



ADAPTATION FUND

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Adaptation Fund Board
Twenty First Meeting
Bonn, 3-4 July 2013

Agenda item 6

**REPORT OF THE THIRTEENTH MEETING OF
THE ACCREDITATION PANEL**

WORK OF THE PANEL

1. The Accreditation Panel (the Panel) continued its work reviewing both new and existing applications. On May 20-21, 2013 the Panel held its thirteenth meeting at the secretariat's premises in Washington, D.C. The Panel meeting also allowed for an opportunity to hold teleconferences with applicants, to communicate the status of applications, to ask questions, and to provide direct guidance on additional documentation required. The Panel also used the meeting to reflect upon the trends observed in the Accreditation process.

2. The Panel did not receive any new applications for this meeting and continued its review of applications from nine National Implementing Entities (NIEs), four Regional Implementing Entities (RIEs), and two Multilateral Implementing Entities (MIEs) that were previously reviewed but required additional information for the Panel to make its recommendations. At the time of the finalization of the present report, the Panel had concluded the review of the following three applications:

- a) The Sahara and Sahel Observatory
- b) National Implementing Entity NIE028
- c) National Implementing Entity NIE035

3. Twelve applications, seven for potential NIEs, three for potential RIEs and two for potential MIEs, are still under review by the Panel as per the list below. For the purposes of confidentiality, only the assigned code is used to report on the status of each Implementing Entity's application.

- 1) National Implementing Entity NIE034
- 2) National Implementing Entity NIE038
- 3) National Implementing Entity NIE039
- 4) National Implementing Entity NIE042
- 5) National Implementing Entity NIE043
- 6) National Implementing Entity NIE044
- 7) National Implementing Entity NIE046
- 8) Regional Implementing Entity RIE002
- 9) Regional Implementing Entity RIE006
- 10) Regional Implementing Entity RIE007
- 11) Multilateral Implementing Entity MIE011
- 12) Multilateral Implementing Entity MIE014

Completed cases

The Sahara and Sahel Observatory (OSS)

4. OSS is an intergovernmental regional organization established twenty years ago and over the last eight years has been based in Tunisia. Its work focuses on the arid, semi-arid and dry sub-humid zones of the Peri-Saharan region. OSS undertakes the mapping of underground aquifers and brings countries together to manage these resources on an environmentally and socially responsible basis.

5. The Panel initially discussed this application at its tenth meeting in June 2012. The Panel considered that the organization showed areas of expertise of interest to adaptation projects. During the tenth meeting a number of issues were raised by the Panel, particularly in relation to the institutional and financial situation of the organization. Over the past year, OSS has developed a number of policies and systems/procedures that addressed the issues the Panel had flagged with the organization. Some proposals were recently approved by OSS's Executive Board and the Panel concluded that OSS is a strong organization and with the approved proposals should be recommended for accreditation.

6. The Panel's report on its conclusions concerning OSS's application for accreditation is contained in Annex I of this document

National Implementing Entity NIE028

7. The application was first discussed in the eighth panel meeting (November 2011). Based on the additional information provided after that meeting the Panel decided in its ninth meeting (February 2012) that while the applicant appeared to have potential to become an accredited NIE, there were issues that needed detailed discussions, and an appropriate way to proceed further would be to undertake a field visit to facilitate conclusion of the review and to address the remaining gaps. The field visit was conducted during the last week of March 2012. The visit also provided an opportunity for an in-depth interaction with the applicant entity where all the identified issues and gaps were discussed.

8. Following these discussions and the output of the field visit, the Panel observed that there were major challenges posed by the relatively short existence of the applicant as a legal entity and by the fact that the development of some key capabilities and the engagement of staff with appropriate qualifications and experience were in the process of implementation. The Panel accordingly agreed that the applicant needed to put in place systems relating to the capabilities where gaps exist and demonstrate effective implementation of these systems.

9. Subsequently, the entity did not take adequate steps to work on the major gap areas identified by the Panel, but has communicated from time to time that the required systems were in place. The Panel on the other hand has reiterated that major gaps still remained and that the entity needed to demonstrate adequate and effective steps to meet the requirements of the fiduciary standards.

10. At the twelfth panel meeting, the Panel held a teleconference with the applicant after which the entity agreed to send additional information. The applicant uploaded the additional information through the workflow on 19 March 2013. The Panel reviewed the additional documentation and the application was again discussed during the Panel's thirteenth meeting. New information was also provided in June 2013. Based on an analysis of the additional information provided by the applicant, major gaps continue to exist in several of the areas of the fiduciary standards. While currently the applicant is undertaking some capacity building initiatives in collaboration with a number of development agencies, the actual outcome of these will only be known once the programmes have been fully implemented. Actions have been proposed in some of the

missing areas, but for others there is still no tangible action plan or timelines for completion.

11. Given the current status the applicant entity would still need a long time to complete all the actions required to put in place adequate systems and demonstrate effective implementation of the systems to meet the requirements of the fiduciary standards. As the application has been under consideration for more than 18 months already and the applicant entity still has major gaps, the Panel deliberated and decided that it is not in a position to recommend accreditation of the applicant. Annex II provides a summary report and analysis of the Panel's conclusions.

National Implementing Entity NIE035

12. The accreditation application with supporting documentation was received by the secretariat at the end of 2011 in paper format and first discussed at the eighth Panel meeting in November 2011. The documents were digitalized and a request for additional information relating to ten key areas of gaps in relation to the fiduciary standards was issued in February 2012.

13. As background information, it is noted that a previous application for accreditation from the same entity was received in June 2010 on which the Panel concluded that it was not in a position to recommend accreditation. The Panel had informed the Board of the conclusion in March 2011. The review of the first application had included a field visit to the applicant. The Panel decided to consider the application received at the end of 2011 as a new application and assigned a different Panel member to take the lead in the review. The information of the previous application was referred to whenever that provided additional information or explanations to Panel requests for explanations or where additional information remained outstanding from the first application were carried forward.

14. Over the last year some gaps, have been addressed but even for those areas further demonstration would be needed to demonstrate the necessary capacities to meet the requirements of the fiduciary standards. An audit committee had been established and an internal audit cell created, resulting in the approval of an audit plan for 2013. Gaps in project execution raised in project audit reports had not been resolved and there had been no new external audits of projects nor of the applicant since 2008. A policy of zero tolerance against fraud and corruption had been adopted and placed on the website but it remains weak and the existence of a complaint mechanism has not been demonstrated.

15. The applicant has not demonstrated its capability with respect to a number of the requirements of the Fund's fiduciary standards. Sufficient information to resolve most of the issues raised by the Panel have not been provided and it is unlikely that these issues will be resolved. The Panel concluded that it was not in a position to recommend NIE035 for accreditation (Annex III provides a summary report and analysis of the Panel's conclusions NIE035).

Other Cases Under Review

National Implementing Entity NIE034

16. The application was received in time for the ninth meeting of the Panel (February 2012). The analysis of the application revealed several gaps, some of which were critical, in the applicant entity's capabilities in terms of the fiduciary standards.

17. The Panel followed up with the applicant in order to clarify the outstanding issues and reconsidered the application at its tenth and eleventh meetings. On the basis of the information contained in the application and the additional information provided by the applicant, the Panel agreed to seek further clarification with the applicant on certain critical areas of the fiduciary standards.

18. The applicant submitted additional information on 25 January 2013 which was analyzed and discussed at the twelfth panel meeting. Based on the discussions in the meeting, the Panel concluded that major gaps in the applicant's capabilities may still exist despite several actions undertaken by the entity. The Panel held a teleconference with the applicant on 27 March 2013 to communicate the gaps and ensure the applicant understood the requirements. The entity submitted clarifying information based on the conversation. The Panel agreed to continue its consideration of the application and revisit it at its thirteenth meeting.

19. At the thirteenth meeting, the Panel discussed the additional information and concluded that some critical gaps still remained. It also decided to keep the application open until the next meeting and to review the progress the entity makes with respect to these gaps. In the interim it will communicate in detail the gaps that may still exist to the applicant.

National Implementing Entity NIE038

20. The application was received by the secretariat on 25 July 2012 and an updated version with additional information was received on 19 September 2012 and forwarded to the Panel for consideration at its eleventh meeting.

21. The Panel considered this application and agreed that several gaps needed to be addressed and raised a number of questions to be clarified by the applicant. The Panel took note of the fact that the applicant had received a US\$ 300,000 grant for capacity building to increase its capacity to manage climate financing and that these improvement actions are ongoing.

22. The applicant has provided additional information, much of it relating to the efforts of capacity building but these are ongoing activities that may take one or more years to demonstrate in terms of whether the applicant can handle these effectively. The underlying hurdle is that the applicant only has experience to do routine small projects that would be very different from those it would need to implement for the Adaptation Fund. In addition, most of the documents are not in English. The Panel has requested translations and is following-up with the applicant in order to clarify the outstanding issues.

23. The applicant has requested additional time to respond to the outstanding issues and the Panel agreed to hold the application and discuss it again at its fourteenth meeting.

National Implementing Entity NIE039

24. The application was received by the secretariat on 27 April 2012. After the completeness and consistency checks during the screening, the application was forwarded on 2 May 2012 for the Panel's consideration at its tenth meeting. The Panel discussed the application and raised a number of questions to be clarified by the applicant.

25. During the course of the assessment the Accreditation Panel had several rounds of interaction, including telephonic discussions, with the applicant. In August, 2012 the applicant also submitted an action plan with timelines for developing capabilities in areas where substantial gaps existed vis-à-vis the fiduciary standards.

26. The Panel agreed to hold the application and will discuss it again at the fourteenth meeting.

National Implementing Entity NIE042

27. The application was received by the secretariat on 23 July 2012 and was forwarded on 18 August 2012 for the Panel's consideration at its eleventh meeting.

28. The Panel discussed the application and considered the possibility of a field visit as the most effective way to follow up on this application. The field visit conducted during the last week of November 2012 enabled the Panel to understand the full range of project management systems and controls first hand without the time consuming and costly translations that it would otherwise have involved.

29. The outcome of the field visit was analyzed and discussed in the twelfth panel meeting. The Panel requested the entity to take appropriate actions to fill the gaps related to the lack of an internal audit function and an audit committee. At the thirteenth meeting, the Panel held a teleconference with the applicant and the applicant explained their proposed way forward on the remaining issues. Once these actions are in place, the Panel will be able to make a final decision.

National Implementing Entity NIE043

30. The application was received by the secretariat on 2 October 2012 through the Accreditation Workflow. After screening the application for consistency and completeness, the secretariat requested the applicant to complete the supporting documentation missing from the application.

31. The Panel deliberated on the merits of this application and, at the twelfth Panel meeting, discussed a number of fiduciary issues that required additional clarification. A request for further information was sent to the applicant on 26 February 2013. In response to the Panel's follow up on the initial information request, the applicant uploaded four documents to the Workflow on 25th April 2013. To date, the applicant's response has been insufficient to fulfill the Panel's request for information.

32. The Panel agreed to (i) send another reminder inviting the applicant to fully address the Panel's request in advance of the next Panel meeting, and (ii) if received on time, to re-assess the applicant's response at its fourteenth Panel meeting, scheduled for September 2013.

National Implementing Entity NIE044

33. The applicant submitted its application on 25 January 2013. Most of the supporting documentation was not provided in English. However, so as not to delay the application, the secretariat forwarded the application to the expert members for review.

34. The Panel provided the applicant entity with a list of selected supporting documents that needed translation. This was aimed at reducing the workload and cost of translation of all documents provided by the applicant.

35. At the thirteenth meeting, the Panel briefly discussed the application and agreed to communicate the additional information needed and the need for further clarification on several issues. The Panel agreed to continue to communicate with the entity and discuss the application again at the Panel's fourteenth meeting.

National Implementing Entity NIE046

36. The application submitted on 31 December 2013 was forwarded to the expert members on 10 January 2013. The application contained a large amount of supporting documentation that the Panel reviewed and analyzed for the twelfth panel meeting.

37. Several gaps were identified and a list of additional questions relating mainly to the organization's track record in project appraisal, monitoring and evaluation was sent by the Panel. The applicant uploaded the additional information requested to the Workflow on 17 June, 2013. The information is being analyzed and the application will be discussed at the Panel's fourteenth meeting.

Regional Implementing Entity RIE002

38. The application was received by the secretariat in April 2011. The Panel identified several gaps in the capability of the organization and after the eleventh panel meeting requested the entity to develop a work plan to address these gaps.

39. The applicant submitted an action plan for strengthening the areas where gaps exists. The applicant has undertaken several of the planned actions and provided regular updates to the panel. The last update was received in May 2013. The actions taken have helped to bridge many of the gaps which existed. It is expected that the entity will be able to close the remaining gaps in the coming months. Based on the response from the applicant entity the Panel may be in a position to complete its assessment and put up its recommendation to the Board for an inter-sessional decision.

Regional Implementing Entity RIE006

40. The application was received by the secretariat on 21 July 2012 and was forwarded to the Panel on 06 August 2012.

41. The Panel considered the application at its eleventh meeting. The Panel agreed that the applicant had several strong points however a number of gaps needed to be resolved. Since the eleventh meeting, the secretariat and the Panel have been corresponding with the entity which had concerns about accessibility to several documents it considered confidential but which were needed to prove that the applicant met the fiduciary standards. These concerns were resolved in May 2013 when a field visit at the entity's expense, where a Panel's expert member together with a member of the secretariat visited the entity's office to review the confidential documentation on-site and follow up on open items.

42. One remaining critical gap remains and relates to the competence to deal with financial mismanagement and other forms of malpractice. The applicant has indicated that appropriate policies and practices will be put in place over the coming months and it is therefore likely that the Panel can recommend an accreditation inter-sessional.

Regional Implementing Entity RIE007

43. The applicant submitted its application on 23 January 2013 and it was forwarded to the Panel on 10 February 2013.

44. The application was discussed at the twelfth panel meeting. Several gaps were identified and a list of additional questions requesting clarification on a number of issues was sent to the applicant. Additional information and documents in response to the questions raised by the panel in the initial review have been submitted by the applicant on 18 June 2013. The Panel members will be analyzing the information and discussing it during the next Panel meeting.

Multilateral Implementing Entity MIE011

45. The applicant responded to the invitation by the Board to potential MIEs by submitting its application in September 2011. The secretariat forwarded the application to the Panel for consideration at its eighth meeting.

46. At its eighth meeting, the Panel held a conference call with the applicant and discussed various aspects of the application. Subsequently, the Panel compiled a list of questions to the applicant. Responses to the questions were received by the Panel; however, a significant number of documents were considered confidential and therefore not provided and prevented the Panel from concluding its consideration of the application.

47. Following on previous interaction with the applicant as reported by the Panel to the seventeenth meeting of the Board, the applicant informed the Panel that some consultations needed to take place internally in order to provide the crucial information as evidence against key fiduciary criteria. The Panel held an additional conference call at its eleventh meeting and the entity agreed to consult legal staff about the potential to having expert members visit (at the expense of the entity) to examine the confidential information in person.

48. The Panel communicated again with the applicant prior to the thirteenth Panel meeting and again after the meeting. The applicant provided information on the steps it

is taking to receive approval for having expert Panel members visit to examine the confidential information in person. The Panel agreed to keep the application open pending the outcome of the entity's internal decision-making process which is expected during the summer.

Multilateral Implementing Entity MIE014

49. The applicant responded to the invitation by the Board to potential MIEs by submitting its application which was made available for analysis by the expert members of the Panel on 23rd Jan, 2013.

50. The Panel has since completed its assessment of the application. While the applicant has enormous experience in handling projects and some good systems in place, there are still gaps in the information provided for some of the capabilities of the fiduciary standard for which more information is required. Additionally, there are several observations and recommendations contained in the reports issued by the Board of Auditors (external auditors for the UN and its agencies) and other reviewing authorities for which no responses have been provided or the ones provided are inadequate.

51. The applicant provided some additional information but at the time of the thirteenth meeting had not provided a full response. The applicant entity has been in regular contact with the panel and has also sought some clarifications based on the observations communicated to it by the panel. The Panel will analyse the additional information provided once the response is complete and will discuss at its fourteenth meeting.

Other matters

Fourteenth meeting of the Accreditation Panel

52. The dates for the Panel's next meeting will be 23-24 September 2013. The deadline for submissions of applications for accreditation for consideration at the fourteenth meeting of the Panel is four weeks prior to the scheduled meeting (26 August 2013).

Re-accreditation process

53. The Panel continued to discuss developing a proposal for the Board to consider for a re-accreditation process. The Panel will provide a full proposal to the Board at the Board's twenty-second meeting.

Letter from the World Bank on the standard legal agreement between the Adaptation Fund Board and implementing entities

54. At the twentieth Board meeting, the Board received a letter from the World Bank requesting confirmation that the Bank's auditing procedures were acceptable as an independent audit for the Fund. After reviewing the letter and considering the recommendation from the Ethics and Finance Committee the Board decided that:

- a) *In keeping with previous practice, to confirm that the World Bank's auditing procedures are acceptable as an independent audit; and*

- b) *To request the Accreditation Panel to deliberate on the internal audit procedures to enable the Board to respond to future inquiries along similar lines from other implementing entities.*

(Decision B.20/16)

55. At its thirteenth meeting the Panel discussed the issue and recognized that the request for confirmation from the World Bank and a similar joint request from the World Food Programme (WFP), the United Nations Environment Programme (UNEP), and the United Nations Development Programme (UNDP) in March 2012 reflects the intense debate within the audit community of the United Nations organization and the multilateral banks to have a single approach to the audit of projects. It is not a reflection on the content or the clarity of the Adaptation Fund's Operational Policies and Guidelines. These are correct and clear including any clarifications thereof. In the view of the Panel the Board acted appropriately in its response to the World Bank and would suggest that questions as they relate to the audit of projects can be routinely replied directly by the secretariat.

Providers of capacity building assistance

56. The Panel has become aware that a number of National Implementing Entities are receiving technical assistance from various sources including multilateral and non-governmental organizations to build the necessary capacity required by the fiduciary standards set by the Adaptation Fund. The capacity building efforts range from assistance which would include but may not be limited to, the preparation and completion of the application for accreditation, and providing technical assistance on governance and project management matters including the development of policies and procedures. The Panel welcomes and encourages this development but observed that a number of these activities do not achieve the intended outcome. The lack of consultation with the secretariat and the Accreditation Panel contribute to disappointment on the part of the providers of the technical assistance as well as applicants when these efforts do not result in an eventual recommendation for accreditation from the Panel.

57. In the view of the Panel, it would be necessary to reach out to those organizations and individuals that provide this type of capacity building support and establish networking linkages. One way to achieve that would be to hold a workshop where the Panel members and participants can share experiences and know-how. Such a workshop would cover aspect such as: (i) assessing an entity's ability to acquire and demonstrate the needed capacities; (ii) what is expected to be demonstrated for each fiduciary capacity; (iii) how to demonstrate the capacities that rely on government wide systems; and (iv) how to effectively make use of the Adaptation Fund workflow.

RECOMMENDATIONS

Accreditation of Sahara and Sahel Observatory

58. After considering the conclusions and outcome of the review, the Accreditation Panel decided to recommend the accreditation of the Sahara and Sahel Observatory (OSS) as a Regional Implementing Entity (RIE) of the Adaptation Fund.

(Recommendation AFB/AP.13/1)

Non-Accreditation of National Implementing Entity NIE028

59. The Accreditation Panel has concluded that is not in a position to recommend accreditation of NIE028. The Panel recommends the Board to instruct the secretariat to communicate the Panel's observations as contained in Annex II to the present report to the applicant.

(Recommendation AFB/AP.13/2)

Non-Accreditation of National Implementing Entity NIE035

60. The Accreditation Panel has concluded that is not in a position to recommend accreditation of NIE0035. The Panel recommends the Board to instruct the secretariat to communicate the Panel's observations as contained in Annex III to the present report to the applicant.

(Recommendation AFB/AP.13/3)

Requests from Implementing Entities on audit clarifications

61. The Accreditation Panel has deliberated on the internal audit procedures to enable the Board to respond to future inquires along similar lines from other implementing entities. The Panel recommends the Board to instruct the secretariat to respond directly to routine questions as they relate to the audit of projects.

(Recommendation AFB/AP.13/4)

Workshops for providers of capacity building

62. The Panel recommends that the Board instructs the secretariat to explore possibilities with providers of capacity building to countries or another interested party to organize and fund one or more workshops and authorize the use of Panel Members to be resource persons at such workshops.

(Recommendation AFB/AP.13/5)

Annex I: Sahara and Sahel Observatory (OSS)

Report of the Accreditation Panel on its assessment of the Sahara and Sahel Observatory (OSS)

The organization: OSS is an intergovernmental regional organization established 20 years ago at the initiative of UNESCO and is based since the last eight years in Tunisia. It studies the water situation in and around the Sahara desert particularly in relation to underground water reservoirs. Their goal is better water management by the member countries on a regional basis through inter-country cooperation and agreements. Most of the work is financed by multilaterals such as the Global Environmental Facility (GEF). A typical project last several years and costs several million Euros. OSS has a staff of 20 divided between its secretariat and operations. The secretariat has a budget of EUR 500,000 per annum of which salaries are 60%. Projects are several million euros per year.

Financial integrity: Without giving a legal opinion the documentation provided demonstrates the legal personality and the capacity / authorization and the ability to directly receive funds. There are audited financial statements and an acceptable accounting software. An Audit Committee was established at the annual Board meeting in April 2013. There is a strong "Expenditure Controller" that has access to the Board. There is no regular internal audit although projects representing over 85% of expenditures are extensively audited. The internal control framework is described in the Statutes and the Manual of Procedures. External audits including that of projects demonstrate that projects are operating as described particularly with respect to the procurement function and disbursements. OSS has demonstrated its capacity to do strategic planning and budgeting. OSS experienced a financial crisis in 2009-10 when it overspent its budget and its financial solvency was not guaranteed. The Board took decisive action that resulted in re-establishing the solvency of the organization.

Project management: The projects managed by OSS are similar. They involve working with the member countries of the region to map the underground water resources and evaluating how these will evolve in the future given current and expected extraction rates of the water for human consumption, irrigation, etc. Water and land management issues and human activities above ground are addressed. To do these studies requires drilling of thousands of boreholes and putting this information into a database. Detailed reports are written, seminars are given and governments are brought together to address the problems identified. A typical project ranges between one to three million Euros and is done over a period of three to five years. In general the actual projects take a few years longer than the proposed plan but remain within budget and achieve the intended results. The application gives adequate examples of the various project documents. From the documentation submitted it is clear that OSS is strong on the project management cycle including the budgeting and financial aspects. Independent audits and evaluations confirm this.

Anti-Fraud: As part of the accreditation process OSS has put in place an adequate anti-fraud system based on that of the African Development Bank that meets the Fiduciary Standards.

Recommendation: OSS has demonstrated that it meets the Fiduciary Standards of the Adaptation Fund. *Accreditation is recommended*

Annex II: National Implementing Entity NIE028

Note on non-accreditation of NIE028

The application from NIE028 was received in October 2011 and first discussed in the ninth Accreditation Panel meeting held in November, 2011 in Washington DC.

During the course of the assessment the Accreditation Panel had several rounds of interaction with the applicant entity. A field visit was also undertaken to the applicant entity in March, 2012. Based on all the information and documents provided by the applicant entity to date, the following are the Accreditation Panel's conclusions regarding the application of NIE028:

1. Based on the field visit amongst the observations communicated to the applicant entity was the inadequate organisation structure and competencies for it to carry out all the tasks of an Implementing Entity. While the applicant has now accepted the need for adding new people with the appropriate qualifications and experience, the actual recruitments have not yet taken place.
2. A multilateral agency which provides various services, including that of a trustee is to be replaced at the end of 2013 by a state-owned commercial bank. This is a major change in the functioning of NIE028 as several services were being provided by the multilateral agency. While a transition plan has been prepared and is currently under implementation it is difficult at this stage, before the transition is completed, to assess the functioning of the new trustee and its impact on NIE028.
3. One of the Panel's observations/recommendations was the need to establish/undertake regular internal audits. One of the subsequent actions undertaken by NIE028 included conduct of internal audits in July 2012, Sep-Oct 2012 and March 2013, by an external auditing agency. These audits have highlighted several deficiencies in the areas of Financial Accounting, Internal Control including Payment and Disbursement, Budgetary Control and Procurement. The audit findings have further reinforced the Panel's observations in several areas. These deficiencies and the associated recommendations also need to be satisfactorily addressed by NIE028. The status of management response and actions to the recommendations is very inadequate. For several of the audit recommendations/ observations the management response is that it will be done later after the establishment of the Trust Board.
4. The systems relating to Internal Control continue to be inadequate. While the applicant has reported that it has now included responsibilities relating to Internal Control in the role of the National Project Director, no policies and procedures for Internal Control have been put in place as yet.
5. With respect to Payments and Disbursements, NIE028 does not have any policy for authorization limits for expenditures. Most payments are made in cash instead of cheques or bank transfers which exposes the organization to risks relating to fictitious or inappropriate payments. Management has accepted the

observation and some actions have been undertaken in this respect. However, still more needs to be done.

6. The entity needs to develop a more effective budgetary control system as currently non-budgeted expenditures are incurred without appropriate level authorizations and no explanations are provided for expenditures substantially exceeding budgeted amounts.
7. While the applicant entity has now prepared some procedures for procurement, these are still at the draft stage. The procedures still need to be approved and implemented and thereafter NIE028 would need to demonstrate the effective implementation of the same. There are also several deficiencies in procurement operations.
8. In 2012, NIE028 developed an M&E framework. However, its implementation at the ground level and its effectiveness still needs to be demonstrated, despite several requests to provide evidence thereof.
9. As regards the area of Transparency and Handling Financial Management, the NIE028 application largely referred to the multilateral agencies and government systems. The applicant was asked to provide some details of how it links into government systems and develop some additional policies and procedures. No update has been provided for the actions taken in this respect by the applicant. The report on the internal audit conducted in July 2012 notes that the NIE028 code of conduct could not be implemented easily since there are no policies of code of conduct at operational level to interpret the Code of Conduct that can be understood and implemented by all staff, including staff at operational level. It further recommends that NIE028 should develop a detailed operational level Code of Conduct that could be used as the basis for operational performance. The NIE028 response to the recommendation has been that this would be done at a later stage.

Based on the information provided by NIE028, major gaps exist in several of the areas of the Fiduciary Standards. While currently NIE028 is also undertaking some capacity building initiatives in collaboration with some development agencies, the actual outcome of these will only be known much later. Further, while action is proposed in some of the areas, for some others there is still no tangible action plan or timelines for completion. In fact for several of the actions required the applicant has simply stated that this would be done at a later stage. The applicant is also undergoing major structural changes with the multilateral entity handing over its functions, including that as a trustee, to one of the banks by the end of 2013. Hence given the current status the applicant entity would still need a very long time to complete all the actions required to put in place adequate systems and demonstrate effective implementation of the systems to meet the requirements of the Fiduciary Standards. Accordingly, the Panel is not in a position to recommend that NIE028 be accredited as an Implementing Entity of the Adaptation Fund.

Annex III: National Implementing Entity NIE035

Note on non-accreditation of NIE035

The accreditation application with supporting documentation was received by the secretariat at the end of 2011 in paper format and first discussed at the eighth Panel meeting in November 2011. Additional information relating to ten key areas where there were gaps in relation to the Fiduciary Standards was issued in February 2012.

As background information, an application from the same entity was received in June 2010 on which the Panel concluded that it was not in a position to recommend accreditation. The Panel informed the Board of the conclusion in March 2011. The review of the first application had included a field visit to the applicant. The Panel decided to consider the application received at the end of 2011 as a new application and assigned a different Panel member to take the lead on the review. The information of the previous application was referred to whenever that provided additional information or explanations and also in areas where panel requests for explanations or additional information remained outstanding.

Two Panel Members met representatives of the applicant during one of the Accreditation Workshops and held two sessions to explain the additional information requested. It was agreed that the applicant would continue to work on improvements to meet the Fiduciary standards and that it would come back to the Panel with additional demonstration of how it would meet the Fiduciary Standards. Over the last year some gaps have been addressed but even for those areas further demonstration of effectiveness is needed. An audit committee was established but there is not yet any evidence that it has met; an internal audit cell has been created and an audit plan for 2013 has been approved and the first project audit reports may soon be issued.

The applicant is part of and located within one of the ministries of the national government and would therefore have the legal status to contract with the Adaptation Fund. There is financial and budget data for the entity that is consolidated into the government accounts. There has not been an audit of the entity itself, including its projects since 2008. A project audit report in 2008 and some before raised significant issues. The applicant indicates that significant improvements have been made since then but these have not been demonstrated. These related to financial aspects, project procurement and the execution of projects. The entity relies on government-wide systems for a significant part of the project cycle management and the effectiveness of these systems have not been demonstrated. This includes such areas as external audit, procurement, project monitoring and investigation.

A policy of zero tolerance against fraud and corruption was developed during the accreditation process but it remains weak and the complaint mechanism relies on that for the government as a whole. The effectiveness of the process has not been demonstrated in the information provided. Neither did the Panel receive information how irregular transactions noted in 2008 had been resolved.

The Panel has provided the applicant with a matrix showing the various gaps, including:

- The last external audit or project audit that the applicant has been subject to date back to 2007-2008 and hence there is no demonstration of regular external or project audits.

- The information provided does not demonstrate that the past audit observations have been addressed and resolved through corrective measures.
- There is no evidence from an independent review or otherwise to demonstrate the internal control framework relating to payments and disbursements or to purchasing that is in place is actually operating effectively. Key activities rely on the full government system of which the entity is a small part but the effectiveness thereof has not been demonstrated.
- Project monitoring is done by a central government entity but details are lacking of those activities which means the effectiveness thereof has not been demonstrated.

In summary the applicant has not demonstrated its capability with respect to a number of the requirements of the Fiduciary Standards of the Adaptation Fund. Sufficient information to resolve most of the issues raised by the Panel has not been provided and it is unlikely that these issues will be resolved. The Panel concluded that it was not in a position to recommend RIE023 for accreditation.