Agenda item 6.2: Audit Committee Report

Purpose:

1. To present to Members the SPREP Audit Committee (AC) Report on the Committee's work over the past 12 months.

Background:

2. This report on the activities of the AC covers the period between 1 August 2025 to 3 July 2026.

3. The report is in accordance with the Governance Policy and Section 3 of the Audit Committee Charter which stipulates responsibilities of the AC.

4. The Committee is an integral, independent component of SPREP's governance arrangements. Its responsibilities are to provide structured, systematic oversight of the Secretariat's governance, risk, and internal control issues, and to offer independent advice and guidance on the adequacy and effectiveness of the Secretariat's practices and potential improvements.

Composition of the Audit Committee

5. For the period between 1 August 2025 to 3 July 2026 the Audit Committee was composed of the following members:

- Chairman:
    - Mr. Tupuola Tuala Oloialii Koki Tuala, Partner, Koki Tuala Chartered Accountant (KTCA). Initially appointed in 2016, Mr. Tuala was reappointed by the Troika for a further term through to 31 December 2026 following a competitive selection process.

- Member(s)
    - Tokelau: Ms. Ake Puka-Mauga, Secretary to Council and Senior Policy Advisor, Office of the Council for the Ongoing Government of Tokelau – Appointed in July 2023.

    - New Zealand: Mr. Jonathan Lee, Second Secretary (Trade and Economic), New Zealand High Commission – Appointed in March 2024.

    - Australia: Ms. Jessica Bolton, Second Secretary for Development, Australian High Commission Samoa, leading the Climate, Environment and Energy Portfolio (April 2026). Ms. Jennifer King, Program Manager, Pacific Climate Section, Climate Engagement Branch, Climate Change Division, Development, Multilateral and Europe Group. (July 2026)

6. The Committee expresses its appreciation for the commitment and contributions of its members, whose expertise and dedication continue to uphold high standards of accountability and oversight in support of the Secretariat's governance framework.

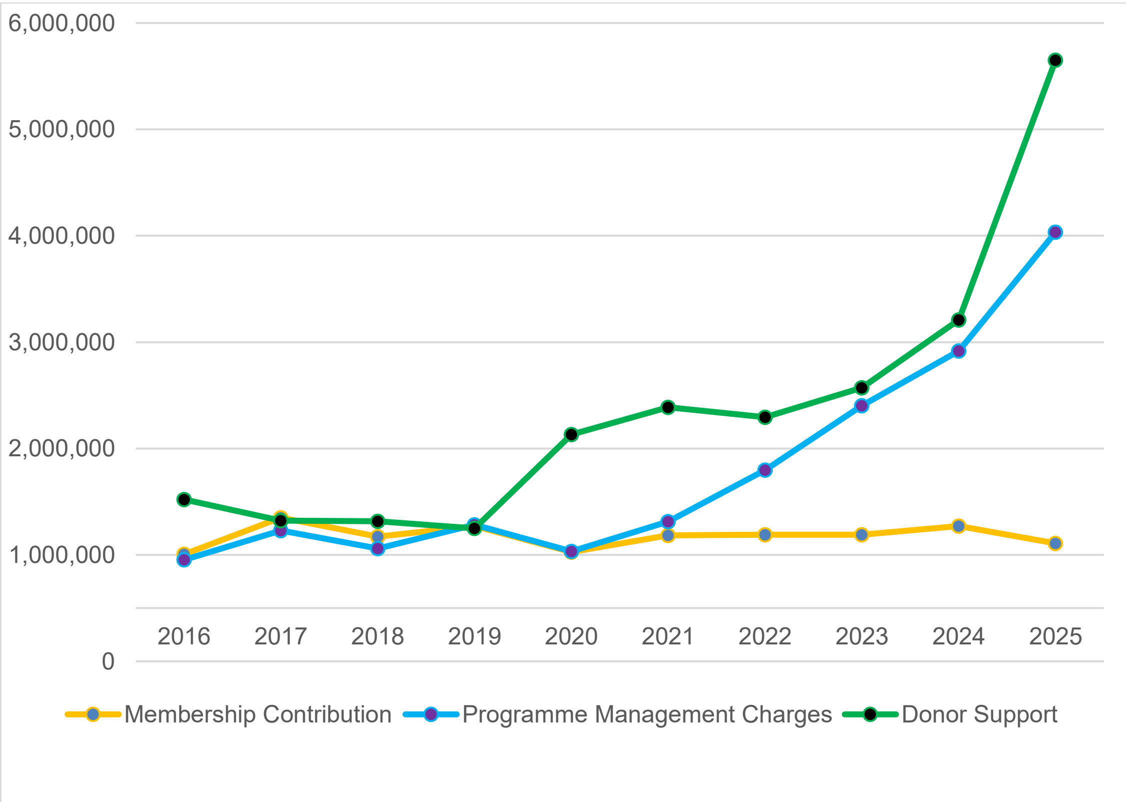
7. The Committee notes that the term of the current Chair, which was extended in 2024 following a competitive selection process, is due to expire on 31 December 2026. The process of identifying a suitable successor has commenced to support an orderly transition and ensure continuity of leadership and oversight.

8. Recognising the importance of maintaining continuity and preserving institutional knowledge, particularly in the context of recent changes in Member representation, the Committee considers it prudent that appropriate interim arrangements be put in place should the appointment of a successor extend beyond 31 December 2026, including the continuation of the current Chair until a successor is appointed.

Financial Performance

9. The Committee acknowledges the efforts of the Secretariat in managing its financial position and operational performance. For the year ended 31 December 2025, the Secretariat recorded a net surplus of US$2,252,421, compared to US$660,824 in the previous year. This outcome was supported by increased donor income, programme implementation performance, and continued expenditure discipline.

10. The principal revenue streams in US dollars for the last 10 years (2016–2025) are presented below in a graph for reference.



Support from Partners and Donors

11. The Committee recognises and sincerely appreciates the continued and significant support provided by the Secretariat's core development partners, particularly the Governments of Australia and New Zealand through DFAT and MFAT. Their contributions remain vital to SPREP's operations and strategic delivery.

12. The Committee also acknowledges the United Kingdom's contribution of US$3,478,920 in 2025, introduced in mid-2024, which significantly strengthened SPREP's operational and institutional capacity.

13. Total donor income reached US$5,652,171 in 2025, compared to US$3,210,393 in 2024, representing approximately 50% of total income. This increase reflects sustained confidence in SPREP's governance framework and its capacity to deliver its mandate and support Member priorities.

Membership Contribution

14. The Committee notes the implementation of the 20% increase in membership contributions, as endorsed at the 31st SPREP Meeting and effective from 2024, and expresses appreciation to Members who have implemented this adjustment.

15. On an accrual basis, membership contributions decreased from US$1,271,981 (2024) to US$1,106,936 (2025), primarily reflecting the withdrawal of funding support from the United States of America. Membership contributions accounted for approximately 10% of total income in 2025. Timely and sustained contributions remain important to financial stability and planning.

Outstanding Membership Contribution

16. The Committee notes with concern that, as of 31 May 2026, outstanding membership contributions on a cash basis totalled US$780,623, of which 74% (US$573,657) was carried forward from 2025. This continuing trend has implications for the Secretariat's financial planning and service delivery.

17. While acknowledging the fiscal challenges faced by some Members, the Committee encourages ongoing consultation and proactive engagement to address outstanding contributions, in a spirit of mutual understanding and shared regional responsibility.

Project Management Charges

18. The Committee acknowledges the significant increase in project management charges, a key performance-linked revenue stream for the Secretariat. In 2025, revenue from this stream increased by US$1,116,448 (38%), rising from US$2,917,705 in 2024 to US$4,034,153 in 2025.

19. The increase reflects stronger programme delivery, continued growth in the project portfolio, and higher levels of project implementation and completion during the year.

20. Project management charges accounted for approximately 36% of total income, highlighting their strategic importance to financial sustainability. The Committee notes that this revenue stream is closely linked to project execution performance, with stronger delivery and higher execution rates supporting cost recovery within approved frameworks. Effective project implementation not only delivers outcomes for Members but also contributes to sustaining operational funding.

21. Accordingly, the Committee encourages continued focus on efficient project execution and the strategic use of accreditation and institutional strengths to expand project opportunities and strengthen long-term financial sustainability.

Strengthening of Financial Reserves

22. The Committee notes the continued strengthening of financial reserves, which increased from US$2,965,095 (2024) to US$5,217,516 (2025). This improvement reflects sustained financial discipline, supported by Members and development partners.

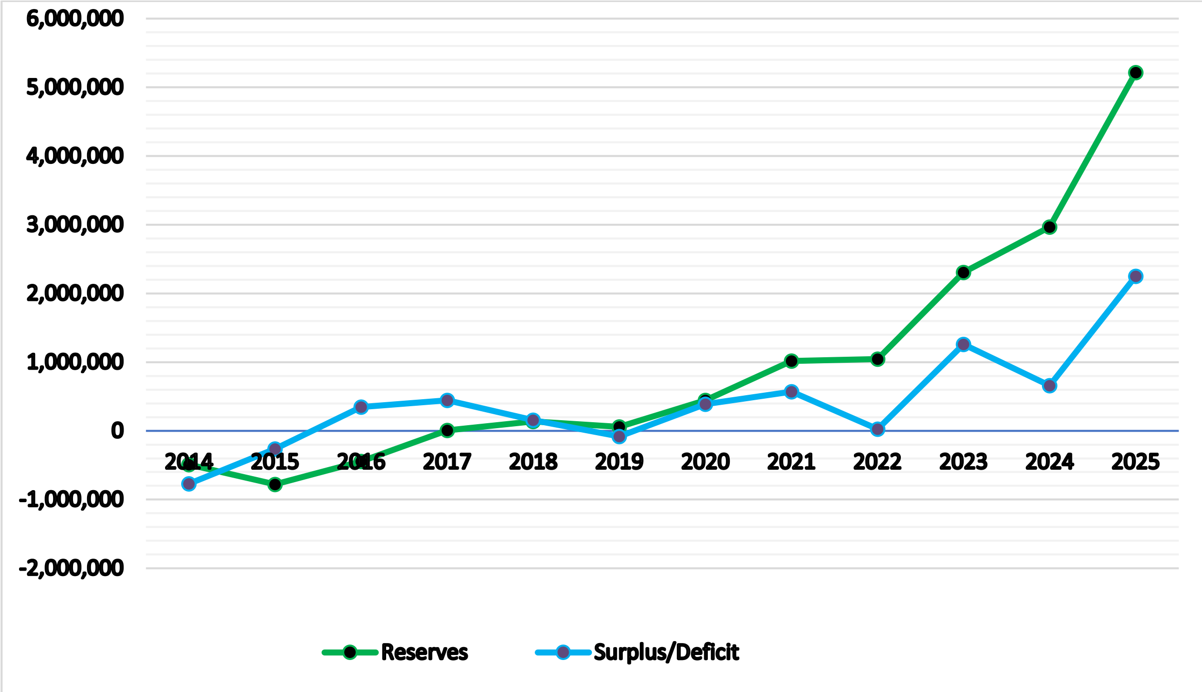
23. Reserves now provide coverage of approximately six months of operational expenditure, thereby strengthening the Secretariat's capacity to manage short-term financial shocks and ensure operational continuity. The Committee also notes the longer-term financial trajectory over the past decade, which demonstrates a significant turnaround from a position of constrained liquidity in 2014–2016 to a materially strengthened reserve position in 2025.

24. This trajectory highlights sustained improvements in financial governance and management and reflects the collective commitment of Members and the Secretariat. It further reinforces the importance of shared responsibility and continued fiscal discipline in sustaining institutional resilience.

25. While acknowledging this positive progress in reserve accumulation, the Committee also notes that expenditure levels continue to increase and are projected to rise further. In this context, maintaining financial resilience will require sustained and predictable revenue streams alongside continued prudent expenditure management. This reinforces the importance of sustaining and diversifying revenue streams to support long-term financial resilience.

Year	Financial Position Reserves US ($)	Income US ($)	Expenditure US ($)	Financial Performance Net Surplus/(Deficit) US ($)
2025	5,217,516	11,384,344	9,131,923	2,252,421
2024	2,965,095	7,874,109	7,213,285	660,824
2023	2,304,271	6,735,044	5,474,745	1,260,299
2022	1,043,972	5,828,754	5,802,493	26,261
2021	1,017,711	5,441,515	4,870,942	570,573
2020	447,139	4,772,280	4,382,904	389,376
2019	57,763	4,146,208	4,228,185	(81,977)
2018	139,740	3,754,574	3,600,301	154,273
2017	5,123	4,185,840	3,739,858	445,982
2016	(443,762)	3,760,037	3,413,139	346,898
2015	(778,112)	4,269,679	4,531,408	(261,729)
2014	(492,631)	3,735,087	4,504,575	(769,488)

Secretariat's Financial Position (Reserves) and Performance (Surplus/Deficit) from 2014-2025



Funding Sustainability and Future Project Opportunities

26. The Committee notes that a number of projects are expected to conclude during the 2026–2027 period, while several new initiatives are currently being developed and progressed with development partners and funding agencies.

27. Given the significance of project-funded activities to the Secretariat's operations, the Committee highlights the importance of timely planning and engagement with funding partners to facilitate a smooth transition between project cycles and minimise potential disruptions to programme delivery.

28. The Committee encourages continued collaboration between the Secretariat and Members to maximise opportunities arising from SPREP's Green Climate Fund (GCF) and Adaptation Fund (AF) accreditations, together with other strategic partnerships. Such collaboration will support the mobilisation of resources needed to address Members' emerging environmental and climate priorities while strengthening the Secretariat's long-term organisational resilience.

29. The Committee encourages the Secretariat to further embed project sustainability considerations into project design and implementation to support the continuation of key outcomes and benefits beyond the project funding period.

Contingent Liability

30. The Committee notes the disclosure of two contingent liabilities relating to ongoing legal proceedings. These comprise an employment-related litigation claim estimated at approximately US$198,000 and a litigation claim brought by a former project-based consultant estimated at approximately US$195,000.

31. Based on advice provided by the Secretariat's legal function, the likelihood of an outflow of economic resources in relation to these matters is currently assessed as not probable and low, respectively.

32. The Committee will continue to monitor developments in relation to these matters as part of its oversight responsibilities.

33. While the proceedings remain ongoing, the Committee encourages the Secretariat to periodically review its employment, contracting, and project management practices, as appropriate, to support effective risk management and minimise the potential for future disputes and associated financial, operational, and reputational impacts.

Fraud Prevention and Awareness

34. The Committee was not made aware of any material fraud matters affecting the financial statements during the reporting period.

35. The Committee reiterates the importance of sustained vigilance in fraud prevention, detection, and deterrence, supported by strong whistleblower protections, reporting mechanisms, and ongoing awareness initiatives.

Internal Audit Support

36. The Committee received periodic reports and updates on internal audit activities during the year. The Internal Audit function continues to provide independent assurance on the adequacy and effectiveness of internal controls, risk management, and governance processes across the Secretariat.

37. The Committee notes that internal audit findings and recommendations continue to support improvements in internal controls, operational efficiency, and accountability across the Secretariat.

38. The Committee recognises that the Secretariat's continued growth, expanding project portfolio, increasing donor expectations, and evolving risk landscape have increased both the demand for independent assurance and the capacity demands placed on the Internal Audit function. In this context, the Committee encourages continued strengthening of the function, including consideration of staffing resources and digital capability to support the effective delivery of its mandate.

39. The Committee further encourages targeted and sustainable capacity-building measures, including short-term technical attachments, secondments, professional development workshops, and peer-learning arrangements with regional organisations and development partners. These initiatives should be designed to strengthen specialist expertise through learning and development, support knowledge sharing, build professional networks, and contribute to the sustained development and maturation of the Internal Audit function.

Risk Management and Emerging Risks

40. The Committee emphasises the importance of maintaining a robust, integrated, and forward-looking Enterprise Risk Management (ERM) framework to support effective governance, organisational resilience, strategic decision-making, and operational continuity within SPREP's evolving operating environment.

41. The Committee notes that SPREP continues to operate within an increasingly complex and evolving risk environment, characterised by a range of strategic, operational, financial, integrity, governance, and compliance risks. These include cybersecurity threats, project delivery and implementation risks, financial sustainability pressures, workforce capacity constraints, geopolitical developments, occupational health and safety risks, and evolving legislative, regulatory, and donor requirements. The Committee also notes the potential impact of changing development financing, donor priorities, and broader economic conditions on the Secretariat's operations and strategic objectives.

42. The Committee welcomes the appointment of the Risk Management Officer in 2026, recognising this as an important step towards strengthening the coordination, implementation, and maturity of SPREP's Enterprise Risk Management (ERM) framework. The Committee also acknowledges the Secretariat's ongoing efforts to review existing policies and develop new policies and procedures to respond to the evolving risk environment, strengthen governance arrangements, and reinforce the organisation's internal control framework.

43. The Committee encourages the continued integration of risk management into organisational planning and decision-making, supported by effective monitoring of key strategic risks, robust internal controls, sound business continuity arrangements, and the promotion of a strong organisational risk culture.

Follow-up on Audit Committee Matters

44. The Committee continued to monitor progress on significant observations, recommendations, and matters raised in both its current and previous reports. This follow-up process forms an important part of the Committee's oversight responsibilities and provides assurance that identified governance, risk management, internal control, and operational issues are being appropriately addressed by the Secretariat.

45. The Committee notes the progress made in addressing a number of matters previously raised and will continue to monitor the implementation of outstanding actions and emerging issues as part of its ongoing work programme.

Discussion and Review of Financial Statements

46. The Committee has reviewed the 2025 audited financial statements, including accounting policies, in consultation with the Director General, Director of Finance, and external auditors, Lochan & Co. The Committee notes that the audit was completed without disagreement, scope limitation, or adverse findings.

47. The Committee acknowledges the value of its annual consultations with the external auditors, which continue to provide an important platform for exchanging perspectives, clarifying key issues, and jointly identifying opportunities for improvement. This collaborative approach has added tangible value to SPREP’s audit process and financial oversight.

Ongoing Consultations with Management

48. The Committee also supports continued engagement with the Director General and Senior Leadership Team throughout the year, which has contributed to timely resolution of emerging issues and strengthened governance oversight.

Recommendations:

49. The Executive Board Meeting is invited to:

1) **Note and approve** the Audit Committee Report for the period 1 August 2025 to 3 July 2026.
2) **Welcome** the continued support of Members, development partners, and donors.
3) **Encourage** timely settlement of Member contributions and continued collaboration between Members and the Secretariat to support SPREP's mandate and long-term sustainability.
4) **Encourage** the Secretariat to continue leveraging its accreditation status and strategic partnerships to enhance resource mobilisation and project opportunities.
5) **Support** the continued strengthening of the Internal Audit function, including capacity-building, staffing resources, and digital capability.
6) **Note** the importance of continued focus on enterprise risk management, organisational resilience, and emerging risks.
7) **Record** its appreciation to the Director General, Senior Leadership Team and staff for their contributions during the reporting period.
8) **Note** the succession arrangements for the Audit Committee Chair and, should a successor not be appointed by 31 December 2026, **approve** the continuation of the current Chair on an interim basis until a successor is appointed.

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7 July 2026