



United Nations Development Programme

Harmonised Approach to Cash Transfers Framework

Micro-Assessment of Chuuk Public Utilities Corporation

2019



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8 January 2020

Dear Sir

We have completed our HACT Micro-Assessment of the Chuuk Public Utilities Corporation ("CPUC", "Implementing Partner" or "IP").

Our assessment may not have identified, and the comments in this report may not be a comprehensive record of, all the issues that may exist.

The responsibility for the maintenance of an adequate internal control system as well as the prevention and detection of irregularities, including fraud, rests with those charged with the governance of the IP.

This report includes internal control findings which we consider appropriate for consideration by Chuuk Public Utilities Corporation and is intended solely for the use of the IP and the UNDP Pacific Office in Fiji.

We wish to thank the staff and employees of the IP and the UNDP Pacific Office in Fiji for the cooperation and courtesy extended to us during our Micro Assessment. We appreciate the opportunity to present these recommendations for your consideration.

Yours sincerely



Sikeli Tuinamuana
Partner

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1. Background, Scope and Methodology

1.1 Background

The micro assessment is part of the requirements under the Harmonized Approach to Cash Transfers (HACT) Framework. The HACT Framework represents a common operational framework for UN agencies' transfer of cash to government and non-governmental implementing partners.

The micro-assessment assesses the IP's control framework. It results in a risk rating (low, moderate, significant or high). The overall risk rating is used by the UN agencies, along with other available information (e.g. history of engagement with the agency and previous assurance results), to determine the type and frequency of assurance activities as per each agency's guideline and can be taken into consideration when selecting the appropriate cash transfer modality for an IP.

1.2 Scope

The micro-assessment provides an overall assessment of the Implementing Partner's programme, financial and operations management policies, procedures, systems and internal controls. It includes:

- ▶ A review of the IP legal status, governance structures and financial viability; programme management, organizational structure and staffing, accounting policies and procedures, fixed assets and inventory, financial reporting and monitoring, and procurement; and
- ▶ A focus on compliance with policies, procedures, regulations and institutional arrangements that are issued both by the Government and the Implementing Partner.

It takes into account results of any previous audits and micro assessments conducted of the Implementing Partner.

1.3 Methodology

We performed the micro-assessment from 22nd October – 25th October 2019 at the Chuuk Public Utilities Corporation office in Weno, Chuuk, Federated States of Micronesia.

Through discussion with management, observation and walk-through tests of transactions, we have assessed the Implementing Partner's and the related internal control system with emphasis on:

- ▶ The effectiveness of the systems in providing the Implementing Partner's management with accurate and timely information for management of funds and assets in accordance with work plans and agreements with the United Nations agencies; and
- ▶ The general effectiveness of the internal control system in protecting the assets and resources of the Implementing Partner.

We discussed the results of the micro assessment with applicable UN agency personnel and the IP prior to finalization of the report. The list of persons met and interviewed during the micro-assessment is set out in Annex IV.

2. Summary of Risk Assessment Results

In summary, we conclude that the overall assessment of the Implementing Partner's programme, financial and operations management policies, procedures, systems and internal controls with regard to cash transfers is Moderate.

The current processes and procedures can be improved further. The issues identified are areas for improvement that we believe should be addressed.

We believe that it is important for the IP to understand the impact of their work on managing overall risk.

The issues highlighted warrant timely action and will remain a risk to the IP until they are addressed.

The table below summarizes the results and main internal control gaps found during application of the HACT micro-assessment questionnaire (in Annex VI). Detailed key findings and recommendations are set out in Section 3 below.

Tested subject area	Risk assessment	Brief justification for rating
1. Implementing partner	Moderate	
2. Programme management	High	Finding No. 1 and No. 2
3. Organizational structure and staffing	Significant	Finding No. 3 and No. 4
4. Accounting policies and procedures	Moderate	Finding No. 5
5. Fixed assets and inventory	Moderate	
6. Financial reporting and monitoring	Moderate	
7. Procurement	Significant	Finding No. 4, No. 6 and No. 7
Overall Risk Assessment	Moderate	

3. Internal Control Findings and Recommendations

No.	Description of Finding	Recommendation
1.	<p><u>Absence of project implementation policy</u></p> <p>Checklist Category: 2.1, 2.2 and 2.3</p> <p>Risk Ranking: High</p> <p>Our assessment noted the absence of a project implementation policy, which provides guidance on the implementation of projects, refers to the development of annual work plans and considers the risks involved.</p> <p>Implication</p> <p>The UNDG HACT Framework requires the UN agency to determine if the IP provides work plans that specify specific expected results with the activities to be carried out to achieve results, with a time frame and budget for the activities. Additionally, the IP must also identify the potential risks for programme delivery and mechanisms to mitigate them.</p> <p>This has increased the overall risk rating of the IP.</p>	<p>We recommend that the IP consider developing a project implementation policy or standard operating procedures that provide guidance on the implementation of projects, the development of annual work plans and budget for the activities.</p> <p>IP Comments:</p> <p>Follow donor implementation policies</p> <p>UNDP Comments:</p> <p>UNDP will closely follow the monitoring and evaluation procedures as outlined in the project document, until the Implementing partner project implementation policy is been developed.</p> <p>Given that the Project will have its Project Implementation Unit (PIU), the PIU will be guided by the Project Document which has the following:</p> <ul style="list-style-type: none"> ▶ Monitoring & Evaluation (M&E) plan which outlines oversight & monitoring responsibilities including development of Annual Work Plans (AWPs), Output Targets, etc. ▶ Total Budget and Workplan by components, by year and activity budget line. ▶ Various Annexes to guide implementation and reporting. <p>In the meantime, UNDP will use its existing policies within the Programme and Operations Policies and Procedures (POPP) as guidance to the implementation of this project.</p> <p>UNDP will share with IP various policies that will help strengthen the operational and internal controls of their current system, and also the Assurance plan to monitor the implementation Policy.</p>

No.	Description of Finding	Recommendation
2.	<p><u>Absence of monitoring and evaluations framework</u></p> <p>Checklist Category: 2.1, 2.4, 2.5 and 2.7</p> <p>Risk Ranking: High</p> <p>The IP has yet to develop a monitoring and evaluation framework to provide guidelines for the monitoring of activities, evaluation of results and reporting of the same to an oversight committee.</p> <p>Moreover, our assessment notes that the IP does not have specific personnel that monitor and evaluate programmes and projects undertaken.</p> <p>Implication</p> <p>The UNGD HACT Framework requires the UN agency to determine if the IP has and use sufficient detailed policies, procedures, guidelines and other tools.</p> <p>Insufficient proof of M&E activities could pose the risk of non-achievement of project components, delay in project progress and inefficient use of project resources.</p> <p>This has increased the overall risk rating of the IP.</p>	<p>We recommend that the IP follow up on M&E activities to ensure that adequate monitoring is performed on implementation progress.</p> <p>IP Comments:</p> <p>A project manager is recruited to monitor & evaluate the project undertaken.</p> <p>UNDP Comments:</p> <p>We acknowledge the absence of an overarching M&E Framework, and that any M&E is as per donor requirements on project by project basis. This is the first time for the Implementing partners to be working with UNDP and hence lacks the M& E Policy, as the main purpose for the IP is to provide Reasonable cost to the customers and the public corporation shall be responsive to the need and concerns of the people of Chuuk.</p> <p>We appreciate receiving the IP's M&E framework as and when it becomes available, so the project can provide feedback to the IP on M&E results. Until their Monitoring and Evaluation (M&E) Framework is developed, the Project Implementation Unit in consultation with technical stakeholders and consultants, will develop a Multi-Year AWP, Monitoring and Reporting template for officers based in the field and compile Quarterly Progress Reports (Narrative and Financial). As per the Monitoring and Evaluation project document, UNDP is expected to participate in Annual field visits.</p> <p>In the meantime, the Project will use its own M&E framework to monitor and evaluate results.</p>

No.	Description of Finding	Recommendation
3.	<p><u>Significant turnover of key staff</u></p> <p>Checklist Category: 3.7</p> <p>Risk Ranking: High</p> <p>We note that CPUC has experienced significant turnover of key staff in the past 2 years. The current CEO and CFO of the IP have only commenced in their roles in early 2018, with less than a month given for handover.</p> <p>As a result of staff movement and lack of proper handover, the IP has had to resort to engaging the former CEO and CFO on a consultancy basis for the reliance of knowledge and expertise of the organization.</p> <p>The UNDG HACT Framework requires the implementing agency to determine if there has been significant turnover especially in key finance positions over the past five years.</p> <p>Implication</p> <p>The lack of succession planning has increased the overall risk rating of the IP.</p>	<p>We recommend that proper succession planning practices are implemented, and the contracts of senior management be reviewed to ensure proper handover is given to successors.</p> <p>IP Comments:</p> <p>Current management has considered succession planning to be put in place.</p> <p>UNDP Comments:</p> <p>UNDP would like to have the succession plan for the IP once its has been in place, as this would assist UNDP in the project implementation.</p> <p>UNDP to be clear with IP in terms of the project life and remuneration of staff including other benefits during the recruitment process so this reduces the risk of staff turnover.</p>
4.	<p><u>Inadequate HR policy on training and lack of formalized procurement training</u></p> <p>Checklist Category: 3.5, 3.6, 7.5 & 7.6</p> <p>Risk Ranking: High</p> <p>Review of the CPUC Personnel Manual notes the absence of a training policy to ensure continued training needs assessment and training reports.</p> <p>We ascertain that donor funded projects will require specific training for programme implementation and reporting, procurement processing and reporting of financial activities.</p> <p>The UNDG Framework requires the UN agency to determine whether the IP has training policies for accounting/finance/ programme management staff and ensure that these necessary training activities are undertaken.</p> <p>Moreover, the UNDG Framework requires the UN Agency to determine whether the procurement unit is resourced with qualified staff who are trained and certified and considered experts in procurement and conversant with UN / World Bank / European Union procurement requirements in addition to the IP's procurement rules and regulations.</p> <p>Implication</p> <p>The absence of a proper training policy and training activities for finance and procurement could result in non-compliance during project implementation.</p> <p>This has increased the overall risk rating of the IP.</p>	<p>We recommend that the IP consider:</p> <ul style="list-style-type: none"> ▶ Establishing a training policy to ensure training needs are identified and followed through with the Implementing agency if required; and ▶ Training plans are properly established. <p>IP Comments:</p> <p>A HR position was created and filled as part of management's goal to address the lack of HR personnel to focus on areas such as trainings.</p> <p>UNDP Comments:</p> <p>The project will ensure that it has adequate staff to implement the project and proper segregation of duties. That Project Staff are qualified for the position and trained as per needs of UNDP reporting.</p> <p>UNDP will identify relevant training and ensure this is delivered as and when needed. Financial reporting requirements to UNDP to be addressed via appropriate FACE training. UNDP conducts refresher training on operational matters (finance, human resources and procurement) for the Project Implementation Unit. Other support includes discussions in country via Project team in Pohnpei, skype consultations with UNDP staff in Fiji.</p>

No.	Description of Finding	Recommendation
		UNDP to seek generic Training Policy suitable to IP and discuss with IP its amendment as per needs of the IP with a view to adopting such a training policy
5.	<p><u>Lack of proof of internal audit function</u></p> <p>Checklist Category: 4.29, 4.30, 4.31 & 4.32</p> <p>Risk Ranking: High</p> <p>The IP is audited annually by Deloitte & Touche LLP, Guam in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.</p> <p>CPUC IP is a component unit of the Government of the State of Chuuk that deals with a significant budget. Our assessment notes the absence of an internal audit structure, risk matrix and internal audit plans.</p> <p>The UNDG HACT Framework requires the implementing agency to determine whether the IP has an internal audit function which is sufficiently independent to make critical assessments of the IP's activities as well as those financed by the agencies.</p> <p>Implication</p> <p>The lack internal audit coverage or reports, increases the overall risk rating of the IP.</p>	<p>We recommend that the IP consider internal audit establishing an internal audit function, risk matrix and plans as a means to evaluate the effectiveness of their controls in future.</p> <p>IP Comments:</p> <p>An Internal audit position or committee is being proposed to be added on the new organization structure /chart.</p> <p>UNDP Comments:</p> <p>UNDP acknowledge the Comments from the IP and awaiting the proposed internal audit position or committee to be formulated. This would be monitored through the Spot check and programmatic visit as per the assurance plan.</p> <p>In the meantime, the project will be audited under UNDP policy.</p>

No.	Description of Finding	Recommendation
6.	<p><u>Absence of assurance activities and reports on procurement procedures</u></p> <p>Checklist Category: 7.4 & 7.5</p> <p>Risk Ranking: High</p> <p>Our assessment notes that the IP does not generate procurement reports on projects, as past project procurements were handled by the National Finance sector of the State Government.</p> <p>Procurement reports were not made available as a means to demonstrate the experience of past procurement committees in evaluating bids for equipment and services that may be related to the Corporation.</p> <p>Moreover, assurance reports were not provided for the same.</p> <p>Implication</p> <p>The UNDG HACT Framework requires the UN agency to determine whether procurement reports are generated and reviewed regularly.</p> <p>The absence of such reports has increased the overall rating of the IP.</p> <p>This has increased the overall risk rating for the IP.</p>	<p>We recommend that procurement reports and audits be encouraged in future to reaffirm the transparency of the IP's procurement practices.</p> <p>IP Comments:</p> <p>CPUC will ensure to obtain copies of procurement reports which were handled by the National Finance sector of the State Government.</p> <p>UNDP Comments:</p> <p>UNDP recommends the UNDP personnel from the project is involved in the major procurement for the project, and also request if the IP have an evaluating committee who evaluate bigger procurement, with assurance report of the procurements.</p> <p>As an interim measure, it is recommended that UNDP manages Procurement of the project. During the inception phase the Project Implementation Unit is expected to compile a draft Procurement plan to help assess the volume, type, timing and requirements of procurement.</p> <p>UNDP in discussion with IP, review the Procurement challenges with Procurement Unit and consider ways to strengthen it. In the event FSM Government process takes long, options to use UNDP process is available.</p>

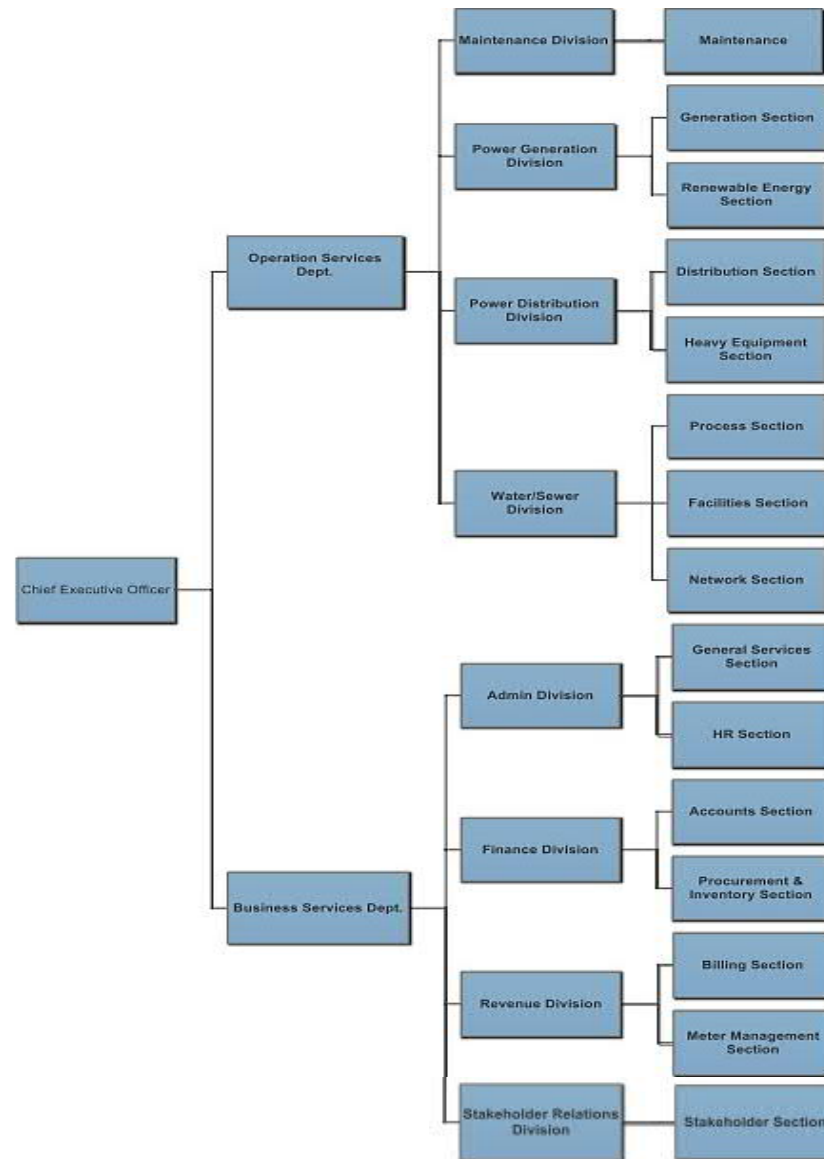
No.	Description of Finding	Recommendation
7.	<p><u>Absence of contract management procedures</u></p> <p>Checklist Category: 7.16, 7.17, 7.18, 7.19 & 7.20</p> <p>Risk Ranking: High</p> <p>Section 3 of the Second Legislature of the State of Truk has established guidelines for the process of procurement and Section II.2 of the IP's Accounting policy established particular thresholds to be adhered to.</p> <p>However, we note that this manual does not cover contract management procedures and guidelines for:</p> <ul style="list-style-type: none"> - Post facto-actions; and - Contract management <p>We note that the IP will be purchasing equipment for early warning and disaster response purposes, as well as managing contracts during project implementation, as such, clear guidelines related to contract management procedures can help avoid significant disputes with vendors or contractors.</p> <p>Implication</p> <p>Due to the absence of the above procedures, the overall risk rating has increased.</p>	<p>We recommend that the procurement and contract management responsibilities be clearly defined for the purpose of the IP.</p> <p>IP Comments:</p> <p>The Implementing Partner manages its contracts. However, depending on the funding partner, contracts are reviewed jointly before a final decision is made. In other instances, the contract review is outsourced.</p> <p>UNDP Comments:</p> <p>It is recommended that the IP takes these recommendations and incorporate into their policy and procedures especially on the contact management procedures. This would be followed up with the IP during HACT spot checks.</p> <ul style="list-style-type: none"> • The Project Document will outline project management arrangements. The project document will be signed off by UNDP and FSM Government. • Expectations and responsibilities can be discussed at Project staff training to be held within the first month of when the project starts. • UNDP will organize a UNDP procurement training for procurement officers amongst its projects. • Post facto situations, as well as the failure to report them, are both serious deviations from UNDP procurement policies and procedures.

Annexes

Annex I: IP and Programme Information

Implementing partner name:	Chuuk Public Utility Corporation
Implementing partner code or ID in UNICEF, UNDP, UNFPA records (as applicable)	UNDP
Implementing partner contact details (contact name, email address and telephone number):	Mr. Kembo Mida Jr. Chief Executive Officer kembo.mida@cpuc.fm
Main programmes implemented with the applicable UN Agency/ies:	N/A
Key Official in charge of the UN Agency/ies' programme(s):	Ms. Yoko Ebisawa Project Manager yoko.ebisawa@undp.org
Programme location(s):	Federated States of Micronesia
Location of records related to the UN Agency/ies' programme(s):	Weno, Chuuk
Currency of records maintained:	USD
Expenditures incurred/reported to UNICEF, UNDP and UNFPA (as applicable) during the most recent financial reporting period (in US\$);	N/A
Cash transfer modality/ies used by the UN agency/ies to the IP	TBC
Intended start date of micro assessment:	22 nd October 2019
Number of days to be spent for visit to IP:	4 days
Any special requests to be considered during the micro assessment:	N/A

Annex II: Implementing Partner Organisation Structure



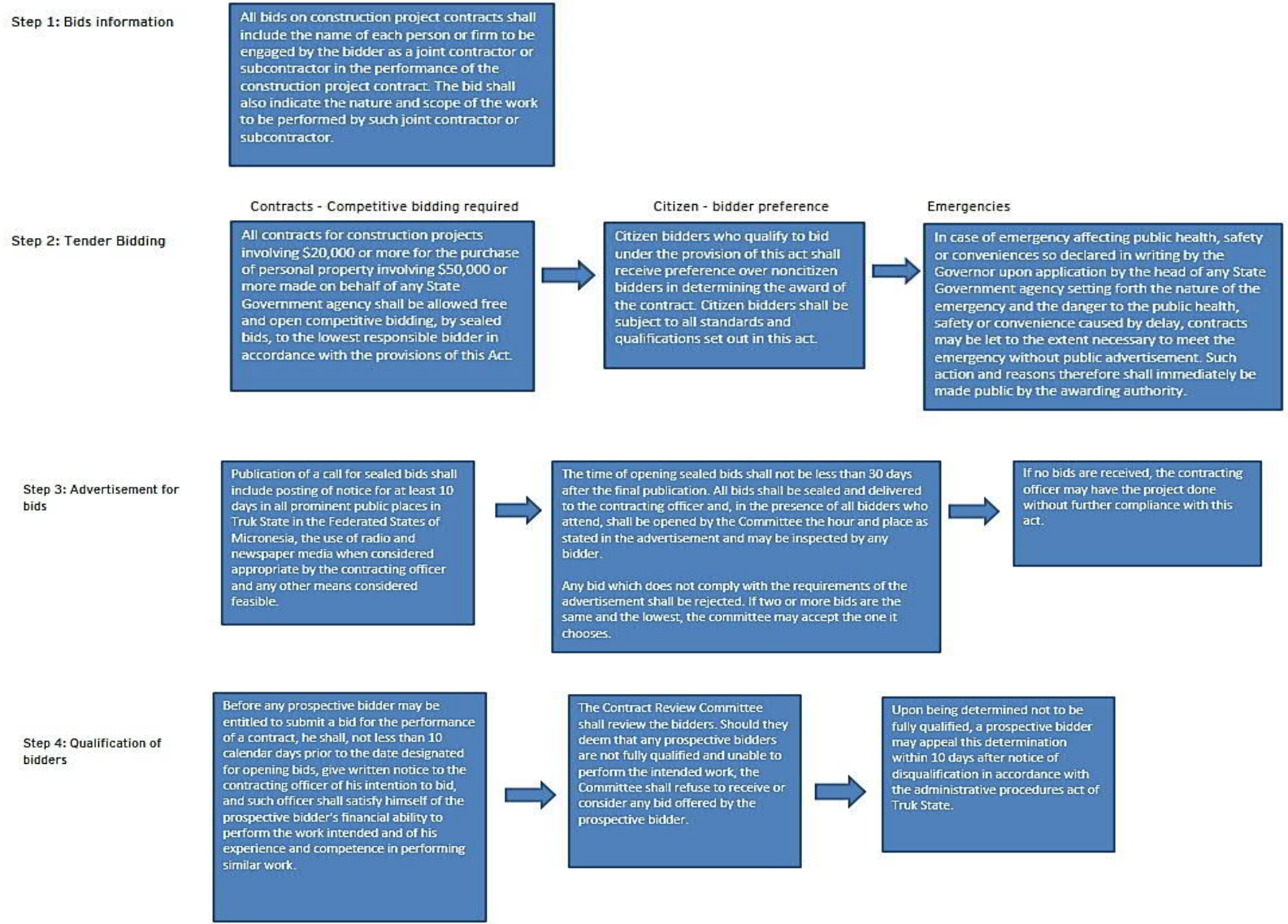
Annex III: Work/Time Flow Diagrams

- ▶ Procurements
- ▶ Payments
- ▶ Financial reports (N/A as the IP does not prepare any financial report)

Procurement Flowchart

Unit Responsible: Procurement Unit

Project ref: Enhancing Disaster and Climate Resilience in the Republic of FSM through improved Disaster Preparedness and Infrastructure



Step 5: Consideration and Evaluation of Tenders

Any agreement or collusion among bidders or prospective bidders in restraint of freedom of competition by agreement to bid at a first price or to refrain from bidding shall render the bids of such bidders void. Each bidder shall accompany his bid with a sworn statement that he has not been a party to such an agreement.

Any disclosure in advance of the terms of a bid submitted in response to an advertisement for bids shall render the proceedings void and require advertisement and award anew.



All contracts shall be in writing and shall be executed by the State Government agency which is authorized to let contracts in its own name and shall be made with the lowest responsible bidder.

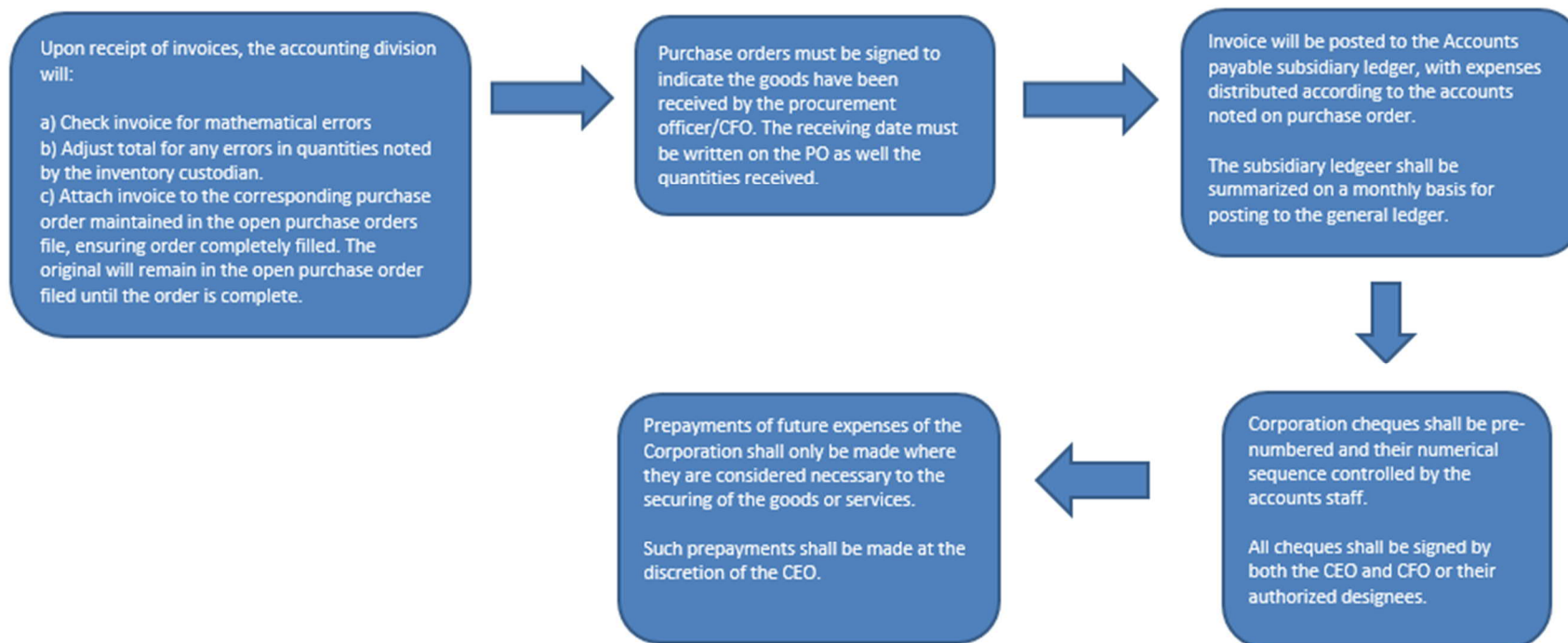
If the lowest bid is rejected, the Committee may, at its discretion, award the contract to the lowest remaining responsible bidder or advertise a new for bids pursuant.

The Committee may negotiate with the bidder, to reduce the scope of work and to award the contract at a price which reflects the reduction in the scope of work.

Payments Process

Unit Responsible: Finance/ Accounts Department

Project ref: Enhancing Disaster and Climate Resilience in the Republic of FSM through improved Disaster Preparedness and Infrastructure



Annex IV: List of Persons Met

- a. During the micro assessment
- b. Prior to finalising the micro assessment (discussed the results with prior to finalisation)

Name	Unit/Organisation	Position
a. During the micro assessment		
Mr. Kembo Mida Jr.	Chuuk Public Utility Corporation	Chief Executive Officer
Ms. Leialoha Shirai	Chuuk Public Utility Corporation	Chief Financial Officer
Mrs. Smireen Sos	Chuuk Public Utility Corporation	Senior Accountant
Mrs. Myrineda Mori	Chuuk Public Utility Corporation	Human Resource Generalist
Mrs. Joyce Triana	Chuuk Public Utility Corporation	Procurement Officer
Ms. Yoko Ebisawa	UNDP Pacific Office in Fiji	Project Manager - Regional Project support team
Mr. Dhiraj Singh	UNDP Pacific Office in Fiji	Programme Finance & Compliance Analyst
b. Prior to finalizing the micro assessment (discussed the results with prior to finalisation)		
Mr. Kembo Mida Jr.	Chuuk Public Utility Corporation	Chief Executive Officer
Ms. Leialoha Shirai	Chuuk Public Utility Corporation	Chief Financial Officer
Ms. Yoko Ebisawa	UNDP Pacific Office in Fiji	Project Manager - Regional Project support team
Mr. Dhiraj Singh	UNDP Pacific Office in Fiji	Programme Finance & Compliance Analyst

Annex V: List of Key Documents

Doc #	Name of Document	Date Submitted	Received and Reviewed by Audit Firm prior to Field Trip
1.	Business Plan - FY2014 to FY2018	23/10/2019	No
2.	Job Descriptions - Finance Division	23/10/2019	No
3.	Job Descriptions - Water & Sewer Division	23/10/2019	No
4.	Legal Actions - CPUC confirmations YE Sep 30 2018	23/10/2019	No
5.	CPUC Organisation Structure Charts 1 June 2017	23/10/2019	No
6.	Personnel Manual - HR	23/10/2019	No
7.	CPUC Accounting Policies & Procedures May 2012	23/10/2019	No
8.	CPUC Annual Report FY2018	23/10/2019	No
9.	CPUC Chart of Accounts	23/10/2019	No
10.	CPUC Monthly Report September 2019	23/10/2019	No
11.	FY16 Audited Financial Statements	23/10/2019	No
12.	FY17 Audited Financial Statements	23/10/2019	No
13.	FY18 Audited Financial Statements	23/10/2019	No
14.	Fixed Assets Register FY 2019	23/10/2019	No
15.	Bank Reconciliations	23/10/2019	No
16.	CPUC - Backhaul Network	23/10/2019	No
17.	CPUC - Code of Ethics	23/10/2019	No
18.	CPUC - Server Network	23/10/2019	No
19.	CPUC Amended Law Act No 8-14	23/10/2019	No
20.	CPUC Procurement document over US\$5k	23/10/2019	No
21.	CPUC Draft Business Plan 2019	23/10/2019	No
22.	FSM signed project document	18/10/2019	Yes

Annex VI: HACT Framework Micro-Assessment Questionnaire

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
1. Implementing Partner						
1.1 Is the IP legally registered? If so, is it in compliance with registration requirements? Please note the legal status and date of registration of the entity.	Yes			Low	1	Under the Third Legislature of the State of Chuuk, Act No 3-36 established a Chuuk Public Utility Corporation (CPUC) to provide for its powers, duties and functions. The purpose of this Act is to correct the deficiencies of CSL No. 192-12, "The Chuuk Public Utilities Corporation Act of 1992." Accordingly, this Act establishes a public corporation that shall be responsible for providing reliable utilities at reasonable cost to its customers and the public corporation shall be responsive to the needs and concerns of the people of Chuuk.
1.2 If the IP received United Nations resources in the past, were significant issues reported in managing the resources, including from previous assurance activities.		No		N/A	-	The IP has not received UN resources or funding in the past therefore not applicable.
1.3 Does the IP have statutory reporting requirements? If so, are they in compliance with such requirements in the prior three fiscal years?	Yes			Moderate	4	Monthly management reporting: not obligated to provide it to the State, this is being done by the CFO and CEO but is assisted by the former CEO and CFO as consultants to help provide transition. These consist of the Financial statements, which are submitted to the Board during the Board Meetings. Under the Chuuk State Law No. 3-97-05, Act No. 3-36, the board and the Chief Executive Officer shall ensure that the Comptroller prepares proper and complete books of accounts reflecting all incomes, expenditures, assets and liabilities of the CPUC. The board shall also submit to the Governor and the Legislature a complete report showing CPUC activities during the fiscal year, the present financial status and condition of the CPUC, a financial accounting of any funds provided by the State to the CPUC, and such other

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
1. Implementing Partner						
						<p>matters as the board deems appropriate, or as requested by the Governor or the Legislature.</p> <p>Annual Reports: are compiled together with the FS are provided to the State legislature and the Governor's office.</p> <p>We have sighted the above reports and confirm that the IP is in compliance with the statutory reporting requirements.</p>
1.4 Does the governing body meet on a regular basis and perform oversight functions?	Yes			Moderate	2	<p>As per the Chuuk State Law No. 3-97-05, regular meetings of the board shall be held not less than once per calendar quarter and at such other times and places as shall be determined by the bylaws or by a majority of all members. As per the discussion with the CFO, Board meetings are conducted every two months. However, when if there is an urgent need that requires the Board's attention or approval, then it is requested by the CFO and CEO.</p> <p>We have sighted the meeting minutes for September 14, 2019.</p>
1.5 If any other offices/ external entities participate in implementation, does the IP have policies and process to ensure appropriate oversight and monitoring of implementation?		No		N/A	-	Our assessment does not foresee any external involvement as implementation will be headed by the IP.
1.6 Does the IP show basic financial stability in-country (core resources; funding trend). Provide the amount of total assets, total liabilities, income and expenditure for the current and prior three fiscal years.	Yes			Moderate	4	<p>We obtained the audited Financial Statements for the year ended 30 September 2018 and 2017 and noted the following:</p> <p>Total Assets = \$ 24,901,436 (\$ 24,604,800)</p> <p>Total Liabilities = \$ 4,896,329 (\$ 5,105,678)</p> <p>Operating Revenue/Loss = -\$235,244 (-\$280,158)</p> <p>Net Position at YE = \$20,005,107 (\$19,499,122)</p>

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
1. Implementing Partner						
1.7 Can the IP easily receive funds? Have there been any major problems in the past in the receipt of funds, particularly where the funds flow from government ministries?	Yes			Moderate	2	The IP receives funds through the National Government and Procurement is done and contracted to the CPUC to carry out the activities of the various projects involved. CPUC is required to report to the Board any funds that is granted by the Government. This is also documented in their Annual Report.
1.8 Does the IP have any pending legal actions against it or outstanding material/significant disputes with vendors/contractors? If so, provide details and actions taken by the IP to resolve the legal action.	Yes			Moderate	2	According to a signed representation letter (dated April 30,2019) from CPUC's solicitors (Ramp & Mida Law firm), a total of 12 legal cases have been raised against the Corporation as at 30 September 2018 in which the solicitors have been instructed to provide legal advice and actions on behalf of the IP.
1.9 Does the IP have an anti-fraud and corruption policy?	Yes			Moderate	2	The IP has identified that they have a Code of Ethics that is shared with employees and its purpose is to establish a culture of openness, trust and integrity in business practices. It states that CPUC reinforces the importance of the integrity message and every employee, manager, director needs to consistently maintain an ethical stance and support ethical behavior. CPUC will not tolerate any form of harassment or discrimination and so forth.
1.10 Has the IP advised employees, beneficiaries and other recipients to whom they should report if they suspect fraud, waste or misuse of agency resources or property? If so, does the IP have a policy against retaliation relating to such reporting?	Yes			Moderate	2	This is documented in the Code of Ethics that is distributed to each staff member and stored in their personal files for reference. It states that CPUC will not tolerate any form of harassment or discrimination, unauthorized use of operational, personnel, financial, source code and technical information integral to the success of the company will not be tolerated. Unauthorized use of corporate assets or business relationships for personal use or gain will not be tolerated and CPUC will act quickly in correcting any issue should the ethical code be broken.

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
1. Implementing Partner						
1.11 Does the IP have any key financial or operational risks that are not covered by this questionnaire? If so, please describe. Examples: foreign exchange risk; cash receipts.		No		N/A	-	
Total number of questions in subject area:	11					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	3					
Total number of risk points:	19					
Risk score	2.38					
Area risk rating	Moderate					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
2. Programme Management						
2.1 Does the IP have and use sufficiently detailed written policies, procedures and other tools (e.g. project development checklist, work planning templates, work planning schedule) to develop programmes and plans?	Yes			High	4	<p>The CPUC Draft Business Plan (set to be finalized in November 2019) outlines the goals, objectives and key performance indicators. Its overall objective is to transform CPUC into a sustainable utility corporation that can provide high-quality and reliable services (electricity and water/sewer) to consumers at an optimum cost, which would enable the Government to attract needed investment and improve the economy and quality of life of its citizens.</p> <p>Its Mission is to provide sustainable utility infrastructure and services to support Chuuk State's economic development, to improve the quality of life for all in Chuuk.</p> <p>Its Strategy is to improve the financial performance of CPUC by reducing the generation and purchased power costs, reducing technical losses, eliminating the commercial losses and collecting 100% of the Energy Available for Sale (EAFS) and Water Available for Sale (WAFS) and prudently spending and investing the collected revenue and borrowings to continuously improve its services to achieve reliability and quality standards commensurate with best international practices.</p> <p>Nevertheless, we did not sight any detailed written policies, procedures and other tools to develop programmes and plans.</p>
2.2 Do work plans specify expected results and the activities to be carried out to achieve results, with a time frame and budget for the activities?	Yes			High	8	<p>The CPUC Business Plan outlines the various planned activities that are to be conducted such as Power Generation, Distribution Network, Supply/Customer Service and so on. It lists the specific activities under each main activity that is planned.</p> <p>However, we noted that there are no time frames stated and no budget for the activities listed in the Business Plan as it is still in the draft stages.</p>

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
2. Programme Management						
2.3 Does the IP identify the potential risks for programme delivery and mechanisms to mitigate them?	Yes			High	4	We could not identify any section in the Business Plan that addresses potential risks linked to the activities listed and way in which it could be mitigated.
2.4 Does the IP have and use sufficiently detailed policies, procedures, guidelines and other tools (checklists, templates) for monitoring and evaluation?		No		High	4	We could not identify any section in the Business Plan that addresses potential risks linked to the activities listed and way in which it could be mitigated.
2.5 Does the IP have M&E frameworks for its programmes, with indicators, baselines, and targets to monitor achievement of programme results?		No		High	4	The IP does not currently have any detailed policies, procedures and tools for monitoring and evaluations. However, management reports and progress reports are presented to the Board on the current programme and project progress.
2.6 Does the IP carry out and document regular monitoring activities such as review meetings, on-site project visits, etc.	Yes			Moderate	4	Water Treatment plant project in another island in Chuuk and inspection is conducted on a regular basis by the Technical Operations Manager, quarterly reports were also submitted to the Project Management Office (PMO) of the State. During Board meetings, an update is provided to the Board on the progress to the Board members. The board meetings are conducted every 2 months. Under the state requirement, inspection officials also inspect the sites on a regular basis.
2.7 Does the IP systematically collect, monitor and evaluate data on the achievement of project results?	Yes			High	4	The CPUC management provides project updates to the Board during Board meetings. However, there is no formal procedure on the collection, monitoring and evaluation of data on the achievement of project results. The monitoring and evaluation of a project is also determined by the requirements from the donor. For instance, if the project is funded by an external party or a donor and quarterly progress reports are required, then it is prepared by

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
2. Programme Management						
						management, reviewed by the Board and submitted to the donor. Otherwise, there is no formal procedure in monitoring project achievement.
2.8 Is it evident that the IP followed up on independent evaluation recommendations?	Yes			Moderate	2	The IP has contracted consultancy services to provide independent evaluation recommendations, which is presented to the Board.
Total number of questions in subject area:	8					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	2					
Total number of risk points:	34					
Risk score	4.25					
Area risk rating	High					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
3. Organizational Structure and Staffing						
3.1 Are the IP's recruitment, employment and personnel practices clearly defined and followed, and do they embrace transparency and competition?	Yes			Moderate	4	<p>The Personnel Manual establishes rules, procedures and guidelines to govern the employment system of the CPUC in accordance with Chuuk State Law No. 3-97-05. The employment system shall be based on merit principles, and free from coercion, discrimination, reprisal or political influence.</p> <p>The manual is designed to attract, select and retain the best qualified individuals.</p> <p>The manual also states that preference in employment and training shall be given to FSM citizens. Foreign citizens shall be employed only when qualified Chuukese or FSM citizens are not available. The manual also outlines examinations of the most suitable and qualified personnel and goes further to discuss the disqualification of applicants.</p>
3.2 Does the IP have clearly defined job descriptions?	Yes			Moderate	2	Job Descriptions received from the IP clearly define the responsibilities, expectations, qualification and qualities the desired personnel for the position should have.
3.3 Is the organisational structure of the finance and programme management departments, and competency of staff, appropriate for the complexity of the IP and the scale of activities? Identify the key staff, including job titles, responsibilities, educational backgrounds and professional experience.	Yes			Moderate	4	<p>The organizational structure for CPUC outlined all functional units across eight divisions. For the purpose of the project, the division under the Water and Sewer Division, particularly the Process and Facilities and the Network sections have greater relevance to this assessment.</p> <p>Key Staff:</p> <p>1. Head of Water & Sewer Division</p> <p>Responsibilities: oversee the operation of CPUC water and sewer production and treatment facilities and distribution and collection networks; plan, assign and supervise tasks for the Water & Sewer Division staff; ensure the quality of water supply throughout the distribution network; maintain a system of information that tracks all operations including statistical records for reporting purposes and so forth.</p> <p>2. Lead Operator</p> <p>Responsibilities: ensure efficient day-to-day operations of the Water Treatment Plant (WTP) and Sewage Treatment Plant</p>

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
3. Organizational Structure and Staffing						
						<p>(STP); coordinate daily preventative maintenance requirements for all equipment; clearing of the STP and WTP/ inlet works; control and maintain normal output of quality water into the network; control and ensure efficient discharge of effluent from the STP to the sea and so on.</p> <p>3. Lead Network Operator Responsibilities: ensure continuous and efficient daily operation of water and sewer networks; plan, organize and coordinate work responsibilities of all staff of the Network section; deal with operational problems and communicating the same to the Head of Water & sewer division.</p> <p>4. Inventory Supervisor Responsibilities: liaise with shippers and FSM Authorities (state and national) for clearance of goods on arrival from outside of FSM; Implement effective inventory system with effective procedures and inventory controls to receive and issue materials; Monitor inventory levels and issue a monthly inventory level report for all CPUC warehouses/stores, etc.</p>
3.4 Is the IP's accounting/finance function staffed adequately to ensure sufficient controls are in place to manage agency funds?	Yes			Moderate	4	Upon review of Finance Divisions' Job Descriptions, they clearly demarcate the responsibilities to ensure proper separation of duties that will uphold the internal control system.
3.5 Does the IP have training policies for accounting/finance/ programme management staff? Are necessary training activities undertaken?		No		High	4	<p>The IP does not have any formal training policies, staff only receive on the job training.</p> <p>Upon hiring of staff, they are assessed according to the qualification and skills assessment. Most trainings are conducted offshore and staff are required to travel as there is limited training available on the island (e.g. Technician and the CFO attended offshore). Otherwise, it is on-the-job training.</p>
3.6 Does the IP perform background verification/checks on all new accounting/finance and management positions?		No		High	4	There are no background checks that are performed on new accounting/finance staff. The hiring of a new staff member is based on education and experience as well as skilled personnel.

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
3. Organizational Structure and Staffing						
						As it is difficult to find personnel to fill in positions within the organization, due to lack of skilled people on the island.
3.7 Has there been significant turnover in key finance positions the past five years? If so, has the rate improved or worsened and appears to be a problem?	Yes			High	4	<p>There has been significant turnover with the top-level management. The current CFO and CEO joined CPUC in 2018, with less than two weeks of handover from the former CEO and CFO.</p> <p>This has led to the current management to rely on former staff as consultants to assist in the transition process. The IP's HR Officer had also left in June 2019 and was replaced by the former Accounts staff.</p> <p>Hence, we have noted that there seems to be a lack of succession planning within the corporation.</p>
3.8 Does the IP have a documented internal control framework? Is this framework distributed and made available to staff and updated periodically? If so, please describe.	Yes			Moderate	2	There is a Personnel Manual which details all relevant aspects of HR for those in CPUC and this is made available to all staff within the Human Resources Department.
Total number of questions in subject area:	8					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	3					
Total number of risk points:	28					
Risk score	3.50					
Area risk rating	Significant					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
4a. General						
4.1 Does the IP have an accounting system that allows for proper recording of financial transactions from United Nations agencies, including allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds?	Yes			Low	1	The IP follows the accounting procedures laid down in the CPUC Accounting Policy and Procedures and it uses the SAGE financial system to record and allocate expenditure.
4.2 Does the IP have an appropriate cost allocation methodology that ensures accurate cost allocations to the various funding sources in accordance with established agreements?	Yes			Moderate	4	The IP is allocated funds through the State Finance sector. CPUC is required to provide Quarterly Progress Reports to Programme Management office and to the State Budget Office but mainly National State Finance. This is compiled by the CFO. These reports consist of a form and a narrative describing how the project is tracking. The project manager prepares the progress reports. We have sighted the Quarterly progress reports submitted by the IP.
4.3 Are all accounting and supporting documents retained in an organised system that allows authorized users easy access?	Yes			Moderate	4	The CPUC Accounts Office stores Payables and Payroll documentation and the Bill Registers, collections reports/ cash received reports are kept in the CFO's office. The IP's archives are stored in the Warehouse.
4.4 Are the general ledger and subsidiary ledgers reconciled at least monthly? Are explanations provided for significant reconciling items?	Yes			Moderate	2	According to the CPUC - Accounting Policies and Procedures Manual, the general ledger balance sheet accounts shall be prepared by the CFO. The CFO shall maintain the following journals and ledgers: a) General Journal; b) General Ledger; c) Cash Disbursement Journal;

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
						d) Cash Receipt Journal; e) Billing Journal; f) Customer subsidiary ledgers; g) Fixed Asset Register; (annual) h) Perpetual Inventory Records; and i) Accounts payable subsidiary ledger.
4b. Segregation of duties						
4.5 Are the following functional responsibilities performed by different units or individuals: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?	Yes			Moderate	4	The Senior Accountant prepares the payables and receivables documentation ready for the recording of the billing to the SAGE accounting system, which is performed by the CFO. Once entered into the system, the CFO authorizes the transactions and payments is done by the Senior Accountant. Offshore vendors: Procurement officer prepares documentation and authorization is done by the CFO Local vendors: Accounts prepares and CFO authorize the transaction. The custody of all the IP's assets that are purchased is handled by the Procurements officer (apart from office supplies).
4.6 Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?	Yes			Moderate	4	Under Section II.3.2 Inventory Receiving and Distribution Procedures of the Accounting Manual, the CEO shall appoint an inventory custodian who will be responsible for receiving and distributing items of inventory. A specific location or locations shall be maintained for the storage of inventory items. All invoices/packing slips received along with good as well as freight forward invoices shall be immediately attached to the copy of the purchase order which is then block stamped and dated. The inventory custodian will check all items and quantities received against the accompanying invoice or shipping documents to ensure completeness of shipment. Additionally, the items will be checked for any damage that may have occurred during shipment, which will be noted on the slip

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
						<p>and the custodian will sign the block stamp to evidence such a check.</p> <p>The invoice/packing slip will then be forwarded to Accounting for the processing of payment.</p> <p>Materials issued tickets (MITs) shall be pre-numbered and their numerical sequence controlled by the inventory custodian.</p>
4.7 Are bank reconciliations prepared by individuals other than those who make or approve payments?	Yes			Moderate	4	<p>The Senior Accountant prepares the monthly bank reconciliations which is then reviewed by the Chief Financial Officer. The CFO and CEO approve payments.</p> <p>Upon review of the September 2019 bank reconciliation, we noted that the IP has engaged the former CFO with the preparation of the bank reconciliations, this is then reviewed by the current CFO and approved by the CEO.</p>
4c. Budgeting system						
4.8 Are budgets prepared for all activities in sufficient detail to provide a meaningful tool for monitoring subsequent performance?	Yes			Moderate	4	<p>As stated in the CPUC - Accounting Policies and Procedures Manual, a budget shall be prepared annually by the CEO, through the Chief Financial Officer to reflect the forecasted activities of the Corporation for the following financial year. The budget must be reviewed and approved by the Board of Directors and such approval noted in Board minutes. This approval of the budget will then constitute approval of all expenditures made by the Corporation in accordance with the budget. The CEO may reprogram budgeted expenditures between categories without Board approval up to a maximum of 15 percent of the total budget for the category being reprogrammed. For larger adjustments, the reprogramming in question must be presented to the Board for approval.</p>

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
4.9 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations from the budget?	Yes			Moderate	4	This is discussed with the board and exceptions can be made when actual expenditures exceed the budgeted costs especially with regards to the upkeep or maintenance of the power plants. This is due to unexpected issues that were faced. For instance, the maintenance costs of power plans and unexpected disruptions.
4.10 Is prior approval sought for budget amendments in a timely way?	Yes			Moderate	2	As per the Accounting Manual, the CEO may reprogram or amend budgeted expenditures between categories without Board approval up to a maximum of 15 percent of the total budget for the category being reprogrammed. For larger adjustments, the reprogramming in question must be presented to the Board for approval.
4.11 Are IP budgets approved formally at an appropriate level?	Yes			Moderate	2	'The budget must be reviewed and approved by the Board of Directors and such approval noted in Board minutes. This approval of the budget will then constitute approval of all expenditures made by the Corporation in accordance with the budget.
4d. Payments						
4.12 Do invoice processing procedures provide for: <ul style="list-style-type: none"> - Copies of purchase orders and receiving reports to be obtained directly from issuing departments? - Comparison of invoice quantities, prices and terms with those indicated on the purchase order and with records of goods/services actually received? - Checking the accuracy of calculations? 	Yes			Moderate	4	Section II.2.2 Purchase Procedures states that purchase order forms shall be pre-numbered and their numerical sequence controlled by the designated accounting staff. This shall be prepared by the accounting division. The accounting division shall perform the following: <ul style="list-style-type: none"> i. inventory records shall be accessed to ensure that the items orders are not currently on hand; ii. The general ledger account classification recorded on the purchase order; and iii. Review of the available budget for the noted account classification to ensure that funds are available. The purchase order will then be signed by the CFO to evidence

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
						the availability of funds. This will then be forwarded to the CEO for final approval.
4.13 Are payments authorised at an appropriate level? Does the IP have a table of payment approval thresholds?	Yes			Moderate	4	<p>The Accounting Manual outlines the following thresholds for Purchasing:</p> <ul style="list-style-type: none"> i. Minor purchases of \$100 and less may be paid out of the petty cash. This purchase can be sole sourced or quoted from several sources. Monies from this fund may not be disbursed unless expenses are: <ul style="list-style-type: none"> a) Supported by documentary evidence; and b) Approved by requesting Department supervisor. <p>We noted that in practice the CFO has been authorising transactions that are \$100 and less.</p> <ul style="list-style-type: none"> ii. Purchases of items for \$1,000 or less can be sole sourced or quoted from several sources. Monies for these expenses may not be disbursed unless: <ul style="list-style-type: none"> a) Supported by documentary evidence; and b) Approved by the CEO and CFO as to the availability of funds. iii. All purchases of \$1,001 to \$50,000 require at least three quotations from qualified suppliers. If less than three

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
						<p>quotations are obtained, evidence of solicitation from the requisite number of qualified sources is required for determining that competition is adequate. Monies for these expenses may not be disbursed unless:</p> <p>a) Supported by documentary evidence; and</p> <p>b) Approved by the CEO and CFO as to the availability of funds.</p> <p>iv. All purchases of more than \$50,000 require at least three quotations from qualified suppliers; quotation shall be through sealed bids. Monies for these expenses may not be disbursed unless:</p> <p>a) Supported by documentary evidence of the above;</p> <p>b) Approved by the Board; and</p> <p>c) Contract approved by the CEO and CFO as to the availability of funds.</p>
4.14 Are all invoices stamped 'PAID', approved, and marked with the project code and account code?		No		Moderate	4	The IP attaches the copy of the cheque or a wire to the Invoice as proof of payment.
4.15 Do controls exist for preparation and approval of payroll expenditures? Are payroll changes properly authorized?	Yes			Moderate	4	<p>As per the IP's Accounting manual, the CEO shall appoint a payroll clerk who shall be responsible for the maintenance of the payroll system, preparation of the bi-weekly payroll report and associated checks.</p> <p>The CFO, his designee and the payroll clerk shall be the only corporation employees with access to the payroll system and payroll records. Every bi-weekly, timesheets shall be forwarded to the payroll clerk for entry into the system.</p>

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
4.16 Do controls exist to ensure that allocation of staff salary costs reflects the actual amount of staff time spent on a project?	Yes			Moderate	4	An edit report shall be produced and checked back to timesheets before final processing to the payroll system. The final payroll report shall then be forwarded to the CFO for review and final approval. This review shall involve comparison to the prior period's report or a standard payroll to ensure reasonableness of the total payroll amount.
4.17 Do controls exist for expense categories that do not originate from invoice payments, such as DSAs, travel, and internal cost allocations?	Yes			Moderate	4	All travel expenditures must be approved by the CEO. Travel by the CEO shall be approved by the Chairman of the Board of CPUC. The CPUC shall use the FSM per diem rates for all travels. Employees shall be entitled to receive a travel advance for the FSM per diem rate excluding air fare which will be paid directly by the Corporation. All non-per diem expenses must be supported by receipts upon the employee's return to Chuuk. In the event that CPUC employee travel is sponsored in part by an external agency, CPUC will be responsible for the portion of the trip that is not covered by the sponsoring agency up to the limits provided for in this policy.
4e. Policies and procedures						
4.18 Does the IP have a stated basis of accounting (i.e. cash or accrual) and does it allow for compliance with the agency's requirement?	Yes			Low	1	The IP's financial reports are prepared on the Accrual Basis of accounting.
4.19 Does the IP have an adequate policies and procedures manual and is it distributed to relevant staff?	Yes			Moderate	2	The IP maintains a Personnel Manual which details all relevant aspects of HR for those in CPUC and this is made available to all staff within the Human Resources Department.
4f. Cash and bank						
4.20 Does the IP require dual signatories for bank transactions? How many signatories are on the bank account and how many are required to execute transactions? How are names added/removed? Provide names.	Yes			Moderate	4	The CEO, CFO, Board Chairman and the Head of Power Generation (the four signatories) are the authorized personnel for bank transactions. However, only two out of the four personnel are required to authorize bank transactions/wire.

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
						The Senior Accountant can only draft wire transactions and the CEO/CFO cannot create transactions.
4.21 Does the IP maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes			Moderate	4	This is maintained and updated by the Senior Accountant and is reviewed and approved by the CFO.
4.22 If the partner is participating in micro-finance advances, do controls exist for the collection, timely deposit and recording of receipts at each collection location?		No		N/A	-	The IP to which the project is to be implemented does not participate in micro-finance advances, to which it works on a single annual grant from the Government.
4.23 Are bank balances and cash ledger reconciled monthly and properly approved? Are explanations provided for significant, unusual and aged reconciling items?	Yes			Moderate	4	This is currently being prepared on a monthly basis by an external consultant, which is then reviewed by the CFO and approved by the CEO.
4.24 Is substantial expenditure paid in cash? If so, does the IP have adequate controls over cash payments?	Yes			Moderate	4	The CEO shall appoint a petty cash custodian(or may appoint others if deemed necessary to expedite certain projects)who will be responsible for maintaining the cash and vouchers at the specified total of \$500. In practice, the petty cash is kept and maintained by the CFO. It is locked in her office.
4.25 Does the IP carry out a regular petty cash reconciliation?	Yes			Moderate	2	As per the Accounting manual, it states that due to the high liquidity of cash, the petty cash should be counted on a regular basis by the CFO and any discrepancies immediately reported to management. We have sighted the Petty Cash Replenishment for the month of September 2019 and can confirm that this is done on a regular basis.

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
4.26 Are cash and cheques maintained in a secure location with restricted access? Are bank accounts protected with appropriate remote access controls?	Yes			Moderate	2	All cash is kept is safely stored in the CFO's office and locked. The blank cheques are kept in the Accounts Office. The Senior Accountant has access to view and draft wire payments. The CFO and CEO have full access to the bank accounts with approving rights. However, they are unable to draft payments.
4.27 Are there adequate controls over submission of electronic payment files that ensure no unauthorized amendments once payments are approved and files are transmitted over secure/encrypted networks?	Yes			Moderate	2	As stated in the CPUC Accounting Policy, section 11.4.3 Online Banking policy, all disbursements using online banking shall be for valid expenses of the Corporation and shall only be made when accompanied by external supporting documentation. All online disbursements or transfers shall be signed by both the CEO and CFO or their authorized designees. All online transactions shall be recorded on a corporate ledger and reconciled to the bank accounts periodically.
4g. Other offices or entities						
4.28 Does the IP have a process to ensure expenditures of subsidiary offices/ external entities are in compliance with the work plan and/or contractual agreement?			N/A	N/A	-	Not applicable as all funds and operations are managed by the main office in Weno, Chuuk.
4h. Internal audit						
4.29 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?		No		High	4	The IP does not currently engage in internal audit services with an external party.
4.30 Does the IP have stated qualifications and experience requirements for internal audit department staff?		No		High	4	

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
4.31 Are the activities financed by the agencies included in the internal audit department's work programme?		No		High	4	
4.32 Does the IP act on the internal auditor's recommendations?		No		High	4	
Total number of questions in subject area:	32					
Total number of applicable questions in subject area:	30					
Total number of applicable key questions in subject area:	18					
Total number of risk points:	100					
Risk score	3.33					
Area risk rating	Moderate					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
5. Fixed Assets and Inventory						
5a. Safeguards over assets						
5.1 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes			Moderate	2	According to the Accounting Manual, the CFO shall maintain a fixed asset register detailing all assets owned by the Corporation and associated accumulated depreciation on each item. The fixed asset register shall be maintained on an annual basis and depreciation of all assets shall be calculated on a monthly basis and posted to the general ledger by journal entry. Upon disposal, fixed assets shall be removed from the fixed asset register. The

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
5. Fixed Assets and Inventory						
						<p>CFO shall perform a periodic inventory of all fixed assets to ensure the physical existence of all items is recorded.</p> <p>We have sighted the Fixed Asset Register, which detailed the date of acquisition of the asset, the amount it was purchased for, useful life and monthly depreciation, as at 30 September 2018.</p>
5.2 Are subsidiary records of fixed assets and inventory kept up to date and reconciled with control accounts?	Yes			Moderate	2	<p>Under Section II.9.2 of the Accounting manual, all invoices received for the purchase of fixed assets shall be recorded in the fixed asset register. The register shall classify assets into the following main categories:</p> <ul style="list-style-type: none"> a) Generation Plants b) Distribution Plants c) Water and Sewer Plants d) Vehicles and Equipment e) Buildings and Improvements f) Specific projects funded by external funding <p>The CFO shall perform a periodic inventory of all fixed assets to ensure the physical existence of all items is recorded.</p>
5.3 Are there periodic physical counts of fixed assets?	Yes			Moderate	2	This is performed by the Procurement Officers and team, which is conducted annually.
5.4 Are fixed assets and inventory adequately covered by insurance policies?		No		Moderate	2	The IP's fixed assets are covered by Fire, General Liability cover and Auto Insurance.
5b. Warehousing and inventory management						
5.5 Do warehouse facilities have adequate physical security?	Yes			Moderate	4	The main plant is gated and it is physically secured. Cameras are available onsite. Storage room also contain the meters are at the office site. Power Plant stores generator parts and supplies are

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
5. Fixed Assets and Inventory						
						kept, gated and security cameras onsite. The security monitor is in the power plant with security officers present at all times.
5.6 Is inventory stored so that it is identifiable, protected from damage, and countable?	Yes			Moderate	2	The IP has warehouses around Chuuk that stores inventory such as generator parts. There is also a storage room for office supplies and other smaller items. We have sighted the inventory stored in the Warehouses and can confirm that it is identifiable, protected from damage and countable.
5.7 Does the IP have an inventory management system that enables monitoring of supply distribution?	Yes			Moderate	4	The Procurement officer records all assets that are purchased into an excel spreadsheet, that is reviewed by the CFO. All purchases however, are entered into the system by the CFO and purchases are approved by the CEO and the Board. Furthermore, the IP hopes to transition into an inventory system which will map all fixed assets. with financial assistance from the Asian Development Bank.
5.8 Is responsibility for receiving and issuing inventory segregated from that for updating the inventory records?	Yes			Moderate	2	In practice, the receiving and issuing of inventory is performed by the Procurement officer and the updating of the inventory records is conducted by the CFO with the assistance of a consultant.
5.9 Are regular physical counts of inventory carried out?	Yes			Moderate	2	This is conducted annually in September and this is performed by the Procurement team, which consists of the Procurement officer and two warehouse assistants.
Total number of questions in subject area:	9					
Total number of applicable questions in subject area:	9					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
5. Fixed Assets and Inventory						
Total number of applicable key questions in subject area:	2					
Total number of risk points:	22					
Risk score	2.44					
Area risk rating	Moderate					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
6. Financial Reporting and Monitoring						
6.1 Does the IP have established financial reporting procedures that specify what reports are to be prepared, the frequency	Yes			Moderate	2	Monthly management reporting: The IP is not obligated to provide it to the State, this is performed by the CFO and CEO, who are assisted by consultants. These reports are then

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
6. Financial Reporting and Monitoring						
of preparation, what they are to contain and how they are to be used?						<p>submitted to the Board during the Board Meetings every two months.</p> <p>Under the Chuuk State Law No. 3-97-05, Act No. 3-36, the board and the Chief Executive Officer shall ensure that the Comptroller prepares proper and complete books of accounts reflecting all incomes, expenditures, assets and liabilities of the CPUC. The board shall also submit to the Governor and the Legislature a complete report showing CPUC activities during the fiscal year, the present financial status and condition of the CPUC, a financial accounting of any funds provided by the State to the CPUC, and such other matters as the board deems appropriate, or as requested by the Governor or the Legislature.</p> <p><u>Annual Reports:</u> are compiled together with the FS are provided to the State legislature and the Governor's office.</p>
6.2 Does the IP prepare overall financial statements?	Yes			Moderate	2	Full financial statements are prepared annually and audited by Deloitte & Touche LLP, Guam.
6.3 Are the IP's overall financial statements audited regularly by an independent auditor in accordance with appropriate national or international auditing standards? If so, please describe the auditor.	Yes			Moderate	4	The IP is audited annually by Deloitte & Touche LLP, Guam in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards. The IP operates on an accrual basis.
6.4 Were there any major issues related to ineligible expenditure involving donor funds reported in the audit reports of the IP over the past three years?		No		Moderate	4	We have sighted the prior year annual financial statements and management letters and have noted there were no major issues related to ineligible expenditure involving donor funds reported in the audit reports of the IP over the past three years.
6.5 Have any significant recommendations made by auditors in the prior three audit		No		Moderate	2	We have sighted the prior year annual financial statements and management letters and have noted there are no significant findings that not been implemented.

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
6. Financial Reporting and Monitoring						
reports and/or management letters not yet been implemented?						
6.6 Is the financial management system computerized?	Yes			Moderate	4	The IP uses the Sage Accounting System to record financial transactions, as well as allocate expenditures.
6.7 Can the computerized financial management system produce the necessary financial reports?	Yes			Moderate	2	Monthly reports are obtained from the SAGE financial system.
6.8 Does the IP have appropriate safeguards to ensure the confidentiality, integrity and availability of the financial data? E.g. password access controls; regular data back-up.	Yes			Moderate	2	As per discussion with the IP, scheduled backups are done daily and the backup is located at the Power Plan. Staff members use their own password login details, there is a shared drive used by staff that store all data on. Employees do not share user login or password details with each other.
Total number of questions in subject area:	8					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	3					
Total number of risk points:	22					
Risk score	2.75					
Area risk rating	Moderate					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement						
7.1 Does the IP have written procurement policies and procedures?	Yes			Moderate	2	The IP abides by the State Government's established procedures for competitive bidding on public contracts, referred to as the "Public Contracts Act". This act was established in 2 May 1983. We noted that the IP does not currently have its own procurement rules and guidelines therefore it follows those rules outlined by the State.
7.2 Are exceptions to procedures approved by management and documented?	Yes			Moderate	2	Any exceptions to the procurement of goods and services are only approved by the CEO. Reasons for the exception must be provided with the supporting documentation to justify the procurement purchase.
7.3 Does the IP have a computerized procurement system with adequate access controls and segregation of duties between entering purchase orders, approval and receipting of goods? Provide a description of the procurement system.	Yes			Moderate	2	As per the discussion with the IP, the ordering of goods and supplies is handled by the Procurement officer. The officer then compiles all the supporting documentation and provides it to the CFO, who enters all purchases into the spreadsheet maintained for procurement. A spreadsheet of details of all goods is maintained by the officer and is reviewed and approved by the CFO and CEO for processing and payment.
7.4 Are procurement reports generated and reviewed regularly? Describe reports generated, frequency and review & approvers.		No		High	4	The IP does not generate procurement reports, as past procurement projects were handled by National Finance.
7.5 Does the IP have a structured procurement unit with defined reporting lines that foster efficiency and accountability?		No		High	4	The IP does not have a formalized procurement unit. The unit is made up of a Procurement officer and two warehouse officers. The Procurement officer is in charge of issuing and receiving of bids, managing all goods purchased and documentation for evaluation and approval by the CFO and CEO. The warehouse assistants basically

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement						
						support the officer the moving of goods into the warehouse.
7.6 Is the IP's procurement unit resourced with qualified staff who are trained and certified and considered experts in procurement and conversant with UN/ World Bank/ European Union procurement requirements in addition to the IP's procurement rules and regulations?		No		High	4	The procurement team is trained on the job and they are hired based on their experience and skills. The IP does not provide any formal training to staff. Finding: The Procurement staffs have not received the formal training in procurement regulations conversant with UN/ World Bank/ European Union Procurement requirements.
7.7 Have any significant recommendations related to procurement made by auditors in the prior five audit reports and/or management letters over the past five years and have not yet been implemented?		No		Moderate	2	We have sighted the prior five-year audit reports and/or management letters and have not noted any significant recommendations given by the auditors or recommendations that were yet to be implemented.
7.8 Does the IP require written or system authorizations for purchases? If so, evaluate if the authorization thresholds are appropriate?	Yes			Moderate	4	The Accounting Manual outlines the following thresholds for Purchasing: i. Minor purchases of \$100 and less may be paid out of the petty cash. This purchase can be sole sourced or quoted from several sources. Monies from this fund may not be disbursed unless expenses are: a) Supported by documentary evidence; and b) Approved by requesting Department supervisor. ii. Purchases of items for \$1,000 or less can be sole sourced or quoted from several sources. Monies for these expenses may not be disbursed unless: a) Supported by documentary evidence; and

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement						
						<p>b) Approved by the CEO and CFO as to the availability of funds.</p> <p>iii. All purchases of \$1,001 to \$50,000 require at least three quotations from qualified suppliers. If less than three quotations are obtained, evidence of solicitation from the requisite number of qualified sources is required for determining that competition is adequate. Monies for these expenses may not be disbursed unless:</p> <p>a) Supported by documentary evidence; and</p> <p>b) Approved by the CEO and CFO as to the availability of funds.</p> <p>iv. All purchases of more than \$50,000 require at least three quotations from qualified suppliers; quotation shall be through sealed bids. Monies for these expenses may not be disbursed unless:</p> <p>a) Supported by documentary evidence of the above;</p> <p>b) Approved by the Board; and</p> <p>c) Contract approved by the CEO and CFO as to the availability of funds.</p> <p>Wired or Online Transactions can only be approved by the CFO and CEO.</p>
7.9 Do the procurement procedures and templates of contracts integrate references to ethical procurement principles and exclusion and ineligibility criteria?	Yes			Moderate	2	As per the Accounting Manual under the Purchasing Procedures, it states that for Ethical Conduct that no board member or employee or agent of the grantee shall participate in the selection, award or administration of a contract supported by US Federal Funds if a conflict of interest, real or apparent, would be involved. Such conflict would arise when one of the offerors or bidders has a

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement						
						<p>special relationship with the Board Member, employee or agent.</p> <p>Examples of a special relationship are the following:</p> <p>i) Where the offeror or bidder, or a senior officer of the offering or bidding company is related to or is domicile with the Board Member, employee or agent.</p> <p>ii) The Board Member, employee or agent has received, or expects to receive payment or other consideration for whatever reason from the offeror or bidder.</p> <p>Where an employee is found to be in violation of the ethical conduct requirement, the employee or agent has received or expects to receive payment or other consideration for whatever reason from the offeror or bidder.</p> <p>Although this procedure is for US Federal Funds, it is also applied for all procurement that is conducted.</p>
7.10 Does the IP obtain sufficient approvals before signing a contract?	Yes			Moderate	4	Approval for procurement of goods and services is given by the CEO only.
7.11 Does the IP have and apply formal guidelines and procedures to assist in identifying, monitoring and dealing with potential conflicts of interest with potential suppliers/procurement agents? If so, how does the IP proceed in cases of conflict of interest?	Yes			Moderate	2	<p>As per the Accounting Manual under the Purchasing Procedures, where an employee is found to be in violation of the ethical conduct requirement, the employee or agent has received or expects to receive payment or other consideration for whatever reason from the offeror or bidder.</p> <p>Where an agent of the grantee or sub grantee is found to be in violation of this ethical conduct requirement, then the CEO shall forward a written complaint to the employer of the agent, requesting that disciplinary action be taken.</p> <p>Where a Board Member is found to be in violation of the ethical conduct requirement, then the CEO shall write to the Governor requesting that the Board member be</p>

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement						
						removed from the Board for the cause, being the violation of the ethical conduct procurement provisions of the CPUC. Although this policy is for US Federal Funds, it is also applied for all procurement that is conducted.
7.12 Does the IP follow a well-defined process for sourcing suppliers? Do formal procurement methods include wide broadcasting of procurement opportunities?	Yes			Moderate	4	<u>Tender Process:</u> This is done by posting invitations in public areas and on the radio. CPUC is also a member of Pacific Power Association, therefore, tenders/ads are also posted by Pacific Power Association (PPA) and Pacific Water and Waste Water Association (PWWA) on their website to inform companies in the south pacific of any tenders available.
7.13 Does the IP keep track of past performance of suppliers? E.g. database of trusted suppliers.		No		Moderate	2	The IP follows the Ministry of Economy's trusted suppliers, if there is a contract existing with a certain supplier. Otherwise, they would obtain competitive quotes (minimum of 3 quotes) for the purchase or goods, services or works.
7.14 Does the IP follow a well-defined process to ensure a secure and transparent bid and evaluation process? If so, describe the process.	Yes			Moderate	2	The IP currently does not have a written procurement policy that addresses quotations, tenders, contracts and the evaluation and selection of suppliers. However, the IP abides by the State Government's established procedures for competitive bidding on public contracts.
7.15 When a formal invitation to bid has been issued, does the IP award the contract on a pre-defined basis set out in the solicitation documentation taking into account technical responsiveness and price?	Yes			Moderate	4	In practice, after an invitation to bid has been issued, the IP awards the contracts to suppliers based on the quality of the product and timeliness of delivery.
7.16 If the IP is managing major contracts, does the IP have a policy on contracts management/administration?		No		High	4	IP had confirmed that there is no specific contracts management policy.

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement						
7b. Contract Management - To be completed only for the IPs managing contracts as part of programme implementation. Otherwise select N/A for risk assessment						
7.17 Are there personnel specifically designated to manage contracts or monitor contract expirations?		No		High	4	Currently, there are no personnel designated to manage contracts or monitor contract expirations. Previously, this task was handled by the IP's Technical Operations Manager.
7.18 Are there staff designated to monitor expiration of performance securities, warranties, liquidated damages and other risk management instruments?		No		High	4	Refer to Question 7.17
7.19 Does the IP have a policy on post-facto actions on contracts?		No		High	4	There is currently no policy addressing the post-facto contract actions. Both the suppliers and the IP work according to an agreement.
7.20 How frequent do post-facto contract actions occur?		No		High	4	N/A
Total number of questions in subject area:	20					
Total number of applicable questions in subject area:	20					
Total number of applicable key questions in subject area:	5					
Total number of risk points:	66					
Risk score	3.30					
Area risk rating	Significant					

Totals

Total number of questions: 96

Total number of applicable questions: 91

Total number of applicable key questions: 36

Total number of risk points: 291

Total risk score 3.20

Overall risk rating Moderate