



## “Accelerating actions for a resilient Blue Pacific”

7<sup>th</sup>, 8<sup>th</sup>, 9<sup>th</sup> September 2021, Virtual Platforms  
12:00pm – 5:00pm Samoa Standard Time

### **Agenda Item 6.2: 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 2020 to 31 July 2021.

#### **Background**

2. This report on the activities of the AC covers the period between 1 August 2020 to 31 July 2021.
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 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)

For the financial year 2020 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)
- Member: Mr. Barry Patterson, Deputy High Commissioner, Australian High Commission (Appointed in November 2019)
- Member: Mr. Taimalie Kele Lui, Manager Human Resources, Tokelau Office, Apia (Appointed in March 2019)
- Member: Ms. Rosalini Moli, Assistant Chief Executive Officer, Ministry of Finance, Samoa (Appointed in March 2019)
- Member: Ms. Ella Risati, Second Secretary, New Zealand High Commission (Appointed in November 2019)

### **Audit Committee Meetings in 2020**

5. The Audit Committee is required to meet at least three times per financial year. It met in August 2020, December 2020 and March 2021.

### **Financial Performance 2020**

6. The Audit Committee discussed the 2020 audited financial statements and the relevant accounting policies with the Director General, Director Finance and Administration and the External Auditors, KPMG. It also reviewed the report of the external auditor on the financial statements and the related management letter.
7. The Secretariat recorded a net surplus of US\$389,376 for the financial year ended 31 December 2020 in contrast to a deficit of US\$81,977 recorded for the financial year ended 31 December 2019. This was mainly attributed to the increased allocation of core funding support from Australia and New Zealand.
8. As of 31 December 2020, the outstanding membership contributions amounted to US\$369,089. The Committee would like to thank Members for their membership contributions and support to the Secretariat despite the COVID-19 impacts.
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 would like to urge 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 of our Members.
10. The Project Management fees which is a major revenue stream for the Secretariat declined by 19% or US\$248,122 from US\$1,281,790 in 2019 to US\$1,033,668 in 2020. This was mainly attributed to the impact of COVID-19 which drastically restricted project implementation in 2020. The outlook for 2021 remains challenging.
11. The current ratio is 1:1 which is just sufficient to cover the Secretariat's immediate liabilities. The equity or reserves has strengthened by US\$389,376 from US\$57,763 in 2019 to US\$447,139 in 2020. This was attributed to the net surplus recorded for the year ended 31 December 2020.
12. The Committee is of the view that due to the ongoing impact of COVID-19, the reserve position whilst it has improved in 2020 when compared to 2019, is still at a critical level. The Secretariat must remain vigilant and continue to manage its expenditure and risk exposure arising from COVID-19, in relation to project implementation and its revenue stream.

13. 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 COVID-19.
14. Overall, the Audit Committee is satisfied with the content and quality of the financial statements prepared and issued by the Secretariat relating to the financial year 2020.

## Governance

15. 2020 was a challenging year for the Secretariat, given the impacts of COVID-19 on project delivery and its revenue base. The Secretariat undertook stringent financial measures to monitor income and expenditure monthly through budget forecasting, engaged with members, metropolitan partners, donors, focal points, and other CROP agencies for support, whilst at the same time exploring innovative ways of delivering service support to Members and ways to mitigate the impacts of COVID-19.
16. The Committee noted that SPREP has 62 policies which are due for review. The Committee is of the view that policies and procedures need to be relevant to address the current needs of SPREP and also meet the donor requirements; and for updated progress to be continually monitored at each Audit Committee meeting.
17. The Committee noted that Secretariat successfully completed its Green Climate Fund Re-accreditation and European Union complementary pillar assessment in 2021. In addition, several new project agreements were signed by the Secretariat in 2020 and 2021, which indicates SPREP is considered a preferred and valued regional partner, based on its reputation, people, system and process and strong organisational values;

| Name of the Project   | Donor           | Duration  | Funding (\$/€)                | SPREP Management Fee (%) |
|---|-----------------|-----------|-------------------------------|--------------------------|
| Pacific Islands Regional Marine Spill Contingency Plan (PACPLAN)                                      | AU DFAT         | 3 years   | AU\$2,000,000                 | 15%                      |
| Kiwa Initiative   | AFD-EU          | 4 years   | €1,050,000                    | 10%                      |
| Managing Invasive Species for Climate Change Adaptation in the Pacific (MISCAAP)                      | NZ MFAT         | 4.2 years | NZ\$2,480,000                 | 10%                      |
| Intra-ACP Climate Services and related applications in the Pacific                                    | EU Contribution | 4.5 years | € 9,000,000 or US\$10,916,100 | 7%                       |
| Enforcing environmental treaties in African, Caribbean and the Pacific (ACP) countries (ACP MEAs III) | UNEP            | 4 years   | US\$3,263,750                 | Cost recovery basis      |
| Implementing Sustainable Low and Non-Chemical Development in SIDS (ISLANDS) – Pacific Child Project   | UNEP            | 5 years   | US\$20,000,000                | Cost recovery basis      |

18. The Committee noted that the Independent Corporate Review and Mid-term Review of SPREP Strategic Plan 2017-2026 is currently in process. This will enable an assessment of the overall performance of the Secretariat since the last review in 2014, and in particular the progress made, in relation to the outcomes of the recommendations of the 2014 Independent Corporate Reviews (ICR) endorsed by the 25th SPREP Meeting.
19. The Secretariat developed the Project Management Information System (PMIS) in 2016 to further enhance project monitoring and reporting. However, the Committee raised concerns regarding the low use of the PMIS. The Secretariat is currently undertaking a full review of the PMIS to align with its current needs.
20. The Secretariat with effect from 1 December 2020 outsourced through public tender medical insurance coverage for staff and dependents to AWP Health & Life SA (Trading name Allianz Care). The contract is valid until 30 November 2022 with budget of up to US\$350,000 per year based on the current level of staff.
21. The Committee noted that the Secretariat Risk Management manual was approved in December 2016 and is currently under review. The Secretariat has identified the following top four priority enterprise risks and developed strategies to mitigate and manage its impact:
  - a) Impacts of COVID-19 and Natural Disasters
  - b) Project Implementation
  - c) Financial Sustainability
  - d) Resourcing
22. The Committee noted that:
  - a) Recruitment was a key challenge for the Secretariat for new projects which impacts the project implementation. The Secretariat is undertaking review of its project recruitment timeline, process and collaborating with other CROP agencies to share lessons learnt on better processes and practices, including working together on advertising recruitment.
  - b) the need for continuous improvement, in project design, project management, including the development of toolkits, manuals and guidelines to assist Programme Directors and Project Managers in expediting, standardising, planning and designing projects, budget forecasting, managing and monitoring to ensure that the Secretariat delivers effectively on time and within budget.
23. The Committee noted no whistle-blower or fraud cases were recorded during the period of reporting. However, the Committee noted a procurement related complaint was received from an unsuccessful bidder, which was accordingly addressed.
24. 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.

## Audit Committee Charter

25. The Audit Committee Charter was reviewed, benchmarked, and aligned to the Institute of Internal Auditors standards and requirements. The updated Charter was approved in principle in the Audit Committee meeting of March 2021 and final approval in the August meeting. Notable changes include:

- a) the number of audit committee meetings which have increased from three to four per year to allow greater support and scrutiny of the Secretariat's operations and performance;
- b) flexibility for membership attendance in terms of use of virtual platforms and alternate member representation;
- c) allowing provision for the audit committee to seek independent technical and legal advice in the event of a conflict of interest;
- d) the appointment of the audit committee members to be made by the Troika in consultation with the Director General; and
- e) appointment term of the audit committee members reduced from four to three years term and renewable only once.

## Recommendation

26. The Meeting is invited to:

- 1) **note** and **approve** the report of the Audit Committee for the period August 2020-July 2021;
- 2) **note** the reserve position though improved when compared to 2019 is still at a critical level;
- 3) **Request** Members to clear their outstanding membership contributions and provide extra voluntary contributions in support of their Secretariat;
- 4) **note** the proposed changes in the Audit Committee Charter; and
- 5) **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.

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6 July 2021