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**AGENDA ITEM 9.2 :**
**Audit Committee Report**
**Purpose of paper**

1. To report to the Meeting on the work of the Audit Committee and Internal Auditor.

**Background**

2. This report on the activities of the Audit Committee (AC) covers the period between 1 July 2018 and 31 July 2019.
3. The report is in accordance with the Governance Policy and the Audit Committee Charter Section 3<sup>1</sup> stipulating details of the AC responsibilities.
4. 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.

**Composition of the Audit Committee (AC)**

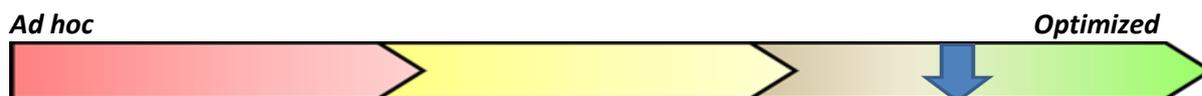
5. The five independent members for the Audit Committee over this period were:
  - Chair - Mr. Tupuola Oloialii Koki Tuala, Partner of Koki Tuala Chartered Accountant (KTCA);
  - Mr. Mike Walsh; Deputy High Commissioner for New Zealand;
  - Mr. Seiuli Aleta; Acting General Manager of the Tokelau Office in Apia;
  - Ms. Rosita Maua'i-Matalavea; Assistant CEO Ministry of Finance Apia;
  - Ms Amanda Jewel; Deputy High Commissioner for Australia.
  - With the exception of the Chair, the independent members of the AC provide their services on a voluntary basis.
6. The AC 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 six times. Minutes for the meetings are appended as Att.1. A special meeting was held in November 2017 to consider SPREP's financial results for the year. All recommendations from the Audit Committee arising from the special meeting were fully implemented by the Secretariat by the end of first quarter of 2018.
7. This report uses a visual graph rate ranging from *ad hoc* to *optimize*. This rating reflects the view of the AC as a visual guide to 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.

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<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

## Internal Controls



8. The Secretariat's internal control policies became effective from January 2017 with the exception of the Reserves Policy which was adopted in January 2018.
9. The AC acknowledges that largely because of the strength of its internal control measures, the Secretariat passed the EU seven pillar assessment in 2016, achieved re-accreditation as a Regional Accredited Entity to the Adaptation Fund in 2018, and was granted an up-grade to Risk Category B with the Green Climate Fund in July of this year.
10. On-going improvements to the Financial and Project Management Information Systems continue to further strengthen SPREP's internal control systems. The Secretariat's unqualified audited financial accounts demonstrate effective implementation of accounting and internal controls systems, confirming UNDP's earlier 'Low Risk' assessment of SPREP's internal controls against the HACT Framework.

## 2018 Financial Performance



11. The AC congratulates the Secretariat on its financial performance for 2018, producing a balanced budget with operating surplus for the third year running, and commends Management for having removed the negative reserves accumulated since 2002 which at the end of 2018 had increased to US\$139,740.
12. The AC notes that over the past 12 years the Secretariat continues to face the critical challenge of late and non-payment of membership fees which negatively affects SPREP's core budget. Members need to make greater commitment to paying voluntary commitments as early as possible.

## External Audit Function



13. As reported to the Meeting in Working Paper 5.4, the External Auditor issued an unqualified audit opinion, to the credit of the Secretariat. The AC considers that the work of the External auditor has met requirements and notes the changes in the presentation of the financial accounts in accordance with the International Financial Reporting standards (IFRS).
14. The AC appreciates the approach taken by the Secretariat to facilitate a teleconference between the External Auditor and the Audit Committee in March 2018 to discuss the External Auditor's report noting that it led to improvements in the audit process.

## Internal Audit Function



15. Resourcing the internal audit function continues to be a challenge due to the Secretariat's financial constraints with funding only secured for the Internal Auditor (IA) position. The new IA will produce an annual audit plan including consideration of outsourcing to assist with the human resource challenges.

## Risk Management

*Ad hoc*

*Optimized*



16. The AC notes progress with the implementation of the Risk management policy despite financial limitations on the recruitment of a Risk Manager. The updated risk register is now completed. Enterprise risks was endorsed by the Senior Management in 2018.
17. The AC stresses the importance of updating the PMIS to enable monitoring and management of project risks including a regular review and update of the Risk Register.

## Fraud Prevention Policy and Procedures

*Ad hoc*

*Optimized*



18. The Audit Committee notes that a dedicated email address for reporting fraud has been introduced, (<https://www.sprep.org/accountability/home> further enhancing the visibility of SPREP as a Regional Implementing Entity (RIE) for the GCF and Adaptation Fund.
19. The Fraud prevention and whistle-blower protection manual/ policy is available on the Secretariat website with induction training provided for new staff. No complaints or fraud cases were received through the fraud dedicated email during 2018.

## Recommendations

20. The Meeting is invited to :
  1. **Congratulate** the Secretariat for the positive results in 2018;
  2. **Encourages** management to maintain the positive reserves account in the long term;
  3. **Commends** the efforts of the Director General and all staff in the early and satisfactory completion of the financial accounts and audit;
  4. **Welcomes** the improved process used by the Secretariat to provide the draft financial statements to the AC for review prior to the issuing of the final audit opinion, and the consultation between the AC and the External Auditor;
  5. **Acknowledges** the improvement in internal controls including completion of the Fraud Prevention and Whistleblower Protection Policy and Risk Register, as well as the extensive work conducted, and on-going on the Financial and Project Information and Systems;
  6. **Notes** that late receipt of member's voluntary contributions remains an issue, causing financial constraints on the Secretariat's annual budget, and **request** Members to provide their voluntary contributions to the Secretariat in a timely manner;
  7. **Requests** the Secretariat address the human resource issue within the Internal Audit Unit as resources permit;
  8. **Notes** and **approves** the report of the Audit Committee for the period July 2018-July 2019.

23 August, 2019