



ADAPTATION FUND

14 July 2016

Adaptation Fund Board

Accreditation Panel recommendation on accreditation of Ministry of Finance and Economic Management (MFEM) of Cook Islands under the streamlined accreditation process

Having reviewed the accreditation application of the Ministry of Finance and Economic Management (MFEM) of Cook Islands, the Accreditation Panel recommended that:

- (a) The Ministry of Finance and Economic Management (MFEM) be accredited as a National Implementing Entity (NIE) of the Adaptation Fund; and
- (b) The MFEM is eligible to submit project and programme proposals to the Adaptation Fund for up to US\$ 3 million.

A summary of the review can be found in Annex I.

Accreditation Decision:

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decided:

- (a) To accredit the Ministry of Finance and Economic Management (MFEM) of Cook Islands as a National Implementing Entity (NIE) of the Adaptation Fund for a period of five years (the accreditation expiration date is 13 July 2021); and
- (b) To entitle the MFEM to submit project and programme proposals to the Adaptation Fund for up to US\$ 3 million.

Decision B.27-28/18

ANNEX I

REPORT OF THE ACCREDITATION PANEL ON ITS ASSESSMENT OF THE MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT (MFEM) OF COOK ISLANDS FOR ACCREDITATION AS A NATIONAL IMPLEMENTING ENTITY (NIE) OF THE ADAPTATION FUND UNDER THE STREAMLINED ACCREDITATION PROCESS

Organization

The applicant National Implementing Entity (NIE) is the Ministry of Finance and Economic Management (MFEM) of the Cook Islands, a government department established by the enabling act of 1995. All aid processes are channeled through the Development Coordination Division (DCD), who administers/coordinates the projects.

Background

This application was received in November 2014, with the initial review completed in March 2015.

Based on the initial assessment the Panel identified several areas which had gaps, which were communicated to the applicant in writing. The applicant started working promptly by taking measures to address these gaps. Nevertheless, the applicant had difficulties in demonstrating its satisfaction of all the formal requirements of the Fiduciary Standards given its size and limited number of staff (total staff of the Ministry is approximately 70, and size of the implementation unit is about 15).

Since the date of the application the AF Board has approved the streamlined accreditation process (AFB/EFC.16/17/rev1).

The Ministry of Finance and Economic Management (MFEM) of the Cook Islands applicant was informed about the streamlined accreditation process and submitted an official letter of agreement to pursue the streamlined process. The applicant understood and agreed that the size of its project to be funded by the Fund would be limited and tailored to its capacity.

The Fiduciary Standards

Legal Status and capacity/authority to directly receive funds

MFEM was lawfully established as a Cook Island's Government Department in accordance with the enabling act, the Ministry of Finance and Economic Management Act 1995-96 (MFEM Act) Section 3.

The supporting documents demonstrate that the MFEM, as a government department, has the legal authority to enter into agreement with international organizations. MFEM also has the legal capacity to directly receive and administer funds from international organizations [MFEM Act Sections 43–44 and Constitution Article 69].

Furthermore MFEM Act and the Article 12 of the Constitution of Cook Islands imply that the MFEM is capable of taking actions in a Court of Law.

Financial Integrity

The MFEM processes all aid through its Development Coordination Division (DCD). Both the Ministry and the Division produce annual accounts that are audited by the Auditor General (Cook Islands Audit Office). The accounts are prepared following the guidelines of International Public Sector Accounting Standards (IPSAS) as required by the MFEM Act.

Annual accounts for both the MFEM and the DCD are prepared in accordance with the International Public Service Accounting Standards (IPSAS) and are audited by the Director of the Office of the Public Expenditure Committee and Audit. The Director of Audit reports to Parliament and to the independent Public Expenditure Review Committee on every review, audit, investigation or inquiry.

The Cook Islands Audit Office has adopted the New Zealand International Standards of Auditing and is currently aligning their audit to the International Standards of Supreme Audit Institutions (ISSAI). The Director of Audit has contracted the accounting firm, Ernst and Young (New Zealand) to review the audit process each year and to provide training and technical support. The Audit Office uses "Teammate", one of the world's leading Audit Management Systems. It provides an advanced risk assessment system that enables a risk-based audit plan, complete audit documentation, an electronic audit work paper management system and ensures that the audit documentation is systematic and logically organized.

A generally recognized accounting package is used by MFEM for both the Ministry of Finance and Economic Management and the Development Coordination Division. This package is a widely used financial accounting package. The system has been used by the Ministry for over fifteen years and adequately meets the needs of both International accounting and audit standards. The internal audit division was set up with a comprehensive internal audit manual complete with extensive templates (refer to document B.4.1 Internal Audit Manual). The manual provides practical guidance, tools, information for managing the internal audit function and includes guidance on planning, performing and reporting internal audit engagements. The manual adopts the International Standards for Professional Practice of internal auditors, as established by the Institute of Internal Auditors (IIA). The present structure of the Division has the Internal Auditor reporting to the Financial Secretary with the Treasury Manager having administrative responsibility.

A gap identified during the review was subsequently fixed by hiring an internal auditor and setting up an audit committee. The function of internal auditor has been outsourced to a qualified auditor and appropriate audit plans have been prepared. Internal audits have started and the first report on the functioning of Internal Control is expected in the first half of 2016. Before the internal auditor position became vacant reviews were completed covering, e.g., payroll, bank account reconciliations. In addition, the Asian Development Bank has carried out an audit of existing ICT services.

The Financial Policies and Procedures Manual is comprehensive and covers most aspects of the operations of the Cook Islands Government. Training has been provided to finance officers and Ministries' managers and the manual is updated periodically. A committee was established to review all policies and procedures and ensure that the wording in relation to corruption and fraud is specific and that the internal control aspects are effective and clear. Recent additions have been approved to make a strong statement to the anti-corruption message, specifically: fairness, impartiality, integrity, professionalism, political neutrality, and zero tolerance to fraud.

The Manual describes the payments and disbursement controls that apply to the various types of transactions. It covers cash disbursements, capital and operating expenditure, and the receipt and expenditure of aid funds. The audits of both the Ministry and DCD have not encountered any serious failures in the payments and disbursement systems.

Procurement and Project Management

Adequate procurement procedures and manuals are in place. Illustrations were provided how this policy works in practice. The policy was designed to ensure that all sales and purchasing activity is conducted in a uniform manner which is open, transparent and obtains value for money. The policy is supported by templates and a procurement central portal. Bidding opportunities, tender awards and resources to conduct procurement activities are all made available via the procurement site. Enabling transparency and improving accountability are the key drivers for the establishment of the procurement portal. The Policy also covers the roles and responsibilities of decision making committees and the process (steps) by which they should carry out their roles.

A gap was identified during the review related to the oversight of third party procurement. This gap was fixed during the review process by instilling better oversight procedures. A complaints process was recently inserted to improve accountability and transparency. A template has been provided with a step by step process on how an individual or entity is able to lodge a complaint and how the complaint will be managed.

A complex and comprehensive project management methodology is in place and examples were provided to illustrate the use of the project management procedures covering all aspects of project management, including project at risk methodology, quality at entry formulation, the capacity to undertake monitoring and evaluation (sometimes outsourced) the ability to identify, develop and appraise projects, and the competency to manage or oversee the execution of projects/programmes. Projects are financially monitored: the DCD provides specialized development professionals to advise and conduct appraisals; and staff are regularly involved in appraisal activities through their positions on committees, project teams or through the monitoring role of DCD. However, the review also pointed to a limited staff capacity to manage larger projects, which pointed to placing a limit on the size of the adaptation projects.

Transparency, Self-investigative powers, and Anti-corruption Measures

Legislation (Official Information Act 2008) aims to increase the availability of official information to the public and to enable more effective participation in law and policy making as well as keeping

Ministers and officials accountable, promoting good government. MFEM takes a proactive approach by publishing information actively on a website and social media and has engaged a communication provider to add capability to prepare press releases and develop communication strategies

The Public Service Act 2009 includes a Code of Conduct to apply to every employee and Head of agency of the Public Service. This clearly sets out the minimum standards of integrity and conduct of the Public Service and it covers such action that results in fraud. A more comprehensive Code of Conduct Policy has been prepared and consulted across government that clearly states as a principle a "zero tolerance to fraud" policy.

In terms of its actions, the government has shown that it will not tolerate fraud. There have been a number of investigations and prosecutions relating to fraud etc. in recent years that have included Cabinet Ministers and senior public servants. These prosecutions have led to a Cabinet Minister being removed from Parliament and a Head of Ministry sentenced to jail. Anti-fraud procedures have been made public since the end of 2015 (with over eighteen thousand hits)

The application adequately demonstrated the capacity and procedures to deal with financial mismanagement and other forms of malpractice

Environmental and Social Policy

The 3 Cs (Commitment, Capacity, Complaint mechanisms) were reviewed and the applicant was found to comply with them in all substantive respects. Training was provided by the Asian Development Bank.

Adherence was also demonstrated in examples of projects covering the potential adverse impacts to the environment and communities ensuring a minimum "do-no-harm" approach. A gap analysis demonstrated that the applicant's eleven specific Environmental and Social Safeguards are mostly aligned with International standards.

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Conclusion

Having reviewed the accreditation application of the Ministry of Finance and Economic Management (MFEM) of Cook Islands, the Accreditation Panel recommends that:

- (c) The Ministry of Finance and Economic Management (MFEM) be accredited as a National Implementing Entity (NIE) of the Adaptation Fund; and
- (d) The MFEM is eligible to submit project and programme proposals to the Adaptation Fund for up to US\$ 3 million.