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The Pacific environment, sustaining our livelihoods and natural heritage in harmony with our cultures.

FN 1/2

30 April 2014

BETHAM & CO.
Certified Public Accountants
Betham & Co. House
Vaitele Street
LALOVAEA

Dear Sirs,

LETTER OF REPRESENTATION ON AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

We are providing this letter in connection with your audit of the balance sheet of Secretariat of the Pacific Regional Environment Programme (**SPREP**) as of December 31, 2013, and the related statements of income, retained earnings, and cash flows for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of **SPREP** in conformity with International Financial Reporting Standards. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with International Financial Reporting Standards. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of 30th April 2014, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 24th, 2013.
- The financial statements referred to above are fairly presented in conformity with International Financial Reporting Standards
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- All events subsequent to the date of the financial statements and for which International Financial Reporting Standards requires adjustment or disclosure has been adjusted or disclosed.
- Your proposed adjusting journal entries have been posted to SPREP's general ledger and we are in agreement with those adjustments as summarized below:
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with International Financial Reporting Standards.
- Material concentrations have been properly disclosed in accordance with International Financial Reporting Standards.
- Guarantees, whether written or oral, under which the company is contingently liable, have been properly recorded or disclosed in accordance with International Financial Reporting Standards.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters such as minutes of meetings of the Board of Directors.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- SPREP has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.



David Sheppard
Director General



Kosi Latu
Deputy Director General



Alofa S Tuuau
Finance and Administration Adviser

Dated: 30 April 2014

Dated: 30 April 2014

Kind regards,

David Sheppard
Director General

DS/AP/ap



Attachment 1

Proposed reclassification of Computer software

We proposed a reclassification of computer software under property and equipment as an Intangible asset and should be disclosed as a single line item on the financial position.

Intangible assets

	2013 \$	2012 \$
Computer software	215,839	-
	<u>215,839</u>	<u>-</u>

The computer software is purchased as part of a system upgrade and is still under development. It is expected to be completed by July 2014 and amortisation will commence from this point onwards. This software is assessed as having a finite life and will be amortised over the estimated useful life of the asset once the software has been completed. This asset is not internally generated. The asset was not in use in 2013.

Payable & Expense written back to Miscellaneous income being transferred to other payables

Dr	Miscellaneous income	87,643	
Cr	Other payables		87,643
	(To transfer write backs to miscellaneous income to other payables)		

Other payables represented by:

Accounts payable	17,370
Medical evacuation written back	<u>70,273</u>
Total	<u><u>87,643</u></u>

SPREP
Secretariat of the Pacific Regional Environment Programme

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

SPREP
Financial Statements
For the year ended 31 December 2013
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SPREP
Executive Management's Report
For the year ended 31 December 2013

We are pleased to present the Secretariat's financial statements and the independent auditors report thereon for the financial year ended 31 December 2013.

During the year we expended US\$16.3 million dollars compared to budgeted expenditure of US\$18.8 million dollars while our total cash holdings at year end amounted to US\$6.8 million dollars. The Secretariat has generated a negative operating result as per the income statement relative to a balanced budget for the same period.

Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to International Financial Reporting Standards and include amounts based on management's best estimates and judgments.

Management has established and been maintaining accounting and internal control systems which include clearly stated policies and procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

SPREP Members oversee management's responsibilities for financial reporting. The financial statements have been reviewed and approved by the SPREP Members on recommendation from management.

Our independent auditors (Betham & Co.), having been appointed by the SPREP Members, have audited our financial statements. The accompanying independent auditors' report outlines the scope of their examination and their opinion.

In our opinion:

- a. The accompanying statement of income is drawn up so as to give a true and fair view of the results of the Secretariat for the year ended 31 December 2013;
- b. The accompanying statement of financial position is drawn up so as to give a true and fair view of the state of the Secretariat's affairs as at 31 December 2013;
- c. The accompanying statement of movement in reserves is drawn up so as to give a true and fair view of the movement of funds and reserves of the Secretariat for the year ended 31 December 2013; and
- d. The accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows for the Secretariat for the year ended 31 December 2013.



David Sheppard
Director General



Kosi Latu
Deputy Director General



Alofa S Tuuau
Finance & Administration Adviser

Dated

**Independent Audit Report
To the Members of
Secretariat of the Pacific Regional Environment Programme (SPREP)**

We have audited the accompanying financial statements of the Secretariat of the Pacific Regional Environment Programme ("SPREP") which comprises the statement of income, statement of movement in reserves and statement of cash flows for the year ended 31 December, 2013, the statement of financial position as of that date, a summary of significant accounting policies and other explanatory notes.

Managements' responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the SPREP Financial Regulations. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion to the Members of SPREP, as a body, in accordance with SPREP Financial Regulation 32. Our audit work has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SPREP and the SPREP Members as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

We confirm that we have no other relationship with SPREP other than the audit of the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the SPREP's Directors and Management, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

In our opinion, proper books of account have been kept by SPREP, so far as it appears from our examination of those books and the financial statements which have been prepared in accordance with International Financial Reporting Standards:

- (i) are in agreement with the books of account;
- (ii) to the best of our information and according to the explanations given to us:
 - a. give a true and fair view of SPREP's state of affairs as at 31 December, 2013 and of its statements of financial performance, changes in reserves, and its cash flows for the year ended on that date;
 - b. provide the information required by the SPREP Financial Regulations in the manner so required.

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Audit Report Cont'd

Specific Reporting Requirements

In accordance with SPREP's Financial Regulation 32 we report on the specific matters per the financial regulation as follows:

- a) The extent and character of our examination has been explained in the section on *Auditor's Responsibility* above and is based on the International Standards on Auditing. The financial statements for the year end of 31st of December, 2013 have been prepared in accordance with International Financial Reporting Standards.
- b) There are no specific matters affecting the completeness and accuracy of the accounts
- c) We confirm the accuracy of the equipment records as determined by physical inspection of additions to assets and verification of disposals during the reporting period.
- d) The financial procedures of SPREP are adequate based on our examination of the financial procedures necessary for the purposes of formulating the auditor's opinion expressed above.
- e) Based on our examination of the insurance documentation the insurance cover for SPREP's assets is adequate.
- f) Others matters which do not affect our audit opinion have been brought to the attention of management in our report to management.

BETHAM & CO.
Certified Public Accountants
Apia, Samoa
Dated

SPREP
Statement of Financial Performance
For the year ended 31 December 2013

	Notes	2013	2012
Income		\$	\$
Members contributions	5	1,213,339	880,734
Programme management charges	21	939,518	846,214
Programme/donor fund income	21	12,786,512	10,844,229
Other donor fund income	6	682,982	625,570
Amortisation of deferred income	8	83,388	87,575
Other income	7	227,239	147,874
Total income		15,932,978	13,432,197
Expenses			
Executive management & corporate support		3,405,211	2,843,869
Climate change	22	7,197,889	5,741,736
Biodiversity	22	3,399,251	3,200,767
Waste management	22	1,285,409	1,009,673
Environment monitoring	22	903,962	892,053
Depreciation expense	11	127,606	134,093
Total expenses		16,319,328	13,822,191
Net finance income	9	154,265	166,771
Gain on sale of vehicles and equipment		-	4,924
Foreign exchange (loss)		(265,351)	(7,417)
Net deficit		(497,436)	(225,717)

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Financial Position
As at 31 December 2013

	Notes	2013 \$	2012 \$
ASSETS			
Non current assets			
Property and equipment	11	3,322,420	3,407,479
Intangible assets	12	215,839	
Total non current assets		<u>3,538,259</u>	<u>3,407,479</u>
Current assets			
Cash at bank and on hand	13	3,900,631	923,740
Term deposits	14	2,602,933	4,185,768
Receivables and prepayments	15	350,754	173,694
Total current assets		<u>6,854,318</u>	<u>5,283,202</u>
TOTAL ASSETS		<u>10,392,577</u>	<u>8,690,681</u>
RESERVES AND LIABILITIES			
Reserves			
Core funds		(469,110)	28,326
General		501,425	501,425
Specific fund	16	35,133	129,217
Total reserves		<u>67,448</u>	<u>658,968</u>
Non Current Liabilities			
Deferred income	8	3,040,489	3,119,690
Finance lease liability	20	-	44,483
Total non current liabilities		<u>3,040,489</u>	<u>3,164,173</u>
Current Liabilities			
Programme/donor funds	21	5,737,925	3,494,195
Payables and accruals	18	497,033	245,839
Finance lease liability	20	18,847	22,295
Insurance payables		-	213,189
Provision for employee entitlements	17	947,447	804,447
Current portion of deferred income	8	83,388	87,575
Total current liabilities		<u>7,284,640</u>	<u>4,867,540</u>
TOTAL RESERVES AND LIABILITIES		<u>10,392,577</u>	<u>8,690,681</u>

Signed on behalf of the SPREP Members

Director General

Deputy Director General

Dated: 30 April 2014

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Movement of Reserves
For the year ended 31 December 2013

	Notes	Core fund \$	General reserve \$	Specific reserve \$	Total \$
Balance at 1st January 2012		254,043	501,425	140,000	895,468
Reserves used during the year		-	-	(10,783)	(10,783)
Net deficit for the year		(225,717)	-	-	(225,717)
Balance at 31 December 2012		28,326	501,425	129,217	658,968
Net deficit for the year		(497,436)	-	-	(497,436)
Reserves used during the year	16			(94,084)	(94,084)
Balance at 31st December 2013		(469,110)	501,425	35,133	67,448

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Cash Flows
For the year ended 31 December 2013

	Notes	2013 \$	2012 \$
Cash flows from operating activities			
Members contributions	5	978,339	880,734
Interest received		187,476	136,280
Program/donor funds	21	15,969,761	12,256,099
Non programme donor funds received	6	682,982	625,570
Other receipts		254,645	455,353
Personnel costs - corporate services		(2,013,178)	(1,577,288)
Personnel costs - programmes		(3,800,608)	(3,257,995)
Corporate services costs		(1,731,894)	(1,348,884)
Programme management charges		(8,609,730)	(7,367,877)
Net cash flows from operating activities		1,917,793	801,992
Cash flows from investing activities			
Proceeds from sale of property & equipment		-	13,518
Purchase of property and equipment and software		(258,386)	(150,141)
Net cash flows for investing activities		(258,386)	(136,623)
Net change in cash held		1,659,407	665,369
Cash at beginning of the year		5,109,508	4,451,556
Effects of foreign exchange		(265,350)	(7,417)
Ending cash balances	13	6,503,565	5,109,508

The accompanying notes form an integral part of the above financial statement

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. General information

The Secretariat of the Pacific Regional Environment Programme (SPREP) is an inter-governmental organization of the Pacific Region and is domiciled in Samoa.

The principal activity of SPREP is to promote co-operation in the Pacific Region and to provide assistance in order to protect and improve its environment and to ensure sustainable development for future generations.

These financial statements were authorized for issue by the Director General of SPREP on 25th April, 2014.

2. Statement of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

a. Statement of compliance

These financial statements have been prepared in accordance with the requirements of the SPREP Financial Regulations which requires the adoption of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) in preparing its financial statements.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis unless otherwise stated. The principal accounting policies are stated to assist in a general understanding of these financial statements.

c. Functional and presentation currency

Items included in the financial statements of the Secretariat are measured using the currency as mandated by the SPREP Financial Regulations ('the functional currency'). The functional currency is the United States dollar (\$US).

d. Foreign currency transactions

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction for the first seven months of the year. The Secretariat applied a hedging rate for translation of its daily transactions for the last five months of the year. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in the statement of income in the period in which they arise.

e. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

2. Statement of significant accounting policies (cont'd)

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, and equipment. Land is not depreciated. The periods at which depreciation is charged are as follows:

- | | |
|------------------------|---------------|
| • Buildings | 50 years |
| • Furniture & fittings | 5 to 10 years |
| • Motor vehicles | 5 years |
| • Equipment | 3 to 5 years |

The residual value is reassessed annually. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the income statement.

f. Financial assets

The Secretariat classifies its financial assets in the loans and receivables category. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are classified as other receivables, cash at bank and on hand and term deposits in the current assets section of the balance sheet. The Secretariat assesses at each reporting date whether there is objective evidence that a financial asset or group of assets is impaired.

g. Receivables

Receivables and prepayments are recognized initially at fair value and subsequently measured at cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Secretariat will not be able to collect all amounts due according to the original terms of the receivables.

h. Payables

Payables are recognised when the Secretariat becomes obliged to make future payments resulting from the purchase of goods and services (including consultancy services for SPREP Programmes). Payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

i. Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and term deposits which are subject to an insignificant change on drawdown net of bank overdrafts for the purposes of the statement of cash flows. Bank overdrafts are shown in current liabilities on the balance sheet.

j. Reserves

The following categories of Reserves are held in accordance with SPREP's Financial Regulations:

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

2. Statement of significant accounting policies (cont'd)

General reserve – represents the sum total of the accumulated results arising from core activities and is assigned for unforeseen circumstances or emergencies.

Specific funds – comprises funds earmarked for specific purposes and generally not available for uses other than those specified.

k. Income

Income primarily comprises the fair value of the member's contributions and donor or programme funds received or receivable.

Member contributions

Member's contributions are recognized as a receivable only if there is objective evidence that the contribution for the current period will be received. Otherwise, Member's contributions are only recognized when they are received.

Donor or Programme funds

Donor or Program funds received are initially recorded as part of Donor or Programme Fund liability in the statement of financial position. Donor or Programme funds are not recognized as income until there is reasonable assurance that the Secretariat will comply with the conditions attaching to them i.e.: the incurrence of expenditure towards the performance of agreed programme activities.

Donor or Programme funds are recognized as income on a systematic basis over the periods necessary to match them with the Programme costs for which they are intended to compensate.

Donor or Programme funds that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Secretariat with no future related costs are recognized in the income statement in the period in which they become receivable.

Donor funded assets

Donor funds whose primary condition is that the Secretariat should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet (or statement of financial position) and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Programme management charges

Programme management charges are levied at an agreed percentage on Programme funds expended during the year.

Interest revenue

Interest revenue is recognised in the income statement as it accrues, using the effective interest rate method.

l. Employee benefits

For local employees, the Secretariat contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in the income statement.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

2. Statement of significant accounting policies (cont'd)

Liabilities for annual leave are accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

On resignation or cessation of service other than by misconduct, an expatriate employee is entitled to repatriation costs and is measured on an undiscounted basis and expensed as they become due.

m. Net finance income

Net finance income comprises interest income on bank term deposits and bank charges and bank overdraft fees that are recognised in the statement of income.

n. Impairment

The carrying amounts of the Secretariat's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating amount exceeds its recoverable amount. Impairment losses are recognised immediately in the statement of income.

o. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Financial leases

Assets held under financial leases are initially recognised as assets of "SPREP" at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financial lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit and loss, unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with "SPREP's" general policy on borrowing costs.

p. Comparatives

Where necessary previous periods comparatives have been changed to conform to the presentation of financial information for the current year in order to achieve consistency in disclosure.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

3. Financial risk management

a. Financial risk factors

The Secretariat's principal financial instruments comprise cash and term deposits. The main purpose of these financial instruments is to provide finance for the Secretariat's operations. As a result of the Secretariat's operations and sources of finance, it is exposed to exchange rate and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in Note 2 to the financial statements.

Foreign currency risk

Foreign currency risk is the risk of loss from changes in the exchange rates against the \$US dollar which is the functional currency of the Secretariat. The Secretariat receives funding from various member countries and donors in foreign currency. In addition, the Secretariat sometimes transacts in currencies other than the \$US dollar. This exposes the Secretariat to foreign currency risk. In order to reduce the exposure to foreign currency risks, the Secretariat operates various foreign currency bank accounts (such as Australia, New Zealand and Samoa dollar accounts) and transacts where required in these currencies.

The Secretariat's exposure to foreign currency risk was as follows based on notional amounts:

	Carrying Amounts	
	2013	2012
	\$	\$
AUD	641,382	825,332
NZD	364,903	508,423
WST	4,589,259	7,352,067

The following significant exchange rates applied at the reporting date:

	Reporting date rate	
	2013	2012
	\$	\$
AUD	0.8891	1.0068
NZD	0.8158	0.7659
WST	0.4273	0.4254

Sensitivity analysis

A 10 percent strengthening/weakening of the foreign currency against the \$US dollar at 31 December 2013 would have affected core fund reserves and income by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

	Effect on Equity & Income	
	2013	2012
	\$	\$
AUD – Income and Core Fund reserve +10%	57,025	85,332
AUD – Income and Core Fund reserve -10%	(57,025)	(85,332)
NZD – Income and Core Fund reserve +10%	29,768	41,434
NZD – Income and Core Fund reserve -10%	(29,768)	(41,434)
WST – Income and Core Fund reserve +10%	196,099	322,829
WST – Income and Core Fund reserve -10%	(196,099)	(322,829)

The Secretariat does not manage foreign exchange risk by the use of forward rate agreements due to the limited availability of these products in its primary economic environment.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

Credit risk

Credit risk is the potential risk for loss arising from failure of Members to meet their agreed contributions or other counter-party to a financial instrument fails to meet its contractual obligations. The risk in relation to Members contributions is not considered significant because the Secretariat's policy is to only accrue Members contribution's where there is objective evidence that there is an insignificant risk of counterparty default. The Secretariat's receivable balances are monitored on an ongoing basis in order to reduce any exposure to bad debts.

Financial instruments that potentially subject the Secretariat to concentrations of credit risk consist principally of cash at bank and bank term deposits.

The Secretariat places its cash and bank term deposits with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution in accordance with its Executive approved cash management policy.

The carrying amount of financial assets recorded in the financial statements, which is net of any impairment losses, represents the Secretariat's maximum exposure to credit risk.

b. Fair value estimation

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values.

4. Critical accounting estimates and judgments

Preparing financial statements to conform to IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgments about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the Secretariat's accounting policies, management has made the following judgments, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements. The financial statements are affected by estimates and judgments in valuation of Property and Equipment (Note 2.e) and Receivables (Note 2.g).

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

5. Member contributions

Details of member contributions are specified as follows:

	2013 \$	2012 \$
American Samoa	11,912	8,456
Australia	185,106	185,106
Cook Islands	10,154	10,214
Federated States of Micronesia	10,184	10,184
Fiji	20,360	20,360
France	134,202	134,177
French Polynesia	20,360	20,360
Guam	-	-
Kiribati	10,205	10,179
Marshall Islands	20,368	-
Nauru	-	10,184
New Caledonia	20,064	10,178
New Zealand	134,202	134,202
Niue	10,184	10,184
Northern Marianas	-	-
Palau	32,860	-
Papua New Guinea	40,720	40,720
Samoa	20,360	20,360
Solomon Islands	40,690	-
Tokelau	10,184	10,184
Tonga	15,365	25,371
Tuvalu	10,238	10,131
United Kingdom	178,936	-
United States of America	235,000	200,000
Vanuatu	31500	-
Wallis & Futuna Islands	10,184	10,184
Total	1,213,338	880,734

6. Other donor fund income

Funds received from aid agencies under additional extra budgetary work programmes are usually for specified purposes and administered by the executive management and corporate support. For 2013 funds received were from AusAID for the leadership trainings and media communications trainings, NZAID for the education communications outreach and legal services and Peoples Republic of China for the Financial Management Information system.. The total other income from donor funds for 2013 is \$682,982 (2012: \$625,570).

7. Other income

Details of other income are specified as follows:

	2013 \$	2012 \$
Income from rental of office space	93,214	97,768
Overprovision annual leave and repatriation costs	39,591	-
Director General's travel savings	17,122	11,355
Travel and other recoveries	77,312	38,751
Total other income	227,239	147,874

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

8. Deferred income liability

Deferred income relates to the following buildings and office equipment and furniture funded by donors for SPREP's activities – i) SPREP Complex funded by Donor Governments; ii) Training and Education Centre (TEC) funded by Japan; and iii) Information Resource Centre funded by the European Union. The deferred income liability is amortised to income over 50 years for buildings and 10 years for office equipment and furniture which are the same rates at which the assets are depreciated.

	2013	2012
	\$	\$
Cost of donated assets		
SPREP complex funded by donor Governments	1,822,798	1,822,798
Training and education centre project by Japan	2,374,692	2,374,692
Information and research centre by European Union	350,000	350,000
Total cost of assets	<u>4,547,490</u>	<u>4,547,490</u>
Accumulated amortisation		
Opening accumulated amortisation	1,340,225	1,252,650
Amortisation for current year	83,388	87,575
Closing accumulated amortisation	<u>1,423,613</u>	<u>1,340,225</u>
Unamortised amount	<u><u>3,123,877</u></u>	<u><u>3,207,265</u></u>
 Current portion of amortisation	 83,388	 87,575
Non-current portion of amortisation	3,040,489	3,119,690
Unamortised amount	<u><u>3,123,877</u></u>	<u><u>3,207,265</u></u>

9. Net finance income

Net finance costs are specified as follows:

	2013	2012
	\$	\$
Interest income on bank term deposits	156,130	172,352
<i>Less finance costs relating to:</i>		
Bank charges	<u>(1,865)</u>	<u>(5,581)</u>
Net finance income	<u><u>154,265</u></u>	<u><u>166,771</u></u>

10. Executive management (key management personnel)

During the year the following persons were the management executives that were identified as key management personnel with the greatest authority for planning, directing and controlling the activities of the Secretariat:

Mr. David Sheppard - Director
Mr. Kosi Latu – Deputy Director
Ms Netatua Pelesikoti – Director, Climate Change
Mr Stuart Chape – Director, Biodiversity & Ecosystem Management
Mr David Haynes – Director, Waste Management & Pollution Control
Mr Sefanaia Nawadra – Director, Environment Monitoring & Governance

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

The remuneration of key members of management during the year was as follows:

	2013	2012
	\$	\$
Salaries and short-term employment benefits	1,054,771	972,252
Employers contribution to: National Provident Fund	70,753	69,927
	<u>1,125,524</u>	<u>1,042,179</u>

11. Property and equipment

Property and equipment is specified as follows:

	Buildings	Computer equipment	Equipment & furniture	Motor vehicles	Total
Gross carrying amount					
Cost at 1st January 2012	4,134,726	323,134	749,533	82,261	5,289,654
Additions	22,403	55,625	13,795	58,318	150,141
Disposals			(15,802)	(37,577)	(53,379)
Balance at 31st December 2012	<u>4,157,129</u>	<u>378,759</u>	<u>747,526</u>	<u>103,002</u>	<u>5,386,416</u>
Additions	344	31,104	11,099	-	42,547
Disposals	-	-	-	-	-
Balance at 31st December 2013	<u>4,157,473</u>	<u>409,863</u>	<u>758,625</u>	<u>103,002</u>	<u>5,428,963</u>
Accumulated depreciation					
Balance at 1st January 2013	(947,234)	(297,377)	(717,891)	(16,435)	(1,978,937)
Depreciation charge for the year	(83,388)	(26,781)	(7,137)	(10,300)	(127,606)
Disposals			-	-	-
Balance at 31st January 2013	<u>(1,030,622)</u>	<u>(324,158)</u>	<u>(725,028)</u>	<u>(26,735)</u>	<u>(2,106,543)</u>
Net book value					
As at 31st December 2012	<u>3,209,895</u>	<u>81,382</u>	<u>29,635</u>	<u>86,567</u>	<u>3,407,479</u>
As at 31st December 2013	<u>3,126,851</u>	<u>85,705</u>	<u>33,597</u>	<u>76,267</u>	<u>3,322,420</u>

Motor vehicles include the following amounts where SPREP is a lessee under a financial lease:

	2013	2012
	\$	\$
Cost - capitalised financial leases	58,318	58,318
Accumulated depreciation	(10,722)	(4,890)
Net book value	<u>47,596</u>	<u>53,428</u>

12. Intangible Assets

	2013	2012
	\$	\$
Computer software	215,839	-
Net book value	<u>215,839</u>	<u>-</u>

The computer software is purchased as part of a system upgrade and is still under development. It is expected to be completed by July 2014 and amortisation will commence from this point onwards. This software is assessed as having a finite life and will be amortised over the estimated useful life of the asset once the software has been completed. This asset is not internally generated. The asset was not in use in 2013.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

13. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	2013	2012
	\$	\$
Cash on hand	200	200
Cash at bank	<u>3,900,431</u>	<u>923,540</u>
	<u>3,900,631</u>	<u>923,740</u>
Bank term deposits	<u>2,602,934</u>	<u>4,185,768</u>
Cash and cash equivalents for purpose of cash flow statement	<u><u>6,503,565</u></u>	<u><u>5,109,508</u></u>

Cash and Bank balances are allocated to the following currencies in \$US dollars at balance date:

	2013	2012
	\$	\$
SAT denominated cash balances in \$US currency	166,261	178,691
AUD denominated cash balances in \$US currency	52,314	59,343
NZD denominated cash balances in \$US currency	7,410	129,139
USD denominated cash balances in \$US currency	<u>3,674,446</u>	<u>556,367</u>
	<u><u>3,900,431</u></u>	<u><u>923,540</u></u>

14. Bank term deposits

Bank term deposits are specified as follows:

	2013	2012
	\$	\$
Total bank term deposits	<u><u>2,602,933</u></u>	<u><u>4,185,768</u></u>

The bank term deposits have an average maturity of 188 days and a weighted average interest rate of 2.63% per annum. The carrying value of the term deposits equals their fair value.

Bank term deposits are allocated to the following currencies in \$US dollars at balance date:

	2013	2012
	\$	\$
SAT denominated bank term deposits in \$US currency	1,794,730	3,107,493
AUD denominated bank term deposits in \$US currency	517,937	793,968
NZD denominated bank term deposits in \$US currency	290,266	284,307
Total bank term deposits	<u><u>2,602,933</u></u>	<u><u>4,185,768</u></u>

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

15. Receivables and prepayments

Receivables and prepayments are specified as follows:

	2013	2012
	\$	\$
Receivables	259,046	39,671
Prepayments	27,052	38,021
Accrued interest on bank term deposits	64,656	96,002
	<u>350,754</u>	<u>173,694</u>

16. Specific funds reserve

The Specific Funds Reserve contains funds which are earmarked for specific purposes and are generally not available for uses other than those specified.

The Specific Funds Reserve as of 2013 represents medical evacuation funds as follows:

	2013	2012
	\$	\$
Opening balance	129,217	140,000
Less reserves used during the year	(94,084)	(10,783)
Closing balance	<u>35,133</u>	<u>129,217</u>

17. Provisions for employee entitlements

Provisions for employee entitlements are specified as follows:

	2013	2012
	\$	\$
<i>Leave entitlement</i>		
Opening balance	318,028	228,384
Entitlements accrued during the year	46,657	96,510
Overprovision of annual leave credited to other income	21,710	-
Entitlements used during the year	(14,704)	(6,866)
Closing balance	<u>371,691</u>	<u>318,028</u>
<i>Repatriation entitlement</i>		
Opening balance	486,419	418,546
Additions during the year	114,798	93,626
Overprovision of repatriation credited to other income	17,882	-
Repatriation costs paid during the year	(43,343)	(25,753)
Closing balance	<u>575,756</u>	<u>486,419</u>
Total provision for employee entitlements	<u>947,447</u>	<u>804,447</u>

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

18. Payables and accruals

Payables and accruals are specified as follows:

	2013	2012
	\$	\$
Payables	400,057	152,368
Accrued salaries	8,659	1,319
Other	88,317	92,152
	<u>497,033</u>	<u>245,839</u>

19. Insurance payables

For the year ended 31st December 2012, one of the employees of SPREP Mr. Lui Apela Johannes Bell demised. An insurance claim worth USD \$ 213,189 was remitted for the full settlement of the claim including the liability of interest. This amount was subsequently remitted to the survivor (widow) of the demised person.

20. Finance lease liability

Finance leases relate to motor vehicles with lease terms of 3 years. "SPREP" has option to purchase the motor vehicles for a nominal amount at the conclusion of the lease agreement. "SPREP's" obligations under finance leases are secured by the lessor's title to the leased assets.

i) Minimum lease payments	2013	2012
	\$	\$
No later than 1 year	18,847	25,595
Later than 1 year and no later than 5 years	-	51,192
	<u>18,847</u>	<u>76,787</u>
Less future finance charges on finance leases	-	(10,009)
Present value of finance lease liabilities	<u>18,847</u>	<u>66,778</u>

ii) The present value of finance lease liabilities is as follows

	2013	2012
	\$	\$
No later than 1 year	18,847	22,295
Later than 1 year and no later than 5 years	-	44,483
	<u>18,847</u>	<u>66,778</u>

The fair value of the financial lease liabilities is approximately equal to their carrying value.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

21. Donor and Programme Fund liability**a. Movement summary schedule**

	2013 \$	2012 \$
Opening balance	3,494,194	2,928,538
Funds received during the year	15,969,761	12,256,099
Total funds available	19,463,955	15,184,637
Less Programme expenditure during the year	(12,786,512)	(10,844,229)
Less Programme management charge	(939,518)	(846,214)
Closing balance	5,737,925	3,494,194

b. Detailed movement schedule

DONOR/PROGRAMME	Balance 1 st January 2013	Actual Funds Received	Total Funds Available	Program Support Charge	Programme Expenditure	Other	Balance 31 st December 2013
AusAID Extra Budget	21,670	2,175,524	2,197,194	(191,207)	(2,051,418)		(45,431)
AusAID Extra Extra Budget	1,212,950	993,430	2,206,380	(122,028)	(1,208,034)		876,318
British High Commission	13,254		13,254	-	-	-	13,254
Commonwealth Secretariat	10,201	6,086	16,287			-	16,287
Conservation International	21,172	64,534	85,706	(2,147)	(23,300)		60,259
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	43,643	569,885	613,528	(29,634)	(306,880)	-	277,014
European Union	53,300	2,662,547	2,715,846	(3,639)	(71,930)		2,640,278
Food and Agriculture Organization	51,980		51,980	(652)	(4,848)		46,480
Government of Canada	2,180	39,840	42,020	(6,000)	(30,000)		6,020
Government of Finland		251,747	251,747	(38,509)	(320,911)		(107,673)
Government of France	183,451	195,169	378,620	(25,442)	(228,686)		124,492
Government of Japan	6,092						6,092
Government of Switzerland	159	167,458	167,617	(21,030)	(147,798)		(1,211)
International Maritime Organization	(38,122)	193,780	155,658	(16,470)	(131,684)		7,504
John D & Catherine T MacArthur Foundation	6,303	-	6,303	-	-	-	6,303
NZ Aid PIE	4,812	-	4,812	-	-	-	4,812
NZ Aid Extra Budget	27,707	955,451	983,158	(85,926)	(906,467)		(9,235)
NZAid Extra Extra Budget	68,674	13,001	81,675	(139)	(103,749)	-	(22,213)
Parkard Foundation	-	50,000	50,000	(4,052)	(28,764)		17,184
People's Republic of China	10,298		10,298			-	10,298
Other Funds	877,382	721,430	1,598,812	(45,828)	(591,026)		961,958

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

DONOR/PROGRAMME	Balance 1st January 2013	Actual Funds Received	Total Funds Available	Program Support Charge	Programme Expenditure	Other	Balance 31st December 2013
Ramsar Secretariat	(72,638)	84,970	12,332	(11,816)	(98,735)	-	(98,219)
The Nature Conservancy	3,645	-	3,645	(328)	(3,276)		41
The Christensen Foundation	11,568	-	11,568	(305)	(3,085)	-	8,178
United Nations Development Program	208,296	5,119,252	5,327,548	(210,988)	(4,696,509)		420,051
United Nations Environment Program	542,430	1,079,045	1,621,475	(79,823)	(1,243,993)	-	297,659
United Nations Institute for Training & Research	55,766		55,766	(93)	(934)	-	54,739
UN Economics & Social Commission for Asia & the Pacific (UNESCAP)	8,786	-	8,786	-	-	-	8,786
UN Office of Project Services	7,055		7,055				7,055
US Dept of Energy/Los Alamos University	4,471		4,471				4,471
US Fish & Wildlife	14,625		14,625				14,625
US Dept. of State	155,723	51	155,775	(6,076)	(60,756)		88,942
USAID	(20,757)	511,127	490,369	(25,752)	(430,966)	-	33,650
US National Oceanic Atmospheric Administration	(27,526)	110,000	82,474	(4,187)	(34,894)	-	43,393
World Meteorological Organization	25,646	5,434	31,080	(7445)	(57,869)		(34,234)
Totals	3,494,194	15,969,761	19,463,954	(939,518)	(12,786,512)	-	5,737,925

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

22. Expenditure by function and comparison to budget

A comparison of actual expenditures versus budgeted expenditure is for 2013 is as follows:

	2013		2012	
	\$		\$	
	Actual	Budget	Actual	Budget
Climate Change				
Personnel Costs	1,436,869	1,521,142	1,121,705	1,027,545
Operating Costs	5,693,681	8,725,665	4,602,804	5,130,069
Capital Costs	67,339	11,000	17,227	27,900
	<u>7,197,889</u>	<u>10,257,807</u>	<u>5,741,736</u>	<u>6,185,514</u>
Biodiversity & Ecosystem Management				
Personnel Costs	1,284,487	1,044,864	1,358,763	1,084,525
Operating Costs	2,100,826	1,872,143	1,825,998	2,342,576
Capital Costs	13,938	16,450	16,006	8,400
	<u>3,399,251</u>	<u>2,933,457</u>	<u>3,200,767</u>	<u>3,435,501</u>
Waste Management & Pollution Control				
Personnel Costs	584,621	354,362	425,451	343,904
Operating Costs	684,023	661,778	580,207	464,785
Capital Costs	16,765	5,000	4,015	7,850
	<u>1,285,409</u>	<u>1,021,140</u>	<u>1,009,673</u>	<u>816,539</u>
Environment Monitoring & Governance				
Personnel Costs	626,950	676,458	475,990	472,612
Operating Costs	270,919	752,445	392,175	417,064
Capital Costs	6,093	15,000	23,888	2,000
	<u>903,962</u>	<u>1,443,903</u>	<u>892,053</u>	<u>891,676</u>
Executive Management & Corporate Support				
Personnel Costs	2,031,199	1,993,518	1,609,933	1,771,702
Operating Costs	1,374,012	1,151,176	1,233,936	905,559
Capital Costs	258,385	81,500	150,142	311,100
Operating Costs	<u>3,663,596</u>	<u>3,226,194</u>	<u>2,994,011</u>	<u>2,988,361</u>
Total	<u>16,450,107</u>	<u>18,882,501</u>	<u>13,838,240</u>	<u>14,317,591</u>

23. Contingent liabilities and capital commitments

Contingent liabilities as at 31 December 2013 are nil (31 December 2012: nil).

The Secretariat is not aware of any capital commitments at balance date (2012: nil) except for capital expenditure budgeted for the next financial year per the details in note 21.

24. Events after reporting period

There were no significant events after the reporting period.

May 9th, 2014

Mr David Sheppard
Director
SPREP
SPREP Compound
VAILIMA

Dear Sir,

**REPORT TO MANAGEMENT
FINANCIAL STATEMENT AUDIT FOR THE YEAR ENDED 2013**

In planning and performing our audit of the financial statements of SPREP as of and for the year ended 31 December 2013, in accordance with International Standards on Auditing, we considered SPREP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organisation's internal control. Accordingly, we do not express an opinion on the effectiveness of SPREP's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

However, as discussed below, we identified certain deficiencies in internal control and recommendations for improvements to operational processes that we summarize in the attached memorandum.

We have discussed these issues in detail with Ms Alofa Tuuau on the 21st May, 2014 and SPREP's comments are accordingly included in this letter.

This communication is intended solely for the information and use of management of SPREP and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,
BETHAM & CO.

Ernest Betham
Director



SPREP
Financial Statement Audit
For the Year Ended December 31, 2013

Memorandum on internal controls and operational improvements

1. Secure payroll files

Condition: We observed that some payroll documents are filed on the payroll officers shelf which is directly behind her.

Effect: The payroll files contain confidential and sensitive information and we recommend that the storage of the payroll files should be in a locked cabinet with only the payroll officer having access (and the human resource section).

Management comments

Locked filing cabinets are in now place, where only authorised staff have access to payroll files.

2. Sign bank reconciliations as evidence of having been reviewed

Condition: There are several bank reconciliations that were not signed by the reviewer and the majority of bank reconciliations were noted dated after having been reviewed.

Recommendation: We Recommend bank reconciliations to be timely checked and reviewed. Also, note that the date being checked and reviewed is important as it indicates the timely checking and review

Management comments

The recommendation is noted.

The bank reconciliations are signed off only upon completion of the monthly posting updates. The bank reconciliations that were missed out, were isolated cases, involving several drafts being reviewed for corrective action before the final version was printed and filed.

3. Improvements in the reporting of financial information according to SPREP's purposes

Condition: We observed that when producing reports from the existing accounting or financial management information system there is a certain degree of manual re-engineering that is involved. For example producing expense reports by strategic priorities, by donor and by project requires exporting to excel and reformatting or shifting numbers around to produce these reports.

Effect: It takes a significant amount of time to produce these reports and there may be errors from the manual process involved.

Recommendation: We understand that the finance department has been through training on a new financial management information system. We recommend that management ensures that the financial reports produced by the new accounting system also include at the 'touch of a button' the financial reports by project, by strategic priorities and expense.

Management comments

The recommendation is noted.

The reports that are generated from the current accounting software, AccPac come in several formats - PDF, Microsoft Excel, Microsoft Word, HTML, CSV, Text, Crystal Report.

The reports when reformatted according to donor special reporting requirements are always checked against the information on the AccPac for accuracy before they are sent out.

4. Suggestions for improving the procurement process

Condition & recommendations: From our review of the procurement process we make the following observations and recommendations:

- a) It took some time to receive the procurement information for the sample of purchases that we selected for testing. From discussions with the officers involved, the procurement or tender documentation is not filed in a central storage area that can be easily accessed i.e.: the tender evaluation results should be centrally stored rather than in each project managers section. However it might also be effective if the evaluation results were stored on line which would make it easier to access and review;
- b) We noted that the chairman of the tender evaluation committee was always the project manager/officer responsible for that tender. We recommend that the chairman of the tender evaluation committee should be someone independent of the project that is calling for the tender.

Management comments

The recommendation is noted.

The procurement policy is due for review in 2014 and the recommendations outlined will be implemented as part of the overall review of the policy.

The segregation of duties of the tender evaluation committee is also noted and finance plan to integrate with the policy review guidance on composition of tender evaluation committees and supported with divisions/group presentations. To further support the oversight role, all procurement evaluation panels include a member of the finance to ensure the procurement processes are adhered to.

5. Internal audit

Condition: From reviewing the internal audit charter we noted that there were references to the Management Accountant being appointed as the head of the Internal Audit.

Recommendation: We recommend that this reference be removed as the internal auditor should hold not management role within the organization.

Management comments

The recommendation is noted.

The Audit Committee Charter , Internal Audit Charter and the Internal Audit Policy have all been updated to reflect Internal Auditor where appropriate .

6. Observations over the financial performance and net results

Condition: SPREP incurred a net deficit of \$497,436 dollars for the year ended 31 December 2013. The major component of the net deficit was net foreign exchange loss of \$265,351 dollars and also depreciation expense of \$127,606.

The effect of the net deficit for the year was to reduce SPREP's reserves from \$658,968 dollars in 2012 to only \$67,448 dollars in 2013. If SPREP were to continue incurring net deficits for the immediate future the reserves would most likely move into a negative position.

Recommendation: Whilst depreciation and net foreign exchange losses are not the only factor that contributes to the net deficit we believe that these balances can be somewhat mitigated.

Therefore we recommend:

- a. SPREP consider funding the depreciation so that it forms part of the budget and income on an annual basis. The depreciation expense that is recorded in the books of SPREP for 2013 was \$127,606 dollars. Of this amount \$83,388 dollars is amortisation on deferred income. The remaining amount of \$44,218 dollars represents depreciation that requires funding on an annual basis.
- b. SPREP look at ways of managing its foreign exchange exposure to reduce or minimise the effect of exchange losses on an annual basis. Some of these options included but not limited to:
 - i. There may be a need to have some mechanism for recognising the exchange losses as part of the cost of the projects or project reimburse SPREP for the cost of exchange losses. The majority of the exchange losses are primarily from account balances that are used to implement projects managed by SPREP.
 - ii. Alternatively there may be a need to limit the operation of non \$US denominated bank accounts and operate only \$US dollar denominated accounts as SREP's functional and financial statement reporting currency is

the US dollar. Transfers to non \$US dollar accounts are strictly managed on an as needed basis only.

- iii. Use of hedging or exchange rate agreements with the banks for forward purchasing of non-US currency can also be explored.

Management comments

The recommendations are noted.

a. The Audit committee in consultation with the external auditor will consider the recommendations and actions to be taken in the next budget process.

b. i) The realised exchange losses are charged to the relevant projects when they are incurred. However the unrealised exchange losses resulting from the conversion of the Tala Bank Account balances into US Dollars at the end of the year is taken up as a corporate expenditure. The mechanism of allocating unrealised losses or gains to the programmes/projects will be considered, however there are projects agreements where there are no provisions for exchange losses, and in these cases, the current arrangement will be applied.

ii) We try and operate our bank accounts mainly in the denominated US currency to avoid exchange variations, however, the salaries which is the major expense item are paid in the currency of the host country (SAT) as in the CROP harmonisation agreements; thus the need to have a Tala Bank Account . The transfer of US currency to the Tala account is strictly maintained on a daily need basis.

iii) The Secretariat have consistently used hedging in 2014 for forward purchasing of non-US currency.