

## Twenty Eight SPREP Meeting

Apia, Samoa  
19 – 21 September 2017

### Agenda Item 8.2 Audit Committee Report

#### Purpose

1. This is the 5th report on the activities of the oversight of the Audit Committee (AC) and it covers the period 1 July 2016 –through to the 30th June 2017; with updates to the end of July 2017. This report is in accordance with the Governance Policy core requirements and the Audit Committee Charter Section 3<sup>1</sup> stipulating details of the AC responsibilities. This report provides a summary in the following areas:

		Page
<b>I</b>	Composition of the AC	2
<b>II</b>	Work of the AC	2
<b>III</b>	Internal Controls	2
<b>IV</b>	2016 Financial Statements	3
<b>V</b>	External Audit Function	3-4
<b>VI</b>	Internal Audit Function	4-5
<b>VII</b>	Risk Management	5
<b>VIII</b>	Anti-Fraud Policy and Procedures	5

2. The Audit Committee is an integral; independent component of SPREP's Governance arrangements' and its responsibilities are to oversee and monitor Governance; risk and internal control issues affecting the Secretariat's operations through the Internal Audit Unit.
3. The frameworks required for the operation of the Internal Audit Unit and the Audit committee is established in the Charters approved and endorsed by the Audit Committee in consultation with the Executive.

<sup>1</sup> Section 3 (3.1-3.7) of the Audit committee charter

Details the responsibilities for

- Financial statements
- Internal Control
- Internal Audit
- External Audit
- Compliance
- Risk management
- Fraud Prevention; organisational values; code of conduct

## Background

### I Composition of the Audit Committee (AC)

4. The three independent AC members has been increased to five independent members since the beginning of 2017 as a recommendation to improve the participation of members in the Audit Committee. The five Independent members, being: Mr. Tupuola Oloialii Koki Tuala is the Chair of the AC who is the Partner of the firm Koki Tuala Chartered Accountant (KTCA); Mr. Mike Walsh; Deputy High Commissioner for New Zealand; Mr. Jovilisi Suveinakama currently represented by Mr. Seiuli Aleta; Acting General Manager of the Tokelau Office in Apia; MS. Rosita Maua'i-Matalavea; Assistant CEO Ministry of Finance Apia; MS Amanda Jewel; Deputy High Commissioner Australian High Commission; Apia. The independent members of the AC services are on a voluntary basis with the exception of the Chair being paid a minimal allowance of \$500 tala per meeting.
5. TROIKA members comprise Dr Josie M. Tamate; Director General of the Ministry of Natural Resources Niue (Chair); HE David Nicholson New Zealand High Commissioner and Honourable F. Umiich Sengebau; Minister of Natural Resources; Environment and Tourism.
6. Non independent members are no longer part of the Audit Committee.

### II Work of the Audit Committee

7. The Audit Committee is required to convene three times a year and can call extra meetings if the need arises. In the report period the AC has met five times; 28<sup>th</sup> July; 17<sup>th</sup> of August ;( AC training the MSP consultant); 24<sup>th</sup> November 2016; 23<sup>rd</sup> March 2017 and 11<sup>th</sup> April 2017. Minutes for the, meetings are attached in the Appendix 1. The AC met in August for a training on the Secretariat policies pertaining to Governance, AC Charter, and internal Audit charter revisions carried out by the Medium Size Project (MSP) Consultant. Briefings are conducted by the Director General with the assistance of the Deputy Director General during AC meetings. Staffs from various divisions are called in for presentation to the AC as requested by the AC.
8. This report uses a visual graph rate ranging from **ad hoc** to **optimize**. This rating is subjective and reflects the overview of the AC and is given to visualize the text below each graph. It is not based on any specific rating methodology; although it does take into account the committee members combined experience of governance and oversight.

### III. Internal Controls



9. The Secretariat has been advised that it has passed the EU seven pillar audit carried out in 2014/15 and in 2016 of the internal controls for the Secretariat, although formal notification has yet to be received. Passing this rigorous external assessment provides an independent and additional assurance that management is keeping proper internal control systems. This is confirmed by the audits carried out by the Internal Auditor and the assurance provided by the External Auditors.

10. The Secretariat's annual financial accounts provides an assurance that management has established and have been maintaining accounting and internal controls systems which include clearly stated policies and procedures.
11. The revision and creation of new policies under the medium sized project (MSP) in 2016 further enhance the internal controls within the operations of the Secretariat.
12. In addition, the UNDP Audit of Internal Controls as per the HACT Framework completed for the Project "Enhancing Capacity to Develop Global and Regional Environment Projects in the Pacific as at 31 December 2016" noted the risk rating for SPREP as LOW RISK.

**Recommendation:**

13. Management is responsible for the oversight of the internal control and safeguarding of assets for the Secretariat. AC noted an improvement in this area of internal control with the completion of the new and revised policies for the Secretariat in 2016. AC noted that through the discussion in the AC meeting relating to the Financial Management information System (FMIS) modules that were not available at this time due to financial constraints. NZ was able to discuss this further with the Secretariat to identify how NZ could be of assistance on this matter to further improve on the reporting.

**IV. 2016 Financial Statements**



14. The Audit Committee noted that over the past 12 years there had not been an increase in the level of membership contributions.
15. The Audit Committee recommended to the Secretariat to review the current Reserve policy which remains outstanding. The foreign currency policy has been completed as a means to manage the risk of Exchange loss.
16. The AC identified a need for a mechanism to be in place to review non-compliance by the Secretariat on the level of the reserve to be maintained.

**Recommendation:**

17. A recommendation by the AC to the Secretariat for the review of the current reserve policy remains to be actioned by the Secretariat. Furthermore the AC noted that voluntary member's contributions remains to be an issue in not receiving within the financial year thus causing financial constraints on the Secretariat annual budget. The AC requests the members to note that it is crucial for all members to provide this voluntary contribution to the Secretariat in a timely manner.
18. The net deficit of US\$468,160 in 2016 Reserves remains a concern of the AC as this reflects an insolvent position of the Secretariat. AC continues to implore the Secretariat to set a realistic target of how this net deficit could be reduced substantially in the new financial year 2017 and emphasized the importance of the management effectively monitoring the accounts to reduce and eventually eliminate the negative reserves balance. AC commended the efforts of the Finance team in the completion of the financial accounts and audit in advance which is a reflection of the improvements being in place to the FMIS.

## V. External Audit Function



19. In accordance with SPREP financial regulation 29 the external Auditor is appointed biennially at the SPREP meeting. The current external Auditor is BDO. Their main role is to examine the Financial Statements of SPREP and provide an opinion in accordance with the Financial Regulations 32. The 2016 audited financial statements are being presented in this meeting as part of the External Auditors work implemented in the year.
20. The 2016 management letter (Appendix 3) highlights three areas<sup>2</sup> in which SPREP needed immediate action and resolution. The AC reiterates the concerns of the external auditor in the following main areas:
- First, the financial position for the organisation is that SPREP's Total Reserve or Net Asset position is a net deficit. While the net deficit has decreased from a negative of USD\$778,112 dollars in 2015 to USD\$468,160 dollars in 2016, the AC noted an improvement in this area as a result of the net surplus achieved in 2016. However, AC strongly recommended to the Secretariat to set a realistic target in continuously reducing the above negative Reserves or Total Asset by the end of financial years 2017/2018.
  - Second, is the financial performance of SPREP resulting in a net surplus of USD\$346,898, in 2016 compared to a net deficit of USD\$261,729 in 2015. This substantial improvement is due to the decrease of the foreign exchange loss from USD\$344,333 in 2015 to USD\$98,258 in 2016 as well as a reduction in expenditure particularly for Executive management & corporate Support as part of cost control measures during the year. Strategies being adopted by the Secretariat include closing off all other foreign currency accounts as well as term deposits and maintain the US dollar account with minimal amount in tala.
  - The AC note with concern the negative results of the last three consecutive years in the total reserves for the organisation. Although AC noted a reduction of the deficit in 2016; AC will continue to monitor the performance of the Secretariat in the current financial year.
  - The AC has reviewed the first quarter results for 2017 and remarked on the improvement made by the Secretariat, noting a surplus of USD\$649,856 which was primarily due to the multi-year funding tranches from Australia and New Zealand. The AC made recommendations to the Director General to continue to undertake further action to further strengthen and build on the encouraging results of the current financial year.
21. A meeting was held with the External Auditor and the Audit Committee in March 2017 to discuss this report. The AC recognizes that the External Auditor has provided the required opinions on the financial statements as required. The 2016 audited Financial Statements received an unqualified opinion issued by the External Auditors. The meeting between the AC and External Auditor was a key change for improvement in the audit process and had been very effective and beneficial for the Secretariat.

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<sup>2</sup> 1. Financial Performance results during the year  
2. Foreign Exchange Losses  
3. Negative balances in the donor Fund balances

22. Project audits were also carried out during this period for UNDP projects and UNDP assigned their auditors to carry out such audits.

**Recommendation:**

23. The AC recommends adopting the outcome of the External Auditors audit of the 2016 Annual financial statements. There has been an improvement in the process implemented by the Secretariat of providing the draft financial statements to the AC for review prior to the issuing of the final audit opinion as well as the consultation between the AC and the External Auditor.

**VI. Internal Audit Function**



24. The internal Audit unit was involved in comprehensive investigations in relation to noncompliance and application of policies. The internal auditor completed several audit activities that were in progress towards the end of 2016 and rolled over to 2017 in relation to the credit cards usage and travel policy. The internal Auditor was heavily involved in working with the MSP consultants in providing input to the relevant revised policies for the Secretariat.
25. The audit plan was not completed for 2016 period due to other additional commitments being undertaken by the IA such as investigations.
26. The Internal Audit unit will be conducting an IT governance audit in the 2017 annual audit plan.

**Recommendation:**

27. AC requests the Secretariat to address the human resource issue within the Internal Audit Unit to improve capacity building and to implement the necessary work required. With the expansion of SPREP's role into being a Regional Implementing Entity (RIE) for Adaptation Fund and Green Climate Fund and the increase presence of the Secretariat in the region; this warrants the consideration for additional resources in this Unit.

**VII. Risk Management**



28. A follow up report was submitted to the Audit Committee on the Risk management plan 2011 review conducted by the IA in 2014/15. Status of management action on the recommendations provided by the Internal Auditor was submitted for the Audit committee's information. AC noted the completion of the new Risk management policy in 2016 as part of the medium size project assisting SPREP with institutional strengthening. The outstanding work in progress is the updating of the risk register for the Secretariat.
29. In the view of the AC the introduction of the risk management plan requires prioritization from Senior Management and all staff. Currently the risk committee is chaired by the Deputy Director General and comprised of other Directors and Advisers. These staff have their own daily work load in addition to risk management responsibility.

30. In the view of the AC it would be useful to incorporate these risk management responsibilities into the current performance development system for each of the staff.

**Recommendation:**

31. AC noted the completion of the risk management Manual/Policy. Three forms of risks to be managed are enterprise wide risks, division specific risks and project risks. The Secretariat needs to complete the risk register as this will be used as a basis to formulate the Internal Auditors annual work plan.

**VIII. Fraud Prevention Policy and Procedures**



32. A dedicated email address [fraud@sprep.org](mailto:fraud@sprep.org) for reporting fraud has been introduced. The Fraud prevention policy is available on the Secretariat website.

33. The Secretariat website was revamped by including <https://www.sprep.org/accountability/home> Accountability and Transparency web pages. This has further enhanced the visibility of SPREP in this area as a Regional Implementing Entity (RIE) for the GCF and Adaptation Fund.

34. Creation of awareness is conducted during staff induction programs by the Internal Auditor in relation to the risk management policy and the Fraud prevention & whistleblower protection Policy. More work is required in this area for wider publicity for the public and staff ability to lodge complaints.

**Recommendation:**

35. AC noted the completion of the Fraud Prevention Policy and Procedures and work done to date by the Secretariat in this important area of SPREP's internal control system.

**Recommendation**

36. The Meeting is invited to:

- **note** the activities performed by the IA and the AC and **approve** the report and recommendations provided by the Audit Committee for the period as from July 2016- June 2017.