

SPREP
Secretariat of the Pacific Regional Environment Programme

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

SPREP
Financial Statements
For the year ended 31 December 2014

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SPREP
Executive Management's Report
For the year ended 31 December 2014

We are pleased to present the Secretariat's financial statements and the independent auditors report thereon for the financial year ended 31 December 2014.

During the year we expended US\$21.1 million dollars compared to budgeted expenditure of US\$22.3 million dollars while our total cash holdings at year end amounted to US\$5.1 million dollars. The Secretariat has generated a negative operating result as per the income statement relative to a balanced budget for the same period.

Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to International Financial Reporting Standards and include amounts based on management's best estimates and judgments.

Management has established and been maintaining accounting and internal control systems which include clearly stated policies and procedures. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

SPREP Members oversee management's responsibilities for financial reporting. The financial statements have been reviewed and approved by the SPREP Members on recommendation from management.

Our independent auditors (Betham & Co.), having been appointed by the SPREP Members, have audited our financial statements. The accompanying independent auditors' report outlines the scope of their examination and their opinion.

In our opinion:

- a. The accompanying statement of income is drawn up so as to give a true and fair view of the results of the Secretariat for the year ended 31 December 2014;
- b. The accompanying statement of financial position is drawn up so as to give a true and fair view of the state of the Secretariat's affairs as at 31 December 2014;
- c. The accompanying statement of movement in reserves is drawn up so as to give a true and fair view of the movement of funds and reserves of the Secretariat for the year ended 31 December 2014; and
- d. The accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows for the Secretariat for the year ended 31 December 2014.



David Sheppard
Director General



Kosi Latu
Deputy Director General



Alofa S Tuuau
Finance & Admin Adviser

May 29th, 2015

**Independent Audit Report
To the Members of
Secretariat of the Pacific Regional Environment Programme (SPREP)**

We have audited the accompanying financial statements of the Secretariat of the Pacific Regional Environment Programme ("SPREP") which comprises the statement of income, statement of movement in reserves and statement of cash flows for the year ended 31 December, 2014, the statement of financial position as of that date, a summary of significant accounting policies and other explanatory notes.

Managements' responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the SPREP Financial Regulations. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion to the Members of SPREP, as a body, in accordance with SPREP Financial Regulation 32. Our audit work has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SPREP and the SPREP Members as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

We confirm that we have no other relationship with SPREP other than the audit of the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the SPREP's Directors and Management, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

In our opinion, proper books of account have been kept by SPREP, so far as it appears from our examination of those books and the financial statements which have been prepared in accordance with International Financial Reporting Standards:

- (i) are in agreement with the books of account;
- (ii) to the best of our information and according to the explanations given to us:
 - a. give a true and fair view of SPREP's state of affairs as at 31 December, 2014 and of its statements of financial performance, changes in reserves, and its cash flows for the year ended on that date;
 - b. provide the information required by the SPREP Financial Regulations in the manner so required.

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Specific Reporting Requirements

In accordance with SPREP's Financial Regulation 32 we report on the specific matters per the financial regulation as follows:

- a) The extent and character of our examination has been explained in the section on *Auditor's Responsibility* above and is based on the International Standards on Auditing. The financial statements for the year end of 31st of December, 2014 have been prepared in accordance with International Financial Reporting Standards.
- b) There are no matters affecting the completeness and accuracy of the accounts
- c) We confirm the accuracy of the equipment records as determined by physical inspection of additions to assets and verification of disposals during the reporting period.
- d) The financial procedures of SPREP are adequate based on our examination of the financial procedures necessary for the purposes of formulating the auditor's opinion expressed above.
- e) Based on our examination of the insurance documentation the insurance cover for SPREP's assets is adequate.
- f) Others matters which do not affect our audit opinion have been brought to the attention of management in our report to management.

**BETHAM & CO.****Chartered Accountants**

Apia, Samoa

May 29th, 2015

SPREP
Statement of Financial Performance
As at 31 December 2014

	Notes	2014 \$	2013 \$
Income			
Members contributions	5	1,342,600	1,213,339
Programme management charges	20	1,169,274	939,518
Programme/donor fund income	20	15,650,858	12,786,512
Other donor fund income	6	918,678	682,982
Amortisation of deferred income	8	83,225	83,388
Other income	7	108,268	227,239
Total income		19,272,903	15,932,978
Expenses			
Executive management & corporate support	21	4,110,220	3,405,211
Climate change	21	8,718,844	7,197,889
Biodiversity	21	3,152,564	3,399,251
Waste management	21	2,440,544	1,285,409
Environment monitoring	21	1,400,038	903,962
Depreciation expense	11	132,434	127,606
Total expenses		19,954,644	16,319,329
Net finance income	9	113,042	154,265
Foreign exchange (loss)		(200,789)	(265,351)
Net deficit		(769,488)	(497,436)

SPREP
Statement of Financial Position
As at 31 December 2014

	Notes	2014 \$	2013 \$
ASSETS			
Non current assets			
Property, Plant and Equipment	11	3,247,864	3,322,420
Intangible Assets	12	468,872	215,838
		<u>3,716,736</u>	<u>3,538,258</u>
Current assets			
Cash at Bank and on Hand	13	3,102,350	3,900,631
Term Deposits	14	1,639,468	2,602,934
Receivables and prepayments	15	408,325	350,753
		<u>5,150,143</u>	<u>6,854,318</u>
TOTAL ASSETS		<u>8,866,879</u>	<u>10,392,576</u>
RESERVES AND LIABILITIES			
Reserves			
Core Funds		(1,238,598)	(469,110)
General		501,425	501,425
Specific Fund	16	244,542	35,133
Total reserves		<u>(492,631)</u>	<u>67,448</u>
Non Current Liabilities			
Deferred Income	8	2,957,426	3,040,489
Total non current liabilities		<u>2,957,426</u>	<u>3,040,489</u>
Current Liabilities			
Programme/Donor funds	20	4,735,411	5,737,925
Payables and accruals	18	583,280	497,033
Finance lease liability	19	-	18,847
Provision for employee entitlements	17	1,000,168	947,447
Current portion of deferred income	8	83,225	83,388
Total current liabilities		<u>6,402,084</u>	<u>7,284,639</u>
TOTAL RESERVES AND LIABILITIES		<u>8,866,879</u>	<u>10,392,576</u>

Signed on behalf of the SPREP Members

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Movement in Reserves
For the year ended 31 December 2014

	Notes	Core Fund \$	General Reserve \$	Specific Reserve \$	Total \$
Balance at 1st January 2013		28,326	501,425	129,217	658,968
Reserves used during the year		-	-	(94,084)	(94,084)
Net deficit for the year		(497,436)	-	-	(497,436)
Balance at 31 December 2013		(469,110)	501,425	35,133	67,448
Net deficit for the year		(769,488)	-	-	(769,488)
Reserves during the year	16			209,409	209,409
Balance at 31st December 2014		(1,238,598)	501,425	244,542	(492,631)

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Cash Flows
For the year ended 31 December 2014

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Members contributions	5	1,388,419	978,339
Interest received		143,627	187,476
Program/donor funds	19	15,817,618	15,969,761
Non programme donor funds received	6	918,678	682,982
Other receipts		116,283	254,645
Personnel costs - corporate services		(2,563,391)	(2,013,178)
Personnel costs - programmes		(5,175,615)	(3,800,608)
Corporate services costs		(1,537,459)	(1,731,894)
Programme expenditures		(10,358,207)	(8,609,730)
Net cash flows from operating activities		<u>(1,250,047)</u>	<u>1,917,793</u>
Cash flows from investing activities			
Purchase of property and equipment	11	<u>(310,911)</u>	<u>(258,386)</u>
Net cash flows for investing activities		<u>(310,911)</u>	<u>(258,386)</u>
Net change in cash held		(1,560,958)	1,659,407
Cash at beginning of the year		6,503,565	5,109,508
Effects of foreign exchange		(200,789)	(265,350)
Ending cash balances	13	<u>4,741,818</u>	<u>6,503,565</u>

The accompanying notes form an integral part of the above financial statement

1. General information

The Secretariat of the Pacific Regional Environment Programme (SPREP) is an inter-governmental organization of the Pacific Region and is domiciled in Samoa.

The principal activity of SPREP is to promote co-operation in the Pacific Region and to provide assistance in order to protect and improve its environment and to ensure sustainable development for future generations.

These financial statements were authorized for issue by the Director General of SPREP on 29th May, 2015.

2. Statement of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

a. Statement of compliance

These financial statements have been prepared in accordance with the requirements of the SPREP Financial Regulations which requires the adoption of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) in preparing its financial statements.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis unless otherwise stated. The principal accounting policies are stated to assist in a general understanding of these financial statements.

c. Functional and presentation currency

Items included in the financial statements of the Secretariat are measured using the currency as mandated by the SPREP Financial Regulations ('the functional currency'). The functional currency is the United States dollar (\$US).

d. Foreign currency transactions

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in the statement of income in the period in which they arise.

e. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets.

Depreciation is charged to financial performance on a straight-line basis over the estimated useful lives of each part of an item of property, and equipment. Land is not depreciated. The periods at which depreciation is charged are as follows:

- | | |
|------------------------|---------------|
| • Buildings | 50 years |
| • Furniture & fittings | 5 to 10 years |
| • Motor vehicles | 5 years |
| • Equipment | 3 to 5 years |

The residual value is reassessed annually. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the income statement.

f. Financial assets

The Secretariat classifies its financial assets in the loans and receivables category. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are classified as other receivables, cash at bank and on hand and term deposits in the current assets section of the balance sheet. The Secretariat assesses at each reporting date whether there is objective evidence that a financial asset or group of assets is impaired.

g. Receivables

Receivables and prepayments are recognized initially at fair value and subsequently measured at cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Secretariat will not be able to collect all amounts due according to the original terms of the receivables.

h. Payables

Payables are recognised when the Secretariat becomes obliged to make future payments resulting from the purchase of goods and services (including consultancy services for SPREP Programmes). Payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

i. Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and term deposits which are subject to an insignificant change on drawdown net of bank overdrafts for the purposes of the statement of cash flows. Bank overdrafts are shown in current liabilities on the balance sheet.

j. Reserves

The following categories of Reserves are held in accordance with SPREP's Financial Regulations:

General Reserve – represents the sum total of the accumulated results arising from core activities and is assigned for unforeseen circumstances or emergencies.

Specific Funds – comprises funds earmarked for specific purposes and generally not available for uses other than those specified.

k. Income

Income primarily comprises the fair value of the member's contributions and donor or programme funds received or receivable.

Member contributions

Member's contributions are recognized as a receivable only if there is objective evidence that the contribution for the current period will be received. Otherwise, Member's contributions are only recognized when they are received.

Donor or Programme Funds

Donor or Program funds received are initially recorded as part of Donor or Programme Fund liability in the statement of financial position. Donor or Programme funds are not recognized as income until there is reasonable assurance that the Secretariat will comply with the conditions attaching to them i.e.: the incurrence of expenditure towards the performance of agreed programme activities.

Donor or Programme funds are recognized as income over the periods necessary to match them with the Programme costs for which they are intended to compensate, on a systematic basis.

Donor or Programme funds that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Secretariat with no future related costs are recognized in the income statement in the period in which they become receivable.

Donor funded assets

Donor funds whose primary condition is that the Secretariat should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet (or statement of financial position) and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Programme management charges

Programme management charges are levied at an agreed percentage on Programme funds expended during the year.

Interest revenue

Interest revenue is recognised in the income statement as it accrues, using the effective interest rate method.

l. Employee benefits

For local employees, the Secretariat contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in the income statement.

Liabilities for annual leave are accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

On resignation or cessation of service other than by misconduct, an expatriate employee is entitled to repatriation costs and is measured on an undiscounted basis and expensed as they become due.

m. Net finance income

Net finance income comprises interest income on bank term deposits and bank charges and bank overdraft fees that are recognised in the statement of income.

n. Impairment

The carrying amounts of the Secretariat's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating amount exceeds its recoverable amount. Impairment losses are recognised immediately in the statement of income.

o. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Financial leases

Assets held under financial leases are initially recognised as assets of "SPREP" at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financial lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to statement of financial performance, unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with "SPREP's" general policy on borrowing costs.

p. Comparatives

Where necessary previous periods comparatives have been changed to conform to the presentation of financial information for the current year in order to achieve consistency in disclosure.

3. Financial risk management

a. Financial risk factors

The Secretariat's principal financial instruments comprise cash and term deposits. The main purpose of these financial instruments is to provide finance for the Secretariat's operations. As a result of the Secretariat's operations and sources of finance, it is exposed to exchange rate and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in Note 2 to the financial statements.

Foreign currency risk

Foreign currency risk is the risk of loss from changes in the exchange rates against the \$US dollar which is the functional currency of the Secretariat. The Secretariat receives funding from various member countries and donors in foreign currency. In addition, the Secretariat sometimes transacts in currencies other than the \$US dollar. This exposes the Secretariat to foreign currency risk. In order to reduce the exposure to foreign currency risks, the Secretariat operates various foreign currency bank accounts (such as Australia, New Zealand and Samoa dollar accounts) and transacts where required in these currencies.

The Secretariat's exposure to foreign currency risk was as follows based on notional amounts:

	Carrying Amounts	
	2014	2013
	\$	\$
AUD	530,863	641,382
NZD	298,197	364,903
WST	975,693	4,589,259

The following significant exchange rates applied at the reporting date:

	Reporting date rate	
	2014	2013
	\$	\$
AUD	0.8172	0.8891
NZD	0.7796	0.8158
WST	0.4134	0.4273

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Sensitivity analysis

A 10 percent strengthening/weakening of the foreign currency against the \$US dollar at 31 December 2014 would have affected core fund reserves and income by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

	Effect on Equity & Income	
	2014 \$	2013 \$
AUD – Income and Core Fund reserve +10%	43,380	57,025
AUD – Income and Core Fund reserve -10%	(43,380)	(57,025)
NZD – Income and Core Fund reserve +10%	23,246	29,768
NZD – Income and Core Fund reserve -10%	(23,246)	(29,768)
WST – Income and Core Fund reserve +10%	40,335	196,099
WST – Income and Core Fund reserve -10%	(40,335)	(196,099)

The Secretariat manage foreign exchange risk by the use of foreign currency hedges or forward rate agreements where these products are available in its primary economic environment.

Credit risk

Credit risk is the potential risk for loss arising from failure of Members to meet their agreed contributions or other counter-party to a financial instrument fails to meet its contractual obligations. The risk in relation to Members contributions is not considered significant because the Secretariat's policy is to only accrue Members contribution's where there is objective evidence that there is an insignificant risk of counterparty default. The Secretariat's receivable balances are monitored on an ongoing basis in order to reduce any exposure to bad debts.

Financial instruments that potentially subject the Secretariat to concentrations of credit risk consist principally of cash at bank and bank term deposits.

The Secretariat places its cash and bank term deposits with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution in accordance with its Executive approved cash management policy.

The carrying amount of financial assets recorded in the financial statements, which is net of any impairment losses, represents the Secretariat's maximum exposure to credit risk.

b. Fair value estimation

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values.

4. Critical accounting estimates and judgments

Preparing financial statements to conform to IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgments about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

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Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the Secretariat's accounting policies, management has made the following judgments, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements. The financial statements are affected by estimates and judgments in valuation of Property and Equipment (Note 2.e) and Receivables (Note 2.g).

5. Member contributions

Details of member contributions are specified as follows:

	2014 \$	2013 \$
American Samoa	10,184	11,912
Australia	185,106	185,106
Cook Islands	10,214	10,154
Federated States of Micronesia	10,184	10,184
Fiji	20,265	20,360
France	268,399	134,202
French Polynesia	20,360	20,360
Guam	-	-
Kiribati	10,180	10,205
Marshall Islands	10,184	20,368
Nauru	189,181	-
New Caledonia	21,202	20,064
New Zealand	134,202	134,202
Niue	10,209	10,184
Northern Marianas	-	-
Palau	-	32,860
Papua New Guinea	-	40,720
Samoa	20,340	20,360
Solomon Islands	20,390	40,690
Tokelau	10,184	10,184
Tonga	-	15,365
Tuvalu	10,184	10,238
United Kingdom	134,202	178,936
United States of America	210,000	235,000
Vanuatu	19,629	31,500
Wallis & Futuna Islands	17,801	10,184
Total	1,342,600	1,213,338

6. Other donor fund income

Funds received from aid agencies under additional extra budgetary work programmes are usually for specified purposes and administered by the executive management and corporate support. For 2014 funds received were from ROC, NZ and AusAID to fund the Independent Corporate Review and Review of Strategic Plan, Monitoring & Evaluation costs, Greening SPREP, Media Operations, Financial Management Information system and the Sub Regional costs. The total other income from donor funds for 2014 is \$918,678 (2013: \$682,982).

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7. Other income

Details of other income are specified as follows:

	2014	2013
	\$	\$
Income from rental of office space	50,259	93,214
Accrued annual leave written back to income	-	39,591
Director General's travel savings	13,055	17,122
Travel and other recoveries	20,065	77,312
Accounts Payable accounts written back to income	17,370	
Miscellaneous	7,519	
Total other income	<u>108,268</u>	<u>227,239</u>

8. Deferred income liability

Deferred income relates to the following buildings and office equipment and furniture funded by donors for SPREP's activities – i) SPREP Complex funded by Donor Governments; ii) Training and Education Centre (TEC) funded by Japan; and iii) Information Resource Centre funded by the European Union. The deferred income liability is amortised to income over 50 years for buildings and 10 years for office equipment and furniture which are the same rates at which the assets are depreciated.

	2014	2013
	\$	\$
Cost of donated assets		
SPREP Complex funded by donor Governments	1,822,798	1,822,798
Training and education centre project by Japan	2,374,692	2,374,692
Information and research centre by european union	350,000	350,000
Total cost of assets	<u>4,547,490</u>	<u>4,547,490</u>
Accumulated amortisation		
Opening accumulated amortisation	1,423,613	1,340,225
Amortisation for current year	83,225	83,388
Closing accumulated amortisation	<u>1,506,838</u>	<u>1,423,613</u>
Unamortised amount	<u>3,040,652</u>	<u>3,123,877</u>
Current portion of amortisation	83,225	83,388
Non-current portion of amortisation	2,957,427	3,040,489
Unamortised amount	<u>3,040,652</u>	<u>3,123,877</u>

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9. Net finance income

Net finance costs are specified as follows:

	2014	2013
	\$	\$
Interest income on bank term deposits	115,366	156,130
<i>Less finance costs relating to:</i>		
Bank charges	(2,324)	(1,865)
Net finance income	<u>113,042</u>	<u>154,265</u>

10. Executive management (key management personnel)

During the year the following persons were the management executives that were identified as key management personnel with the greatest authority for planning, directing and controlling the activities of the Secretariat:

Mr. David Sheppard – Director General
 Mr. Kosi Latu – Deputy Director General
 Ms Netatua Pelesikoti – Director, Climate Change
 Mr Stuart Chape – Director, Biodiversity & Ecosystem Management
 Mr David Haynes – Director, Waste Management & Pollution Control
 Mr Sefanaia Nawardra – Director, Environment Monitoring & Governance

The remuneration of key members of management during the year was as follows:

	2014	2013
	\$	\$
Salaries and short-term employment benefits	<u>1,075,692</u>	<u>1,054,771</u>
<i>Employers contribution to:</i>		
National Provident Fund	<u>67,760</u>	<u>70,753</u>
	<u>1,143,452</u>	<u>1,125,524</u>

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11. Property and equipment

Property and equipment is specified as follows:

	Buildings	Computer equipment	equipment & furniture	Motor vehicles	Total
Gross carrying amount					
Cost at 1st January 2013	4,157,129	378,759	747,526	103,002	5,386,416
Additions	344	31,104	11,099	-	42,547
Disposals	-	-	-	-	-
Balance at 31st December 2013	4,157,473	409,863	758,625	103,002	5,428,963
Additions	6,289	29,971	21,618	-	57,878
Disposals	-	-	-	-	-
Balance at 31st December 2014	4,163,762	439,834	780,243	103,002	5,486,841
Accumulated depreciation					
Balance at 1st January 2014	(1,030,622)	(324,158)	(725,028)	(26,735)	(2,106,543)
Depreciation charge for the year	(83,416)	(30,342)	(8,376)	(10,300)	(132,434)
Disposals	-	-	-	-	-
Balance at 31st December 2014	(1,114,038)	(354,500)	(733,404)	(37,035)	(2,238,977)
Net book value					
As at 31st December 2013	3,126,851	85,705	33,597	76,267	3,322,420
As at 31st December 2014	3,049,724	85,334	46,839	65,967	3,247,864

Motor vehicles include the following amounts where SPREP is a lessee under a financial lease. These financial leases have been fully paid in 2014:

	2014	2013
	\$	\$
Cost - capitalised financial leases	-	58,318

12. Intangible Assets

	2014	2013
	\$	\$
Computer Software	215,839	215,839
Additions	253,033	-
Net book value	468,872	215,839

The computer software is purchased as part of a system upgrade and was under development up to December 2014. This software is assessed as having a finite life and will be amortised over the estimated useful life of the asset commencing at the start of 2015. This asset is not internally generated.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

13. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	2014	2013
	\$	\$
Cash on hand	200	200
Cash at bank	3,102,150	3,900,431
	<u>3,102,350</u>	<u>3,900,631</u>
Bank term deposits	1,639,468	2,602,934
Cash and cash equivalents for purpose of cash flow statement	<u>4,741,818</u>	<u>6,503,565</u>

Cash and Bank balances are allocated to the following currencies in \$US dollars at balance date:

	2014	2013
	\$	\$
SAT denominated cash balances in \$US currency	108,152	166,461
AUD denominated cash balances in \$US currency	49,092	52,314
NZD denominated cash balances in \$US currency	8,242	7,410
USD denominated cash balances in \$US currency	2,936,864	3,674,446
	<u>3,102,350</u>	<u>3,900,631</u>

14. Bank term deposits

Bank term deposits are specified as follows:

	2014	2013
	\$	\$
Total bank term deposits	<u>1,639,468</u>	<u>2,602,934</u>

The bank term deposits have an average maturity of 180 days and a weighted average interest rate of 3.5% per annum. The carrying value of the term deposits equals their fair value.

Bank term deposits are allocated to the following currencies in \$US dollars at balance date:

	2014	2013
	\$	\$
SAT denominated bank term deposits in \$US currency	867,742	1,794,730
AUD denominated bank term deposits in \$US currency	481,771	517,937
NZD denominated bank term deposits in \$US currency	289,955	290,266
Total bank term deposits	<u>1,639,468</u>	<u>2,602,933</u>

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

Receivables and prepayments

Receivables and prepayments are specified as follows:

	2014	2013
	\$	\$
Receivables	346,217	259,046
Prepayments	25,713	27,052
Accrued interest on bank term deposits	36,395	64,656
	<u>408,325</u>	<u>350,754</u>

15. Specific Funds Reserve

The Specific Funds Reserve contains funds which are earmarked for specific purposes and are generally not available for uses other than those specified.

The Specific Funds Reserve as of 2014 represents medical evacuation funds as follows:

	2014	2013
	\$	\$
Opening balance	35,133	129,217
Less reserves used during the year	-	(94,084)
2013 medical evacuation costs recovered	70,273	
Plus reserves during the year	139,136	
Closing balance	<u>244,542</u>	<u>35,133</u>

16. Provisions for employee entitlements

Provisions for employee entitlements are specified as follows:

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

	2014 \$	2013 \$
<i>Leave entitlement</i>		
Opening balance	371,691	318,028
Entitlements accrued during the year	123,959	46,657
Overprovision of annual leave credited to other income		21,710
Entitlements used during the year	(51,555)	(14,704)
Closing balance	<u>444,095</u>	<u>371,691</u>
<i>Repatriation entitlement</i>		
Opening balance	575,756	486,419
Additions during the year	109,455	114,798
Repatriation costs paid during the year	(129,138)	(43,343)
Overprovision credited to other income	-	17,882
Closing balance	<u>556,073</u>	<u>575,756</u>
Total provision for employee entitlements	<u><u>1,000,168</u></u>	<u><u>947,447</u></u>

17. Payables and accruals

Payables and accruals are specified as follows:

	2014 \$	2013 \$
Payables	578,775	400,057
Accrued salaries	6,837	8,659
Other	(2,332)	88,317
	<u>583,280</u>	<u>497,033</u>

18. Finance lease liability

Finance leases relate to motor vehicles with lease terms of 3 years. SPREP has option to purchase the motor vehicles for a nominal amount at the conclusion of the lease agreement. SPREP's obligations under finance leases are secured by the lessor's title to the leased assets. The finance leases had been paid off during 2014.

i Minimum lease payments	2014 \$	2013 \$
No later than 1 year	-	18,847
Later than 1 year and no later than 5 years	-	-
	-	18,847
Less future finance charges on finance leases	-	-
Present value of finance lease liabilities	<u>-</u>	<u>18,847</u>
ii The present value of finance lease liabilities is as follows		
	2014 \$	2013 \$
No later than 1 year	-	18,847
Later than 1 year and no later than 5 years	-	-
	-	18,847

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

The fair value of the financial lease liabilities is approximately equal to their carrying value.

19. Donor and Programme Fund liability

a. Movement summary schedule

	2014	2013
	\$	\$
Opening balance	5,737,925	3,494,194
Funds received during the year	15,817,618	15,969,761
Total funds available	21,555,543	19,463,955
Less Programme expenditure during the year	(15,650,858)	(12,786,512)
Less Programme management charge	(1,169,274)	(939,518)
Closing balance	4,735,411	5,737,925

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

b. Detailed movement schedule

DONOR/PROGRAMME	Balance 1 st January 2014	Actual Funds Received	Total Funds Available	Program Support Charge	Programme Expenditure	Other	Balance 31 st December 2014
Asian Development Bank	(28,172)	403,539	375,367	(20,324)	(492,620)		(137,576)
AusAID Extra Budget	(45,431)	2,611,479	2,566,048	(278,080)	(2,421,696)		(133,727)
AusAID Extra Extra Budget	876,318	44,977	921,295	(77,436)	(733,177)		110,681
British High Commission	13,254		13,254	-	(7,863)	-	5,391
Commonwealth Secretariat	16,287		16,287		(5,113)	-	11,175
Conservation International	60,259	10,000	70,259		(1,183)		69,077
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	277,014	425,884	702,898	(28,914)	(294,458)	-	379,527
European Union	2,640,278	90,117	2,730,395	(60,532)	(917,869)		1,751,994
Food and Agriculture Organization	46,480	23,506	69,986	(11,051)	(37,530)		21,405
Government of Canada	6,020	3,064	9,083		2,414		11,497
Government of Finland	(107,673)	1,496,587	1,388,913	(172,343)	(900,104)		316,465
Government of France	124,492	383,704	508,197	(16,440)	(235,303)		256,455
Government of Germany	-	125,341	125,341		(12,754)		112,587
Government of Japan	6,092		6,092				6,092
Government of Switzerland	(1,212)		(1,212)				(1,212)
International Maritime Organization	7,504	172,182	179,687	(861)	(161,629)		17,197
John D & Catherine T MacArthur Foundation	6,303	-	6,303	-	-	-	6,303
NZ Aid PIE	4,812	-	4,812	-	-	-	4,812
NZ Aid Extra Budget	(9,235)	945,541	936,306	(95,373)	(894,705)		(53,773)
NZAid Extra Extra Budget	(22,214)	88,308	66,094		(9,237)	-	56,857
Parkard Foundation	17,184		17,184	(718)	(11,005)		5,460
People's Republic of China	10,298	150,000	160,298		(160,298)	-	-
Other Funds	989,048	464,157	1,453,205	(66,320)	(712,118)		674,768
Ramsar Secretariat	(98,219)	76,336	(21,883)	(14,078)	(123,895)	-	(159,857)
The Nature Conservancy	41		41				41
The Christensen Foundation	8,178	-	8,178			-	8,178
United Kingdom Meteorology Office	-	335,070	335,070	(11,856)	(132,451)		190,764
United Nations Development Program	420,051	4,815,659	5,235,710	(194,871)	(5,024,982)		15,857
United Nations Environment Program	297,659	2,458,686	2,756,344	(77,410)	(1,774,616)	-	904,318
United Nations Institute for Training & Research	54,739		54,739		(1,200)	-	53,538
UN Economics & Social Commission for Asia & the Pacific (UNESCAP)	8,786	-	8,786	-	-	-	8,786
UN Office of Project Services	7,055		7,055				7,055

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

DONOR/PROGRAMME	Balance 1 st January 2014	Actual Funds Received	Total Funds Available	Program Support Charge	Programme Expenditure	Other	Balance 31 st December 2014
US Dept of Energy/Los Alamos University	4,471		4,471				4,471
US Fish & Wildlife	14,625		14,625				14,625
US Dept. of State	88,943	60,000	148,943	(3,798)	(61,569)		83,575
USAID	33,650	401,651	435,301	(21,945)	(376,024)	-	37,333
US National Oceanic Atmospheric Administration	43,394	70,000	113,394	(2,569)	(13,716)	-	97,109
US Western Pacific Regional Fisheries Management Council	1,082	21,000	22,082	(2,259)	(18,764)		1,059
World Meteorological Organization	(34,235)	140,830	106,596	(12,098)	(117,393)		(22,895)
Totals	5,737,925	15,817,618	21,555,543	(1,169,274)	(15,650,858)	-	4,735,411

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

20. Expenditure by function and comparison to budget

A comparison of actual expenditures versus budgeted expenditure for 2014 is as follows:

	2014		2013	
	Actual	Budget	Actual	Budget
Climate Change				
Personnel Costs	1,413,279	1,480,597	1,436,869	1,521,142
Operating Costs	7,224,207	7,241,831	5,237,840	8,305,500
Capital Costs	81,358	155,029	67,339	11,000
Sub Total	8,718,844	8,877,457	6,742,048	9,837,642
Programme Support Costs	585,979	547,036	455,841	420,165
TOTAL	9,304,823	9,424,493	7,197,889	10,257,807
Biodiversity & Ecosystem Management				
Personnel Costs	1,317,512	1,257,154	1,284,487	1,044,864
Operating Costs	1,820,110	2,122,800	1,844,709	1,742,918
Capital Costs	14,942	6,250	13,938	16,450
Sub Total	3,152,564	3,386,204	3,143,134	2,804,232
Programme Support Costs	240,484	101,983	256,117	129,225
TOTAL	3,393,048	3,488,187	3,399,251	2,933,457
Waste Management & Pollution Control				
Personnel Costs	1,610,284	791,304	584,621	354,362
Operating Costs	712,577	2,914,200	556,400	609,325
Capital Costs	117,683	0	16,765	5,000
Sub Total	2,440,544	3,705,504	1,157,786	968,687
Programme Support Costs	141,744	233,574	127,623	52,453
TOTAL	2,582,288	3,939,078	1,285,409	1,021,140
Environment Monitoring & Governance				
Personnel Costs	864,329	729,480	626,950	676,458
Operating Costs	527,828	703,170	170,982	645,050
Capital Costs	7,881	3,000	6,093	15,000
Sub Total	1,400,038	1,435,650	804,025	1,336,508
Programme Support Costs	139,935	74,302	99,937	107,395
TOTAL	1,539,973	1,509,952	903,962	1,443,903
Executive Management & Corporate Services				
Personnel Costs	2,586,323	2,364,000	2,031,199	1,993,518
Operating Costs	1,523,897	1,298,336	1,374,012	1,140,160
Capital Costs	310,910	115,400	258,385	81,500
Sub Total	4,421,130	3,777,736	3,663,596	3,215,178
Programme Support Costs	61,133	3,840		11,016
TOTAL	4,482,263	3,781,576	3,663,596	3,226,194

21. Contingent liabilities and capital commitments

As at 31st December 2014, SPREP had entered into legal proceedings and dispute on a claim by a consultant over contractual benefits. This contractual commitment has not been recognized as a liability in the Statement of Financial Position due to the uncertainty of any potential liability given that the Court process is yet to be completed.

22. Events after reporting period

There were no significant events after the reporting period.

13th July 2015

Mr David Sheppard
Director General
SPREP
SPREP Compound
VAILIMA

Dear Sir,

**REPORT TO MANAGEMENT
FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED 31 DECEMBER 2014**

In planning and performing our audit of the financial statements of SPREP as of and for the year ended 31 December 2014, in accordance with International Standards on Auditing, we considered SPREP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organisation's internal control. Accordingly, we do not express an opinion on the effectiveness of SPREP's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

However, as discussed below, we identified certain deficiencies in internal control and recommendations for improvements to operational processes that we summarize in the attached memorandum.

We have discussed these issues in detail with Ms Alofa Tuuau on the 12th June, 2015 and have noted her comments in this letter. We understand however that SPREP has already implemented corrective action and have taken steps to address the issues that are raised in this report. We look forward to reviewing the status of these issues at our next audit.

This communication is intended solely for the information and use of management of SPREP and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,
BETHAM & CO.



Taimalieutu Ernest Betham
Director

SPREP
Financial Statement Audit
For the Year Ended December 31, 2014

Memorandum on internal controls and operational improvements

1. Accounts payable and account coding

Condition: During our review of the Accounts Payable listing we noted an amount of \$334k dollars was adjusted at year end. As per discussion with Finance team, the \$334k dollars initially resulted from wrongly entering the last digit of the account code that the expense is supposed to be allocated to. At the time of processing the payment the Finance section re-allocates the commitment to the correct account code.

Recommendation: We recommend that personnel are properly trained and equipped with the knowledge and information they need to ensure correct coding is made notwithstanding the fact that SPREP are currently in the process of training and fully implementing the new accounting system.

Management comments

This is an isolated staff error which was addressed. The Financial Management Information System (FMIS) is relatively new at SPREP and training of budget holders down to the operational level in the organisation has been implemented and this training will continue. With the new FMIS, the posting and coding of purchase requisition have been delegated to the budget holders and it is expected that it will take some time for the budget holders to become familiarize with the coding of the new chart of accounts. The recommendation is however noted and finance will continue with training for managers and staff in the area of coding and using the new FMIS.

2. Analysis of Financial Performance – Core Function vs Program Activities

Observation: The financial performance for the year ended 31 December 2014 appears to disclose a deficit in the operations of the Corporate Services (i.e.: Core Funds) area versus the fully funded Strategic Priority (i.e.: Program Funds) functions.

The income recognised under Program Funds and expenditure incurred under Program Funds currently equalise in the statement of income for the year ended 31 December 2014 i.e.: there is no surplus or deficit from Program Funds.

However, the net loss for the year ended 31 December 2014 of \$769,488 US dollars suggests that there is a funding deficit in the Core Funds program. If adjustments are made for non-cash items the adjusted net loss amounts to \$436,265 US dollars. Non-cash items comprise depreciation expense of \$132,434 US dollars and foreign exchange losses of \$200,789 US dollars.

Recommendation: It appears that the only areas for increasing funding for the Corporate Services function is from increases to members contribution and/or program management charges. We therefore recommend that SPREP perform a critical evaluation of the funding gap that appears to exist in meeting the costs for the Corporate Services (i.e.: Core Funds) function and to determine an appropriate action plan that is achievable and more importantly sustainable.

Management Comment

SPREP operated on an approved balanced budget for 2014 and there was no deficit for the organization as a whole. It thus should be noted that the above comments refer only to the Corporate Service area of SPREP not to the organisation as a whole.

The Core budget is essential for programme delivery under the Strategic priority programmes. The deficit in relation to core budget services in 2014 was due mainly to the high costs of the reviews (in total over \$400k), the high costs of the translations (over \$300k), 24th SPREP Meeting costs(\$255), and the cost of a number of unexpected medical fees in 2014.

The issue of core funding has been a long running issue for SPREP and is being addressed by a Membership Working Group (which will meet again on 17th July) comprising of Members and Secretariat staff.

There is also an internal working group addressing the issue of programme fees and cost recovery mechanisms as other income for the core budget apart from membership contributions.