



INTERNAL AUDIT DIVISION

REPORT 2019/033

Audit of the Sustainable Development
Mechanisms programme at the United
Nations Framework Convention on
Climate Change

Controls over monitoring and implementation
of the programme need to be strengthened

15 May 2019

Assignment No. AA2018/241/02

Audit of the Sustainable Development Mechanisms programme at the United Nations Framework Convention on Climate Change

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the Sustainable Development Mechanisms (SDM) programme at the United Nations Framework Convention on Climate Change (UNFCCC). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the activities of the SDM programme. The audit covered the period from 1 January 2017 to 30 September 2018 and included a review of: (a) strategic planning and risk assessment; and (b) programme and project management.

The SDM programme was implementing its activities in accordance with the programme budget and performance requirements. However, there was a need to strengthen controls over monitoring and implementation of programme activities.

OIOS made five recommendations. To address the issues identified in the audit, the UNFCCC secretariat needed to:

- Assess the emerging risks to the SDM programme and establish suitable mitigating actions that are aligned with its long-term strategy;
- Document the lessons learned in collecting the share of proceeds from the project participants of the Clean Development Mechanism (CDM) and use them to strengthen controls during the envisaged transition from CDM to the Paris Agreement;
- Develop unit level work plans with clearly defined and measurable performance indicators aligned with the UNFCCC secretariat's budget performance report, and take appropriate action on the monthly reports generated through the programme monitoring tool;
- Strengthen controls over the management of Regional Collaboration Centres by establishing a monitoring and evaluation framework for their activities; and
- Establish an appropriate monitoring and evaluation framework to assess the effectiveness of Global Climate Action activities.

The UNFCCC secretariat accepted the recommendations and has initiated action to implement them.

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Audit of the Sustainable Development Mechanisms Programme at the United Nations Framework Convention on Climate Change

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Sustainable Development Mechanisms (SDM) programme at the United Nations Framework Convention on Climate Change (UNFCCC).

2. UNFCCC was established as an overall framework for intergovernmental process to combat climate change. The Convention was ratified by 197 countries and came into force in 1994. The Conference of the Parties (COP or the Parties) is the Convention's supreme legislative body which is supported by the UNFCCC secretariat.

3. The Convention was complemented by the Kyoto Protocol (the Protocol) which was adopted in December 1997 and has 192 Parties. The Protocol commits its Parties by setting internationally binding emission reduction targets. The timeframe for implementation of the first and the second commitment periods of the Protocol were 2008-2012 and 2013-20 respectively. The ultimate objective of the Convention and the Protocol is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. In December 2015, Parties to the UNFCCC reached an agreement (Paris agreement or Agreement) to combat climate change and to accelerate and intensify actions and investments needed for a sustainable low carbon future. The UNFCCC secretariat was required to facilitate the flow of authoritative information on the implementation of the Convention and the Paris agreement.

4. The SDM programme of UNFCCC supports the implementation of the three mechanisms of the Protocol, namely, (i) the Clean Development Mechanism (CDM); (ii) Joint Implementation; and (iii) Emissions Trading and global climate action. The CDM, created under Article 12 of the Protocol, fulfils the twin roles of providing flexibility to the Parties included in Annex I to the Convention¹ in meeting their quantified emission reduction commitments under the Protocol and of assisting developing countries in achieving their sustainable development goals. The CDM provides for emissions reduction projects which generate Certified Emission Reduction units (CERs) that may be traded in emissions trading schemes.

5. Under the Joint Implementation which was established under Article 6, countries with commitments under the Protocol are eligible to transfer and/or acquire emission reduction units and use them to meet part of their emission reduction targets. The Emissions Trading which was set out in Article 17 of the Protocol, allows countries to sell their unused emission units to countries that exceeded their targets. Thus, the mechanism created a new commodity in the form of emission reductions or removals. As carbon dioxide is the principal greenhouse gas emitted or removed, the mechanism is commonly known as carbon trading which is tracked and traded like any other commodity. The CDM Executive Board supervised the CDM under the authority and guidance of the COP serving as the Meeting of the Parties to the Kyoto Protocol (CMP).

6. As of September 2018, the SDM programme had 94 staff, funded from different budgetary sources. The Programme, headed by a Director, is overseen by the Senior Director for Policy and Programme

¹ Annex I Parties include the industrialized countries that were members of the Organization for Economic Co-operation and Development in 1992, plus countries with economies in transition, including the Russian Federation, the Baltic States, and several Central and Eastern European States.

Coordination and is organized into: (i) regulatory development; (ii) regulatory implementation; (iii) process management; (iv) programme support and coordination; (v) stakeholder and regional support; (vi) strategy development; and (vii) global climate action units. The stakeholder and regional support unit implemented the activities of the programme through the UNFCCC secretariat's five Regional Collaboration Centres (RCCs).

7. The SDM programme earned \$10.40 million in 2017 and \$10.91 million in 2018 (as of September) through CDM related activities. It earned \$1.23 million in 2017 and \$280,350 through Joint Implementation related activities. In 2017, the Programme spent \$17.6 million under the Trust Fund for CDM and \$1.6 million under the Trust Fund for Supplementary Activities. As of September 2018, the Programme spent \$14.7 million (Trust Fund for CDM) and \$2.0 million (Trust Fund for Supplementary Activities). In addition, the activities of the Programme were funded under the Trust Fund for the Core Budget for expenditure of about \$0.4 million each in 2017 and 2018 (as of September).

8. Comments provided by UNFCCC secretariat are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the activities of the SDM programme.

10. The audit was included in the 2018 risk-based internal audit work plan due to the risks associated with the management of the Programme, which could adversely affect the UNFCCC secretariat's mandate in supporting the Convention, Kyoto protocol, Paris agreement, and goal 13 of the Sustainable Development Goals (SDGs).

11. The audit took place during the period from October to December 2018 in Bonn, Germany. The audit covered the period from 1 January 2017 to 30 September 2018. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the management of the Programme, which included: (i) strategic planning and risk assessment; and (ii) programme and project management.

12. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) tests of transactions using stratified samples.

13. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Strategic planning and risk assessment

There was a need to review and strategically address emerging risks

14. The UNFCCC Enterprise Risk Management (ERM) Framework requires the Programme to manage the emerging strategic and operational risks confronting its objectives by: (i) identifying, analyzing and evaluating these risks; (ii) developing and implementing a mitigation action plan to manage the risks; and (iii) documenting the prioritized risks and treatment actions, including identifying the responsible staff, to facilitate review, implementation and monitoring of risks.

15. The UNFCCC secretariat's risks and mitigation measures register, which includes risks related to the Programme, needed to be revised or updated to include emerging risks due to developments affecting the operational environment of the Programme. Examples of emerging risks that needed to be considered are as follows:

(a) Uncertainties in the demand for Kyoto mechanisms: The demand for carbon credits declined because most of the targets set by the Annex I countries of the Protocol had been achieved. Further, the amendment for global climate action was not ratified therefore it did not come into force. There was lack of clarity on what will happen with the CDM after 2020 which undermines the ability of the mechanism to attract further investments in emission reductions. While Article 6.4 of the Paris agreement could potentially recognise credits under the CDM, the modalities of transition and the associated risks remained to be developed. These developments lead to uncertainty on the role of the Programme.

(b) Decline in Joint Implementation activities: Due to decline in the workload, the frequency of meetings held by the Joint Implementation Supervisory Committee decreased from four meetings in 2011 to one meeting in 2018 which was held in a virtual environment to reduce its operational costs. COP decision 5/CMP.10, para. 9, requires that there should be sufficient infrastructure and capacity up to the end of the additional period for fulfilling commitments under the second commitment period of the Protocol. But with the decline of Joint Implementation activities, clarity is now required on whether, and under what conditions, the Joint Implementation activities should continue to be used.

(c) Status of carryover reserves: At the end of September 2018, the Programme had carryover reserves of \$136.3 million, including a reserve of \$45 million under the Trust Fund for CDM while the Joint Implementation mechanism had a reserve of \$3.2 million. With the signing of the Paris Agreement and transition mechanisms being discussed by the Parties, the Programme needed to identify ways of utilizing the reserves, to appropriately advise the Parties for their decision.

(d) Programme sustainability risks: The reduced demand for CERs since biennium 2013-14 resulted in significant decline in revenue, which necessitated the Programme to fund its deficit from the accumulated reserve. Consequently, the Programme downsized its staff complement from 133 to 87 in 2015. The decline in the demand for CDM continued even after 2015. For example, between 2015 and 2018, the number of registered CDM projects decreased from 107 (2015) to 25 (September 2018) and the number of CER operations such as issuance, forwarding and cancellations decreased from 838 (2015) to 563 (September 2018). This scenario requires the Programme to review and analyse its sustainability risks and identify appropriate mitigating actions.

(e) Governance risks associated with the Adaptation Fund: The Adaptation Fund created in 2001 was financed with a Share of Proceeds (SOP) amounting to two per cent of the CERs issued for a CDM project activity and other sources. The Fund was used to finance concrete adaptation projects and programmes in developing country Parties to the Protocol. Whilst the audit was ongoing, the COP 24 decided that the Fund would serve the Paris Agreement once the SOP, under the Paris Agreement (Article 6, paragraph 4) becomes available. But the risks relating to the administration of the Fund such as procedures on how the money would flow into the Fund, governance and institutional arrangements, safeguards and operating modalities for the Fund remained unidentified.

16. UNFCCC explained that even though it did not document the emerging strategic and operational risks, it was aware of them and expected that the results of the ongoing secretariat-wide review and restructuring and the outcome of the COP 24 held in December 2018 would provide the way forward to address them. UNFCCC further stated that many of the programme-level risks were identified and documented in the CDM two-year business and management plan 2018–2019 (Section 2 on the “The current and evolving context”) and in strategy papers that were developed and discussed at SDM

Management Committee meetings where mitigation options were identified in the form of proposed options. However, OIOS noted that the Programme did not identify and include the emerging risks listed in this section in the referenced documents. Additionally, the identified risks did not have mitigation measures, timelines and the staff responsible for addressing them. Without a clear assessment of the emerging risks and related mitigating actions through the UNFCCC secretariat's risk register, the Programme may not address the emerging risks in an effective and sustainable manner to ensure the attainment of its objectives.

(1) The UNFCCC secretariat should assess the emerging risks to the Sustainable Development Mechanisms programme and establish suitable mitigating actions that are aligned with its long-term strategy.

The UNFCCC secretariat accepted recommendation 1 and stated that it is committed to implementing the corrective action. Recommendation 1 remains open pending receipt of evidence of the risk assessment and related risk mitigation actions documented in the secretariat's risk register to address the emerging risks to the Programme's activities.

Need to document lessons learned in collecting the SOP for CDM projects

17. Project participants at the time of registration of their CDM projects pay the Programme an upfront SOP (registration fee) to cover the administrative costs of registering their projects. The registration fee is calculated based on the estimated annual emission reductions as per the project design document. The registration fee received is offset against SOP that is due during the operation of the project activity. Registration is the formal acceptance by the Board of a validated project as a CDM project activity. Registration is also the prerequisite for the verification, certification and issuance of CERs related to that project activity.

18. In 2005, the CMP through its decision 7/CMP.1, paragraph 37, established the monetary terms for the SOP and clarified that the issuance of CERs shall be only when the SOP has been received. Issuance of CERs refers to the Board's instructions to the Programme to issue a specified quantity of CERs for a Participant's project activity maintained in the CDM registry pending account by the Programme. The CERs held in the CDM pending account are forwarded to the participants' holding accounts upon their requests.

19. In February 2006, the Board clarified that the registration fee is an advance payment of SOP for the emission reductions estimated to be achieved during the first year of the project life cycle. Subsequently, in November 2011, the Board established a process wherein while finalizing a request for issuance of CERs received from participants, the UNFCCC secretariat shall inform the participants of the SOP payable in accordance with the provisions contained in appendix 1 of the procedure. This meant that the SOP would be paid after the issuance of CERs had taken place, but before forwarding the CERs into the (holding) accounts of the project participants. The Programme explained to OIOS that this decision was taken as the exact amount of approved CERs (the basis for the calculation of the SOP) was only known after a request from participants for issuance of CERs is approved by the Board. Consequently, the participants did not pay the SOP before the issuance of CERs as required. Instead, participants paid at the time CERs are forwarded from the pending account in the CDM registry.

20. With the sharp decline of the CDM market after 2012, the Programme started to experience instances where participants made an issuance request but never made a forwarding request, resulting in non-collection of SOP despite the Programme completing all processing procedures. Consequently, the Programme could not forward the CERs from the pending account to the holding accounts of participants leading to accumulation of CERs in the CDM registry and an outstanding SOP since 2012 equivalent to

\$59.1 million at the end of September 2018. It is not certain whether the Programme will recover this amount in the future. After the first commitment period during which collection was close to 100 per cent, the price for CERs has continued to decline and the SOP collection rate decreased drastically from 77 per cent in 2013 to 33 per cent in 2018.

21. In its report on the financial statements for the year ended 31 December 2015 (issued in September 2016), the United Nations Board of Auditors (BoA) stated that there was a need for the UNFCCC secretariat to collect advance payment of the administrative expenses to avoid loss of administrative fees in future. However, the CDM Board approved revised rules for the upfront payment of SOP in 2017, with effective implementation date of 1 June 2018. The CDM Board also approved rules for partial payment of SOP that took effect on 1 January 2018, to recover some of the outstanding SOP amount or to prevent the outstanding SOP from growing further. The pending SOP in 2016 and 2017 stood at \$10.2 million and \$14.4 million, respectively. In OIOS' opinion, the root causes for the outstanding SOP are: (i) the CDM Board's decision to receive the SOP at the CERs forwarding stage, instead of collecting it upfront at the request stage as per decision 7/CMP.1; and (ii) the delayed implementation of the BoA recommendation.

22. OIOS was informed that a decision on the possibility of transition of the CDM into Article 6.4 of the Paris Agreement was deferred to the next COP meeting. However, the Programme needs to maintain appropriate controls to ensure that the SOP is collected in accordance with the decisions of the CMP and the Board pending decisions of the Parties on the envisaged transition.

(2) The UNFCCC secretariat should document the lessons learned in collecting the share of proceeds from the project participants of the Clean Development Mechanism (CDM) and use them to strengthen controls during the envisaged transition from CDM to the Paris Agreement.

The UNFCCC secretariat accepted recommendation 2 and stated that it is committed to implementing the corrective action. Recommendation 2 remains open pending receipt of evidence of the documented lessons learned in collecting the SOP from participants of CDM projects to strengthen controls during the envisaged transition from CDM to the Paris Agreement.

B. Programme and project management

Controls in programme planning and monitoring activities required strengthening

23. The UNFCCC secretariat's budget support guides for 2016-17 and 2018-19 require its Programmes to ensure a fully results oriented planning process articulating what they intended to accomplish using good performance indicators. According to the secretariat's Administrative Guideline (AG/2016/1) on the Performance Appraisal System, heads of programme decide on goals for the programmes which form the basis of the work plans for their units or teams. In line with their mandates, programme managers were expected to be responsible for establishing mechanisms to provide strategic oversight and coordinate the mainstreaming of SDGs into their programmes of work consistent with the objectives of the UNFCCC secretariat's long-term strategy.

24. The Board approved Management Action Plans (MAP) for 2017 and 2018-19 that defined the work for the Programme to achieve its goals and objectives using the resources from the Trust Fund for CDM. In 2017, the Programme prepared activity-based unit level work plans. In 2018, the Programme had improved the work plans by defining outcome-oriented unit level work plans, aligned with the MAP. The Programme tracked its activities through an electronic system developed for this purpose, known as Efforts Tracking System (ETS).

25. OIOS review of the controls in work planning and monitoring indicated the need to strengthen programme planning and monitoring as follows:

(a) Defining volume of activities and performance indicators: The MAP 2017 and MAP 2018-19 each planned 64 activities to be implemented. In 2017, the Programme only defined volumes for 30 activities corresponding to 51 per cent of the budgeted staff resources. In 2018-19, the Programme only defined volumes for 31 activities, corresponding to 56 per cent of the budgeted staff resources. Additionally, the Programme did not define measurable performance indicators to achieve the intended programme objectives. In the absence of targeted volume of activities, the Programme would not be able to effectively implement, monitor and measure the performance of these activities.

(b) Developing unit level work plans: In 2018, the Programme introduced outcome oriented standardized templates for developing unit level workplans. However, there were no guidelines issued or training provided to ensure the templates were effectively implemented. For example, the work plans did not have: (i) reference to the goals and objectives of the MAPs, but the Programme initiated effort to improvise them in 2019; (ii) coherence among the work plans of different sub-units; (iii) defined outputs and outcomes or they were defined vaguely; and (iv) the name(s) of the staff responsible to implement the activities. Further, although the MAP 2018-19 was prepared with clear objectives, the Programme did not ensure that the principles of the SDGs were mainstreamed into programme planning.

(c) Monitoring and reporting of performance: There was no evidence of monitoring action taken by the Management, if any, based on the monthly ETS reports. The Administrative Services programme of the secretariat prepared and submitted a Budget Performance Report to its Parties and the Programme provided its input for a set of indicators which were maintained outside the ETS. Additionally, there was no alignment between the programme objectives and the reporting parameters of MAP, and the secretariat-wide Budget Performance report. Therefore, there was a risk of erroneous and inconsistent reporting which could impact decision-making.

(3) The UNFCCC Director of the Sustainable Development Mechanisms programme should:
(a) develop unit level work plans with clearly defined and measurable performance indicators aligned with the UNFCCC secretariat's budget performance report; and (b) take appropriate action on the monthly reports generated through the programme monitoring tool.

The UNFCCC secretariat accepted recommendation 3 and stated that it is committed to implementing the corrective action. Recommendation 3 remains open pending receipt of: (a) unit level work plans containing measurable performance indicators aligned with the secretariat's budget performance report; and (b) reports on action taken by the heads of units on the monthly reports generated through ETS.

Need to strengthen controls in programme activities implemented through Regional Collaboration Centres

26. Between 2013 and 2017, the UNFCCC secretariat established five Regional Collaboration Centres (RCCs) at Lomé in Togo, Kampala in Uganda, St. George's in Grenada, Bangkok in Thailand, and Panama City in Panama. The RCCs were funded through the Trust fund for CDM, and the donor contributions received for implementing the Collaborative Instruments for Ambitious Climate Action (CIACA) and the Intended Nationally Determined Contributions (INDC) projects activities. The secretariat concluded memoranda of understanding (MOUs) with the respective local partner organizations for implementing the programme activities through the RCCs.

27. According to the MOUs, the partner organizations provide: (i) in kind support; and (ii) administrative services, including accounting and auditing of the resources funded by the UNFCCC secretariat in accordance with their rules and procedures. Additionally, they were required to provide the secretariat with copies of the audited financial statements and the audit observations relating to the secretariat funded resources at the end of each year as may reasonably be requested by the secretariat. After the Paris agreement, the RCCs activities were extended to non-CDM related activities such as climate finance, support to the intergovernmental process pre-2020 and the implementation of the Paris Agreement. The Programme was required to ensure that the RCCs activities were planned, implemented and monitored through a strategic and coordinated approach.

28. The Programme spent: (i) \$389,495 in 2017 and \$468,537 in 2018 (as of September) for implementing MAP activities; (ii) \$52,844 in 2017 and \$193,068 in 2018 (as of September) for implementing CIACA project activities; and (iii) \$26,791 in 2017 and \$146,858 in 2018 (as of September) for implementing INDC project activities. OIOS' review indicated the need to strengthen controls in programme activities implemented through the secretariat's RCCs as follows:

(a) Governance: At the local level, RCCs were administered by Steering Committees, consisting of the staff of the local partner and the Programme. The Committees were responsible for approving the work plans, budgeting and monitoring. However, the Committees did not document the minutes of the meetings held, if any, except for one meeting held by the Lomé RCC.

(b) Staff deployment to RCCs: The Programme was expected to determine the number of staff to be deployed in each RCC based on their local mandate, skills set, experience and the resources required. The Programme initiated efforts to develop cost-effective staff deployment modalities, but it remained to be completed at the time of the audit. Consequently, the Programme could not effectively estimate the staff costs. For example, the Programme allotted \$244,289 each in 2017 and 2018 while the expenditure was \$352,187 in 2017 and \$443,626 in 2018 (as of September).

(c) Financial management: Despite the provisions of the MOUs, the Programme did not obtain from partner organizations the audited financial statements and the audit observations, if any, to obtain assurance that the funds were used for the intended purposes. OIOS noted that RCC St. George's was not staffed by the secretariat's staff and Programme activities were implemented through a partner organization. The Programme did not assess any potential financial risks and related mitigation actions in this arrangement.

(d) Annual work plans: In 2018, the Programme had significantly improved the preparation of the RCCs workplans. However, the workplans did not: (i) specify the CIACA and INDC projects to be implemented using donor funds; and (ii) indicate the sources of funding for the other activities implemented to enable better monitoring. Furthermore: (i) the output was not always defined (Bangkok, Panama, St George's) or vaguely defined (Lomé); (ii) the key performance indicators were not indicated (St George's); (iii) activities to be undertaken were not defined for all areas (Bangkok); and (iv) the activities were not prioritized.

(e) MOU with host partners: The Programme amended the MOUs with partner organizations at regular intervals. However, OIOS' review of the amended MOUs indicated a need for aligning them with the changed operational context post-Paris agreement. Further, the MOUs need to be harmonised with the areas of co-operation defined under section 2 of the MOU with the five work streams defined in the RCC workplans to avoid legal risks. For example, the two activities pertaining to: (i) the work stream, climate finance, and support to the intergovernmental process pre-2020; and (ii) the implementation of the Paris Agreement, were not listed in the MOUs as they were subsequently added to the work streams.

(f) **Monitoring and evaluation:** Although the Programme developed the RCCs' workplans in January 2018, a monitoring and evaluation framework was still under development. In the absence of minutes of the meetings of the RCCs Steering Committees as discussed above, OIOS could not assess whether the Committees had effectively performed their oversight responsibilities as required in the MOUs.

(4) The UNFCCC Director of the Sustainable Development Mechanisms Programme should strengthen controls over the management of the Regional Collaboration Centres by establishing a monitoring and evaluation framework for their activities.

The UNFCCC secretariat accepted recommendation 4 and stated that it is committed to implementing the corrective action. Recommendation 4 remains open pending receipt of evidence of a monitoring and evaluation framework of RCCs that facilitates monitoring of their activities.

Controls relating to Global Climate Action activities need to be strengthened

29. In August 2016, the secretariat formed a Global Climate Action (GCA) Unit to strengthen collaboration between Parties and non-Party stakeholders to allow greater mitigation and adaptation actions to be implemented, guided by the long-term goals of the Paris Agreement. In January 2018, the UNFCCC secretariat created a cross-programme transitional unit of 13 staff closely connected to the Programme. The GCA Unit prepared a Strategic Resource and Delivery Plan (2018-2020) in February 2018 to support GCA.

30. OIOS noted that based on a presentation made by the cross programme transitional unit in June 2018, the secretariat's Management Team tasked the GCA Unit to develop a GCA strategy, but the draft strategy remained to be approved by the Management Team. The GCA Unit remained at a transitional stage and its organigramme, roles and responsibilities of the staff were yet to be finalized. The Programme did not develop a monitoring and evaluation framework to monitor the GCA Unit's activities. OIOS is of the view that the UNFCCC secretariat needs to mitigate the risk that: (a) collaboration between Parties and non-Party stakeholders may be ineffective; and/or (b) implementation of mitigation and adaptation actions may be inadequate.

(5) The UNFCCC Director of the Sustainable Development Mechanisms programme should: (a) finalize the Global Climate Action strategy; and (b) establish an appropriate monitoring and evaluation framework to assess the effectiveness of Global Climate Action activities.

The UNFCCC secretariat accepted recommendation 5 and stated that it is committed to implementing the corrective action. Recommendation 5 remains open pending receipt of the monitoring and evaluation framework developed to assess the effectiveness of GCA activities.

IV. ACKNOWLEDGEMENT

31. OIOS wishes to express its appreciation to the management and staff of UNFCCC secretariat for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the Sustainable Development Mechanisms programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The UNFCCC secretariat should assess the emerging risks to the Sustainable Development Mechanisms programme and establish suitable mitigating actions that are aligned with its long-term strategy.	Important	O	Receipt of evidence of the risk assessment and related risk mitigation actions documented in the secretariat's risk register to address the emerging risks to the Programme's activities.	31 December 2019
2	The UNFCCC secretariat should document the lessons learned in collecting the share of proceeds from the project participants of the Clean Development Mechanism (CDM) and use them to strengthen controls during the envisaged transition from CDM to the Paris Agreement.	Important	O	Receipt of evidence of the documented lessons learned in collecting the share of proceeds from the project participants of CDM projects.	31 December 2019
3	The UNFCCC Director of the Sustainable Development Mechanisms programme should: (a) develop unit level work plans with clearly defined and measurable performance indicators aligned with the UNFCCC secretariat's budget performance report; and (b) take appropriate action on the monthly reports generated through the programme monitoring tool.	Important	O	Receipt of: (a) unit level work plans containing measurable performance indicators aligned with the secretariat's budget performance report; and (b) reports on action taken by the heads of units on the monthly reports generated through ETS.	30 September 2019
4	The UNFCCC Director of the Sustainable Development Mechanisms Programme should strengthen controls over the management of the Regional Collaboration Centres by establishing a monitoring and evaluation framework for their activities.	Important	O	Receipt of evidence of a monitoring and evaluation framework of RCCs that facilitates monitoring of their activities.	30 September 2019

² Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

³ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNFCCC in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the Sustainable Development Mechanisms programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
5	The UNFCCC Director of the Sustainable Development Mechanisms programme should: (a) finalize the Global Climate Action strategy; and (b) establish an appropriate monitoring and evaluation framework to assess the effectiveness of Global Climate Action activities.	Important	O	Receipt of evidence of the monitoring and evaluation framework developed to assess the effectiveness of GCA activities.	30 September 2019

APPENDIX I

Management Response

Management Response

Audit of the Sustainable Development Mechanisms programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNFCCC secretariat should assess the emerging risks to the Sustainable Development Mechanisms programme and establish suitable mitigating actions that are aligned with its long-term strategy.	Important	Yes	Deputy Executive Secretary and the SDM Director	Q4 2019	The UNFCCC secretariat is committed to implementing the corrective action.
2	The UNFCCC secretariat should document the lessons learned in collecting the share of proceeds from the project participants of the Clean Development Mechanism and use them to strengthen controls during the envisaged transition from the Clean Development Mechanism to the Paris Agreement.	Important	Yes	Deputy Executive Secretary and the SDM Director	Q4 2019	The UNFCCC secretariat is committed to implementing the corrective action.
3	The UNFCCC Director of the Sustainable Development Mechanisms programme should: (a) develop unit level work plans with clearly defined and measurable performance indicators aligned with the secretariat's budget performance report; and (b) take appropriate action on the monthly reports generated through the programme monitoring tool.	Important	Yes	SDM Director	Q3 2019	The UNFCCC secretariat is committed to implementing the corrective action.
4	The UNFCCC Director of the Sustainable Development Mechanisms Programme should strengthen controls over the management of the Regional Collaboration Centres by establishing a	Important	Yes	SDM Director	Q3 2019	The UNFCCC secretariat is committed to implementing the corrective action.

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of the Sustainable Development Mechanisms programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	monitoring and evaluation framework for their activities.					
5	The UNFCCC Director of the Sustainable Development Mechanisms programme should: (a) finalize the Global Climate Action strategy; and (b) establish an appropriate monitoring and evaluation framework to assess the effectiveness of Global Climate Action activities.	Important	Yes	SDM Director	Q3 2019	The UNFCCC secretariat is committed to implementing the corrective action.