

## First Executive Board Meeting

Apia, Samoa  
10-11 September 2018

SPREP/EB 01/WP.8.1/Rev.2  
Page 1

### Agenda Item: 8.1: Audit Committee Report

#### Purpose

1. This is the 6th report on the activities of the Audit Committee (AC) between 1 July 2017 and 30 June 2018; with updates to the end of July 2018. This report is in accordance with the Governance Policy 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	2-3
<b>IV</b>	2017 Financial Statements	3
<b>V</b>	External Audit Function	4-5
<b>VI</b>	Internal Audit Function	5
<b>VII</b>	Risk Management	6
<b>VIII</b>	Anti-Fraud Policy and Procedures	6-7

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.

<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)

- The five independent members for the Audit Committee namely are: Mr. Tupuola Oloialii Koki Tuala is the Chair of the AC and is the Partner of the firm 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 Australian High Commission; Apia. The independent members of the AC services are on a voluntary basis with the exception of the Chair.
- TROIKA members for 2017/18 : Ms. Gwendolyn Sisor, Senior Projects Manager, Ministry of Natural Resources, Environment & Tourism; HE David Nicholson New Zealand High Commissioner and Mr. Michael Appleton, Manager and Unit Manager for the Pacific Regional Institutions, Pacific Regional Division, MFAT; Dr. Josie Tamate, Director-General, Ministry of Natural Resources; Government of Niue.

### II. Work of the Audit Committee

- 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 six times; 3rd August 2017; 30<sup>th</sup> November; 27<sup>th</sup> February 2018; 23<sup>rd</sup> March ; 17<sup>th</sup> April and 19<sup>th</sup> of July . Minutes for the meetings will be provided to Members on request the special meeting in November 2017 focused on the financial results for the year and considered actions to improve the financial position of SPREP. The recommendations from the November meeting were fully implemented by the Secretariat by the end of first quarter of 2018.
- 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.

### III. Internal Controls



- The Secretariat passed the EU seven pillar audit carried out in 2014/15 and in 2016 of the internal controls for the Secretariat, confirming that SPREP's internal control systems are effective. Extensive improvements to the FMIS and the Project management information system has further strengthened SPREP's internal control systems. Ongoing assurance of internal controls is reinforced by the audits carried out by the Internal and External Auditors.

8. The Secretariat's unqualified audited financial accounts demonstrate effective implementation of accounting and internal controls systems.
9. The effective implementation in of the policies developed under the medium sized project (MSP) in 2017 have significantly enhanced the internal controls within the operations of the Secretariat.
10. UNDP also assessed internal controls against the HACT Framework in its audit of SPREP's role in "Enhancing Capacity to Develop Global and Regional Environment Projects in the Pacific as at 31 December 2016" and determined SPREP's risk rating as *LOW RISK*.

**Recommendations:**

11. The AC recommends that the Executive Board:
  - **notes** the improvement in internal controls resulting from the implementation of the new and revised policies approved by the Secretariat in 2016.
  - **notes** the extensive work conducted on the FMIS and the Project management information system, and

**IV. 2017 Financial Statements**



12. The Audit Committee noted that over the past 12 years the Secretariat continues to face a situation of late and non-payment of membership contributions, contributing to SPREP's on-going core funding situation.
13. The Secretariat continued its excellent efforts to improve the overall financial position of SPREP by actively implementing measures to control operating costs and foreign exchange losses as well as exploring possible opportunities to increase revenues.
14. The Foreign Exchange Exposure has been reduced from USD\$ 98,258 in 2016 to USD\$15,245 in 2017. A net surplus of USD\$445,982 in 2017 has resulted in a positive balance of USD\$ 5,123 in 2017 at year's end for the total reserves account. This is a substantial improvement resulting in the elimination of the negative total reserves that have existed over the past four years.

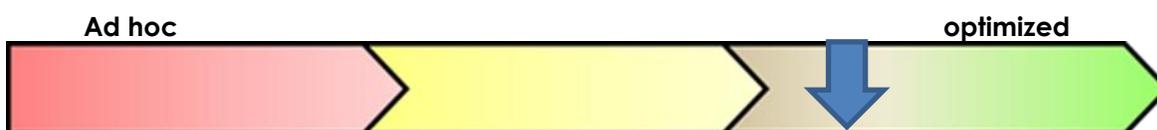
15. The Secretariat has revised its Reserve Policy in response to the AC recommendation last year. Given this positive development the Secretariat is now committed to building reserves, and the AC will monitor progress.

**Recommendation:**

16. The AC recommends that the Executive Board:

- **notes** that late receipt of member's voluntary contributions remains an issue, causing financial constraints on the Secretariat's annual budget
- **requests** Members to provide their voluntary contributions to the Secretariat in a timely manner
- **congratulates** the Secretariat for the positive results in 2017 and encourages management to maintain the positive reserves account in the long term.
- **commends** the efforts of the Director General and all staff in the early and satisfactory completion of the financial accounts and audit.

**V. External Audit Function**



17. In accordance with SPREP financial regulation 29 the External Auditor is appointed biennially at the SPREP meeting. The current External Auditor is KPMG (Fiji). The External Auditor's main role is to examine the Financial Statements of SPREP and provide an opinion in accordance with Financial Regulation 32. The 2017 audited financial statements are being presented to this meeting at Agenda item 5.5. The AC appreciates the work of the External auditor and notes the changes in the presentation of the financial accounts in accordance with the International Financial Reporting standards (IFRS).

18. The 2017 AC letter to management highlighted three areas of high risk:

- Enterprise risk management;
- Strengthening of the internal audit function and
- Deficiency in the reserves

19. The AC recommended action to address these issues within three months, reiterating the concerns of the external auditor in the following areas:

20. Enterprise risk management:

- The Secretariat should ensure that a culture of risk management is infused into all staff operations,
- Project managers should be encouraged to use the project management information system (PMIS) to enter risks so that these risks can be routinely monitored and managed.
- The newly established risk committee should continue to actively provide reports to the senior management team, and ensure the risk management manual and risk register are reviewed and updated regularly.

21. Resourcing of the internal audit function continues to be a challenge due to the Secretariat's financial constraints. The Internal Auditor is required to provide an annual audit plan including consideration of outsourcing to assist with the human resource challenges.
22. Achievement of a net surplus of USD\$445,982 in 2017 eliminated the longstanding negative balance in total reserves, improving from USD\$443,762 in 2016 to a positive balance at 2017 year's end of USD\$5,123 in 2017.
23. The AC notes that the net surplus achieved in 2017 was primarily a consequence of the effective control measures that were put in place to manage foreign exchange exposure risks and control expenditure from core funding. While appreciating the good progress, the AC strongly recommended the Secretariat to continue managing expenditures and strengthen total reserves.

#### **The External Audit report 2017:**

24. A teleconference meeting was held with the External Auditor and the Audit Committee in March 2018 to discuss the Audit report. The 2017 audited Financial Statements received an unqualified opinion issued by the External Auditors.
25. Project audits were also carried out during this period for UNDP projects. UNDP assigned their own auditors to carry out these audits.

#### **Recommendation:**

26. The AC recommends that the Executive Board:
  - **notes** the positive outcome of the External Auditors' audit of the 2017 Annual financial statements; and
  - **welcomes** the new practice adopted by the Secretariat of providing the draft financial statements to the AC for review prior to the finalisation of the audit opinion including the opportunity of consultation between the AC and the External Auditor.

#### **VI. Internal Audit Function**



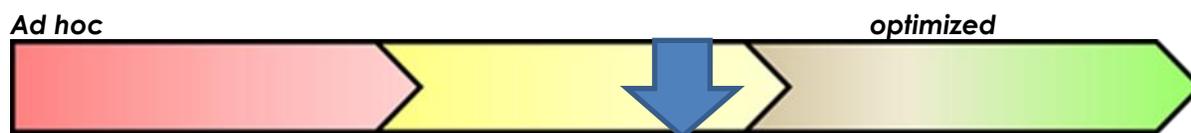
27. Two audits namely the travel policy and the credit card from the internal Auditors' Work Plan for 2016 were rolled over to 2017, and were completed in the first quarter. One inquiry, and an additional three project audits were also carried out. The challenge of limited human resource capacity for the IA function due to the limited financial resources in the Secretariat's core funding remains.

28. As a consequence, the audit plan for 2017 was not fully implemented, but three new and additional project audits were completed.
29. Six AC meetings were held during 2017. The internal auditor continues to be the secretariat for the AC in the preparation of the meeting documents and coordination of meetings for the AC members. The Executive officer assists with the recording of AC minutes.

**Recommendation:**

30. The AC recommends that the Executive Board:
- **notes** the funding constraints of the Secretariat to address the capacity challenges of the Internal Audit Unit, and encourages the Secretariat to continue in its efforts to address this when resources are available.

**VII. Risk Management**



31. The 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 new updated risk register is now completed and the enterprise risks will be presented to the senior management in 2018 for endorsement. It is noted that the MSP consultants recommended recruitment of a Risk Manager or officer to ensure that the work on the Risks for the Secretariat is implemented effectively, and notes the funding constraints to resource this additional position.
32. The AC considers that 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.

**Recommendation:**

33. The AC recommends that the Executive Board:
- **notes** the completion of the risk management Manual/Policy, and its focus on three forms of risks to be managed:
    - Enterprise wide risks,
    - Programme/Department specific risks and
    - Project risks
  - **encourages** the Secretariat to regularly review and update the risk register and in particular the enterprise risks noting that this will form the basis of the Internal Auditor's annual work plan.

## VIII. Fraud Prevention Policy and Procedures



34. A dedicated email address [fraud@sprep.org](mailto:fraud@sprep.org) for reporting fraud has been introduced. The Fraud prevention and whistleblower protection manual/ policy is available on the Secretariat website.
35. The recently upgraded Secretariat website includes:  
<https://www.sprep.org/accountability/home> Accountability and Transparency web pages, further enhancing the visibility of SPREP as a Regional Implementing Entity (RIE) for the GCF and Adaptation Fund.
36. Staff awareness training is conducted during staff induction programs by the Internal Auditor.
37. No complaints or fraud cases were received through the fraud dedicated email during 2017.

### Recommendation:

38. The AC recommends that the Executive Board:
  - **notes** the completion of the Fraud Prevention and whistleblower protection manual/policy and the work done to date by the Secretariat in this important area of SPREP's internal control framework, including the awareness raising tasks of the Internal Auditor;
  - **notes** the activities of the Audit Committee members & the Internal Auditor; and
  - **approves** the report and recommendations of the Audit Committee for the period July 2017-June 2018.