii) ***Format***: The format of the standards (beginning with the standards' objectives, scope, definitions, recognition, measurement, disclosure and guidance examples) are the same.

(b) **Specific accounting standards:** IPSAS 1 to 21 and 25 to 32 are based on IFRS standards**.** They apply the same definitions, recognition, measurement and other requirements as those applied by the IFRS standards on which they are based. These are set out in Appendix 1.

(c) **Government business enterprise accounting:** There is no difference between accounting requirements for government business enterprises (GBEs) under IPSAS and IFRS. Because GBEs are set up to operate in a similar way to ordinary for-profit entities, IPSAS 1 (Presentation of Financial Statements) requires that they apply IFRS. When GBEs applies IFRS they simultaneously comply with IPSAS.

(d) **Accounting topics for which there are no applicable IPSAS:** IFRS standards are used as alternative accounting standards where there is no applicable IPSAS. This primacy arises from paragraphs 12, 14 and 15 of IPSAS 3 (2007 Handbook), which address the choice of accounting policies where there are no applicable IPSAS. There are 16 accounting topics covered by IFRS standards which do not yet have an IPSAS equivalent. These are listed in Appendix 2.

4.1.2 Differences between International Financial Reporting Standards and International Public Sector Accounting Standards

18. The differences between IFRS and IPSAS can generally be grouped into two broad categories: 'not-for-profit friendly' differences and differences with regard to accounting substance. These are set out below:

19. **'Not-for-profit-friendly' differences** do not differ in accounting substance. They include:

(a) Additional guidance: Generally there is more guidance in IPSAS than in IFRS;

(b) More generous transitional provisions for difficult issues: For example, IPSAS 17 (Property, Plant and Equipment) allows for the first-time recognition of property, plant and equipment to occur over five years rather than at a single changeover point as required under IFRS.

(c) Terminology, guidance, definitions and examples relevant to public sector entities: IPSAS include amendments to provide not-for-profit commentary and terminology.

20. **Differences in accounting substance:** Differences in accounting substance can be grouped into four broad categories:

(a) **Measurement rules that cater to non-cash-generating assets**

21. In the 'for-profit sector' companies generally hold assets in order to generate a return from holding the asset. In the 'not-for-profit sector' assets are often held in order to provide a service at no charge or a nominal charge. Therefore, on a 'normal-use basis', the assets do not generate cash flows. An example could be rice or wheat held by the World Food Programme to be provided to people in need.

22. Under IFRS, assets that do not generate cash flows are viewed as impaired and are required to be written down to their lower value. Under IPSAS standards, such assets are not required to be written down. Two IPSAS standards in particular address this issue.

23. IPSAS 12 (Inventories): Where inventories are held for provision at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost (as opposed to lower of cost and net realizable value under IFRS). In this way non-cash-

generating inventory continues to be valued 'at cost' unless there is a material reduction in the inventory's replacement cost.

24. IPSAS 21 (Impairment of Non-Cash-Generating Assets): This focuses on property, plant and equipment and requires the measurement of the present value of the asset's remaining service potential using a number of approaches in order to determine 'value in use'. Thus, as long as the property, plant and equipment continues to provide services as expected, there is no need to consider impairment and therefore no need to write down the asset to their recoverable amount, as there would be under IFRS.

(b) **Measurement rules for donated items**

25. Not-for-profit organizations often receive donations in the ordinary course of their business. These could be in the form of food, medicine, equipment or property, etc. Under IFRS if an item is received for nothing, the item must be valued at cost which in these cases is zero. By contrast IPSAS requires that donated assets be recognized at their fair value. IPSAS 12 (Inventories), IPSAS 16 (Investment Property) and IPSAS 17 (Property, Plant and Equipment) require that the inventories, investment properties and property, plant and equipment be valued at their fair value. Fair value is the amount for which the inventory or asset could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.

(c) **Measurement and recognition rules for non-exchange revenue**

26. For-profit organizations receive their revenue in exchange for providing goods or services; that is they receive a revenue stream in exchange for the sale of goods or services. However, many not-for-profit organizations receive revenue in non-exchange transactions. Revenue from non-exchange transactions is not earned in the normal commercial sense. It is provided in the expectation that it will be used to benefit others, and the donor receives no commercial exchange of goods or services.

27. IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) deals with government grants for which an entity receives income without providing any goods or services. The income is recognized over the period in which the entity recognizes expenses for the related costs for which the grant is intended to cover. It is recognized only when there is reasonable assurance that the entity will comply with any conditions attached to the grant (such as the requirement to operate in certain regions or sectors) and that the grant will be received. A grant receivable as compensation for costs already incurred or for immediate financial support, with no further related costs, should be recognized as income for the period in which it is receivable.

28. IPSAS 23 (Revenues from Non-Exchange Transactions) deals with accounting for a wide range of non-exchange revenues, such as the receipt of taxes by governments and the receipt of gifts and donations, including goods in-kind by organizations. IPSAS 23 requires donated assets to be measured at fair value. The standard does not assume that there is an earning process that can be applied to recognize non-exchange revenue. Instead IPSAS 23 takes a balance sheet approach to revenue recognition. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. Therefore, all unconditional grants are recognized in full as revenue when they are received. A liability is recognized to the extent that there are conditions that have not yet been complied with, and this liability is transferred to revenue as and when the conditions are met.

(d) **Presentation and disclosure**

29. The last category of accounting differences includes a variety of differences that impact the presentation and disclosure of information rather than recognition and measurement. The differences cover presentation of the statement of movements in equity (IPSAS 1), the definition of extraordinary items (IPSAS 1 and IPSAS 3), the presentation of segmental information (IPSAS

18), disclosure with respect to related parties (IPSAS 20) and the presentation of budget information in financial statements (IPSAS 24).

4.1.3 Conclusion: International Public Sector Accounting Standards versus International Financial Reporting Standards

30. The recommendation is that the Fund should adopt IFRS over IPSAS for the following reasons:

(a) IFRS is the globally accepted standard with the exception of the United States. However the SEC has stated that it is looking to switch to IFRS by 2015. It should be noted that progress has been slow in achieving that goal;

(b) IPSAS standards have been derived from IFRS standards with the result that they are largely the same in a number of important ways. As noted in paragraphs 10 and 17 (b) above, IPSAS 1 to 21 and 25 to 32 are based on IFRS standards. They apply the same definitions and stipulations for recognition, measurement and other requirements as those applied by the IFRS standards on which they are based. Thus there is little additional value in selecting IPSAS over IFRS.

(c) The primary differences in accounting substance relate to the accounting treatment for non-cash-generating assets and the measurement rules for donated assets. Given that the Fund does not have significant assets in either category, there is little reason to follow IPSAS.

(d) There are differences in the accounting treatment for the measurement and recognition rules for non-exchange revenue. For the Fund, non-exchange revenue will primarily comprise donations or grants from either the public or private sector. These can be accounted for under IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance). The accounting treatment for grants received by the Fund would be the same under IPSAS 23 (Revenues from Non-Exchange Transactions (Taxes and Transfers)) as under IAS 20. Thus there is no benefit in following IPSAS over IFRS.

(e) The Fund was established to provide support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change. It operates in developing countries. In these countries, the accounting standard, if one has been adopted, is IFRS. Thus it makes sense to have the same accounting standard as those countries in which the Fund will operate.

(f) A large component of the Fund deals with the Private Sector Facility. IFRS is the accepted standard in the private sector so it makes sense for the Fund to also adopt IFRS.

4.2 International Financial Reporting Standards and US Generally Accepted Accounting Principles

31. In September 2002 the IASB (responsible for IFRS) and the FASB (responsible for US GAAP) agreed that a common set of high quality, global accounting standards was a priority for both Boards. Great strides have been made by the FASB and the IASB to converge the content of IFRS and US GAAP. The goal is that by the time the SEC allows or mandates the use of IFRS for publicly traded companies in the United States, most or all of the key differences will have been resolved.

32. Because of these ongoing convergence projects, the extent of the specific differences between IFRS and US GAAP is shrinking. However, significant differences do still remain. For example:

- Principles versus rules based – at the conceptual level, IFRS is considered more of a "principles-based" accounting standard whereas US GAAP is considered more "rules based." With a principles-based framework there is the potential for different interpretations of similar transactions, which could lead to extensive disclosures in the financial statements. With a rules-based and industry-specific standard there is much less room for interpretation.
- US GAAP revenue recognition guidance is extensive and includes a significant number of standards issued by the FASB, AICPA and the SEC. The guidance tends to be highly detailed and is often industry-specific. IFRS has two primary revenue standards and four revenue-focused interpretations. The broad principles laid out in IFRS are generally applied without further guidance or exceptions for specific industries.
- Statement of Income – Under IFRS, extraordinary items are not segregated in the income statement. With US GAAP, they are shown below the net income.
- Inventory - Under IFRS, the last-in, first-out (LIFO) method for accounting for inventory costs is not allowed. Under US GAAP, either LIFO or first-in, first-out (FIFO) inventory estimates can be used.
- Under IFRS, if inventory is written down, the write down can be reversed in future periods if specific criteria are met. Under US GAAP, once inventory has been written down, any reversal is prohibited.
- IFRS allows the revaluation of assets in certain circumstances.
- IFRS uses a single-step method for impairment write-downs rather than the two-step method used in US GAAP, making write-downs more likely.
- Development costs can be capitalized under IFRS if certain criteria are met, while they are considered as "expenses" under US GAAP.
- IFRS has a different probability threshold and measurement objective for contingencies. Contingencies must be disclosed under US GAAP. Under IFRS, the disclosure of contingent liabilities can be limited if severely prejudicial to an entity's position.
- Acquired intangible assets under US GAAP are recognized at fair value, while under IFRS, they are only recognized if the assets will have a future economic benefit.
- IFRS does not permit curing debt covenant violations after year-end.
- Securitization – US GAAP allows certain securitized assets and liabilities to remain off a corporation's books whereas IFRS requires most securitized assets and liabilities to be placed on the balance sheet.

33. Perhaps the greatest difference between IFRS and US GAAP is that IFRS provides much less overall detail and industry-specific guidance.

4.2.1 Similarities between US Generally Accepted Accounting Principles and International Financial Reporting Standards

34. At a fundamental level there are many similarities between the two standards. The underlying assumptions and principles are similar. These are:

(a) **Accounting entity**: Both assume that the entity is a separate legal entity.

(b) **Going concern**: Both assume that the entity will be in operation indefinitely. The entity will continue to exist in the foreseeable future.

(c) **Monetary unit principle**: Both assume a stable currency is to be the unit of record.

(d) **Time-period principle:** Both imply that the economic activities of the entity can be divided into artificial time periods.

(e) **Historical cost principle:** Both require entities to account for and report based on acquisition costs rather than fair market value for most assets and liabilities. However, there is a trend to use fair values, particularly concerning debts and securities which are now reported at market values.

(f) **Revenue recognition:** Both require that entities may not record revenue until:

(i) It is realized or realizable; and

(ii) It is earned. The flow of cash does not have any bearing on the recognition of revenue. This is the essence of the **accrual** basis of accounting. Conversely, however, losses must be recognized when their occurrence becomes probable, whether or not it has actually occurred.

(g) **Matching principle**: Both require that expenses have to be matched with revenues as long as it is reasonable to do so.

35. In addition, the required documents in an entity's financial statements comprise the balance sheet, income statement, changes in equity statement, cash flow statement and notes to the accounts under both standards.

4.2.2 Conclusion: US Generally Accepted Accounting Principles versus International Financial Reporting Standards

36. The recommendation is that the Fund should adopt IFRS over US GAAP for the following reasons:

(a) The globalization of business and finance has led more than 12,000 companies in more than 113 countries to adopt IFRS. It is becoming increasingly recognized as the global accounting standard;

(b) The SEC has recognized that IFRS is best positioned to serve the role as a set of global standards for the United States market. In addition there is growing acceptance of IFRS as a basis for United States financial reporting. This being the case, there is little reason to select US GAAP, which will eventually converge with IFRS;

(c) The Fund will raise funding through and be engaged in activities in many different countries. It makes sense for it to use the recognized global accounting standard IFRS;

(d) IFRS will also make it easier for the Fund to initiate partnerships, implement cross-border deals and develop cooperation agreements with entities in many different countries.

V. Accounting standards used by other international organizations

(a) Other international organizations that use IFRS include the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), the Global Environment Facility (GEF), the Global Fund to Fight AIDS, Tuberculosis and Malaria, the International Fund for Agriculture and Development (IFAD) and IMF. The World Bank uses US GAAP;

(b) The United Nations system is moving from its own standards to IPSAS; most United Nations agencies are now using IPSAS.

5.1 Generally Accepted Accounting Principles and the Asian Development Bank

37. The Asian Development Bank (ADB) currently uses US GAAP. During 2010–2012 ADB conducted a two-phase preliminary study on IFRS. The first phase focused on gaining an understanding of IFRS and on performing a gap analysis between ADB's current accounting treatment under US GAAP and that under IFRS. The second phase focused on a cost-benefit analysis and updates to the gap analysis conducted in the first phase. The second phase assessed the impact of directly transitioning to IFRS with regard to:

(a) The presentation of financial statements;

(b) Systems and modules; and

(c) Business processes.

38. The assessment concluded that direct adoption of IFRS would have significant resource implications in redesigning the business processes, updating accounting policies and enhancing the systems to support the financial reporting. The study did not identify any major tangible benefits to ADB from adopting IFRS and reaffirmed that continuing to apply US GAAP would allow ADB to continue to produce financial statements that would be accepted by the global capital markets.

39. The assessment recommended to defer the direct adoption of IFRS at this time and to further monitor market developments, whilst noting that: "As a general principle, it would be preferable for ADB – as an international organization – to report under international standards, rather than those of a single jurisdiction".

40. This recommendation was approved by the ADB Audit Committee in 2013.

5.1.1 **Overall conclusion**

41. The overall recommendation is that the Fund should select IFRS as its accounting standard for the reasons as set out in the paper.

Appendix 1

International Public Sector Accounting Standards (IPSAS)	International Accounting Standards/ International Financial Reporting Standards on which the IPSAS are based
IPSAS 1 Presentation of Financial Statements	IAS 1 Presentation of Financial Statements
IPSAS 2 Cash Flow Statements	IAS 7 Statement of Cash Flows
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS 4 Effects of Changes in Foreign Exchange Rates	IAS 21 Effects of Changes in Foreign Exchange Rates
IPSAS 5 Borrowing Costs	IAS 23 Borrowing Costs
IPSAS 6 Consolidated and Separate Financial Statements	IAS 27 Consolidated and Separate Financial Statements
IPSAS 7 Investments in Associates	IAS 28 Investments in Associates and Joint Ventures
IPSAS 8 Interests in Joint Ventures	IAS 31 Interests in Joint Ventures
IPSAS 9 Revenue from Exchange Transactions	IAS 18 Revenue
IPSAS 10 Financial Reporting in Hyperinflationary Economies	IAS 29 Financial Reporting in Hyperinflationary Economies
IPSAS 11 Construction Contracts	IAS 11 Construction Contracts
IPSAS 12 Inventories	IAS 2 Inventories
IPSAS 13 Leases	IAS 17 Leases
IPSAS 14 Events After the Reporting Date	IAS 10 Events After the Reporting Period
IPSAS 15 Financial Instruments: Disclosure and Presentation	Superseded by IPSAS 28 and IPSAS 30
IPSAS 16 Investment Property	IAS 40 Investment Property
IPSAS 17 Property, Plant and Equipment	IAS 16 Property, Plant and Equipment
IPSAS 18 Segment Reporting	IAS 14 Segment Reporting
IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	IAS 37 Provisions, Contingent Liabilities and Contingent Assets
IPSAS 20 Related Party Disclosures	IAS 24 Related Party Disclosures
IPSAS 21 Impairment of Non-Cash-Generating Assets	IAS 36 Impairment of Assets
IPSAS 22 Disclosure of Financial Information about the General Government Sector	N/A
IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)	N/A
IPSAS 24 Presentation of Budget Information in Financial Statements	N/A
IPSAS 25 Employee Benefits	IAS 19 Employee Benefits
IPSAS 26 Impairment of Cash-Generating Assets	IAS 36 Impairment of Assets
IPSAS 27 Agriculture	IAS 41 Agriculture
IPSAS 28 Financial Instruments: Presentation	IAS 32 Financial Instruments: Presentation
IPSAS 29 Financial Instruments: Recognition and Measurement	IAS 39 Financial Instruments: Recognition and Measurement
IPSAS 30 Financial Instruments: Disclosures	IFRS 7 Financial Instruments: Disclosures
IPSAS 31– Intangible Assets	IAS 38 Intangible Assets
IPSAS 32 Service Concessions Arrangements: Grantor	IFRIC 12 Service Concessions Arrangements

Appendix 2

Applicable International Financial Reporting Standards standards where there is no equivalent International Public Sector Accounting Standards
IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 4 Insurance Contracts
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 6 Exploration for and Evaluation of Mineral Resources
IFRS 7 Financial Instruments: Disclosures
IFRS 8 Operating Segments
IAS 12 Income Taxes
IAS 19 Employee Benefits
IAS 26 Accounting and Reporting by Retirement Benefit Plans
IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 33 Earnings per Share
IAS 34 Interim Financial Reporting
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IAS 41 Agriculture

Appendix 3

IFRS Standards

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 3 Consolidated Financial Statements

IAS 4 Depreciation Accounting

IAS 5 Information to Be Disclosed in Financial Statements

IAS 6 Accounting Responses to Changing Prices

IAS 7 Statement of Cash Flows

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 9 Accounting for Research and Development Activities

IAS 10 Events after the Reporting Period

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 13 Presentation of Current Assets and Current Liabilities

IAS 14 Segment Reporting

IAS 15 Information Reflecting the Effects of Changing Prices

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 18 Revenue

IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 22 Business Combinations

IAS 23 Borrowing Costs

IAS 24 Related Party Disclosures

IAS 25 Accounting for Investments

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions

IAS 31 Interests in Joint Ventures

IAS 32 Financial Instruments: Presentation

IAS 33 Earnings Per Share

IAS 34 Interim Financial Reporting

IAS 35 Discontinuing Operations

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement

IAS 40 Investment Property

IAS 41 Agriculture

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IFRS 4 Insurance Contracts

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments

IFRS 9 Financial Instruments

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IFRS 13 Fair Value Measurement

IFRS 14 Regulatory Deferral Accounts

Annex III: Terms of reference of external auditors

I. Introduction

1. These terms of reference are prepared in accordance with decision B.06/03.

II. Scope of services required by the Green Climate Fund

2. The External Auditor shall audit the financial statements (FS) of the Fund in accordance with the International Standards on Auditing (ISAs). The FS include the statement of financial position (including the Fund's assets and liabilities), the statement of activities (including the Fund's income and expenditures), the statement of movements of net assets and the statement of cash flows, together with explanatory notes and schedules supporting the FS. The audit of the statement of financial position includes those funds held in trust by the Fund's Trustee. The Fund's income and expenditures include both the administrative budget as well as all of its programmatic income and expenditures.

3. The ISAs are professional standards for performing an audit of financial information. These standards are issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). The standards are listed in Appendix 1.

4. The External Auditor may make observations with respect to the efficiency of the financial procedures, accounting system, internal financial controls and the general administration and management of the Fund.

5. The Board and/or the Ethics and Audit Committee (EAC) may request the External Auditor to perform certain specific examinations and issue separate reports on the results.

6. The audit reports will be reflected in the Board's annual reports to the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC).

III. Terms of reference of the External Auditor

7. The Fund's External Auditor will be appointed by the Board of the Fund.

8. The External Auditors will report to the Board and the EAC on an annual basis.

9. The External Auditors of the Fund should be an internationally recognized public accounting firm. The following technical criteria should be considered in evaluating the capabilities of the audit firm:

(a) Experience in auditing multilateral funds, international financial institutions, international organizations or other organizations which report in accordance with International Financial Reporting Standards;

(b) Number of partners and professional staff; partner/staff ratio, ability to substitute staff at similar levels of qualifications and experience if necessary;

(c) Firm specialities that may be useful to the Fund (e.g. information technology, enterprise risk management, advice on hedging instruments);

(d) Types of clients/sectors, number of large clients and client spread;

(e) Feedback on performance from other clients.

IV. Evaluation of incumbent external auditors

10. The Board, through the Ethics and Audit Committee, will evaluate the performance of the External Auditors every three years. This evaluation supports the decision to renew the engagement in the years between Board-approved cycles of rotation.

11. In evaluating the performance of External Auditors, the Ethics and Audit Committee will consider:

(a) Communications with the EAC;

(b) Planning and conduct of the assignment;

(c) Scope of the external audit;

(d) Composition and experience of the external audit team;

(e) Maintenance of independence;

(f) Recent or imminent changes to the firm that may have an impact on its relationship with the Fund in the future;

(g) Efficiency and quality of the reports of the External Auditors;

(h) Potential conflicts of interest if the incumbent External Auditors are also the External Auditors of an implementing entity selected by the Fund. The external audit firm must disclose any conflict of interest.

V. Changes to the appointment of external auditors

12. The rules of professional conduct relating to the resignation and removal of External Auditors are designed to protect the interests of the Fund.

13. The Fund's External Auditors may resign with a written notice of resignation. In order to be effective the notice should include a statement of any circumstances connected with the resignation.

14. Within 14 days of receipt of a notice of resignation, the Fund's Secretariat must send a copy of the notice to the Ethics and Audit Committee. The External Auditors may request the Board to permit them to speak at any Board meeting which will consider the FS of the Fund of any given year being audited by the external auditor who resigned.

15. The authority for the removal of External Auditors rests solely with the Board.

16. Should the External Auditor position become vacant before the expiry of the term, the Board will, in consultation with the Ethics and Audit Committee, appoint another External Auditor to fill the vacancy.

17. In selecting an External Auditor, the Fund should conduct a competitive process that is in accordance with a pre-established set of selection criteria.

VI. Rotation of External Auditors

18. The Fund's External Auditors will serve two three-year annual audit assignments. The rotation of auditors means that auditors are engaged to undertake a maximum of six annual financial statement audits, and thereafter another auditor should be appointed through competitive bidding.

VII. Prohibited non-audit services

19. The External Auditor shall not perform the following non-audit services for the Fund:

(a) Bookkeeping;

(b) Financial information system design and implementation;

(c) Internal audit services;

(d) Management functions or human resources-related services;

(e) Legal services and expert services unrelated to the audit;

(f) Any other services the EAC determines not to be permissible.

Appendix 1

International standards on auditing

Respective responsibilities
ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
ISA 210 Agreeing the Terms of Audit Engagements
ISA 220 Quality Control for an Audit of Financial Statements
ISA 230 Audit Documentation
ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements
ISA 260 Communication with Those Charged with Governance
ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Audit planning
ISA 300 Planning an Audit of Financial Statements
ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment
ISA 320 Materiality in planning and performing an audit
ISA 330 The auditor's responses to assessed risks

Internal Control
ISA 402 Audit Considerations Relating to an Entity Using a Service Organization
ISA 450 Evaluation of Misstatements Identified during the Audit

Audit evidence
ISA 500 Audit Evidence
ISA 501 Audit Evidence – Additional Considerations for Specific Items
ISA 505 External Confirmations
ISA 510 Initial Engagements - Opening Balances
ISA 520 Analytical Procedures
ISA 530 Audit Sampling and Other Means of Testing
ISA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
ISA 550 Related Parties
ISA 560 Subsequent Events
ISA 570 Going Concern
ISA 580 Written Representations

Using work of other experts
ISA 600 Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)
ISA 610 Using the Work of Internal Auditors
ISA 620 Using the Work of an Auditor's Expert

Audit conclusions and Audit report
ISA 700 Forming an Opinion and Reporting on Financial Statements
ISA 705 Modifications to the Opinion in the Independent Auditor's Report
ISA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
ISA 710 Comparative Information - Corresponding Figures and Comparative Financial Statements
ISA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

Specialized areas
ISA 800 Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
ISA 805 Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
ISA 810 Engagements to Report on Summary Financial Statements
International Standard on Quality Control (ISQC) 1, Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements