



ADAPTATION FUND

Guidance on Accreditation Standards

(Approved by the AFB in 2016)



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These schedules cover areas of the accreditation application where applicants may be uncertain of the expectations of the Accreditation Panel when reviewing an application.

Requirements for Legal Personality

This checklist **explains** what the Accreditation Panel **expects to see** when it reviews the Legal Status of an organization that applies for accreditation as an Implementing Entity (IE).

The applicant will provide supporting documents to demonstrate their legal personality, capacity, and authority, as well as the ability to directly receive funding.

- 1. Questions that will help to determine the extent of the applicant's legal personality status**
 - a. Can the applicant enter into contracts with international agencies, directly accept gifts, funds, and legacies (among others)?
 - b. Can the applicant directly receive, administer, and disburse funds, grants or endowment?
 - c. Can the applicant take actions and defend itself in a Court of law?

- 2. Demonstration of legal personality**
 - a. A copy of constitution or articles of incorporation document, by-laws and other relevant documents that demonstrate the applicant's lawful incorporation and legal personality.
 - b. Applicable legal authority which may affect the Entity (i.e. Laws, Decrees, Act or Regulation).
 - c. A description of structure if applicant is a unit, a division or department within the Government.

- 3. Demonstration of legal capacity/authority**
 - a. Evidence to enter into contracts with international organizations (i.e. previous agreement or contracts with international organizations)
 - b. Evidence to take action and defend itself in a Court of law.
 - c. Evidence to enforce obligations by contracting parties.

- 4. Demonstration of ability to directly receive funds**
 - a. Evidence of authority to directly receive, administer, disburse funds, grants, donations, gifts or endowments.
 - b. Evidence of authority to open and maintain bank accounts including who authorizes that.
 - c. List or web site reference of significant foreign loans or donor funds handled over the last 3 years to execute projects.

Guidance on the Typical Functions of an Audit Committee

This **checklist** describes the typical functions of an audit committee for organizations that implement or execute projects financed by donors and multilateral banks. Organizations that apply for accreditation as an IE and do not have an audit committee can use this checklist to establish one and define its terms of reference. The Accreditation Panel would accept a similar oversight committee based on industry or government practices in which an applicant operates. The suggested scope in this guide is fairly wide and includes tasks related to projects. An applicant may have a number of the tasks, such as those related to projects, covered by other oversight bodies.

The function of an Audit Committee is to advise the Chief Executive Officer and the Board of Directors by answering the following questions:

1. The annual financial statements and the external audit thereof:

- a. Is there a well-established process in place to produce annual financial statements?
- b. Are the financial statements in accordance with internationally recognized accounting standards?
- c. Is the external audit adequate, efficient and effective, and is it in accordance with internationally recognized auditing standards?
- d. Have the observations from the external auditor been adequately addressed?
- e. Are the financial statements accurate and submitted in a timely manner?

2. The Internal control framework, including internal audit and risk management:

- a. Are authorities within the organization, including those for contracting and disbursement functions, well understood through implicit or explicit policies, procedures, and practices?
- b. Are there proper procedures and a system of internal controls in place to ensure that assets are safeguarded, and organizational objectives are achieved?
- c. Do the organization's policies, procedures, and practices comply with applicable legal and regulatory provisions?
- d. Is there an adequate independent internal audit function?
- e. Is there a periodic, independent review of the organization and its operations through the internal audit function or through an outside expert?
- f. Are the recommendations of such reviews and of internal audit adequately addressed?
- g. Is the organization aware of risks, including those related to projects, and does it take adequate actions to mitigate and monitor such risks?
- h. Does the organization have a code of conduct and an anti-fraud policy that enforce zero tolerance for fraud as well as an effective mechanism to receive complaints, conduct investigations and follow-up on them regardless of whether the allegations relate to internal staffs or outsiders who directly or indirectly affect its operation or projects?
- i. Does the internal control framework provide oversight of the ethics and investigative functions?

3. The project activities:

- a. Is there an adequate project management system in place, including financial and other reporting; projects at risk are identified; and corrective action is taken when needed?
- b. Are projects subject to the social and environmental policies of the donors, and is there an effective mechanism in place to deal with related complaints from third parties?

Guidance on an Internal Control Framework

This guidance **explains** what the Accreditation Panel looks for to determine if an organization that applies for accreditation as an IE has an appropriate internal control framework.¹ The annual internal control statement is strongly encouraged, and the system of payments and disbursements including controls of such function needs to be demonstrated.

The fiduciary standards require the “*demonstration of use of an internal control framework that is documented with clearly defined roles for management, internal auditors, the governing body and other personnel.*” As supporting documents, it requires a “*policy or other published document that outlines the entity’s control framework.*” The Accreditation Panel considers that an adequate internal control framework is demonstrated by the submission of a complete accreditation application including the supporting documents that demonstrate that the fiduciary standards (relating to financial management, the project cycle, and the mechanism to fight fraud and corruption) and the environmental and social policy requirements are met. Therefore, no additional documentation is required to demonstrate an adequate internal control framework, but the following elements require elaboration.

1. Accountability:

The Panel strongly encourages the issuance of an annual public statement signed by Chief Executive Officer and the Chief Accountant of the IE, which confirms that the internal control framework is operating satisfactorily.² This representation should be supported by periodic review of the effectiveness of these internal control elements, i.e., internal control reviews carried out by management or by the internal and external auditors. Schedule 4 is a guideline on the possible content of such a statement.

2. Payment and Disbursements:

The application and supporting documents should include a demonstration of the organization’s capability to ensure that all payments and disbursements, with a particular reference to projects, are properly checked and made only for bona-fide/ approved purposes. Required basic documents and information are as follows:

- a. A description of the disbursement system and procedures such as procedures manual that could include flow charts describing the most important steps in processing payments for both projects and other expenditures;
- b. A description of authorized signatories in the payment and disbursement system; and
- c. Evidence of a recent audit, or similar review, related to the disbursements and payments function of projects.

¹ The Accreditation Panel encourages an ICF based on a widely known methodology such as that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

² The annual public statement should not be confused with the ‘annual letter of representation’ which may be requested by the external auditors.

Typical elements of an annual Internal Control Statement

This is a **list** of the elements that could be included in an annual **internal control statement**. It can be used as a **guide** when an applicant designs an annual internal control statement for the first time. There are many variations for such a statement depending on the type and nature of the organization. The Accreditation Panel would accept any format, provided that the Chief Executive explains the major controls and the extent to which they have been effective.

1. Originator and timing :

- a. A typical internal control statement is issued by the Chief Executive Officer and the Chief Accountant – in cases where the Board is closely involved in the operations, the Chairman of the Board may be a signatory; and
- b. It is normally issued together with the financial statements or the annual statement of expenditure if it is a government organization.

In most organizations the audit committee reviews the letter, and the external auditor often expresses an opinion on the internal control statement.

2. Content:

- a. The internal control statement briefly describes the major governance, policies and procedures, control systems, internal and external reporting and other mechanisms in place to give reasonable assurance that the organizational objectives are met through the programmes and projects, and concludes whether:
 - i. The operations are in compliance with statutory, legal, and other requirements;
 - ii. Transactions comply with managerial policies and authority;
 - iii. Assets are protected against material damage or unauthorized acquisition, use, or disposition;
 - iv. All transactions, including payments and disbursements, are properly authorized and recorded;
 - v. Environmental, organizational, accounting, and other risks are systematically and regularly identified;
 - vi. Actions to mitigate risks are identified, and outstanding risks are monitored and reported;
 - vii. Projects are monitored for time limits, budget allocations, results, and project risks, including those of a social and environmental nature; and
 - viii. Corrective measures are taken when projects are experiencing undue risk to realize the objective within the time limits and budget allocations.
- b. The internal control statement may also list the major initiatives planned for the next year to strengthen the governance and internal controls of the organization.

Typical Elements of a Quality-at-Entry Review

This guidance **explains** what the Accreditation Panel evaluates to determine if an organization that applies for accreditation as an IE meets the requirements for a “Quality-at-Entry Review” (QAR).

What is a QAR? A quality-at entry review (QAR) is a managerial review to ensure that planned projects have the required elements, and where these are insufficient, corrective action will be taken. A QAR is defined by an organization and can include such elements as:

- A supervisory review of the project quality during the design, appraisal, and pre-implementation stages with respect to the key areas of the project;
- Identify areas that are missing or need improvement and define the appropriate course and type of corrective action required; and
- Review the corrective actions taken.

Coverage: The review should be documented and cover amongst others the following:

- a. *Strategic relevance* of the project for the IE and donor(s);
- b. Clarity of the project's *objectives* and the likelihood of the project meeting the key objectives;
- c. Adequacy of the project *documents* in line with the IE policies and directives and including the needed elements such as a logframe with timelines and budgets and a risk analysis that can be used for monitoring during execution;
- d. Adequate consideration during the preparation of the project of: *Sustainability* of benefits and outcomes including an assessment of likely *impacts* (environmental, social, economic, technical, legal, etc.); the *technical* feasibility of the proposed approach and methodology including an assessment of alternative methods; and the *economic* analysis of the project;
- e. The completeness of the *monitoring and evaluation* (M&E) plan, including arrangements with clear responsibilities for undertaking monitoring, reporting, and evaluating progress along with responsibilities for taking appropriate action based on the M&E reports;
- f. The M&E plan should include: progress compared to the logframe in terms of budget, timeline, and scope; legal and contractual compliance; the mitigation of risks including social and environmental aspects;
- g. Organizational and financial capability of the *executing entities* have or will be appropriately assessed;
- h. The capability of the IE in terms of the project's *financial management* systems, project staff, *procurement* systems and oversight including audits thereof; and
- i. The clarity of the roles and *responsibilities of the staff* of the executing and implementing entities.

Suggested Matrix: To undertake such a review an entity could use a matrix shown in this table.

Key Areas for Review	Areas which need corrective action	Specific Actions Planned/Approved	Status
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Guidance for Project³ Risk Assessment

This guidance **explains** how the Accreditation Panel determines if an organization that applies for accreditation as an IE adequately manages project and programme risks.

What is risk management as it relates to projects? Risk assessment is a systematic process for identifying, evaluating, and managing potential events that could occur and adversely affect the achievement of an IE's project or objectives or result in unintended or undesirable negative consequences.

Fiduciary requirement: The specific capability required is to demonstrate the capability or access resources to:

- i. Undertake assessment of project/programme risks including: (a) financial, economic, political risks, and (b) environmental and social risks, <https://www.adaptation-fund.org/content/environmental-and-social-policy-approved-november-2013> and http://www.adaptation-fund.org/wp-content/uploads/2015/06/ESP-Guidance-document_0.pdf (all referred to as project risks); and to
- ii. Integrate mitigating strategies and environmental and social risk management plans into the project document.

Approach: The Accreditation Panel accepts any reasonable approach to meeting this fiduciary standard. As a minimum it would expect:

- i. That the IE has reflected on the potential project risks when identifying and designing a project and that these risks including mitigating actions are reflected in the project document;
- ii. That the risks and the effectiveness of the mitigating actions are monitored and reported upon during the project implementation, and included in any project evaluation.

A reflection on project risks could be aided by an IE having a reference checklist of the most common project risks that it encounters in its typical projects. Such a checklist, organized along the major types of risk and covering the Environmental and Social Principles of the Adaptation Fund, should reflect both the probability of a risk occurring and the potential harm it can do. The following table to classify the risks is frequently incorporated into the checklist.

Risk rating matrix			
Impact	LIKELIHOOD		
	Unlikely	Possible	Likely
Significant adverse impacts that are diverse, widespread, and irreversible or may put the success of the project at risk	Risk Level B	Risk Level A	Risk Level A
Significant but less adverse impacts than above due to fewer in number, smaller in scale, less widespread, reversible, or easily mitigated or less risk to the project	Risk Level C	Risk Level B	Risk Level A
Minimal or no adverse impact or risk to the success of the project	Risk Level C	Risk Level C	Risk Level B

Categorization: The projects are classified as Category A, B, and C depending on the significance of the impact and likelihood of occurrence. For Category A and B projects additional care in the form of an environmental or social impact assessment (EIA or SIA) or similar study to address the project risks would be undertaken and form an integral part of the project design and execution. The scope of such assessments shall be commensurate with the scope and severity of the potential risks. Regardless of the Category, all risks shall be adequately identified and assessed by the IE in an open and transparent manner with appropriate consultation.

³ The term project also refers to programs.

Typical elements of an Anti-Fraud Policy and Procedures

The following checklist relating to the anti-fraud policy and procedures **explains** what the Accreditation Panel expects when it reviews an accreditation application.

The applicant will provide supporting documents to demonstrate the following.

The fiduciary standards of the Adaptation Fund relating to the required competency for financial mismanagement requires the following specific capability:

“Evidence/tone/statement from senior management emphasizing a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by implementing staff or from any external sources associated directly or indirectly with the projects” and

“Demonstration of capacity and procedures to deal with financial mismanagement and other forms of malpractice”.

The following would normally be in place to demonstrate the required competency:

- a) A public statement setting the tone from senior management;
- b) A code of conduct and ethics applicable to the staffs of the entity, consultants, and other parties directly or indirectly associated with the projects financed through the applicant entity;
- c) An anti-fraud policy and investigative procedures;
- d) An effective and working anti-fraud policy, process, and procedures that guide the receipt, investigation and disposition of complaints/allegations of wrongdoing including non-compliance, fraud, violation, misconduct and business conduct concerns including how business related to its activities and projects is conducted or instances where there is a non-appropriate conflict of interest. This includes:
 - i. A clear instruction and a confidential avenue, such as through the website, where allegations can be lodged. If this avenue is external to the applicants' organization there should be a clear link on the website and elsewhere to the avenue that handles complaints;
 - ii. Whistle blower policies, procedures and protection for complainants; and
 - iii. Complaints should be receivable from any staff or external person who has a reasonable allegation.

Points a, b, c and d should be on the IE website.

- e) A demonstration of the effectiveness of the structure, process, procedures as well as the technical and resource capacity within the organization to receive, investigate, and deal with the allegations of fraud and mismanagement; and
- f) Periodical transparent oversight reporting of activities related to the effective handling of allegations. The reporting could include data on investigation cases in terms of number of cases, types of allegations and summary of the status and actions taken.

Elements of compliance with the AF Environmental and Social Policy

The following checklist provides an explanation of what the Accreditation Panel requires when it reviews an application to be accredited or maintain accreditation to confirm the IE's commitment and capacity to comply with the Environmental and Social Policy (ESP) approved in November 2013 and updated in March 2016. The Accreditation Panel will review the environmental and social management system (ESMS) of the IE to determine whether it is capable of delivering compliance with the ESP in the implementation of the Fund's projects/programmes.

The elements of an ESMS are: identification of risks through screening and identification of impacts through assessment; formulation and implementation of environmental and social management plans; IE organizational capacity and competence; stakeholder engagement; monitoring and reporting; and a grievance mechanism.

The Accreditation Panel will assess whether the IE has the capacity and commitment to deal with the risks of environmental and social harms caused by projects⁴ and whether a grievance mechanism is available. The applicant will provide (evidence-based) supporting documents for the following:

a) Commitment:

Evidence (on the IE's website) of a public statement that comes from IE's top management emphasizing a policy adhering to Environmental and Social policy (ESP) including having a grievance mechanism.

b) Capacity:

An effective and functional policy, process and procedures (on the IE's website), and the IE's organizational capacity and competence that guide the identification of risks through screening and of impacts through assessment; formulation and implementation of environmental and social management plans; stakeholder engagement and public disclosure; and monitoring and reporting. In particular:

i) Institutional framework for environmental and social management risks identification and management, including appointment of a designated staff member; a written commitment from top management to comply with the ESP;

ii) Ability to undertake or procure and supervise environmental and social impact assessments, or similar methods to assess the potential environmental and social risks of projects;

iii) Ability to identify or procure and supervise services to identify measures to avoid, minimize and/or mitigate adverse environmental and social risks (ability to ensure these are considered/ reflected in project appraisal and completion reports) and set up environmental and social management plan; and/or

iv) Monitoring and evaluation process that reflects its capacity to monitor risks and mitigation/management strategies during project implementation.

c) Complaints handling and oversight reporting:

⁴ The term 'project' also refers to 'programs.'

i. Process:

A demonstration of the effectiveness of the structure, process, procedures as well as the technical and resource capacity to receive, investigate and deal with the complaints related to environmental and social review procedures.

- *If the grievance mechanism resides outside of the IE, then the Accreditation Panel will review the effectiveness of the external mechanism including the applicable arrangements made for the services with the applicant and the applicants monitoring thereof.*
- *If the grievance mechanism is IE project-specific, the Accreditation Panel will review a similar arrangement for a previous or ongoing project to verify the effectiveness of a project-specific mechanism.*

ii. Oversight:

There should be evidence of periodic oversight reporting of activities related to these complaints to the IE's Board of Directors or Governing Body. The reporting should include data on investigation cases in terms of number of cases, types of allegations and summary of the status and actions taken.

Elements of compliance with the AF Gender Policy

The following checklist relating to the Adaptation Fund's Gender Policy and a complaints mechanism provides an explanation of what the Accreditation Panel requires when it reviews an application of an organization that applies to become accredited or maintain accreditation as an Implementing Entity (IE).

The Gender Policy of the Adaptation Fund approved in March 2016 indicates that: *"The Fund and its implementing partners shall strive to uphold women's rights as universal human rights and to attain the goal of gender equality and the equal treatment of women and men, including the equal opportunities for access to Fund resources and services, in all Fund operations through a gender mainstreaming approach"*

"Potential implementing entities (NIEs, RIEs, or MIEs) will submit their application applications to the secretariat together with the required supporting documentation to verify how they meet the fiduciary standards and their commitment and ability to comply with the environmental and social policy and the Gender policy". (Para 36 (b), OPG). The assessment criteria are based on confirming the IE's capacity, commitment and complaint mechanisms (3Cs) to adhere to the AF Gender policy. The applicant will provide supporting documents to demonstrate the following:

Commitment

- i. Evidence (on the IE's website) of a public statement that comes from IE's top management emphasizing gender mainstreaming for all programmes and projects financed by the Entity including a grievance mechanism.

Capacity

IEs shall provide documentary evidence of its institutional capacity to apply the Fund's Gender Policy and ability to implement it. An IE may demonstrate this capacity by providing evidence of its:

- i. Institutional framework for gender mainstreaming, including appointment of a designated expert staff member; a written commitment from top management to gender equality, etc.;
- ii. Relevant policies, strategies or action plans that address gender equality and gender-responsive activities, or track-records that demonstrate effective implementation;
- iii. Ability to undertake socioeconomic and gender assessments, or similar methods to assess the potential roles, benefits, impacts and risk for marginalized groups (women, men and children);
- iv. Ability to identify measures to avoid, minimize and/or mitigate adverse gender mainstreaming impacts (ensure these are considered/ reflected in project appraisal and completion reports); and/or
- v. Monitoring and evaluation process that reflects its gender mainstreaming efforts, including the use of gender-disaggregated indicators, and can provide social and

gender expertise during project implementation. (Gender mainstreaming to be included as a consideration at project appraisal, completion and independent evaluation, and reflected in these reports where necessary).

Complaints handling and oversight reporting:

i. Process:

A demonstration of the effectiveness, fairness, and transparency of the structure, process, procedures as well as the technical and resource capacity to receive, investigate and deal with the complaints related to gender inequality.

- If the grievance mechanism resides outside of the IE, then the Accreditation Panel will review the effectiveness of the external mechanism including the applicable arrangements made for the services with the applicant and the applicants monitoring thereof.
- If the grievance mechanism is IE project-specific, the Accreditation Panel will review a similar arrangement for a previous or ongoing project to verify the effectiveness of a project-specific mechanism.

ii. Oversight:

There should be evidence of periodic oversight reporting of activities related to gender inequality complaints to the IE's Board of Directors or Governing Body. The reporting should include data on investigated cases in terms of number of cases, types of allegations and summary of the status and actions taken.