



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Adequacy of arrangements for the Implementation of Clean Development Mechanism by UNFCCC

**Governance measures were not adequate to
mitigate reputational and other risks**

3 December 2008

Assignment No. AA2008/241/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. Yvo de Boer, Executive Secretary
A: United Nations Framework Convention on Climate Change

DATE 3 December 2008

REFERENCE IAD: 08- 02024

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AA2008/241/01 – Audit of adequacy of arrangements for the implementation of Clean Development Mechanism by UNFCCC**
OBJET: **Clean Development Mechanism by UNFCCC**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 8, 10, 14, 16, and 19 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 - 7, 12, 13, and 18) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. John Kilani, Director, SDM Programme, UNFCCC
Mr. Richard Kinley, Deputy Executive Secretary, UNFCCC
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Ms. Christina Post, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Normand Ouellet, Chief, Nairobi Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of adequacy of arrangements for the implementation of Clean Development Mechanism by UNFCCC

OIOS conducted an audit of the adequacy of arrangements for the implementation of the Clean Development Mechanism (CDM) by the United Nations Framework Convention on Climate Change (UNFCCC). The overall objective of the audit was to assess the adequacy of UNFCCC secretariat arrangements for CDM implementation. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The overall conclusion was that the UNFCCC secretariat needs to further strengthen existing arrangements for the implementation of CDM in the areas discussed below. In all these areas UNFCCC secretariat has initiated action.

- Effective tools to mitigate the reputational risks arising out of possible conflict of interest situations, while performing their duties as members of the Executive Board and the secretariat staff, need to be developed.
- A mechanism for the capture and recording of the evolving role of the secretariat needs to be put in place to ensure that the secretariat roles and responsibilities are at any point in time captured in a single document.
- Existing CDM review mechanisms need to be strengthened by the establishment of a sub committee/expert group to provide advice on financial and budgetary matters.
- Effectiveness of CDM staff could be improved by establishing a training plan based on individual needs assessment.
- To enhance protection of confidential information, post employment restrictions need to be put in place for staff involved in the highly critical functions and who have access to sensitive market information.
- The rapid growth and unique nature of CDM suggest an urgent need for the development of policies and procedures and the creation of standard operating manuals. This not only ensures consistency and provides guidance, but also enhances accountability and internal control.
- A mechanism to monitor outstanding receivables relating to CDM fee based income needs to be established. Outstanding invoices for registration fees worth \$885,000 are yet to be collected from CDM project participants.
- Although accreditation procedure envisages timelines for assessment teams to undertake various activities in the accreditation process, a mechanism to monitor the timelines has not yet been fully instituted. During the audit fieldwork, the UNFCCC secretariat initiated a project to develop an electronic workflow system to address this issue.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of adequacy of arrangements for the implementation of Clean Development Mechanism (CDM) by the United Nations Framework Convention on Climate Change (UNFCCC). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The UNFCCC is an international treaty, which sets an overall framework for intergovernmental efforts to tackle the challenges posed by climate change. The Convention was ratified by 192 countries and came into force in 1994. The Conference of Parties (COP), which is the UNFCCC supreme body, approved in Kyoto, Japan on 11 December 1997 an addition to the treaty (the Kyoto Protocol), which has more powerful and legally binding measures to control climate change. The COP is supported by the UNFCCC secretariat. The secretariat supports all COP institutions involved in the climate change process, including the Kyoto Protocol. Since August 1996, the secretariat has been located in Bonn, Germany.

3. The Kyoto Protocol and the Convention share the same objectives and institutions. The major distinction is that while the Convention encourages developed countries to stabilize green house gas emissions, the Protocol commits them to do so. The major feature of the Kyoto Protocol is the mandatory targets on green house gas emissions for developed countries.

4. The CDM, as defined in the Kyoto Protocol, aims at assisting developing countries in achieving sustainable development whilst at the same time assisting developed countries in achieving compliance with their quantified emission limitation and reduction commitments. The CDM is guided by the COP serving as the Meeting of the Parties to the Protocol (CMP) and supervised by an Executive Board (EB). Emission reductions resulting from each project activity are certified by Designated Operating Entities (DOEs) accredited to do so by the EB. Emission reduction credits generated from the CDM are called Certified Emission Reduction (CER).

5. The UNFCCC secretariat discharges its roles and responsibilities for the implementation of CDM through a CDM subprogramme headed by a coordinator, under the overall guidance of Director, Sustainable Development Mechanism (SDM) programme. The CDM subprogramme is responsible for:

- a) Supporting the EB in the: approval of methodologies based on the recommendations of CMP; selection of DOEs, registration and related review processes for CDM projects; and, issuance and related review processes of CERs based on the recommendations of EB;
 - b) Automated work-flows involving project participants, DOEs, panel members, board members and the secretariat to support the various processes/procedures; and,
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c) Maintenance of CDM registry and issuance of CERs as instructed by EB

6. CDM subprogramme of the secretariat is expanding rapidly as can be seen from Table 1 showing the increase in number of posts and fee based income (i.e. registration fees paid when a new CDM project is established, accreditation fees from the operational entities and fees from issuance of CERs).

Table 1: Number of posts and budget for period 2006 to 2008

Year	Number of posts		Total posts	Fee based income in millions of dollars
	Professional (P)	General Service (GS)		
2006	24	16	40	9.00
2007	47	24	71	13.00
2008	62	31	93	21.50

7. Comments made by UNFCCC are shown in *italics*.

II. AUDIT OBJECTIVES

8. The overall objective of the audit was to assess the adequacy of UNFCCC secretariat arrangements for the implementation of CDM, which included assessing the:

- (a) Existing governance structures and the role UNFCCC secretariat plays in these structures;
- (b) Adequacy of internal arrangements put in place by the secretariat in the implementation of CDM; and,
- (c) Adequacy of internal arrangements put in place by the secretariat in accreditation and performance of operational entities.

III. AUDIT SCOPE AND METHODOLOGY

9. The audit focused on the adequacy of arrangements put in place by the UNFCCC secretariat for CDM implementation in the areas of Governance, EB, internal structures, and in the selection and performance assessment of DOEs. The period covered by the audit was January 2005 to May 2008. It excluded the methodologies, the registry system and the aspects of the fee based income which deal with assistance to developing countries.

10. The audit methodology included interviews with the key staff, review of selected documents and files, reconciliation of vouchers, observing the EB and panel meetings, and testing of selected data.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Governance

The evolving roles and responsibilities of the secretariat for CDM needs to be consolidated in one document

11. In accordance with the decisions of the CMP, the secretariat is responsible for supporting the EB in the implementation of CDM. With the exponential growth of CDM projects, the workload of the secretariat has increased and there has been a gradual shift in the secretariat's role from process management to involvement in the substantive issues such as pre assessment of the CDM project cases and carrying out completeness checks. The EB has assigned increasingly technical roles to the secretariat, allowing panels and working groups to work at a higher level, taking advantage of a continuous technical presence and institutional memory. Overall CDM activities of the secretariat have increased significantly, as shown in Table 2.

Table 2: Growth of CDM related activities of the secretariat in period 2005 to 2008

Year	Methodologies approved	No. of registered projects	Accreditation of DOEs	Number of CERs
2005	16	37	6	58,000
2006	13	252	16	10,235,616
2007	19	825	17	85,049,697
2008	76	1,039	18	211,946,124

12. No single document exists that captures the additional CDM responsibilities of the secretariat given to it by the EB. A documented set of roles and responsibilities is needed, not only to guide what should go into the Management Plan (MAP), but also for accountability and good governance. The roles and responsibilities, as they have evolved over the last few years need to be consolidated into one document, and updated on a regular basis.

13. *The secretariat explained that it discharges its roles and responsibilities for the implementation of CDM through internal arrangements established by the Executive Secretary, notably, as requested by the CDM, through maintenance and the strengthening of a dedicated section. The annual CDM MAP, approved by the EB, is the tool used to document secretariat CDM roles and responsibilities.*

Recommendation I

- (1) The UNFCCC secretariat should create a document consolidating the existing provisions relating to its roles and responsibilities for the implementation of the Clean**
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Development Mechanism, and update the document on a regular basis.

14. *The UNFCCC secretariat accepted recommendation 1 and acknowledged that consolidating existing provisions relating to the roles and responsibilities of the secretariat relating to the CDM activities would be useful in improving accountability.* Recommendation 1 remains open pending receipt of a copy of the document consolidating the existing provisions for CDM roles and responsibilities and details of how this document will be kept up to date.

Need to improve oversight on CDM budgetary matters

15. The MAP serves as the budget document for the CDM programme and consists of number of programme activities, including achievements, lessons learned, strategic vision, caseload indicators, activity benchmarks, resource requirements, and budget and financial resources. The MAP was reviewed internally by the Director, SDM, the Coordinator of the Administrative services and the Executive Secretary. We noted that the Coordinator of Administrative Services and the programme planning and budget section were given very limited time to comment on the MAP. However, OIOS is pleased to note that in the latest secretariat bulletin dated 21 April 2008, the Executive Secretary mandated the Coordinator of the Administrative Services programme to review the MAP.

16. The allotted time to deliberate on the CDM budget was limited considering the range of activities that the EB discusses at its meetings. The secretariat explained that, on average, the EB has only around 7.5 working days per Board member to discuss the CDM issues. The secretariat indicated that this is acceptable as the MAP is prepared in such a manner that it clearly highlights changes within the text indicating to EB members changes to the previously reviewed and adopted document. It is done this way in recognition of the time constraints and it is understood that it may not be easy for an outsider to follow.

17. The modalities and procedures for the CDM were formulated in the initial stages of its implementation and probably could not have anticipated the exponential growth in terms of the number of CDM projects and additional income from the fee-based income. In the present scenario, establishment of a sub-committee/expert group to closely examine the financial proposals in the MAP would enhance the independent oversight. A sub-committee/working group could be established under the Rule 32 of the rules of procedures of the Board, consisting of experts in the field of financial, regulatory matters and executive decision making with United Nations experience.

18. *The secretariat explained that the resources used to finance the MAP mainly originated from the private sector. The MAP is a public document and the effectiveness of the CDM is under close scrutiny by these actors.* The public has a right to expect that there is an adequate mechanism in place for financial review and lack of adequate oversight and review mechanisms could have reputational consequences and result in improper prioritization of resources, as well as inefficiencies and ineffectiveness.

Recommendation 2

(2) The UNFCCC secretariat should propose to the Executive Board (EB) that the EB constitutes an independent sub-committee/expert group to examine the Management Plan and provide advice to the EB on financial and budgetary matters.

19. *The UNFCCC secretariat accepted recommendation 2 and stated that a proposal to establish a committee that reviews CDM MAP revision proposals submitted by the Executive Secretary will be presented to the Executive Board at its 42nd meeting. A document will also be submitted to the EB for adoption at its 43rd meeting, which puts on record a) the process of definition of needs/changes to be reflected in CDM MAP, b) the process, roles and responsibilities within the secretariat, including that of the dedicated CDM section, in preparing the reflection of those needs/changes and the proposed revision of the CDM MAP and related timelines and c) the process of consideration by the Board of the proposed revision of the CDM MAP which allows Parties, stakeholders and the public to understand the process, roles, responsibilities and the built in checks and balances. Recommendation 2 remains open pending notification of the outcome of the EB deliberations.*

Overlapping responsibilities of EB members

20. Impartiality and transparency are essential for maintaining the integrity of CDM operations as the Parties, the media and the public have high expectations on the integrity of the CDM operations. Neither modalities of procedure for the implementation of CDM nor rules of procedure for the EB provide comprehensive guidelines covering different scenarios relating to conflict of interest. To demonstrate the highest ethical standards, staff and member state representatives serving on committees should not have overlapping responsibilities. Instances of conflict of interest, real or perceived, could tarnish the reputation of the EB and undermine the confidence of stakeholders.

21. In accordance with the decision 3/CMP.1, the Parties participating in the CDM are required to nominate a Designated National Authority (DNA) focal point. The DNA focal point is responsible for clearing the CDM projects at the national level, before its submission to the EB.

22. Out of the ten regular members of the EB, seven are working with the national governments, four of whom are the DNA focal points. Similarly out of ten alternate EB members seven are working for the national governments and are also working as DNA focal points. The dual and overlapping responsibilities of the EB members as DNA focal points and also as approving authorities of CDM projects could be perceived as a conflict of interest.

23. *The secretariat added that detailed guidance on managing the possible adverse public perception that could arise from overlapping interests is yet to be developed and has been on the informal agenda of the Board with an increasing interest by some members to develop written guidance and practice. At the*

request of some EB members, the secretariat prepared a note to help facilitate a discussion that would address conflict of interest and confidentiality issues at EB meetings.

Recommendation 3

(3) The UNFCCC secretariat should propose to the Executive Board that it deliberates on the note submitted by the secretariat on adopting policies and procedures that would mitigate the risks of conflict of interest, to improve the transparency of the Clean Development Mechanism implementation.

24. *The UNFCCC secretariat accepted recommendation 3 and stated that the note by the secretariat on the conflict of interest was considered as an informal agenda item at the EB's 38th session during March 2008. However, due to paucity of time, discussions on the note did not result in any decisions. Recommendation 3 remains open pending receipt of a copy of policies and procedures dealing with conflict of interest which has been approved by the EB.*

Need for a code of conduct for EB members

25. Best practices suggest that members of public entities elected or nominated, holding important positions and having an authority to decide over significant matters should be bound by a code of conduct. It is a normal practice that public entities adopt written code of conduct to govern the behavior of its elected members. Code of conduct can be seen as a part of a governance framework and also a tool for encouraging good governance practices. Code of conduct, in addition to stipulating expected behavior patterns, also establishes mechanisms for dealing with breaches of the code.

26. EB members are not governed by any code of conduct. Modalities of procedure or the rules of procedure for the EB do not detail expected behaviors from the board members. The existing tools like taking a written oath of office, being required to state in public that they have no conflict with items on the agenda, or signing statements that detail methodologies being considered, are not commensurate with the complexity of the tasks performed. In the absence of the adoption of a code of conduct, the existing governance structures and processes may not be perceived to be effective, open and transparent. OIOS noted that based on the request from some EB members at its 41st meeting, the secretariat prepared a draft code of conduct for approval by the EB but due to lack of time discussions did not result in any decisions.

Recommendation 4

(4) The UNFCCC secretariat should propose to the Executive Board (EB) that it adopts a written code of conduct for the EB members.

27. *The UNFCCC secretariat accepted recommendation 4 and stated that the secretariat had already prepared the draft code of conduct for the approval of the Executive Board. Recommendation 4 remains open pending receipt of a copy of the code of conduct approved by the EB.*

Need to reduce dangers of staff being involved in conflict of interest situations

28. The secretariat responded to OIOS concerns over the lack of guidance and policies to minimize the dangers of conflict of interest within the CDM programme by stating that a task force on conflict of interest and confidentiality issues was established in April 2008. The task force was composed of representatives from all programmes including the CDM as members, and chaired by a legal officer. The mandated roles of the task force included identifying risks relating to the confidentiality and conflict of interest issues, and recommend tools to mitigate the identified risks. The task force is expected to develop a comprehensive policy framework covering both conflict of interest and confidentiality issues.

29. The secretariat commented that tools such as disclosure statements for various CDM panel members and secretariat staff members, which go beyond the requirements practiced for some levels for other parts of UNFCCC secretariat, were developed.

30. In addition to taking the written oath from staff members and asking them to sign disclosure statements, other measures like making staff are aware of the potential conflict scenarios by developing a detailed document indicating dos and don'ts for the staff members, were necessary for effective governance. Staff members, due to lack of awareness or understanding, may act in a way which could tarnish the image of the secretariat.

Recommendation 5

(5) The UNFCCC secretariat should create a comprehensive list of dos and don'ts for the staff members of the Clean Development Mechanism programme, to provide requisite guidance and to mitigate the potential risk of conflict of interest.

31. *The UNFCCC secretariat accepted recommendation 5 and stated that the work was initiated in August 2008 and integrated in the information knowledge management work. The first version of key dos and don'ts shall be prepared involving all staff of the dedicated CDM section and be available by end of October 2008. Recommendation 5 remains open pending receipt of a copy of the document detailing the dos and don'ts for the CDM staff members.*

Need to improve protection of confidential information

32. As CDM is a market mechanism, proper handling of confidential and sensitive information is critical. The secretariat's press release relating to the commissioning of the International Transaction Log (ITL) reportedly resulted in

significant financial impact on the carbon market. This underscores the critical need to maintain and preserve confidentiality of market related information.

33. The secretariat commented that although a policy on handling of confidential information did not exist, CDM staff were aware of the sensitivity of the information handled. The task force on conflict of interest and confidentiality of information is expected to create a policy on confidentiality of information. On the initiative of CDM, the secretariat developed a securities trading policy to guide the staff members on the issues relating to the investments in carbon market related stocks.

34. Improper disclosure of information whether inadvertent or intentional could tarnish the reputation of the secretariat. As it is essential to mitigate any potential and serious reputational risks to the secretariat, a comprehensive policy on the classification of documents should be developed along the lines of United Nations ST/SGB/2007/6 on information sensitivity, classification and handling.

Recommendation 6

(6) The UNFCCC secretariat should expedite creating a comprehensive policy on information sensitivity, classification and handling, which should be approved by the Executive Secretary.

35. *The UNFCCC secretariat accepted recommendation 6 and stated that a task force has been established to look at possible conflict of interest and confidentiality, and is expected to establish a policy on these issues. The first draft should be available by the end of 2008. CDM specific work has been initiated in the context of the record management work where records/documents and respective access rights and handling are being described and recorded. Recommendation 6 remains open pending receipt of a copy of the approved policy document dealing with conflict of interest and confidentiality issues.*

Need to develop CDM risk management framework

36. The secretariat acknowledged the need to develop a risk management framework to address the risks associated with the CDM activities identified during the OIOS risk assessment, notably the significant growth in CDM activities.

Recommendation 7

(7) The UNFCCC secretariat should develop a risk management framework to address the risks of the Clean Development Mechanism programme arising from its rapid growth.

37. *The UNFCCC secretariat accepted recommendation 7 and stated that it will propose to the EB, at its 42nd meeting, the hiring of a risk management specialist by SDM, the development of options in consideration of the work of the*

secretariat, budgeting for those options and assistance with supporting the decision making of the Board in this regard. Once the EB has decided, the action will be implemented according to timelines. Recommendation 7 remains open pending receipt of a copy of the risk management framework.

B. Internal arrangements

Difficulties in recruiting professional staff for the CDM programme

38. Highly qualified and competent human resources are vital for the implementation of CDM. Recruitment procedures require that the best candidates be selected through competitive basis. The secretariat is institutionally linked to the United Nations System and located in a family duty station, Bonn, Germany. It is therefore reasonable to expect that responses to vacancy announcements in the secretariat should attract a reasonable number of responses, which is an indicator of competitiveness.

39. Review of the number of applications received for the vacancies in the CDM programme of the secretariat revealed that the overall response was generally low. The average eligible applications for the posts in the professional category range from 25 to 30, which can be seen from the following table.

Table 3: Number of responses to CDM vacancy announcements 2006 to 2008

Year	Number of vacancies advertised	Number of applications received	Average number per vacancy	Average number of eligible applications per vacancy
2006	14	2,526	180	30
2007	21	1,960	93	32
2008	13	706	54	23

40. Table 3 shows that the number of applications received has declined over the period 2006 to 2008. The secretariat commented that the poor response rate was attributable to the shortage of people with specific knowledge in the area of CDM. The vacancies were advertised mainly at UNFCCC and related websites, such as International Civil Services Commission (ICSC), International Institute for Sustainable Development (IISD), and United Nations Information Centre (UNIC) but were not advertised in the United Nations human resources management website. Scope therefore existed to improve the response rate and to get expertise from other United Nations bodies involved with CDM.

Recommendation 8

(8) The UNFCCC secretariat should further improve the visibility of its vacancy announcements in order to attract competent and qualified applicants and to increase the number of applications to vacant posts.

41. *The UNFCCC secretariat accepted recommendation 8 and stated that UNFCCC has been working towards identifying broader advertising and outreach opportunities, including those that reach out to women and nationals of*

developing countries and/or involved in development support. Further resources have also been used for advertisements in print and electronic media. Tracking of the effectiveness of more diverse outreach has begun; to date there is little evidence that there has been an improvement in our ability to attract greater numbers. Several sectors of work at UNFCCC are relatively specialized and other organizations in the same field are looking for the same specialized expertise in a limited market (CDM project developers, certification companies, government agencies). The UN human resources management website is not available to UNFCCC. We are however listed as a link under 'job opportunities in other UN entities'. UNFCCC targets prospective candidates that have the technical knowledge and understanding of carbon markets in the UN system by using the information channels such as IISD news lists, focal points, other agency bulletin boards, etc. Based on the information provided, recommendation 8 has been closed.

Training for CDM secretariat staff

42. Training is an effective tool to improve the performance of staff. Training needs assessment is a tool for developing a training plan. CDM prepared a training requirement, which was included in the overall training plan of the secretariat. Due to limited funding for training, CDM received less than \$8,000 per annum to train 93 staff (around \$80 per staff member). Whilst the amount appears small, and may be insufficient, CDM had not yet undertaken a systematic identification of training needs to identify the funding level required and to explore how to maximize available funds.

43. To overcome the funding constraint, CDM had proposed using its own resources to fund training activities. The Administrative Services programme (AS) of the secretariat did not approve the proposal, with the argument that self-financing of training activities by CDM could impact on the uniformity of training opportunities available for staff in other programmes of the secretariat.

44. Lack of technical training, especially in the area of CDM, could impact on the effective implementation of the CDM. While the need to have equal training opportunities for all staff members in the secretariat was appreciated, the specific training requirements for the staff dealing with highly technical and emerging areas cannot be ignored.

Recommendations 9 and 10

The UNFCCC secretariat should:

(9) Conduct training needs assessment of staff of the Clean Development Mechanism programme, to develop a comprehensive training plan; and

(10) Permit the Clean Development Mechanism programme to fund the training activities of its staff from its own resources.

45. *The UNFCCC secretariat accepted recommendation 9 and stated that it will propose to the EB at its 43rd meeting the hiring of a training needs assessment specialist by SDM, the development of options, budgeting for those options and assistance with supporting the decision making of the Board in this regard. Once the EB has decided, action will be implemented according to timelines set. AS is also in the process of recruiting a staff member with a focus on staff development and training who will assist with a Secretariat-wide training needs assessment. Recommendation 9 remains open pending confirmation that the training needs assessment has been conducted.*

46. *The UNFCCC secretariat accepted recommendation 10 and stated that it has been agreed that SDM will fund the training that it sees as crucial for its work and job specific, while AS continues to plan the general training offered to all staff to which SDM's staff will be free to participate. Based on the information provided, recommendation 10 has been closed.*

Use of consultants

47. The EB's annual report to the CMP states that in the first nine months of 2007, CDM employed 34 consultants (42 contracts) at a cost of \$343,587. In terms of regional distribution, 82 percent of the consultants were from Annex I Parties and 18 percent from non-Annex I Parties. The selection of consultants, primarily, from developing countries (Annex I) meant that ST/AI/1999/7 dealing with recruitment of consultants was not being fully complied with in terms of recruitment from as a wide number of nationalities as possible. *The secretariat commented that use of developing country consultants and expert, within the CDM section increased from 25 percent in 2007 to around 30 percent in 2008.*

Recommendation 11

(11) The UNFCCC secretariat, to the extent possible, should ensure more equitable geographical balance of consultants engaged in accordance with United Nations Administrative Instruction ST/AI/1997/7, on the recruitment of consultants.

48. *The UNFCCC secretariat accepted recommendation 11 and stated that the secretariat will continue its efforts to select consultants taking into consideration the widest possible geographical base and gender. Recommendation 11 remains open pending notification of measures taken to increase the geographical balance of the consultants engaged.*

Post employment restrictions

49. United Nations ST/SGB/2006/15 on post employment restrictions prohibits 'the staff members involved in the personal, significant and substantive involvement in the procurement process from seeking or accepting employment with or otherwise accepting any form of compensation, or financial benefit from any United Nations contractor or vendor'.

50. CDM staff members in the secretariat deal with highly sensitive market information such as the accreditation of certifying companies and the registration and issuance of projects and carbon market related activities. The secretariat had not put in place any restrictions on post employment service relating to the CDM staff. This exposes the organization to the risk that staff that handled critical information may choose to accept employment offers from a private entity that might benefit from highly confidential information. Alternatively, the staff member, with the knowledge of the system and sensitive information, may be associated with the projects participants. To ensure the efficient and transparent implementation of CDM envisaged by the CMP, it is essential that the secretariat put in place adequate internal controls to prevent inappropriate disclosure of information. Absence of such controls could impact on the integrity of CDM implementation.

Recommendation 12

(12) The UNFCCC secretariat should adopt a policy on post employment restrictions for staff with access to the sensitive information in the Clean Development Mechanism programme in order to protect the integrity and transparency of the process.

51. *The UNFCCC secretariat accepted recommendation 12 and stated that all staff members sign a declaration when they take up their appointment (form P.34) confirming that they will abide by the Staff Rules & Regulations, which include Regulation. 1.2 - Basic rights and obligations of staff. The secretariat will review ST/SGB/2006/15 on post-employment restrictions aimed at staff involved in the procurement process, which could provide a template to draft post-employment restrictions for CDM staff. . Recommendation 12 remains open pending receipt of a copy of the policy document on post employment restrictions.*

Need for documentation of operations

52. The CDM subprogramme in the secretariat should establish documented processes and procedures to ensure that all its staff receive proper guidance and are informed about what is expected of them to accomplish their assigned roles. Formal processes and procedures also serve as control tools contributing to improved consistency in CDM operations and achievement of its objectives. Experience gained over a period of time in implementing CDM needs to be documented to evolve guidance in the form of lessons learned. Detailed documentation is also essential to preserve institutional memory.

53. *The secretariat commented that although a body of such procedures existed for some critical parts of the operation (registration, issuance and information technology) it lacked standard processes and procedures to guide day-to-day activities due the fast changing and growing environment and limited resources.*

Recommendation 13

(13) The UNFCCC secretariat should prioritize documenting standard operating procedures and developing operating manuals in the functional areas of the Clean Development Mechanism programme, in order to ensure consistency and improve the internal control framework.

54. *The UNFCCC secretariat accepted recommendation 13 and stated that the issue is not neglected by the secretariat but priority had been given to other critical areas. We agree that documentation of procedures is key and part also of our response to business continuity work we are undertaking. With the arrival of a knowledge management officer mid last year and the initial focus on record management and flow, which involved the identification of existing process documents and guides, the work has been expanded to identify, with the substantive teams, the next generation of unwritten procedures guides etc and integrate this in the development of an innovative information system that provides several views on the information: by area, by process type, from a particular post. We expect the system to take form in 2009. Recommendation 13 remains open pending receipt of an approved CDM operations manual.*

Establishment of separate trust fund to account for fee based income

55. In accordance with the decision 11/CMP.3, the secretariat was directed to take steps to establish a separate trust fund for the receipt of fees and share of proceeds for the administration of CDM.

56. The secretariat approached the Controller to establish the trust fund vide their letter dated 03 August 2007. In his letter, the Executive Secretary quoted rule 16 of the UNFCCC financial procedures, which stipulate that, "subject to the approval of the Conference of the Parties, the Secretary General of the United Nations may establish other trust funds provided that they are consistent with the objectives of the Convention". While attaching the completed proposal to establish the trust fund, the Executive Secretary expressed his intention to start the operations under this fund with effect from 1 January 2008.

57. Despite regular follow up with the Controller and providing the requested additional documentation, the trust fund was not established. The secretariat informed OIOS that the Controller sought advice from the Office of the Legal Affairs (OLA) on UNFCCC secretariat institutional linkage with United Nations. The Deputy Executive Secretary also liaised with the Controller to expedite approval of the trust fund during his visit to New York in February 2008. Finally, the secretariat informed that CDM trust fund was established in July 2008, with effect from 1 January 2008. As the trust fund has now been established, no further action is proposed.

Lost interest

58. Fees and share of proceeds collected to cover the operational costs of the CDM were deposited in the UNFCCC trust fund for supplementary activities

along with other funds. Over the years, the accumulated reserves in the CDM budget have reached approximately \$30 million. In the absence of a separate trust fund to manage CDM funds, a portion of interest accrued from the reserve CDM funds was not made available to the CDM programme. With the establishment of the CDM trust fund, a calculation of accumulated interest attributable to CDM should be undertaken and the interest made available to CDM programme.

Recommendation 14

(14) The UNFCCC secretariat should calculate interest accrued from the Clean Development Mechanism (CDM) reserve funds and allocate this interest to the CDM trust fund.

59. *The UNFCCC secretariat accepted recommendation 14 and stated that by end of August all interest accrued with the CDM resources were calculated and allocated to the CDM fund. Based on the action taken by UNFCCC secretariat, recommendation 14 has been closed.*

Absence of a mechanism to monitor the outstanding invoices

60. Decision 7/CMP.1 Para. 38 stipulates that the share of proceeds to cover administrative expenses should go to CDM. Income generated from the CDM activities of the secretariat includes registration fee for new CDM projects, accreditation fees from operational entities and fees for the issuance of CERs. The secretariat sent invoices for fees and share of proceeds electronically to the project participants for payment. The finance section in the secretariat carried out the reconciliation of invoices.

61. A review of the reconciliation of invoices indicated that as of 31 December 2007, 22 outstanding invoices amounting to \$1,788,040 were carried forward to 2008 as shown in Table 4.

Table 4: Share of proceeds payments

Biennium	Share of proceeds		Balance due (\$)	Remarks
	Due (\$)	Paid (\$)		
2006-2007	15,729,474	13,941,434	1,788,040	Balance due carried forward to the next biennium
2008-2009 (as at April 2008)	6,856,412	5,058,040	1,798,372	

62. Out of 22 outstanding invoices from 2006-2007, payments for 14 invoices valued at approximately \$903,000 were received by April 2008. Payments for eight invoices valued \$885,000 were outstanding. The secretariat clarified that project participants normally receive service only after the payment of fees to the secretariat. Due to fast growth of the CDM programme necessary mechanisms to monitor the receipt of payments had not been established.

63. Delays in instituting a mechanism to follow up the outstanding invoices on a systematic basis could have impact on the efficiency of operations.

Recommendation 15

(15) The UNFCCC secretariat should establish a mechanism to review outstanding receivables and follow them up at regular intervals in order to ensure effective collection of fees and share of proceeds relating to the Clean Development Mechanism programme.

64. *The UNFCCC secretariat accepted recommendation 15 and stated that the electronic system will be enhanced further so that automatic reminders are sent to clients. Furthermore a weekly update of a status report will be distributed to CDM and AS. It should be noted UNFCCC does not start action to the benefit of the invoiced project participant until payment is received.* Recommendation 15 remains open pending receipt of details of the mechanism put in place to monitor receivables.

C. Accreditation of operational entities

Composition of assessment teams

65. The EB directives to the secretariat, contained in its annual report to the CMP in November 2007, stated that the CDM accreditation assessments should be carried out mainly by permanent UNFCCC staff, who are able to provide improved services in relation to assessment scheduling, consistency and quality because they are under the direct management of the secretariat.

66. Review of the composition of the assessment teams revealed that assessment teams were not composed of secretariat staff but primarily composed of external experts. Out of eight teams constituted after the EB decision only one team was composed of secretariat staff members. Two secretariat staff were included in three assessment teams and one staff member was included in another three teams.

67. The secretariat commented that out of three assessors available in the accreditation unit, two assessors were used mainly for secretariat support work and their services were not utilized for the purpose of assessments. Two more staff were in the process of being recruited to conduct assessment work. Constituting the assessment teams with external experts result in non-compliance with the EB directives to move towards assessment teams composed mainly of secretariat staff.

Recommendation 16

(16) The UNFCCC secretariat should ensure that assessment teams comprise mainly secretariat's staff members, to comply with the directions of the Executive Board.

68. *The UNFCCC secretariat accepted recommendation 16 and stated that the policy decision by EB is to have the assessment teams mainly staffed by skilled UNFCCC staff. The potential for existing staff to be brought to the skill set required has already been realized within the limitations referred to in other audit findings above related to training. Currently, new assessment teams are being established by the CDM accreditation panel increasingly with mainly secretariat resources. There is a limitation of action due to vacant positions, which are in the process of being filled. First attempts to fill the positions were in vain due to a lack of applications. Presently a recruitment process is ongoing to fill these positions and we expect the situation to become operationally stable by the end of the year. Based on the action taken by the UNFCCC secretariat, recommendation 16 has been closed.*

Absence of mechanism to monitor timelines for the CDM assessment teams

69. The accreditation procedure stipulated the timelines for CDM assessment teams for various activities as shown in Table 5.

Table 5: Timelines for assessment teams

#	Activity	Number of working days
1	Finalise the desk review report based on additional information provided by the client	15
2	To verify the corrective action taken by the AE	10
3	Preparation final assessment report (F-CDM-FR)	5
4	Preparation of separate witnessing report	6
5	Preparation of draft preliminary report based on witnessing report (F-CDM-PR)	5
6	Preparation of final preliminary assessment report	10
7	Preparation of final assessment report (F-CDM-FR)	5
8	Sharing of assessment plan with DOE	10
9	Preparation of draft surveillance report	8
10	Undertake the spot assessment and prepare reports	5

70. A formal mechanism to monitor and assess the timelines shown in Table 5 has not been developed. The secretariat commented that an electronic workflow system, which also involves the monitoring of the timelines, is being developed.

71. Analysis indicated that accreditation process took, on an average, 22 months from the receipt of applications to the issuance of accreditation letter. The timelines were intended to streamline and expedite the accreditation process. Timeline monitoring reports would assist the EB in evaluating efficiency and effectiveness, and in developing measures to address non-adherence to the timelines. As the assessment teams were expected to be composed of secretariat staff, the secretariat should institute formal internal monitoring mechanisms as early as possible to improve the operational efficiency of the process.

Recommendation 17

(17) The UNFCCC secretariat should expedite institution of formal mechanisms by means of electronic workflows, to monitor the timelines envisaged in the accreditation procedures for assessment teams.

72. *The UNFCCC secretariat accepted recommendation 17 and stated that the finding implies that the length of the accreditation process is due to the performance of the assessment work. This is not correct. The relevant reasons for the long timelines are anchored in other, CMP approved, design features of the accreditation scheme such as the need for a company to have attracted clients to undertake a witnessed performance of the expected tasks. This requirement in a competitive and nascent/risky market makes it very difficult for new applicants to attract a project participant in view of accredited competitors on the market providing the same service. Depending on the circumstances, in addition, they may have to attract project participants that still have to get the methodology approved which makes the time between application and accreditation yet longer. Some occurrences of delays against existing timelines of the assessment work existed and were identified by the UNFCCC secretariat team. The team maintains an elaborate electronic sheet that records the status of any assessment assignment, allow for monitoring of the situation and taking action as needed. This file is made available to the CDM accreditation panel at each of its meetings. The panel has taken action in some cases by, for example, replacing members of audit teams. While indeed plans exist to integrate these aspects in electronic workflow systems this is not a top priority in light of other features to be implemented. We expect to address the content of the recommendation by first quarter 2009. Recommendation 17 remains open pending receipt of details of the electronic workflow put in place to monitor accreditation timelines.*

Detailed criteria for initiating the spot checks

73. As per the accreditation procedure, the EB has authority to conduct “spot-check” activities (i.e. unscheduled surveillance) of DOEs at any time. The consideration by the EB to conduct a “spot-check” of a DOE may be triggered by any of the following:

- (a) A request for review submitted in accordance with the relevant provisions contained in the CDM modalities and procedures with regard to the registration of a project activity or the issuance of CERs;
- (b) Information received on any changes, which may significantly affect the quality of operations and performance of the DOE, such as regarding ownership, organizational structure, internal policies and procedures, technical expertise of personnel (in accordance with section B.9); or,
- (c) A written, substantiated complaint regarding the alleged failure of a DOE to comply with the requirements of its accreditation submitted to

the EB by (i) another DOE; (ii) an NGO accredited with UNFCCC; or (iii) a stakeholder.

74. The criteria above, which are stated on the UNFCCC website, for conducting the spot check were not comprehensive and could lead to subjective interpretation. Any DOE can complain against another to trigger a spot check. Based on the decision of the EB, as of April 2008, five spot checks were conducted. Only in one out of the five cases did the spot check result in an action against the DOE.

75. The creation of detailed criteria for determining when a spot check will be carried out, should increase the confidence of stakeholders in the system. With the increasing CDM activity levels, objectivity in criteria and procedures of decision-making regarding the spot checks are essential.

Recommendation 18

(18) The UNFCCC secretariat should assist the Executive Board in reviewing the criteria to initiate spot-checks to enhance transparency and to minimize the possibility of misuse of the spot-check process.

76. *The UNFCCC secretariat accepted recommendation 18 and stated that UNFCCC is taking the recommended actions to improve the transparency of the spot check process.* Recommendation 18 remains open pending receipt of details of the steps undertaken to improve the transparency of initiating the spot-check process.

Absence of regular surveillance of accredited entities

77. Regular performance monitoring is key to ensure efficiency and effectiveness. The accreditation procedure envisages periodic visits to the accredited offices and an assessment of the key areas of the operations of the DOE system at least once during the three years of the accredited period. The EB agreed in early 2007 to institute a regular surveillance in the second year of accreditation.

78. It was noted that as of April 2008, regular surveillance of DOEs had not been started. The secretariat indicated that regular surveillance was not started due to the cycles of accreditation of DOEs. An accreditation expires automatically unless request for re-accreditation is submitted. The secretariat informed that the EB has just initiated the process of identification of opportunities for the regular surveillance.

79. In this context there is a need to initiate the regular surveillance of DOEs in order to improve the efficiency and effectiveness of DOE operations/activities.

Recommendation 19

(19) The UNFCCC secretariat should suggest to the Executive Board to expeditiously implement the regular surveillance process.

80. *The UNFCCC secretariat accepted recommendation 19 and stated that in early 2007 the accreditation process rule was changed. So the earliest these surveillance visits could have been expected was in second quarter of 2008. General planning is underway and first actions are expected in the near future. Some companies were/are already on a re-accreditation schedule. A general planning table for each company is being made available to the CDM accreditation panel and the Board regularly so that they are kept informed. Based on the action taken by the UNFCCC secretariat, recommendation 19 has been closed.*

V. ACKNOWLEDGEMENT

81. We wish to express our appreciation to the Management and staff of UNFCCC for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date ²
1	The UNFCCC secretariat should create a document consolidating the existing provisions relating to its roles and responsibilities for the implementation of the Clean Development Mechanism, and update this on a regular basis.	Governance	High	0	Receipt of a copy of the document consolidating the existing provisions for CDM roles and responsibilities, and details of how this document will be kept up to date.	First quarter 2009
2	The UNFCCC secretariat should propose to the Executive Board (EB) that the EB constitutes an independent sub-committee/expert group to examine the Management Plan and provide advice to the EB on financial and budgetary matters.	Governance	High	0	Notification of the outcome of the EB deliberations.	December 2008
3	The UNFCCC secretariat should propose to the Executive Board that it deliberates on the note submitted by the secretariat on adopting policies and procedures that would mitigate the risks of conflict of interest, to improve the transparency of the Clean Development Mechanism implementation..	Governance	High	0	Receipt of a copy of policies and procedures dealing with conflict of interest which has been approved by the EB.	October 2009
4	The UNFCCC secretariat should propose to the Executive Board (EB) that it adopts a written code of conduct for the EB members	Governance	High	0	Receipt of a copy of the written code of conduct approved by the EB.	October 2009
5	The UNFCCC secretariat should create a comprehensive list of dos and don'ts for the staff members of the Clean Development Mechanism programme, to provide requisite guidance and to mitigate the potential risk of conflict of interest.	Governance	High	0	Receipt of a copy of the document detailing the dos and don'ts for the CDM staff members.	First quarter 2009
6	The UNFCCC secretariat should expedite	Governance	High	0	Receipt of a copy of the approved policy	Mid 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	creating a comprehensive policy on information sensitivity, classification and handling, which should be approved by the Executive Secretary.				document dealing with conflict of interest and confidentiality issues.	
7	The UNFCCC secretariat should develop a risk management framework to address the risks of the Clean Development Mechanism programme arising from its rapid growth.	Governance	High	O	Receipt a copy of the risk management framework	Mid 2009
8	The UNFCCC secretariat should further improve the visibility of its vacancy announcements in order to attract competent and qualified applicants and to increase the number of applications to vacant posts.	Human Resources	Medium	C	Action completed	Implemented
9	The UNFCCC secretariat should conduct training needs assessment of staff of the Clean Development Mechanism programme, to develop a comprehensive training plan.	Human Resources	Medium	O	Confirmation that the training needs assessment has been conducted.	Mid 2009
10	The UNFCCC secretariat should permit the Clean Development Mechanism programme to fund the training activities of its staff from its own resources.	Human Resources	Medium	C	Action completed	Implemented
11	The UNFCCC secretariat, to the extent possible, should ensure more equitable geographical balance of consultants engaged in accordance with United Nations Administrative Instruction ST/AI/1997/7, on the recruitment of consultants	Compliance	Medium	O	Notification of measures taken to increase the geographical balance of consultants engaged.	Continuous
12	The UNFCCC secretariat should adopt a policy on post employment restrictions for staff with access to the sensitive information in the Clean Development	Operational	High	O	Receipt of a copy of the policy document on post employment restrictions.	December 2008

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	Mechanism programme in order to protect the integrity and transparency of the process.					
13	The UNFCCC secretariat should prioritize documenting standard operating procedures and developing operating manuals in the functional areas of the Clean Development Mechanism programme, in order to ensure consistency and improve the internal control framework.	Operational	High	O	Receipt of an approved CDM operations manual.	Second quarter 2009
14	The UNFCCC secretariat should calculate interest accrued from the Clean Development Mechanism (CDM) reserve funds and allocate this interest to the CDM trust fund.	Financial	Medium	C	Action completed	Implemented
15	The UNFCCC secretariat should establish a mechanism to review outstanding receivables and follow them up at regular intervals in order to ensure effective collection of fees and share of proceeds relating to the Clean Development Mechanism programme.	Financial	Medium	O	Receipt of details of the mechanism put in place to monitor receivables and confirmation that the current receivables amounting to \$885,000 have been collected.	December 2008
16	The UNFCCC secretariat should ensure that assessment teams comprise mainly with the secretariat's staff members, to comply with the directions of the Executive Board.	Operational	Medium	C	Action completed	Implemented
17	The UNFCCC secretariat should expedite institution of formal mechanisms by means of electronic workflows, to monitor the timeliness envisaged in the accreditation	Information Resources	Medium	O	Receipt of details of the electronic work flow put in place to monitor accreditation timeliness.	First quarter 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
18	procedures for assessment teams. The UNFCCC secretariat should assist the Executive Board in reviewing the criteria to initiate spot-checks to enhance transparency and to minimize the possibility of misuse of the spot-check process.	Operational	High	O	Receipt of details of the steps undertaken to improve the transparency of initiating the spot-check process.	First quarter 2009
19	The UNFCCC secretariat should suggest to the Executive Board to expeditiously implement the regular surveillance process.	Operational	Medium	C	Action completed	Implemented

1. C = closed, O = open
2. Date provided by UNFCCC in response to recommendations.