



## 2<sup>nd</sup> Executive Board Meeting 2 – 4 September 2020

### Agenda Item 9.1: Audit Committee Report

#### Purpose:

1. For the SPREP Audit Committee (AC) to update the Executive Board 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 July 2019 and 31 July 2020.
3. The report is in accordance with the Governance Policy and the Audit Committee Charter Section 3 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. For the financial year 2019 the Audit Committee consisted of the following members:

Chairman	Mr. Tupuola Oloialii Tuala, Partner, Koki Tuala Chartered Accountant (KTCA) (Re- appointed for second term in November 2019)
Member	Ms. Amanda Jewell, Deputy High Commissioner, Australia High Commission (Concluded in November 2019)
Member	Mr. Barry Patterson, Deputy High Commissioner, Australia High Commissions (Appointed in November 2019)
Member	Mr. Taimalie Kele Lui, Manager Human Resources, Tokelau Office, Apia (Appointed in March 2019)
Member	Ms. Rosalini Moli, Assistant Chief Executive Officer, Ministry of Finance, Samoa (Appointed in March 2019)
Member	Mr. Huw Thomas, Second Secretary, New Zealand High Commission (Concluded in November 2019)
Member	Ms. Ella Risati, Second Secretary, New Zealand High Commission (Appointed in November 2019)

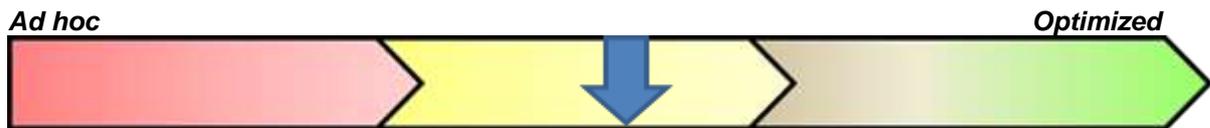
*With the exception of the Chair, the independent members of the AC provide their services on a voluntary basis.*

6. The following Troika members were present at the Audit Committee meeting on the 9 April 2019.

Troika Members:

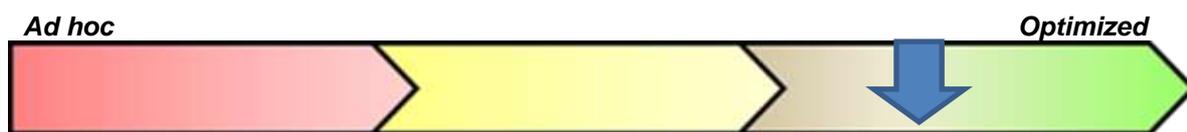
- H.E Ms. Lucy B. Bogari, Ambassador accredited to the CROP (SPREP Chair PNG)
  - Ms. Gwendolyn Sisor, Senior Projects Manager, Ministry of Natural Resources, Environment & Tourism, Government of Republic of Palau.
  - Ms. Desna Solofa, Assistant Chief Executive Officer, Ministry of Foreign Affairs and Trade, Government of Samoa
7. 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 three times. Minutes for the meetings are available from the Secretariat on request.
  8. The Secretariat on 6 March 2020 facilitated an induction program for the Audit Committee. It was a good opportunity for the Committee to meet with the respective directors and learn more about their respective work areas and challenges encountered.
  9. On 27 March 2020 through a teleconference the Committee met with the external auditors KPMG Fiji to discuss the results of the external audit of the financial statements of SPREP for the year ended 31 December 2019. The Chair recognised the human health and severe financial impacts of COVID-19 on SPREP operations in current and subsequent years and the importance of continued support from key members and partners.
  10. On 31 March 2020, the Committee presented its first progress report which included key findings and recommendations following the AC meeting and induction held on 6 March 2020 to the Director General for due consideration by the Senior Management Team.
  11. The Committee recognises the need to increase the number of audit committee meetings from three to at least four on an annual basis to ensure greater oversight and more timely advice to management. The Audit Charter is currently under review and will be benchmarked and aligned to the Institute of Internal Auditors standards and requirements.
  12. This report uses a visual graph rate ranging from ad hoc to optimize. This rating is subjective and 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.

## Internal Controls



13. The Secretariat received an unqualified or clean audited financial accounts opinion with no material discrepancies identified by the auditors. This demonstrates effective implementation of accounting and internal controls systems.
14. However, the Committee noted some of SPREP's key policies and manuals are in need of updating. Noting that a stocktake of all policies is in progress for reviewing priority policies by the end of 2020. These policies are for Child Protection, Gender Mainstreaming, Travel, Occupational Health and Safety, Environment and Social Safeguards Management System, and Procurement Manuals. The Committee is of the view that such policies and procedures need to be relevant to address the current needs of the SPREP, and looks forward to the completion of the review.

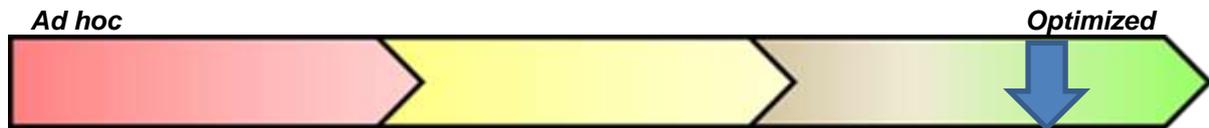
## 2019 Financial Performance



15. The Secretariat recorded a net deficit of US\$81,977 for the financial year ended 2019 in contrast to a surplus of US\$154,273 recorded for the financial year ended 2018.
16. The total income increased by US\$391,634 or 10% from US\$3,754,574 in 2018 to US\$4,146,208 in 2019. However, it was not enough to sustain the relative increase in the operating cost by 17% or US\$615,272 from US\$3,560,316 in 2018 to US\$4,175,588 in 2019. This increase in operating expenses was mainly attributed to the increase in expenditures on repairs and maintenance, travel, workshops, and trainings, SPREP meeting costs and salaries and wages attributing to the SPREP growth.
17. The AC noted the Current Ratio is 1:1 which is relatively breakeven, and that the equity or reserves has declined by 59% or US\$81,977 from US\$139,740 in 2018 to US\$57,763 in 2019. The financial position needs to be strengthened. This could be achieved through improved project execution and additional member voluntary contributions and support, while the Secretariat continues with the prudent management of expenditure.
18. Timely membership contributions and the importance of the additional member voluntary contributions to show greater solidarity and commitments towards the operations of the SPREP, to enable SPREP to provide greater support to its members and maintain a sustainable reserve.
19. The Secretariat had requested SPREP Members in the past few years for an increase in membership contributions to assist with the constraints on the core funding level which to this date, has still not received a consensus support by members. The increase of up 20%

approved at the 28SM in 2017 was approved in principle, but subject to confirmation from Capitals/Governments. As at 31 December 2019, only Australia, French Polynesia, New Caledonia, New Zealand, Papua New Guinea, Samoa, and Tuvalu have responded to formalise pledges of contribution increases. The impact of the voluntary nature of payment for Member contributions continues to provide uncertainty in the core funding for SPREP.

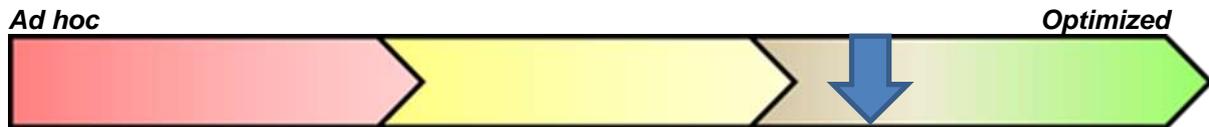
### External Audit Function



20. The AC appreciates the approach taken by the Secretariat to facilitate a teleconference between the External Auditor and the Audit Committee on 27 March 2020 to discuss the External Auditor's report. The AC noted:

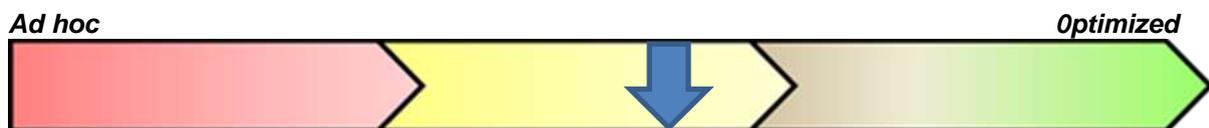
- a) The external audit was undertaken in an environment of the utmost level of objectivity, independence, ethics, and integrity.
- b) No significant difficulties were encountered during the audit by the external auditors.
- c) The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

### Internal Audit Function



21. The Internal Audit Function continues to focus on the core task of undertaking internal audits consistent with the IA annual audit work program. Limited financial resources in the Secretariat's core budget continues to constrain the human resources capacity to assist in the implementation of annual audit plans.

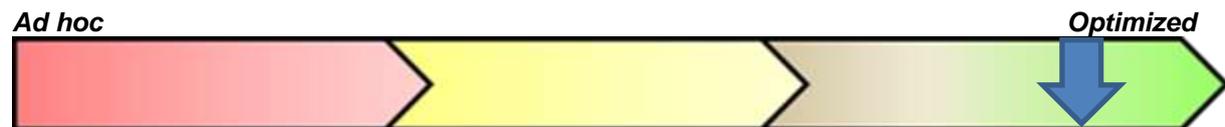
### Risk Management



22. The AC noted the risk of COVID 19 reducing funding from partners and donors, increasing the costs of staff medical evacuation and claims, and slow project implementation, already an area of concern in previous years. The COVID-19 pandemic is also likely to constrain cash flows, as well as the ability to recruit, retain and pay the salaries of the staff in the medium to long term period.

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24. 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



25. 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.
26. 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 2019.

### Recommendations

27. The Executive Board Meeting is invited to:
1. **commend** the efforts of the Director General and all staff in the early and satisfactory completion of the financial accounts and audit;
  2. **note** 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;
  3. **note** that the 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;
  4. **request** the Secretariat address the human resource issue within the Internal Audit Unit as resources permit; and
  5. **note** and **approve** the report of the Audit Committee for the period July 2019- July 2020.

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19 July 2020