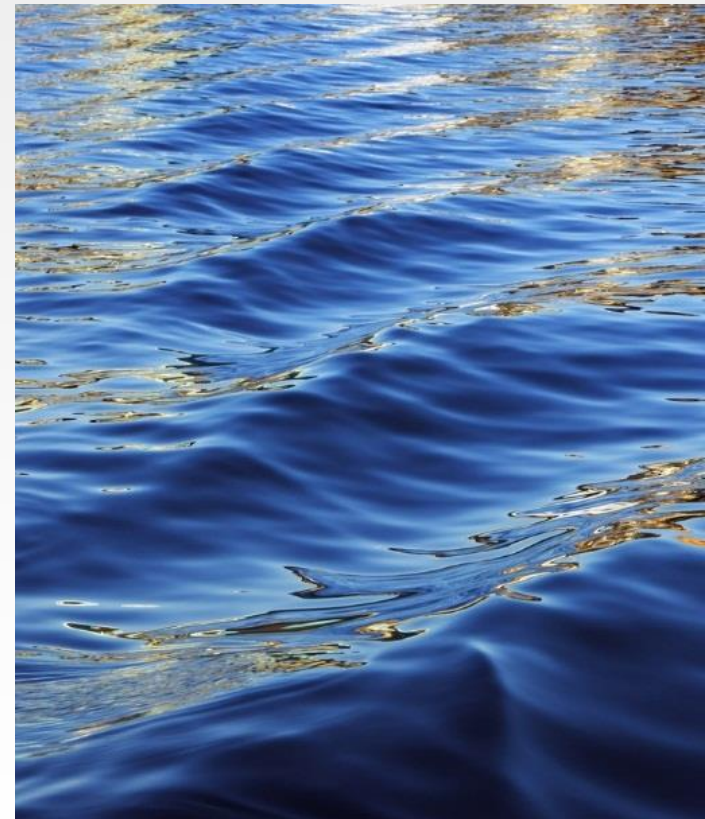




# ADAPTATION FUND

## UNDERSTANDING AF FIDUCIARY STANDARDS: FINANCIAL INTEGRITY AND MANAGEMENT

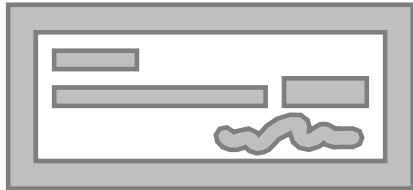
Bangkok, September 2019



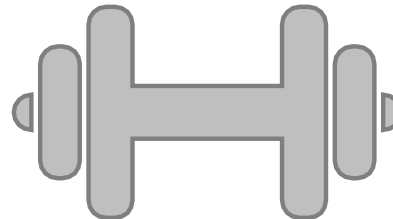
# What is accreditation?

*Official recognition that an entity adheres to fiduciary standards, transparency, environmental and social policy, and gender policy of the Adaptation Fund*

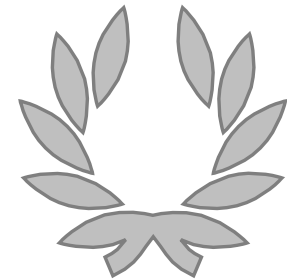
# Why become accredited?



Receive **direct finance transfers** to design, implement, and oversee climate projects



Build internal capacity and codify organizational systems



Garner international recognition

# Financial Management and Integrity

Required  
Competency

Legal Status

Financial Statements  
and Provision for  
Audits

Internal Control  
Framework

Preparation of  
Business Plans  
and Budgets

Specific  
Criteria

Legal Personality,  
Capacity, and Authority

Ability to Directly  
Receive Funds

Audit Committee

# Accreditation Standards

## ➤ Legal status

- Demonstration of legal personality
- Ability to contract with AF and authority to directly receive funds

## ➤ Financial Management and Integrity

- Effective financial management:
  - Use of Internal Control Framework
  - Preparation of business plans and budgets
  - Monitoring financial performance
- Financial accountability:
  - High quality Annual Financial Statements
  - Clean external audit opinion and commentary to management
  - Effective internal audit assurance
- Effective oversight arrangements in place:
  - Formal oversight/audit committee arrangements are in place
  - Proper use of internal and external audit work and assurances – including follow-up
  - Management held to account

# Legal Capacity

Legal Status

Legal Personality,  
Capacity, and Authority  
Ability to Directly  
Receive Funds

Legal Personality,  
Capacity, and Authority

- ✓ Constitution or articles of incorporation
- ✓ Enter into contracts with international organizations
- ✓ Take action and defend itself in a Court of law

Ability to Directly  
Receive Funds

- ✓ Authority to directly receive, administer, or disburse funds
- ✓ Authority to open and maintain bank accounts
- ✓ Foreign loans or donor funds to execute project

# Financial Reporting and Internal Control Framework

Financial Statements and  
Provision for Audits

Audit Committee

Oversee and safeguard:

- ✓ Annual financial statements and external audit thereof
- ✓ Internal control framework
- ✓ Project activities in line with standards

# Financial Statements- Internal/External Audit

Required competency	Specific capability required	Example of supporting documentation to be provided (please highlight the relevant section/s)
Financial statements including Project Accounts statement and the provisions for Internal and External Audits	a) Production of reliable audited financial statements that are prepared in accordance with internationally recognized accounting and auditing standards	i. Recent Audited Annual Financial Statements (AFS) including the external audit opinion thereon; ii. Management Letter by the external auditors on matters of internal control together with response from Management-related to the AFS audits provided in (i) above.
	b) Demonstration of existence of accounting procedures (including the use of accounting packages).	i. Name and brief description of accounting software package used; ii. A description of accounting procedures, if available, to produce the periodic financial statements.
	c) Demonstration of functionally independent internal auditing in accordance with internationally recognized standards	i. Charter/Terms of Reference and other relevant documents that outline the entity's internal auditing function; ii. Internal audit policies and procedures (e.g. audit manual); Copies of audit plans for last 2 years and the current year; iii. List of internal audit reports of last 2 years and sample reports and status of implementation of audit recommendations.
	d) Demonstration of a functioning oversight body (e.g. Audit Committee) that properly oversees the assurance functions of the Entity (i.e. external and internal audit, and internal control)	i. Terms of reference for oversight body (e.g. audit committee); ii. Copies of minutes of recent meetings of the committee.

# Disbursement and Payments

## Payments & Disbursements

Payments and disbursements properly checked and made for approved purposes. Should provide:

- ✓ Disbursement system and procedures
- ✓ Authorized signatories
- ✓ Recent audit or similar review
- ✓ Policies and procedures related to AML/CFT
- ✓ Screening system for money transfers
- ✓ Decision-making process when risks identified

Internal Control  
Framework

System of Payments  
and Disbursements  
Public Statement



# Financial Reporting and Internal Control Framework

Required Competency	Specific Capability Required	Example of Supporting Documentation
Internal Control Framework with particular reference to control over disbursements and payments	a) Demonstration of use of a control framework that is documented with clearly defined roles for management, internal auditors, and the governing body	I. Policy or other published document that outlines the entity's control framework.
	b) Demonstration of proven payment/disbursement systems	I. Procedures describing the payment/disbursement system with particular reference to project payments/ disbursements; II. Policies and procedures related to AML/CFT; III. Screening system which documents all individuals and/or entities before the agency transfers money to them; IV. Decision-making process that the agency follows when it identifies risks related to any individuals and/or entities; and V. Recent audits or independent assessments done by either Internal Audit or the External Audit on this topic.

# Public Statement

## Public Statement

Issued by Chief Executive and Chief Account. Should describe following mechanisms:

- ✓ Governance
- ✓ Policies and procedures
- ✓ Control Systems
- ✓ Internal and external reporting

Internal Control Framework

System of Payments and Disbursements  
Public Statement

# Common Capacity-building gaps and AF examples of mitigating factors

## ➤ Legal

- **Gap:** Difficulties on identifying the responsible Entity (Ability to contract with AF and authority to directly receive funds) within the Ministry;
- **Mitigating factor:**
  - *AF allows Ministry to be the Designated Implementing Entity and to identify an Executive Entity that reports to the Ministry.*
  - *Review of the legal capacity of the applicant at screening stage*

## ➤ Financial Management and Integrity

- **Gap:** Difficulties on identifying appropriate internal control framework.
- **Mitigating factor:** *In addition to referring to the COSO framework, 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. This representation should be supported by periodic review of the effectiveness of these internal control elements, i.e., internal control reviews satisfactorily carried out by management or by the internal and external auditors*

# Business Plans and Budgets

Required competency	Specific capability required	Example of supporting documentation to be provided (please highlight the relevant section/s)
Preparation of Business Plans and Budgets and ability to monitor expenditure in line with budgets	a) Production of long term business plans/ financial projections demonstrating financial solvency	Long Term Business plans or Financial Projections for the next 3 to 5 years.
	b) Evidence of preparation of corporate, departmental/ ministry budgets and demonstration of ability to spend against budgets	<ul style="list-style-type: none"> <li>i. Annual budgets for the organization and entities within it;</li> <li>ii. Reports that indicate budget versus expenditure is being monitored.</li> </ul>



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