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Twenty Seventh SPREP Meeting of Officials

Alofi, Niue

19 – 21 September 2016

Agenda Item 6.9: Audit Committee Report

Purpose

1. This is the 4th report on the activities of the oversight of the Audit Committee (AC) and it covers the period 1 July 2015 –through to the 30th June 2016; with updates up to the end of July 2016. This report is in accordance with the Internal Audit Policy core requirements and the Audit Committee Charter Section 4.3¹ stipulating details of the AC responsibilities. This report provides a summary in the following areas:

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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 through the Internal Audit Unit.
3. The frameworks required for the operation of the Internal Audit Unit and the Audit committee is established in the Charters now being approved and endorsed by the Audit Committee in consultation with the Executive.

Background

I Composition of the Audit Committee (AC)

4. Three Independent members, being: Mr. Tupuola Oloialii Koki Tuala is the new Chairman of the AC and he is the Partner of the firm Koki Tuala Chartered Accountant (KTCA); Mr. Mike Walsh; Deputy High Commissioner for New Zealand; Mr. Jovilisi Suveinakama; General

¹ Section 4 (4.3) of the Audit committee charter

- Details the responsibilities for
- Financial statements
- Internal Control
- Internal Audit
- External Audit
- Compliance
- Risk management
- Core requirements of the internal audit policy

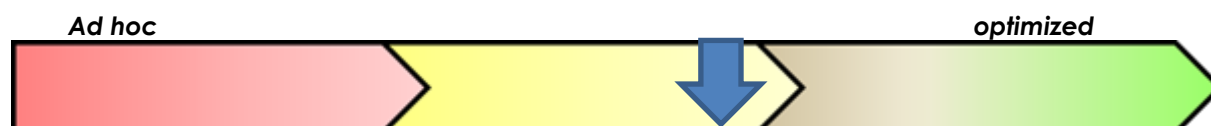
Manager of the Tokelau Office in Apia. The independent members of the AC services are on a voluntary basis with the exception of the Chairman being paid a minimal allowance of \$500 tala per meeting.

5. TROIKA members Dr Josie M. Tamate; Director General of the Ministry of Natural Resources Niue; HE Jackie Frizelle New Zealand High Commissioner and Ambassador Mr. Albon Ishoda for the Republic of Marshall Islands.
6. The non- independent members of the AC are Mr. Clark Peteru – SPREP Legal Adviser; and Simeamativa Vaai – SPREP Human Resource Adviser.
7. The Secretariat for the Audit committee is the Internal Auditor – Selesitina Reti.

II Work of the Audit Committee

8. The Audit committee is required to convene twice a year and can call extra meetings if the need arises. In the report period the AC has met two times that is in July 2015 and April 2016 (plus July 2016). Minutes for the April 2016 meeting are attached in the Appendix 1. Briefings are conducted by the Director General with the assistance of the Deputy Director General. Staffs from various divisions are called in for presentation to the AC as requested by the Chair.
9. This report uses a visual graph rate ranging from **ad hoc** to **optimize**. This rating is subjective and reflects the overview of the AC and is given to visualize 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 of governance and oversight.

III. Internal Controls



10. The EU carried out an assessment in 2014/15 of the internal controls for the Secretariat and in 2016. The Secretariat passed this external assessment which is an additional assurance that management is keeping proper internal control systems
11. The Secretariat's annual financial accounts provides an assurance that management has established and have been maintaining accounting and internal controls systems which include clearly stated policies and procedures

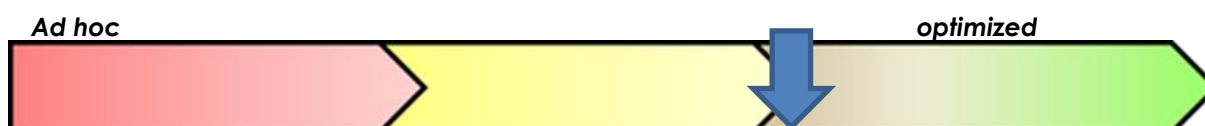
IV. 2015 Financial Statements



12. The Audit Committee noted that over the past 12 years there had not been an increase in the level of membership contributions.

13. The Audit committee recommended to the Secretariat to review the current Reserve policy and to formulate a foreign currency policy as a means to manage the risk of Exchange loss.
14. The medium size project (GEF MSP) consultants are currently assisting the Secretariat in formulating the foreign currency policy as well as the review of the reserve policy which is planned to be completed by the end of 2016.
15. The AC identified a need for a mechanism to be in place to review non-compliance by the Secretariat on the level of the reserve to be maintained.

V. External Audit Function



16. In accordance with SPREP financial regulation 29 the external Auditor is appointed biennially at the SPREP meeting. The current external Auditor is Betham & Company Samoa. Their main role is to examine the Financial Accounts of SPREP and provide an opinion in accordance with the Financial Regulations 32. The 2015 audited financial accounts are being presented in this meeting as part of the External Auditors work implemented in the year.
17. The 2015 management letter highlights three (3) areas² which SPREP need immediate action and solution. The AC reiterates the concerns of the external auditor in the following main areas:
 - First, the financial position for the organisation in which SPREP's Total Reserve or Net Asset position is a net deficit and has increased from a negative of USD\$492,631 dollars in 2014 to USD\$778,112 dollars in 2015.
 - Second, is the financial performance of SPREP resulting in a net deficit of \$261,729, in 2015 because of the increase of foreign exchange loss from USD\$200,789 in 2014 to USD\$344,333 in 2015.
 - The AC note with concern the negative results of the last three consecutive years as highlighted by an average per annum of foreign exchange loss of USD\$270,158; average net deficit of USD\$509,551; and negative total reserve or net asset of USD\$446,064.
 - The AC will review the first six (6) months results for 2016 and make recommendations to Director General for immediate action of possible remedies to avoid further negative results before the end of current financial year.
18. A meeting was held with the External Auditor and the Audit Committee in July 2016 to discuss this report. The AC recognizes that the External Auditor has provided the required opinions on the financial statements as required. The 2015 audited Financial Accounts received an unqualified opinion issued by the External Auditors.
19. Project audits were also carried out during this period for UNDP projects and UNDP assigned their auditors to carry out such audits.

² 1. Financial Performance results during the year
2. Foreign Exchange Losses
3. Negative balances in the donor Fund balances

VI. Internal Audit Function



20. The internal Audit unit was involved in comprehensive investigation and another minor investigation. This is in relation to reputational risks for the organisation with regard to consultancy contractual obligations and security respectively. Some of the areas in the procurement policy were highlighted in the investigation that requires improvement such as having dedicated personnel for the procurement services
21. The audit plan was not completed for 2015 period due to the limited available resources within the unit. When investigations are brought into the Internal Audit unit it will have an implication on the completion of the annual audit plan.
22. The Internal audit unit need to look into conducting IT governance in the next annual audit plan.
23. There is a need to consider additional staff within the Internal Audit Unit to improve resources and to implement the necessary work required. With the expansion of SPREP's role into being a Regional Implementing Entity (RIE) for Adaptation Fund and Green Climate Fund this warrants the consideration for additional resources in this Unit.

VII. Risk Management



24. A follow up report was submitted to the Audit Committee on the Risk management plan 2011 review conducted by the IA in 2014/15. Status of management action on the recommendations provided by the Internal Auditor was submitted for the Audit committee's information. Noted by the AC is the remaining work to be completed such as updating of the RMP 2011 to a new Risk Management Policy for 2015 incorporating new risks identified. The medium size project consultant currently assisting SPREP with institutional strengthening is working on an Enterprise risk management policy.
25. In the view of the AC the introduction of the risk management plan requires commitment from Senior Management and all staff. Currently the risk committee is chaired by the Deputy Director General and other Directors and Advisers. These staff has their own daily work load in addition to risk management responsibility.
26. In the view of the AC it would be useful to incorporate these risk management responsibilities into the current performance development system for each of the staff.

27. The risk committee need to ensure it is active in carrying out its terms of reference highlighted in the new risk management plan.
28. Managing of organisational risks is a management activity and it is not to be place with the Internal Audit unit as it reduces the resources available for the internal audits; it is contrary to best practices and internal audit standards and affects the independence of the Internal Audit unit.

VIII. Fraud Prevention Policy and Procedures



29. A dedicated email address fraud@sprep.org for reporting fraud has been introduced. The Fraud prevention policy is available on the Secretariat website.
30. Creation of awareness is conducted during staff induction programs by the Internal Auditor in relation to the risk management policy and the Fraud prevention Policy. More work is required in this area for wider publicity for the public and staff ability to lodge complaints.

Recommendation

31. The Meeting is invited to:
 - **note** the activities performed by the Audit Committee during the period July 2015-June 2016.