

Agenda item 6.1: Audit Committee Report

Purpose of paper

1. To present the SPREP Audit Committee Report (AC) on the Committee's work over the period from 1 August 2021 to 31 July 2022.

Background

2. This report on the activities of the AC covers the period between 1 August 2021 - 31 July 2022.
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 Audit Committee is required to meet at least three times per financial year. It met in August 2021, November 2021, April 2022 and May 2022.
5. 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 financial performance.

Composition of the Audit Committee (AC)

6. For the financial year 2021 the Audit Committee consisted of the following members:

Chairman:

- Mr. Tupuola Oloialii Koki Tuala, Partner, Koki Tuala Chartered Accountant (KTCA)
– (Re- appointed for second term in November 2019)

Members:

- Mr. Barry Patterson, Deputy High Commissioner, Australian High Commission (Appointed in November 2019)
- Mr. Taimalie Kele Lui, Manager Human Resources, Tokelau Office, Apia (Appointed in March 2019)
- Ms. Rosalini Moli, Assistant Chief Executive Officer, Ministry of Finance, Samoa - (Appointed in March 2019)
- Ms. Ella Risati, Second Secretary, New Zealand High Commission - (Appointed in November 2019)

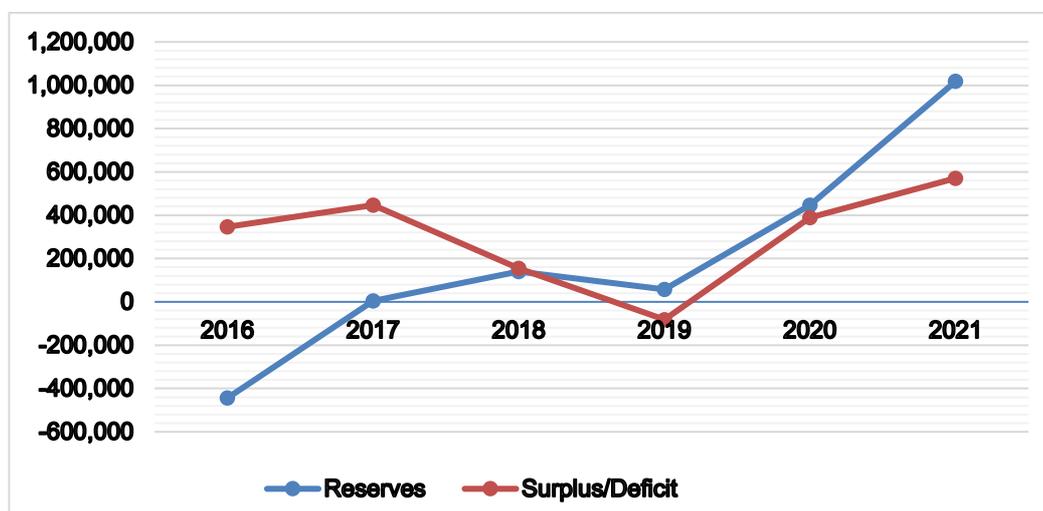
7. The Secretariat recorded an increase in net surplus of 46% or US\$181,197 from US\$389,376 recorded for the financial year ended 31 December 2020 to US\$570,573 recorded for the financial year ended 31 December 2021. This was mainly attributed to;
 - a) Increased Funds received from aid agencies, for 2021 funds received were from Australia's Department of Foreign Affairs and Trade (DFAT), NZAid, China, UNEP and other partnership agreements. The total other income from donor funds for the year ended 31 December 2021 was \$2,388,092 when compared to 31 December 2020 it was \$2,133,269.
 - b) The Project Management fees which is a major revenue stream for Secretariat improved by 27% or US\$279,403 from US\$1,033,668 in 2020 to US\$1,313,071 in 2021. This was mainly attributed to the measures put in place by the Secretariat to manage the impact of COVID-19, engagement with donor to address alternative arrangements for project delivery and agreed changes to workplans, delivery through virtual means and working with the country partners and national focal points.
 - c) Recognition of the membership contribution on accrual basis with effect from 2020.
8. The outstanding membership contributions for the period ended 31 December 2021 amounted to US\$299,129. The Committee would like to thank members for their timely contribution and support despite the COVID-19 impacts and urges the Secretariat to continue following up and make arrangements with those members facing difficulties in clearing their outstanding member contributions.
9. The increase of up to 20% was approved in principle at the 28SM in 2017 but was subject to confirmation from Capitals/Governments. The Committee noted with appreciation members' voluntary contributions and would like to encourage all Members for their consideration of an additional voluntary contribution to the core to ensure the continued financial sustainability and strengthening of the SPREP operations in support and response to members need.
10. The current ratio¹ is 1:1 which is relatively breakeven, or just sufficient to cover the Secretariat's immediate liabilities. The equity or reserves has further strengthened by US\$570,573 from US\$447,138 in 2020 to US\$1,017,711 in 2021. This was attributed to net surplus recorded for the year ended 31 December 2021.
11. The Committee is of the view the reserve position of US\$1,017,711, though improved significantly in 2021 when compared to 2020 is still at a critical level when benchmarked against the Secretariat average annual expenditure for last six years (2016-2021) of \$4 million. The Committee views strong reserve position is vital to sustain the current operations, existing infrastructure, address future challenges and to support the future Secretariat expansion and growth.

¹ The current ratio is a liquidity ratio that measures entity's ability to pay short-term obligations or those due within one year. A good current ratio is between 1.5 to 2, which means that the entity has 1.5 or 2 times more current assets than liabilities to covers its debts. A current ratio below 1 means that the entity does not have enough liquid assets to cover its short-term liabilities.

12. Please refer to table below for the financial position (reserve) and financial performance (net surplus and deficit) for last six years (2016-2021);

Year	Financial Position Reserve US (\$)	Financial Performance Net Surplus/(Deficit) US (\$)
2021	1,017,711	570,573
2020	447,139	389,376
2019	57,763	(81,977)
2018	139,740	154,273
2017	5,123	445,982
2016	(443,762)	346,898

Secretariat's Financial Position (Reserves) and Performance (Surplus/Deficit) from 2016-2021



13. The Committee urges the Secretariat to maintain vigilance and continue improving its revenue stream, maintain existing and explore new partnership support arrangement, improve project delivery and efficiency, manage its expenditure and risk exposure arising from COVID-19 and impending global recession and inflation which would impact the Secretariat future cost of operations.
14. The Committee has discussed the 2021 audited financial statements and the relevant accounting policies with the Director General, Director Finance and Administration and the External Auditors, BDO Samoa. It also reviewed the report of the external auditor on the financial statements and the related management letter.
15. On this basis the Audit Committee concludes that the 2021 audited financial statements and the unqualified audit opinion by the external auditor be accepted by the SPREP members.

16. The Committee encourages the continuation of regular consultations with the senior leadership team during the year, consultations with Director of Finance and Administration during the Committee meetings; and annual consultation with the external auditor all have proved useful and valuable in improving dialogue, forming effective decisions and expediting practical solutions to challenges faced by Secretariat especially moving forward with numerous risks and uncertainties caused by the impact of COVID19.
17. The Committee noted it is instrumental to have the project sustainability plan or exit strategy endorsed at the early stage; that is to set a clear direction and pathways on sustainability options, allocate resources, and build capacity of the stakeholders (member countries and SPREP) to manage, maintain and sustain the project its post implementation to ensure its long-term benefits and return on the investments to members and the Secretariat.
18. The Committee noted the Secretariat developed the Project Management Information System (PMIS) for effective project monitoring, status tracking and dashboard reporting in 2017. The Committee is concerned on low utilization of the PMIS since its inception and its full benefit not capitalised. The Secretariat is in process of reviewing and revamping the system to address its need.
19. The Committee understands the dynamic nature of the risks and impact it could have on the operation; hence the Committee urged the Secretariat to be risk savvy and review and monitor its risk register and risk management plan(s) at the enterprise, programme and project level on a more regular interval to check the relevance of the existing risks, adequacy of controls and measures put in place and account for new emerging risks.
20. The Committee noted that the Secretariat has reviewed its risk policy and risk management manual which was approved in November 2021 and is currently in progress with reviewing its risk register and developing risk management plan.
21. The Committee in November 2019 noted 62 policies were due for review. The Committee is of the view that policies and procedures need to be relevant to address the current needs of SPREP. As at May 2022, the Secretariat has undertaken in-house reviews leveraging on its existing expertise and completed review of 9 policies and manuals while remaining policies and manuals are in work in progress or scheduled for third and fourth quarter of 2022.
22. The Committee noted the need to strengthen the Internal Audit Function and leverage the use of technology to automate manual tasks to increase the audit coverage.
23. The Secretariat Fraud Prevention and Whistle-blower manual is in review process. The review will ensure that the manual is aligned and benchmarked; to the current development in the International Financial Institutions Principles and Guidelines for Investigations which is used by major international institutes such as the World Bank and Asian Development Bank and with our major partners and donors' fraud prevention requirement.

24. The Committee did not receive any fraud complaint through its dedicated channel during the current reporting period. Three dedicated fraud staff awareness sessions were conducted to encourage staffs to take the necessary action to mitigate the risk of fraud occurring or, when it does occur, the reporting options and mechanisms in place to address it and the safeguards in place to protect the whistle-blower.
25. The Committee noted that the Independent Corporate Review and Mid-term Review of SPREP Strategic Plan 2017-2026 have completed. The working group is established to review the key findings and corresponding recommendations, the members of working group comprise of Australia, Cook Islands, New Zealand, Marshall Islands, Samoa, Tokelau and Tuvalu. At present the working group is prioritising the list of recommendations to be considered, noting none of the recommendations have been endorsed to date.

Recommendations:

26. The Executive Board Meeting is invited to:
- 1) **Note** and **approve** the report of the Audit Committee for the period August 2021-July 2022.
 - 2) **Note** the reserve position though improved in 2021 when compared to 2020, is still at a critical level.
 - 3) **Request** members to update their outstanding membership contributions and grateful for provision of any extra voluntary contributions in support of their Secretariat.
 - 4) **Record** its appreciation for the cooperation and support it has received from the Director-General, management, and staff of SPREP over the past 12 months.