



MICRO ASSESSMENT REPORT

INSTITUCAO NACIONAL DE SAUDE (INS)

DATE: 07 March 2022
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COMMISSIONED BY: UNFPA Timor Leste

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MICRO ASSESSMENT FINDINGS

1.1. BACKGROUND, SCOPE AND METHODOLOGY

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 implementing partner'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 implementing partner.

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 implementing partner 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;
- 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 micro assessments conducted of the implementing partner.

Methodology

We performed the micro assessment at the locations and on the dates set out in Annex I.

Through discussion with management, observation and walk-through tests of transactions, we have assessed the implementing partner's 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;
- 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 implementing partner prior to finalization of the report. The list of persons met and interviewed during the micro assessment is set out in Annex III.

Results

The results of our micro assessment are set out in section 1.2 below, and our detailed internal control findings and recommendations in section 1.3.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'RW', with a long horizontal flourish extending to the right.


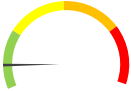
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07 March 2022

1.2. SUMMARY OF RISK ASSESSMENT RESULTS

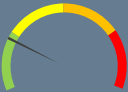
The table below summarizes the results and main internal control gaps found during application of the micro assessment questionnaire (in Annex IV). Detailed findings and recommendations are set out in section 1.3 below.

Tested subject area	Risk assessment*	Comments
1. Implementing partner	<p>Low</p> 	<p>Instituto Nacional de Saude (INS) is a government agency, created on 16 March 2011 under the government decree law no.9/2011. INS used to be under the direct jurisdiction of the Ministry of Health, however, it became independent from the Ministry at the start of 2016 and is now governed by its own statutes. It is governed by the 'Conselho Diretivo' ('Director Council'), who meet weekly.</p> <p>Since 2003, the IP received funds from UN agencies including from UNFPA and UNICEF. There were no significant issues in managing the resources received.</p> <p>Although the budget is approved by the state, therefore guaranteeing the financial stability, we were not able to confirm this to financial statements as these are not prepared. As a government organisation, the partner follows the Law on Anti-corruption Commission.</p>
2. Programme management	<p>Low</p> 	<p>INS uses the programme management tools required by the funding agencies. For activities funded by the government, the partner follows the policies and guidelines provided by the government. It has also developed its own policy on programme development. However, risk management procedures are not included in these policies, although we note that in practice risks are identified and mitigating actions considered. Action plans and work plans appropriately include the targets, indicators, objectives, and relevant timeframes.</p> <p>The partner carries out monitoring activities such as spot checks and on-site visits. It also collects and monitors feedback data for key performance indicators, which are reported in the quarterly and annual reports prepared by the partner's quality control programme department for both the government and donors.</p>

<p>3. Organisational structure and staffing</p>	<p>Moderate</p> 	<p>The organisational structure is appropriate for the size and complexity of the organisation. According to the partner, they follow the policies and procedures of the Civil Service Commission of Timor-Leste in terms of recruitment, employment, and personnel practices. However, we were not provided with any sample documentation to support this.</p> <p>The partner does not have training policies for accounting / finance / IT / programme management staff and no training activities are undertaken. The partner was not able to demonstrate that they perform background verification checks on new accounting and management positions and does not have a written policy specifying the requirements for conducting these checks.</p>
<p>4. Accounting policies and procedures</p>	<p>Moderate</p> 	<p>INS, being a public sector institute, follows the policies and procedures of the Ministry of Finance. Separate accounting systems are maintained for government-funded activities and for donor-funded activities. Expenditure funded by UNFPA is recorded in ATLAS, which has been provided by UNFPA, and other donor funds are recorded using an Excel spreadsheet. The government accounting system, FreeBalance, is used for government-funded activities.</p> <p>Financial processes are performed by appropriate individuals and segregation of duties is in place. There are separate bank accounts for government and donor funds. Bank and petty cash reconciliations are performed for government funds on a quarterly basis. However, no bank reconciliations are performed for donor bank accounts.</p> <p>Invoice processing procedures allow for three-way matching. All payments require dual signatories. Budgets are appropriately prepared and approved, both for the organisation and for donor-funded projects.</p>

5. Fixed assets and inventory	<p>Moderate</p> 	<p>The partner follows government policies and procedures on asset management. Government assets are recorded in the FreeBalance system. For donor-funded assets, the IP uses Excel spreadsheets. Assets are properly labelled with donor codes and Excel is considered appropriate as there is a low level of donor-funded assets.</p> <p>The partner performs a physical verification of fixed assets quarterly. We were provided with the signed verification sheets, but nothing to show that the results of the verification are reflected in the asset register. There is no insurance held for fixed assets.</p> <p>Inventory relates only to office supplies, both for the partner's own office and to be used during training sessions for midwives. It is kept in a secure storage room. According to the partner, they keep a log sheet for the monitoring of movement of inventories. However, we were not provided with such documentation. Regular counts and verifications of inventory are not carried out.</p>
6. Financial reporting and monitoring	<p>Moderate</p> 	<p>As a public-sector entity, INS is required to report regularly to the Ministry of Finance and to the Office of the Prime Minister. The reporting templates are set through government decrees. The partner's financial information is included in the annual consolidated financial statements of the government of Timor-Leste. However, the partner does not produce its own statements and therefore does not monitor closely some of the key financial results.</p> <p>There is no formal data security policy, exposing the partner to the risk of permanent loss of data.</p>
7. Procurement and contract administration	<p>Low</p> 	<p>The partner's procurement policies and procedures are governed by government decree. It uses the FreeBalance System for government procurement, and this can produce the required reports. Currently, procurement for donor projects is handled by donors rather than carried out by the partner. As such, the procurement staff are not familiar with UN procurement requirements. For government funds, there is a separate procurement unit consisting of the department head, two assistants and three logistics officers.</p> <p>There are different processes in place and approvals required for different levels of expenditure.</p> <p>The partner does not formally evaluate the performance of previous suppliers and does not keep a record of their past performance assessments.</p>

HACT Framework Micro Assessment

Overall risk assessment	Low 	
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* High, Significant, Moderate, Low

1.3. DETAILED INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

No.	Description of finding	Recommendation	Partner comments
1	Annual financial statements not prepared		
	We were not able to confirm the financial stability of the partner, as they do not produce financial statements. Although the partner is not legally required to prepare financial statements, it is good practice to do so. Financial statements, when prepared in line with a recognised framework such as IFRS provide a view of an organisation's financial position and performance in a format that is clear and comparable.	The partner should prepare annual financial statements. This will provide external stakeholders with a view of the partner's financial standing and may assist it in seeking additional funding from other donors, who may require this information as part of an application.	We were not provided with IP comments.
2	Lack of evidence provided that the Human Resource policy is followed		
	According to the partner, they follow the policies and procedures of the Civil Service Commission of Timor-Leste in terms of recruitment, employment and personnel practices. However, we were not provided with any documentation to support this. Without evidencing the HR processes, we are unable to confirm that well-defined, transparent and fair recruitment, employment and personnel practices are followed. There is thus an increased risk that staff do not have the relevant skills to carry out their duties, which may adversely impact project implementation. Moreover, there is an increased risk of complaint or litigation from staff if they feel that they have been unfairly treated.	The partner should retain sufficient documentation so as to be able to demonstrate that recruitment undertaken is fair and transparent. Up to date personnel files should also be maintained for each staff member.	We were not provided with IP comments.

3	Lack of adequate training		
	The partner does not have training policies for accounting / finance / IT / programme management staff and no training activities are undertaken. Without regular training, there is a risk that staff are not up to date with recent changes in regulations or operating practices. Over time, their competence to perform their roles may diminish.	The partner should implement a training policy, which sets out timescales and training activities to be completed and should ensure these are undertaken as planned. Training requirements should be identified and discussed as part of each staff member's performance appraisal.	We were not provided with IP comments.
4	Lack of background checks for new recruits		
	The partner does not perform background verification checks on new accounting / finance and management positions and does not have a written verification policy specifying the requirements for conducting the checks.	<p>The partner should implement an effective pre-employment procedure. Depending on the seniority of the new staff member, and the nature of their role, this may include:</p> <ul style="list-style-type: none"> • Contacting previous employers for references; • Verifying professional and academic qualifications with the relevant institutions; and • Conducting anti-terrorist or criminal record checks with the authorities. The results of any checks carried out should be retained on an individual's confidential personnel file. 	We were not provided with IP comments.

5	Inadequate accounting system		
	<p>Although the partner has a software-based accounting system, it is not used for expenditure for donor projects. Instead, UNFPA funds are recorded in ATLAS (which is provided by UNFPA), and other donor expenditure is recorded in Excel. The use of separate accounting systems increases the risk that costs are recorded in several accounting systems at the same time without this being detected, increasing the risk of double funding.</p> <p>In addition, although Excel provides basic functionality and, if properly calibrated, can be adequate for smaller or unsophisticated projects, it carries a number of risks. There is a greater likelihood of input errors, and of these errors being undetected as transactions are not subject to the inbuilt controls in the partner's software-based system.</p>	<p>We recommend that the IP implements a single accounting system to record all transactions, particularly for donor-funded projects. This should include the ability to allocate expenditure by donor, project, type and budget line. The accounting system must be capable of providing an audit trail which links the costs declared in financial reports to donors with the individual transactions in its accounting system. Staff should receive training on how to use that system and this should be included in the annual training plan.</p>	<p>We were not provided with IP comments.</p>

6	Weaknesses in management of fixed assets		
	<p>We identified the following weaknesses in the way the partner manages and accounts for fixed assets:</p> <ul style="list-style-type: none"> • The partner performs a physical verification of fixed assets quarterly. We were provided with signed verification sheets. Based on our observation, the count sheets are properly reviewed and approved by the Ministry of Finance. However, we were not provided with any documentation showing that the results of the verification are reflected in the asset register; and • Assets and inventories are not covered by an insurance policy. The partner will therefore face potentially significant financial loss should assets be lost or damaged in unforeseen circumstances. We understand that this is not yet a common practice in Timor Leste. However, we still recommend this for the future. 	<ul style="list-style-type: none"> • The partner should reconcile the results of the fixed asset count with the asset ledgers in their accounting system to ensure that records are complete and accurate, and to ensure that records are updated for any assets that may need to be written off from the accounting records; and • All major assets should be insured so as to reduce the financial impact of the loss or damage of an asset, and to allow the partner to acquire new assets quickly, thereby minimising the impact on project activities. 	We were not provided with IP comments.
7	Insufficient safeguards over financial data		
	The partner does not have adequate safeguards in place to ensure the confidentiality, integrity and availability of financial data. There is no formal data security policy, exposing the partner to the risk of permanent loss of data.	The partner should establish a formal policy for data security in order to ensure adequate safeguarding of its financial data.	We were not provided with IP comments.

8	Procurement weaknesses - system and authorisations		
	The partner does not keep a record of or evaluate the performance of previous suppliers. Failure to do so increases the risk of inadvertently contracting with suppliers which have failed to deliver satisfactorily in the past.	We recommend that the partner sets up a database of trusted suppliers that includes criteria for evaluation. This should be used as a tool to inform future procurement selection and will effectively reduce the time spent on sourcing suppliers, resulting in a more efficient use of staff time and resources.	We were not provided with IP comments.
9	Lack of documented risk identification policy		
	Although the partner formally identifies risks associated with programme delivery and mechanisms to mitigate them, these processes are not included in the programme management policy. Hence risk identification may not be adequately carried out, and therefore project activities may not be adequately safeguarded against preventable risks that may harm the ability to achieve project objectives.	The partner should have a formal risk management policy in place. This should include details of the formal identification of risks, their likelihood and impact at the project planning stage. These risks should be documented in a risk register, along with plans to mitigate them. The risk register should be reviewed and updated throughout the project, as risks evolve.	We were not provided with IP comments.
10	Lack of bank reconciliations		
	There are separate bank accounts for government and donor funds, and funds for each donor have a dedicated bank account. Quarterly bank reconciliations are prepared for government bank accounts, however, no bank reconciliations are performed for donor bank accounts are not reconciled.	The partner should ensure that bank reconciliations are carried out for donor bank accounts. We suggest that these are prepared by a member of the Finance team and reviewed by the Chief of Finance. Bank reconciliations should be documented and signed by the reviewer.	We were not provided with IP comments.

11	Weaknesses in inventory management		
	<ul style="list-style-type: none"> According to the IP, they keep a log sheet for monitoring the of movement of inventories. However, we were not provided with this documentation. Therefore, there is a risk that items are not adequately monitored in the warehouse; and Regular counts and verifications of inventory are not carried out. This increases the risk that any loss or theft of stock, or inaccuracies in records are not identified and addressed on a timely basis. 	<ul style="list-style-type: none"> The partner ensure that the inventory management system is documented and available for review when requested; and The partner should carry out regular stock-takes, including a full verification at least once a year to ensure that records are up to date, and to identify any inventory that may need to be written off from the accounting records 	We were not provided with IP comments.
12	Procurement weaknesses - staffing and structure		
	The staff of the procurement unit are not familiar with UN procurement requirements. This exposes the partner to the risk of breaching its contractual agreement and/or not making efficient use of project funds to achieve value for money.	The partner should ensure that staff receive training on UN procurement requirements. Guidance on donor procurement requirements should also be made available alongside the partner's internal policy in the procurement policies and procedures manual.	We were not provided with IP comments.

ANNEXES

ANNEX I: IMPLEMENTING PARTNER AND PROGRAMME INFORMATION

Implementing partner name:	Institucao Nacional de Saude (INS)
Implementing partner code or ID in UNICEF, UNDP, UNFPA records (as applicable)	
Implementing partner contact details (contact name, email address and telephone number)	Domingas da Costa Pereira (Executive Director) Email: domingasp.ins.gov.tl@gmail.com Mobile: +670773050502 Frediana Ena Guterres (Chief of Finance) Email: fredianag@gmail.com Mobile: +670 77039960
Main programmes implemented with the applicable UN agency/ies	
Key official in charge of the UN agency/ies' programme(s)	
Programme location(s)	Timor-Leste
Location of records related to the UN Agency/ies' programme(s)	Dili, Timor-Leste
Currency of records maintained	USD
Expenditures incurred/reported to UNICEF, UNDP and UNFPA (as applicable) during the most recent financial reporting period (in US\$)	NA
Cash transfer modality/ies used by the UN agency/ies to the implementing partner	Direct Cash Transfer (DCT), Reimbursement and Direct Payment
Intended start date of micro assessment	30 Sept-1 Oct
Number of days to be spent for visit to implementing partner	2 days
Any special requests to be considered during the micro assessment	None

ANNEX II: IMPLEMENTING PARTNER ORGANISATIONAL CHART



ANNEX III: LIST OF PERSONS MET

Name	Unit / organisation	Position
Jacinto Correia	Admin, finance and procurement	Director - Admin, finance and procurement
Carlitos da Costa Belo	Finance	Technical finance professional - government funds
Miguel Manuel do Rosario	Admin and finance	Admin and finance assistant - external donor
Tanio Araujo Soares Augusto	Admin and finance	Admin and finance assistant - external donor
Raimundo da Costa Guterres	Admin and finance	Fixed asset staff
Sebastiao Jose Boavida Belo	Procurement	Head of procurement unit
Reinato Soares	Programme	Head of programme unit
Pedro Amaral	Human resource	Head of HR department
Lucia Afriani Maia	Programme quality control	Head of quality programme department

ANNEX IV: 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	Instituto Nacional de Saude (INS) is a government agency, created on 16 March 2011 under the government decree law no.9/2011. INS used to be under the direct jurisdiction of the Ministry of Health, however, since the start of 2016, this IP has achieved a degree of independence from the Ministry of Health and is now governed by its own statutes. The jurisdiction of the INS is to develop and provide continuous training to healthcare professionals, ensuring the quality and qualifications of health professionals, and creating cooperation agreements with other training institutes.
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		Moderate	4	Since 2003, the IP received funds from UN agencies including from UNFPA and UNICEF. There were no significant issues in managing the resources received. However, we note previous audits raised findings, and the 2016 micro-assessment rating was moderate.
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			Low	1	For government funds, Article 2 of the Government Decree Number 2 of the 8th of January 2021 entitled 'Execução do Orçamento Geral do Estado para 2021', requires the IP to submit quarterly activity and financial reports to the 'Planning, Monitoring and Assessment Unit' of the Prime-Minister's office (Portuguese Acronym: UPMA) and provide a copy of these reports to the Ministry of Finance (MoF). We have reviewed the reports for 2021 and no issues were noted with submission. The reports cover government funds only.

1.4 Does the governing body meet on a regular basis and perform oversight functions?	Yes			Low	1	The IP, as a public sector institute under the government of Timor Leste, is governed by the 'Conselho Diretivo' ('Director Council'). This council is composed of management staff, rather than a separate governing body. The Director Council meets weekly and related minutes of meetings were provided. Operational and financial activities of the IP are reported to the Prime Minister and MoF, with copy to the Minister of Health. We are not raising a management control finding in relation to the lack of governing body as this IP is a public-sector institute and, in order to create a new governing body, it would need to obtain approval from senior politicians and/or the national parliament. In addition, there is sufficient independent oversight from MoF to whom this IP reports every 3 months.
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?			N/A	N/A	-	Based on the nature of the function of the IP, it does not delegate any function to other offices or external entities. Any participation of the other offices or external offices is for consulting service. For example, at the municipality level, the IP coordinates with the director of health services and directors of hospitals in every municipality for the formation/ training of midwives and health care. INS also works in collaboration with INAP (National Institute of Public Administration) for training, especially with the civil servants on leadership and good governance.

1.6 Does the IP show basic financial stability in-country (core resources; funding trend) <i>Provide the amount of total assets, total liabilities, income and expenditure for the current and prior three fiscal years.</i>		No		Significant	6	As a public sector entity in Timor Leste, the national Government supports the IP to ensure its continuous operation and financial stability. The IP prepares an annual budget submitted to the parliament members for review and approval. Upon approval the budget is included in the national budget and is finally approved by the President of Timor Leste as a law or state budget. With this, the IP is assured that it has sufficient resources to carry out its mandate and implement programmes. However, the partner was not able to provide financial information and was unable to show us the financial results and financial position for the last three financial years. We understand that since 2016, it has become an independent organisation from the Ministry of Health. Hence, the IP should have its own financial statements. Refer to internal control finding 1.
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			Low	1	According to the IP, it can easily receive funds from donor organisations. It opened a bank account specifically used for receiving and spending donor funds. It also has a separate bank account for government funds. There were no major problems in the past in receiving funds from donor agencies and from the government.
1.8 Does the IP have any pending legal actions against it or outstanding material/significant disputes with vendors/contractors? <i>If so, provide details and actions taken by the IP to resolve the legal action.</i>		No		Low	1	The IP is not aware of any pending legal actions against it.
1.9 Does the IP have an anti-fraud and corruption policy?	Yes			Low	1	As a government organisation, the IP does not have its own anti-fraud and corruption policy, as it follows the "Law on Anti-corruption Commission of 2009 and Prevention and Measures against Corruption of 2020 (MEDIDAS DE PREVENÇÃO E COMBATE À CORRUPÇÃO Lei n. 7/2020)" that is implemented by the Commission of Anti-Corruption (CAC). Further, the IP has established a Standard Operational Procedure for daily activities which also include information on anti-fraud and corruption.

HACT Framework Micro Assessment

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			Low	1	As part of the government, the IP is under the monitoring of the Commission of Anti-Corruption (CAC). Any suspicion of fraud, waste or misuse of funds can be reported to the CAC through its website anonymously. The "Law on Prevention and Measures against Corruption of 2020", includes a whistle-blower protection clause to prevent retaliation against such reporting and encourage the reporting of abuse. According to the IP, there have been no cases of suspected fraud, waste, and misuse of assets.
1.11 Does the IP have any key financial or operational risks that are not covered by this questionnaire? If so, please describe. <i>Examples: foreign exchange risk; cash receipts.</i>		No		Low	1	The IP does not have any key financial or operational risks that are not covered by the questionnaire.
Total number of questions in subject area:	11					
Total number of applicable questions in subject area:	10					
Total number of applicable key questions in subject area:	4					
Total number of risk points:	18					
Risk score	1.80					
Area risk rating	Low					

Subject area (<i>key questions in bold</i>)	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			Low	1	<p>The IP developed its own policy on programme development. It follows the 4-year strategic programme plan for 2020-2024 and work planning schedules to develop programmes and plans.</p> <p>For UNICEF and UNFPA funded projects, the programme department prepares the activity plan and budget with guidance from donor agencies.</p> <p>For government projects and programmes, the IP follows the government National Strategic Development Plan (NSDP) formulated by the government in the preparation of budget and plans. The latest NSDP is for the period 2017-2022. The IP prepares an annual work plan ('Plano Annual') which details the activities it plans to do with the funds provided by the Government of Timor Leste. The guidelines and format of the annual work plan is set by the Government.</p> <p>Individual activity plans are discussed and finalised with the IP management together with INAP (Institution Nasional Administration Publica/ National Institute of Public Services), Civil Service Commission, and Human Capital Development Fund.</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			Low	1	<p>The IP prepares a work plan in line with government rules for government funds. The work plan details the expected results (targets), activities to be undertaken and timeline of such activities. The budget is detailed in the general state budget for the year. The IP prepares work plans for donor funds based on the discussion, format, and guidelines from donor agencies. The work plans show the objective, specific target, activities, timeline, and budget. An annual programme of activities and an annual procurement plan are also developed.</p>

2.3 Does the IP identify the potential risks for programme delivery and mechanisms to mitigate them?	Yes			Significant	3	<p>The IP's quarterly activity and financial reports submitted to the 'Planning, Monitoring and Assessment Unit' of the Prime-Minister's office include potential risks and issue identification. This is submitted to the programme director and executive director of the IP for review and discussion of possible courses of action. A copy is also sent to the Ministry of Health and donors. Although this process is established, it is not documented in a formalised policy.</p> <p>Refer to internal control finding 9.</p>
2.4 Does the IP have and use sufficiently detailed policies, procedures, guidelines and other tools (checklists, templates) for monitoring and evaluation?	Yes			Low	1	<p>The IP follows the detailed policies, guidelines and tools for monitoring and evaluation provided by the Government. The policies and procedures include templates and checklists to monitor activities which include the following:</p> <ol style="list-style-type: none"> 1. Realisation of the budget 2. Performance report 3. Annual reports. <p>Further, the IP's Programme Quality Control department established monitoring and evaluation guidance for both government and donor projects. The programme staff prepare a monthly monitoring report on government funds for submission to the 'Planning, Monitoring and Assessment Unit' of the Prime-Minister's office (with Ministry of Health in copy). For donor funds, the IP follows the monitoring and evaluation procedures and guidelines provided by the donor agency, which are discussed during the project's planning. The IP has also undergone training with the UN in monitoring and evaluation.</p>

2.5 Does the IP have M&E frameworks for its programmes, with indicators, baselines, and targets to monitor achievement of programme results?	Yes			Low	1	<p>As above, the IP follows formats and templates prepared by the Government that include monitoring and evaluation requirements. The templates include criteria to monitor programme results, including indicators, baselines, and targets.</p> <p>The donor agency's formats and templates are followed for donor funds that include indicators, targets, and criteria in the programme plan.</p> <p>Further, following the micro assessment recommendation in 2016, the IP programme Quality Control department recently established a monitoring and evaluation sheet to monitor programme results. This has been used for both government and donor funded projects.</p>
2.6 Does the IP carry out and document regular monitoring activities such as review meetings, on-site project visits, etc.	Yes			Low	1	<p>The IP carries out monitoring activities including spot checks and on-site project visits. The Programme Quality Control department performs quarterly and annual reviews of activities such as monitoring of the training and research, follow-up after training. The Programme Quality Control department also evaluate decisions made by the procurement Committee to ensure documentation is in place. We were provided with sample documentation that these monitoring activities takes place.</p>
2.7 Does the IP systematically collect, monitor and evaluate data on the achievement of project results?	Yes			Moderate	2	<p>The Programme Quality Control department gathers data via feedback forms which are provided to both trainees and trainers. The feedback is then summarised, and trainee feedback is discussed with the trainer. The summaries are reported in the quarterly and annual reports prepared by the IP Programme Quality Control department for both the 'Planning, Monitoring and Assessment Unit' of the Prime-Minister's office, and the donors.</p>

HACT Framework Micro Assessment

2.8 Is it evident that the IP followed up on independent evaluation recommendations?	Yes			Low	1	It is evident that the IP follows up recommendations from previous assurance activities since most of the findings from the 2016 micro assessment have already been implemented.
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:	11					
Risk score	1.38					
Area risk rating	Low					

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			Significant	6	<p>The IP follows the recruitment, employment and personnel practices required by the "Comissão da Função Pública de Timor-Leste"/ Civil Service Commission of Timor-Leste (CFP). This entity has published two human resources manuals:</p> <ul style="list-style-type: none"> • "Rekrumanetu no Selesaun Bazeia ba Meritu" in June 2012 that deals with recruitment practices • "Manual Jestaun Rekursus Umanus" in 2014 that deals with employment and personnel practices <p>Based on the review, these policies and procedures provide transparent and competitive selection and promotion within the organisation. Civil services recruitment is overseen by the CFP while contractors, casual or advisors are hired internally by the IP. According to the partner, they follow the policies and procedures of the CFP for those hired internally. However, we were not provided with any documentation to support this.</p> <p>Refer to internal control finding 2.</p>
3.2 Does the IP have clearly defined job descriptions?	Yes			Low	1	<p>The IP maintains a clearly defined job description for each employee. These are derived from the terms of reference developed when the IP recruit new staff. Job descriptions for senior management (directors / heads of department) are defined in the government decree. The description is sufficiently detailed to be used for the evaluation of staff performance.</p>

<p>3.3 Is the organizational 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.</p>	Yes			Low	1	<p>The organisational structure of the IP and the competency of its staff are deemed appropriate for the size and complexity of the organisation. The heads of each section of the IP are:</p> <ul style="list-style-type: none"> - Domingas da Costa Pereira, Executive director and president of the council - Jacinto de Oliveira Guterres, Director of admin, finance, HR and procurement and member of council - Ivone de Jesus dos Santos, Director of cooperation and member of the council - Dirce Maria Soares Araujo, Director of programme formation and member of the council <p>The IP's Admin, Finance and Procurement department run by Jacinto de Oliveira Guterres (Director) who has a bachelor's and master's in economics and finance and 26 years of working experience. The Programme team is run by the Director of Programmes who has a master's degree in Public Health Sciences and 26 years of work experience. The department is split into 4 sections headed by the Chief of Programmes, Chief of Programme Formation, Chief of Quality Control, and Chief of Monitoring and Evaluation. Each chief has a bachelor's degree.</p>
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3.4 Is the IP's accounting/finance function staffed adequately to ensure sufficient controls are in place to manage agency funds?	Yes			Low	1	<p>The current structure of the financial management department has sufficient staff to ensure the organisation's resources are managed adequately and controls working as intended. The structure of the finance department is as follows:</p> <p>Director of HR, Procurement, and Finance.</p> <p>HR</p> <ul style="list-style-type: none"> - Head of HR, bachelor's degree, 15 years work experience - 6 staff <p>Procurement</p> <ul style="list-style-type: none"> - Head of Procurement 26 years of work experience, master's degree - 2 staff <p>Finance</p> <ul style="list-style-type: none"> - Head of Admin and Finance, 15 years work experience, bachelor's degree in financial management. - Technical Finance and Admin Officer, a master's degree of financial management, more than 10 years of work experience - 7 staff, including 2 staff for fixed assets, 2 staff for external/ donor funds and 1 staff for government budget reconciliations. 4 staff have bachelor's degree in economics and finance.
3.5 Does the IP have training policies for accounting/finance/ programme management staff? Are necessary training activities undertaken?		No		Significant	3	<p>Article 16 of Government Decree Number 1 of the 18th of January 2021 states the annual government budget includes a fund for human resource development. However, the only training provided since 2020 related to budgeting, no other technical training was conducted. As a public sector institution the National Institute of Public Administration (NIPA), is responsible for training planning. However, none have been conducted by the NIPA for this IP in the previous 3 years. Also, the staff of the procurement unit do not have relevant qualifications or training and are not familiar with UN procurement requirements.</p> <p>Refer to internal control finding 3.</p>

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3.6 Does the IP perform background verification/checks on all new accounting/finance and management positions?		No		Significant	3	There is no written policy specifying the requirements for conducting background checks. The partner hired 2 finance officers for donor funds in 2016 and 1 technical admin and finance professional consultant for government funds in 2015. However, there was no evidence that the IP performed background checks for these staff. Refer to internal control finding 4.
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?			N/A	N/A	-	According to the IP, there has been no significant turnover in key finance positions.
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	The IP has developed its internal control framework through its internal standard of operational procedures, including government rules and regulations, rather than as a separate document. Staff can access these through the internal and Government portal. The IP carries out annual performance appraisals to check staff compliance with these guidelines.
Total number of questions in subject area: 8 Total number of applicable questions in subject area: 7 Total number of applicable key questions in subject area: 3 Total number of risk points: 17						
Risk score 2.43 Area risk rating Moderate						

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			Significant	6	The IP maintains separate accounting systems for government-funded activities and for donor-funded activities. The government computerised accounting system, "FreeBalance", accessible through the intranet, is used for government funds. Expenditure funded by UNFPA is recorded in ATLAS (which is provided by UNFPA) and other donor funds are recorded using Excel spreadsheet. The use of separate accounting systems increases the risk that costs are recorded in several accounting systems at the same time without this being detected, increasing the risk of double funding. Refer to internal control finding 5.
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?		No		Significant	6	The Free balance system can create a fund account that can be used to record receipts and expenses related to the fund, including the allocation of costs. However, as stated in 4.1, the IP uses ATLAS for UNFPA projects and Excel spreadsheet for other donors. Thus, we cannot determine whether the use of these different systems enable proper and consistent allocation of costs to different projects. Note that UN funds cannot be used to pay for the salary of civil servants, so allocation of salary costs does not apply. Refer to internal control finding 5.
4.3 Are all accounting and supporting documents retained in an organized system that allows authorized users easy access?	Yes			Moderate	4	An audit trail can be established between transactions that are recorded in the accounting system and the relevant supporting documentation by using the transaction-specific 'Commitment Payment Voucher' (CV) number and based on the activity budget line. The IP keeps the files for one year before they are sent to storage, in such a way that enables easy retrieval. For donor funds, the admin and finance assistant responsible for the recording of the transactions in ATLAS and Excel sends the original documents to the donors while keeping a copy of these documents in the IP finance office.

4.4 Are the general ledger and subsidiary ledgers reconciled at least monthly? Are explanations provided for significant reconciling items?	Yes			Moderate	2	The FreeBalance accounting system provides real-time updating of the subsidiary and general ledger that minimises the risk of error. Reconciliation is carried out regularly using the system reports, and significant reconciling items are explained. For donor funds, there are no subsidiary ledgers.
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			Low	1	The IP has established a system to ensure that key roles and responsibilities are segregated as follows: Authorisation to execute a transaction: - Director of the department where the request originates - Executive director Recording of the transaction: - Accounting staff overseen by the national director of admin, finance, and procurement Custody of the assets involved in the transaction: - Initial requestor supervised by the logistics department
4.6 Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?	Yes			Low	1	Functions are properly segregated as follows: Ordering - procurement staff upon appropriate approval Receiving - admin staff overseen by head of procurement Recording - admin and finance Payment - processed by finance officer upon appropriate approval
4.7 Are bank reconciliations prepared by individuals other than those who make or approve payments?		No		Significant	6	There are separate bank accounts for government and donor funds, and funds for each donor have a dedicated bank account. As required by the government policy of the MoF, the IP's technical finance professional prepares quarterly bank reconciliations for government accounts, certified by the head of finance department, and approved by national director of admin, finance, and procurement. This is then submitted to the treasury department of the MoF. Donor bank accounts are not reconciled. Refer to internal control finding 10.

4c. Budgeting system						
4.8 Are budgets prepared for all activities in sufficient detail to provide a meaningful tool for monitoring subsequent performance?	Yes			Low	1	<p>The government annual budget for the programmes is submitted to the 'Planning, Monitoring and Assessment Unit' of the Prime-Minister's office and National Directorate for budgeting discussion and approval. Once approved it is submitted to members of the National Parliament for approval before it is transmitted to MoF for inclusion in the government budget. The annual budget details the funding allocated to specific activities and the expected timeline. As such, the budget is sufficiently detailed and can be used to monitor IP performance.</p> <p>For donor-funded projects, the IP prepares the budget based on the format and templates required by the donor agency. This includes activities, targets, and timeframe that can be used to monitor project performance.</p>
4.9 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations from the budget?	Yes			Moderate	4	<p>For the programmes funded by the government, Government Decree Number 1 of the 8th of January entitled 'Execução do Orçamento Geral do Estado para 2021' requires the IP to report actual versus budgeted expenditures on a quarterly basis. Explanations are required for significant variations which should have been approved prior to incurring the costs. For programmes funded by external agencies, variance analysis is prepared on a quarterly basis and as required by the donor agreement.</p>
4.10 Is prior approval sought for budget amendments in a timely way?	Yes			Low	1	<p>Government budget amendments have to be approved by the Ministry of Finance before being made. Furthermore, budget amendments that impact the annual procurement plan have to be communicated to the 'Planning, Monitoring and Assessment Unit' of the Prime-Minister's office (Portuguese Acronym: UPMA). For programmes funded by external organisations, certain donors require approval to be sought before the allocated budget can be exceeded. Others only need to be informed subsequently if the variance is within a certain acceptable percentage. According to the IP, they have not experienced the need for a budget amendment yet.</p>

4.11 Are IP budgets approved formally at an appropriate level?	Yes			Low	1	As a public sector IP, the IP's annual budget is included in the overall government budget that is submitted annually to the National Parliament in October for approval. A copy is also sent to the minister of health, submitted to the MoF and to the National Parliament for approval. Budgets for donor-funded programmes are approved by both the donor and the Executive Director, Director of Cooperation, Director of Programmes, and Director of Admin, Finance, HR and Procurement of the IP.
4d. Payments						
4.12 Do invoice processing procedures provide for: · 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			Low	1	Invoice processing procedures are as follows: 1. Upon receipt of goods and supplies, the respective department prepares a request for payment approved by the respective head along with the invoice, PO and receiving and delivery report from the procurement and logistics department. 2. The request for payment is then submitted to the finance division with supporting documentation. The relevant finance officer reviews the payment request and compares the quantities and price with those reflected in the PO and receiving/ delivery report, along with mathematical recalculation. 3. If in order, the payment request is submitted to the national director of admin and finance and executive director for review and approval. 4. Upon approval, the document package is uploaded to the FreeBalance system for payment processing of government funds. For UNFPA funds, steps 1-3 are followed, the document package is instead uploaded onto Atlas. For other donors documents are provided to the executive director in hard copy for approval.
4.13 Are payments authorized at an appropriate level? Does the IP have a table of payment approval thresholds?	Yes			Moderate	4	All payments need to be approved by the executive director and national director of admin, finance and procurement.
4.14 Are all invoices stamped 'PAID', approved, and marked with the project code and account code?	Yes			Low	1	Based on our review of documentation, payment voucher documents and invoices are stamped "PAID" with project code and account code.

4.15 Do controls exist for preparation and approval of payroll expenditures? Are payroll changes properly authorized?	Yes			Low	1	For donor this is not applicable as UN funds do not cover the salaries for government staff. The payment of government staff salaries is processed by Treasury Department at the Ministry of Finance. The director of human resources is responsible for reviewing the draft payroll run on a monthly basis and must approve it before the treasury processes the final payment run. As regards to changes in payroll, the IP has to communicate to the Civil Service Commission before the 12th day of every month any changes to payroll. The Civil Service Commission must approve all changes before these can be processed by the treasury in their next payroll run. This also applies for the staff contractors and advisors.
4.16 Do controls exist to ensure that direct staff salary costs reflects the actual amount of staff time spent on a project?			N/A	N/A	-	Not Applicable. UN agencies do not support the salary costs of civil servants and therefore no staff time is charged to projects.
4.17 Do controls exist for expense categories that do not originate from invoice payments, such as DSAs, travel, and internal cost allocations?	Yes			Low	1	The IP follows government policy on payment of expenses not originating from invoices. In the case of DSAs, the documents that need to be provided prior to payment include: i. A copy of the original proposal for this work trip, including details of the activities to be implemented and a calendar for their implementation; ii. Activity Report explaining what has been achieved as a result of the work trip; iii. A signed 'Mission Order' that must be stamped and dated on arrival and departure by the Police Force of the area the staff member visited as part of the work trip. Government funded transactions are processed using FreeBalance. The system has a separate code for the local travel advance and overseas and travel. For donor funds, the per diem process follows the government procedures but can paid by cheque, bank transfer or cash and are recorded in ATLAS.

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	Cash basis of accounting is used for both government and donor-funded activities.
4.19 Does the IP have an adequate policies and procedures manual and is it distributed to relevant staff?	Yes			Moderate	2	The IP does not currently have its own policies and procedures manual but as a public sector entity, it follows the policies and procedures promulgated by the Ministry of Finance and those that are embedded in various government decrees. The IP prefers referring directly to the actual decrees rather than develop their own internal manual which may quickly become out of date and/or conflict with the policies and procedures set out in government decrees.
4f. Cash and bank						
4.20 Does the IP require dual signatories / authorization for bank transactions? Are new signatories approved at an appropriate level and timely updates made when signatories depart?	Yes			Low	1	The IP's bank accounts have 4 signatories, and 2 signatories are required to sign for bank transactions. Any changes in the signatory require approval by the Minister of Finance. The bank signatories are: - Executive Director - Director of Cooperation - Director of Programme Formation - Director of Admin, Finance, HR and Procurement
4.21 Does the IP maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes			Moderate	4	The government accounting system used by the IP includes a cash management system to ensure that receipts and disbursements are recorded in real-time. The system can monitor cash movements and is used in the bank reconciliation. For donor funds, the cashbook is maintained in ATLAS for UNFPA transactions and in an Excel spreadsheet for other donor-funded projects.
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?			N/A	N/A	-	The IP does not participate in micro-finance advances.

4.23 Are bank balances and cash ledger reconciled monthly and properly approved? Are explanations provided for significant, unusual and aged reconciling items?	Yes			Significant	6	There are separate bank accounts for government and donor funds, and funds for each donor have a dedicated bank account. As required by the government policy of the MoF, the IP's technical finance professional prepares quarterly bank reconciliations for government accounts, certified by the head of finance department, and approved by national director of admin, finance and procurement. This is then submitted to the treasury department of the MoF. Explanations are required for significant reconciling items. Donor bank accounts are not reconciled. Refer to internal control finding 10.
4.24 Is substantial expenditure paid in cash? If so, does the IP have adequate controls over cash payments?		No		Low	1	Most expenditure is paid through bank transfers. The only cash payments are for per diems for local travel. The IP requires that payments are supported by a per diem sheet that is signed by the recipient of the payment, proof of activity, trip report, travel authorisation sheet. This is as required by the government decree of 2021. Payments in cash require approval from the Executive Director.
4.25 Does the IP carry out a regular petty cash reconciliation?	Yes			Moderate	2	Petty cash is only used for government funds. The process for this is that the IP carries out a quarterly petty cash reconciliation prepared by the technical finance professional, certified by the head of admin and finance, and approved by the director of admin, finance and procurement. The petty cash currently allocated by the government to the IP amounts to USD 2,500 quarterly. This amount depends on the government allocated budget. There is no petty cash held for UNFPA or other donor funds.
4.26 Are cash and cheques maintained in a secure location with restricted access? Are bank accounts protected with appropriate remote access controls?	Yes			Low	1	Cash is kept in a safety box at the IP office which can only be opened using a manual key and a code. Only the head of admin and finance knows the code and is responsible for the key. Online banking transactions require the approval tokens of the executive director and national director of admin, finance and procurement.

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			Significant	3	For government funds, the IP scans and uploads documents in FreeBalance for payment processing and system approval. In-built system safeguards include ensuring that there are no unauthorised amendments once files are uploaded and payments are approved.
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	-	The IP has no subsidiary offices/ external entities as part of the implementation of its activities.
4h. Internal audit						
4.29 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?			N/A	N/A	-	As the IP is part of the government, they are covered by the central internal audit team. There is no separate internal auditor at the IP. We note that the IP has not yet been subject to an internal audit.
4.30 Does the IP have stated qualifications and experience requirements for internal audit department staff?			N/A	N/A	-	See 4.29.
4.31 Are the activities financed by the agencies included in the internal audit department's work programme?			N/A	N/A	-	See 4.29.
4.32 Does the IP act on the internal auditor's recommendations?			N/A	N/A	-	See 4.29.
Total number of questions in subject area: 32 Total number of applicable questions in subject area: 25 Total number of applicable key questions in subject area: 17 Total number of risk points: 62						
Risk score 2.48 Area risk rating Moderate						

Subject (key questions in bold)	area	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			Low	1	The IP follows government policies and procedures on asset management. Assets amounting to USD 500 and above are recorded in FreeBalance as fixed assets, while assets below USD 500 are considered movable assets. Government Assets are required to be labelled with a grey barcode. For donor-funded assets, the IP uses Excel spreadsheets. These are properly labelled with donor code and excel is considered appropriate as there is a low level of donor-funded assets. The logistics division is responsible for monitoring and management of assets of the organisation. Assets are kept in the partner's office which is surrounded by fence and is secured 24 hours by guards and installed CCTVs.
5.2 Are subsidiary records of fixed assets and inventory kept up to date and reconciled with control accounts?		Yes			Low	1	For government assets the Free balance system provides an automatic interface between the subsidiary asset ledger and the general ledger. This is not applicable for donor funds, which are recorded in excel.
5.3 Are there periodic physical verification and/or count of fixed assets and inventory? If so, please describe?		Yes			Significant	3	The partner performs a physical verification of fixed assets quarterly. We were provided with signed verification sheets. Based on our observation, the count sheets are properly reviewed and approved by the Ministry of Finance. However, we were not provided with any documentation showing that the results of the verification are reflected in the asset register. Refer to internal control finding 6.
5.4 Are fixed assets and inventory adequately covered by insurance policies?			No		Significant	3	There is no insurance coverage for assets maintained by the organisation. This finding applies to all government IPs in Timor-Leste. Refer to internal control finding 6.

5b. Warehousing and inventory management						
5.5 Do warehouse facilities have adequate physical security?	Yes			Low	1	Inventory held by the IP is only office supplies both for the IP's office, and to be used during training sessions for midwives. It is kept in a secure storage room within its office compound which has 24-hour security and fences. Also, the IP has installed CCTVs for monitoring entry into the storage room.
5.6 Is inventory stored so that it is identifiable, protected from damage, and countable?	Yes			Low	1	Inventory is kept in a secured storage room in the IP's compound, the supplies are organised into sections for different types of office supply and are easily identifiable.
5.7 Does the IP have an inventory management system that enables monitoring of supply distribution?		No		Significant	6	According to the IP, they keep a log sheet in excel for the monitoring of movement of inventories. However, we were not provided with such documentation. Therefore, there is a risk that items are not adequately monitored in the warehouse. Refer to internal control finding 11.
5.8 Is responsibility for receiving and issuing inventory segregated from that for updating the inventory records?	Yes			Low	1	Responsibility for receiving and issuing inventory is segregated from that who updates the inventory records. There are 2 staff designated for fixed assets and inventories. One is responsible for receiving and issuing inventories and the other for recording in Excel sheet. These functions are overseen by the head of admin and finance.
5.9 Are regular physical counts of inventory carried out?		No		Significant	3	Regular counts and verifications of inventory are not carried out. According to the IP, physical inventory counts are performed only when necessary or upon request by the directorate of asset management under ministry of finance. Refer to internal control finding 11.
Total number of questions in subject area: 9 Total number of applicable questions in subject area: 9 Total number of applicable key questions in subject area: 2 Total number of risk points: 20						
Risk score 2.22 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 source system for key reports, the frequency of preparation, what they are to contain and how they are to be used?	Yes			Low	1	As per government decree no. 1 of 2021, the IP has to submit quarterly activity and financial reports to the Planning, Monitoring and Assessment Unit' of the Prime-Minister's office and provide a copy of these reports to the Ministry of Finance. For donor funds, there isn't a separate policy, however, the IP follow the requirements set out in the donor agreements.
6.2 Does the IP prepare overall financial statements?		No		Significant	3	As a public sector entity in Timor Leste, their financials are included in the consolidated annual financial statements of the Government of Timor Leste. However, the partner was not able to provide individual financial information and was unable to show us the financial results and financial position for the last three financial years. We understand that since 2016, it has become an independent organisation from the Ministry of Health. Hence, the IP should have its own financial statements. Refer to internal control finding 1.
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			Low	1	The governments overall consolidated financial statements are audited each year.
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		Low	1	There were no major issues related to ineligible expenditure in the previous three years.
6.5 Have any significant recommendations 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	There were no significant recommendations in the previous five reports. However, we note previous audits raised moderate findings, and the 2016 micro-assessment rating was moderate.

6.6 Is the financial management system computerized?	Yes			Significant	6	The financial management system used for government funds is a financial software developed by a third-party supplier, 'FreeBalance'. For external donor funds, ATLAS software is used for UNFPA activities and Excel spreadsheet is used for other donor-funded projects. Refer to internal control finding 5.
6.7 Can the computerized financial management system produce the necessary financial reports?	Yes			Low	1	The FreeBalance system used for government funds can generate reports, including receipts, disbursements, and budget and variance analysis. As regards to donor funds, the spreadsheets used by the IP are formatted in such a way that they constitute reports that can be sent to the donor as and when required.
6.8 Does the IP have appropriate safeguards to ensure the confidentiality, integrity and availability of the financial data? <i>E.g. password access controls; regular data back-up.</i>		No		Significant	3	There is no formal and written data backup and protection policy. We noted that in practice there are safeguards in place, including restricted access to the FreeBalance system based on authority and passwords to workstations. Back-up of information in FreeBalance is the responsibility of the MoF. Electronic data stored in laptops and computers are password-protected and are printed out for archiving. The IP also has an IT department who performs monthly back-up of financial data to the server and quarterly for programme information. However, this information should be included in a policy. Refer to internal control finding 7.
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: 18						
Risk score 2.25 Area risk rating Moderate						

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement and contract administration						
7a. Procurement						
7.1 Does the IP have written procurement policies and procedures?	Yes			Low	1	As a public sector entity, the IP's procurement policies and procedures are governed by government decree 10/2005 as amended by decree-law 14/2006, 1/2010, and 24/2008.
7.2 Are exceptions to procurement procedures approved by management and documented ?	Yes			Low	1	The Procurement Decree 10/2005, in articles 44 and 92 to 94, clearly states when exceptions to procedures are legally allowed. Should a government entity use an 'exception to procedures', it would have to clearly document which criteria enabled it to legally use the exception. Before proceeding with the purchase, justification should be properly documented and approved by the head of the entity. This process is also applied to donor funds.
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	The IP uses the FreeBalance system for the procurement process related to government funds. Access controls are inbuilt into the system to ensure segregation of duties. Currently, procurement for projects funded by external organisations is handled by donors and is not carried out by the IP. As the IP does not have experience in procurement for donor-funded projects, we raise the risk to moderate.
7.4 Are procurement reports generated and reviewed regularly? Describe reports generated, frequency and review & approvers.	Yes			Low	1	FreeBalance can generate procurement reports covering details of ongoing national tenders and that these are regularly reviewed by the Chief of Procurement and the Executive Director. This is not applicable for donor funds.

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7.5 Does the IP have a structured procurement unit with defined reporting lines that foster efficiency and accountability?	Yes			Low	1	The IP has a separate procurement division under the financial management department. The procurement unit head is responsible for ensuring the purchases made by the IP follows government procurement law and regulation. Based on the review of the organogram, the unit is properly established and has a clear reporting line to ensure efficiency and accountability. There are 5 staff working in the procurement department, 2 procurement staff assisted by 3 staff under head of admin and finance. The unit head reports directly to the national director of admin, finance, and procurement.
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 a IP's procurement rules and regulations?		No		Significant	3	The head of procurement has master's degree on rural finance from the University of Indonesia and was trained for government procurement. The procurement staff have degrees in finance and administration. However, none of the procurement staff have received any training on UN/ World Bank/ EU procurement requirements. Refer to internal control finding 12.
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		Low	1	There were no significant recommendations related to procurement in the prior five-year audit reports made by the auditors hired by donor agencies. According to the IP, the donors handle the procurement process.

7.8 Does the IP require written or system authorizations for purchases? If so, evaluate if the authorization thresholds are appropriate?	Yes			Low	1	<p>Like other public sector entities, the IP requires system approval for purchases in FreeBalance. The value of purchase determines the type of procurement process necessary for that specific purchase.</p> <ul style="list-style-type: none"> - National or International Public Tender for Purchases > USD 100,000. The choice between a national or international public tender is dictated by the nature of the purchase. The award decision is made by the evaluation committee, which is made up of the Head of Procurement, representatives from the relevant programme team, and a member of staff from both admin and procurement. Decisions are approved by the Executive Director. - Procurement by direct request for quotes from at least 3 different suppliers for purchases less than USD 100,000 and above USD 500. Approval by the Executive Director, Director of Cooperation, Director of Programmes, and Director of Admin, Finance, HR and Procurement. - 'Simplified Process' for spending on consumables, electricity, water and day to day running costs below USD 500. Approved by Department Head of the requesting department. - For recurrent expenditure on consumables, annually, one supplier is chosen to supply specific types of consumables. This selection is approved by the Executive Director, Director of Cooperation, Director of Programmes, and Director of Admin, Finance, HR and Procurement once a year. The heads of department can then authorise purchases from this supplier for the specific consumable during the year providing they do not breach the budgeted amount for that particular expenditure.
7.9 Do the procurement procedures and templates of contracts integrate references to ethical procurement principles and exclusion and ineligibility criteria?	Yes			Low	1	<p>The IP has a well-defined process in place to ensure a secure and transparent bid and evaluation process. Procurement decree 10/2005 specifically details the qualification of suppliers and provision for disqualification in the procurement process.</p>

7.10 Does the IP obtain sufficient approvals before signing a contract?	Yes			Low	1	Based on the review of the procurement process required by the government decree and walkthrough performed, the IP obtains sufficient approval of selection of supplier before a purchase order is prepared and approved by the Director of Cooperation, Director of Programmes, and Director of Admin, Finance, HR and Procurement. No PO and contract are prepared without the approval of the selection made. Contracts are signed by the Executive Director.
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			Low	1	Chapter IV of the Procurement Decree 10/2005 provides guidelines on managing conflict of interest and incompatibilities related to participants. The law provides instances of what constitutes a conflict of interest and incompatibilities, including family relations and prior business partners. Any officer involved in procurement with conflict of interest and incompatibilities is excluded from the process. If the supplier has undeclared conflict of interest and incompatibilities during the procurement process, the process is declared null and void. The relevant officer is investigated and subjected to disciplinary process as legislation requires. The IP staff who are involved in the bidding committee (made up of the Head of Procurement, representatives from the relevant programme team, and a member of staff from both admin and procurement) sign the conflict interest sheet.
7.12 Does the IP follow a well-defined process for sourcing suppliers? Do formal procurement methods include wide broadcasting of procurement opportunities?	Yes			Low	1	Based on the walkthrough performed and review of the procurement law, the IP follows a well-defined process of sourcing suppliers. Refer to response to 7.8 for the types of procurement process. The process of sourcing suppliers depends on the type of procurement which is generally determined by the value of purchase. The greater the value of the purchase, the wider the broadcasting of procurement opportunities.

7.13 Does the IP keep track of past performance of suppliers? E.g. database of trusted suppliers.		No		Significant	3	<p>The partner does not formally evaluate the performance of previous suppliers and does not keep a record of their past performance assessments. Failure to do so increases the risk of inadvertently contracting with suppliers which have failed to deliver satisfactorily in the past.</p> <p>Refer to internal control finding 8.</p>
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			Low	1	<p>Based on discussion with the IP and sample documents provided, the IP has a well-defined process to ensure a secure and transparent bid and evaluation process. Chapter 3 of the procurement law provides detailed information on the procurement procedure by tender process.</p> <p>During the procurement process, the IP creates a bidding evaluation committee (made up of the Head of Procurement, representatives from the relevant programme team, and a member of staff from both admin and procurement). After publishing the IP requirement in newspaper and other media outlets, interested suppliers submit a bid to the committee. Bidders are invited to the opening of bids on the published date.</p> <p>The tenders/quotes are opened in front of the bidders by the committee. The tenders are then evaluated by the same committee who will evaluate each bid, ensure they meet the technical specifications and choose the most suitable offer considering cost, quality and the suppliers perceived ability to deliver the goods/services. The evaluation committee will communicate their decision to the executive director who will review the evaluation report and evidence review with a signature. Once the evaluation committee report has been reviewed and approved, it is returned to the procurement department who will announce the results or purchase the supplies.</p>

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			Low	1	Article 62 of the procurement law details the minimum requirements for tender documents, including characteristics of goods and services, quantity, quality, price, guarantees, and methods and procedures for evaluating bids. During the preliminary conference, these requirements are discussed with the bidder for any clarification. Article 86 also provide for the requisites in the tender documents in which basis the Committee evaluates and classifies the bidders. These include, in order, professional knowledge, technical capacities and experience, and financial capability. The analysis against these procurement criteria must be documented in the report prepared by the evaluation committee to justify why a specific supplier has been chosen.
7.16 If the IP is managing major contracts, does the IP have a policy on contracts management / administration?			N/A	N/A	-	The IP does not manage major contracts as part of its programme implementation.
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?			N/A	N/A	-	The IP does not manage major contracts as part of its programme implementation.
7.18 Are there staff designated to monitor expiration of performance securities, warranties, liquidated damages and other risk management instruments?			N/A	N/A	-	The IP does not manage major contracts as part of its programme implementation.
7.19 Does the IP have a policy on post-facto actions on contracts?			N/A	N/A	-	The IP does not manage major contracts as part of its programme implementation.
7.20 How frequent do post-facto contract actions occur?			N/A	N/A	-	The IP does not manage major contracts as part of its programme implementation.

HACT Framework Micro Assessment

Total number of questions in subject area:	20	
Total number of applicable questions in subject area:	15	
Total number of applicable key questions in subject area:	5	
Total number of risk points:	20	
Risk score	1.33	
Area risk rating	Low	

Totals		
Total number of questions:	96	
Total number of applicable questions:	82	
Total number of applicable key questions:	36	
Total number of risk points:	166	
Total risk score	2.02	
Overall risk rating	Low	