

**AUDIT
OF THE
CONTRIBUTIONS FOR
CANADA'S CLEAN DEVELOPMENT MECHANISM and JOINT
IMPLEMENTATION OFFICE (CDM & JI)**

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Audit Division (SIV)

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EXECUTIVE SUMMARY

The Internal Audit Division (SIV) undertook a management audit of the Contributions for Canada's Clean Development Mechanism (CDM) and Joint Implementation (JI) Office as part of its review of Departmental Grants and Contributions. The objective of the audit was to determine the extent to which the contribution program was managed with sound comptrollership practices and complied with legislative and regulatory requirements.

Practices and processes were found to be in place that ensure that program funds are managed with due diligence and that payments are made in accordance with the policies. The elements of the contribution agreement were found to be in agreement with the majority of the requirements of the TBS and Departmental Transfer Payment Policies. The contribution agreement respects the template as set out by SMD. The contribution files contained the relevant documentation and indicated that proper approvals had been obtained for the contribution payments. The activities of the recipient are being monitored by the program staff.

SCOPE, OBJECTIVES AND METHODOLOGY

1.1 Scope

1.1.1 The audit focussed on the administrative practices, processes (systems) and controls related to the management of the contributions for Canada's Clean Development Mechanism (CDM) and Joint Implementation (JI) Office. The contribution agreement is in effect for the fiscal years 2001-02 to 2005-06. The Audit Team audited the contribution program in accordance with Treasury Board and Departmental Transfer Payment Policies.

1.2 Objectives

1.2.1 The overall objective was to determine the extent to which the contribution program was managed with sound comptrollership practices and complied with legislative and regulatory requirements. In particular, the audit focussed on determining whether:

- the contribution agreement was justified under appropriate authorities;
- the contribution agreement was prepared in accordance with DFAIT's Policy on Transfer Payments;
- the terms and method of payments were in compliance with Treasury Board approved terms and conditions; and,
- the Program Officers conducted project monitoring.

1.3 Methodology

1.3.1 The audit examined the major business processes and key controls associated with the management of the contribution agreements at DFAIT. The examination phase of the audit was conducted during the period February 2003 to June 2003. The contribution files reviewed were dated after August 2002.

1.3.2 We conducted a comprehensive review of relevant program documentation and interviewed key personnel in the CDM and JI Office, Area Management Office (EAM) and Corporate Finance, Planning and Systems (SMP).

OVERVIEW

2.1.1 Canada's Clean Development Mechanism (CDM) & Joint Implementation (JI) Office was set up in the fall of 1998 to maximize Canada's ability to use the Kyoto mechanisms to help meet its emission reduction commitments in a cost-effective manner. The Office acts as the focal point for CDM and JI and has the mandate to facilitate the participation of the Canadian private sector in projects for which they can eventually receive credits.

2.1.2 Under *Action Plan 2000*, the CDM & JI Office received funds of \$25.25 million for the period 2001/02-2005/06 to pursue the following three objectives:

To strengthen Canada's capacity to take maximum advantage of the Kyoto Mechanisms. These include the Clean Development Mechanism, Joint Implementation, and emission trades backed up by emission reduction projects.

To encourage and facilitate Canadian participation in the Kyoto Mechanisms by building awareness, promoting cost-effective opportunities and lowering transactions costs, while also engaging developing countries and countries-in-transition in such activities.

To assist Canadian entities in obtaining emissions reductions credits from CDM- and JI-type projects according to international rules and guidelines which can assist Canada in meeting its Kyoto target.

2.1.3 The CDM and JI Office works under the general guidance of an Interdepartmental Steering Committee (consisting of representatives from Natural Resources Canada, Environment Canada, Industry Canada, CIDA, Agriculture Canada, and the Climate Change Secretariat) which is consulted on decisions regarding major expenditures, program directions and project approvals.

2.1.4 SIV provided support to the program in revising its Risk-based Audit Framework (RBAF) in January 2003. The overall level of risk associated with funding CDM & JI is medium. This is largely due to the fact that the total program value falls within the medium range for DFAIT contribution programs and because there are multiple contributions to a variety of organizations, both within and outside of Canada. In addition, on the one hand, the mandate and activities are flexible enough to allow for changing scenarios resulting from the negotiations; on the other hand, the international negotiations may have an effect on domestic obligations hence the incentives for companies to participate in the market mechanisms may change.

2.1.5 ***

OBSERVATIONS

3.1 Practices and Processes

3.1.1 Sound administrative practices were found to be in place. The Project Review Committee meets on a weekly basis to discuss submitted projects. All decisions are documented. When a project is endorsed and is for \$100 K or more, it is submitted to the Interdepartmental Committee for consultation.

3.1.2 The program has personnel with the appropriate competencies to manage the program. Building in-house technical capacity has been key and measures are being taken to expand this knowledge.

3.1.3 In August 2002, the financial instrument used was changed from procurement contracts to contribution agreements, where appropriate.

3.1.4 The Program Strategy for 2003/2004 will focus more on key countries with significant emission reduction potential and those where Canadian industry is active.

3.2 Monitoring, Contribution Payments and Program File Management

3.2.1 The elements of the contribution agreement were found to be in agreement with the majority of the requirements of the TBS and Departmental Transfer Payment Policies. The contribution agreement respects the template as set out by SMD.

3.2.2 Good practices are in place for the monitoring of results and request for payments. The Project Review Committee is also involved with this final stage of the project where reports and monitoring results obtained by Program Officers are presented. The Program Officers monitor, for quality and relevance, the project reports received from the recipients and where needed will consult with the proper authorities before proceeding with the payment process. When the reports or other outputs have been accepted, the documents submitted with the request for payment are reviewed by the Program Officer and when accepted, the request for payment is processed.

3.2.3 Program files were found to be complete and organized. Accounting records and other relevant documents are maintained and disclose the amounts paid to recipients.