

31st SPREP MEETING OF OFFICIALS

5, 6, and 7 September 2023, Apia, Samoa

Agenda Item 6.1: Audit Committee Report

Purpose of paper:

1. To present to Members the SPREP Audit Committee (AC) Report on the Committee's work over the past 12 months.

Background:

2. This report on the activities of the AC covers the period between 1 August 2022 to 31 July 2023.
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 provide structured, systematic oversight of the Secretariats governance, risk and internal control issues and provide independent advice and guidance on adequacy and effectiveness of Secretariat's practices and potential improvements to those practices.

Composition of the Audit Committee

5. For the period between 1 August 2022 to 31 July 2023 the Audit Committee consisted of the following members:

Chairman

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

Members

- Mr. Barry Patterson, Deputy High Commissioner, Australian High Commission (Term concluded in December 2022).
- Ms. Katherine Berryman, Assistant Director, Pacific Climate Finance and Partnerships Section New Zealand and Climate Branch, Department of Foreign Affairs and Trade. (Appointed in March 2023).

- Mr. Taimalie Kele Lui, Manager Human Resources, Tokelau Office, Apia (Re-appointed for second term in March 2023)
- Ms. Rosalini Moli, Assistant Chief Executive Officer, Ministry of Finance, Samoa (Re-appointed for second term in March 2023)
- Ms. Ella Risati, Second Secretary, New Zealand High Commission (Term concluded in February 2023).
- Mr. Reece Fitzgibbon, Second Secretary, New Zealand High Commission (Appointed in March 2023).

Internal Controls

6. The Secretariat received an unqualified or clean audited opinion on its financial statements for the year under review with no material discrepancies identified by the auditors. This demonstrates effective implementation of accounting and internal control systems.
7. The Secretariat recorded a net surplus of US\$26,261 for the financial year ended 31 December 2022 in contrast to a net surplus of US\$570,573 recorded for the financial year ended 2021. This was mainly attributed to increase in expenditure resulting from the engagement of consultants to support the Secretariat's project implementation function, and rising cost of operation.
8. The Committee encourages the continuation of regular consultations with the senior leadership team during the year and annual consultations with the external auditor, all of which have proved useful and valuable in improving dialogue, forming effective decisions, and expediting practical solutions to challenges faced by the Secretariat.
9. The Committee acknowledges the concerted efforts made by the Secretariat in managing its financial position and performance and the support received from the partners and donors, particularly DFAT and MFAT, towards the Secretariat's operations or core fund.

Membership Contribution

10. The Committee thanks SPREP members for their annual membership contributions, voluntary contributions; and continued support towards the Secretariat. However, the Committee **encourages** SPREP members for the timely settlement of membership contributions and further support with voluntary contributions to secure and sustain a positive reserve and financial position of SPREP.
11. The Committee noted outstanding membership contributions on a cash basis for the period ended 31 December 2022 amounted to US\$459,672. The Committee also noted subsequent clearance of 2022 membership dues of US\$61,088 in first quarter 2023.
12. The Committee urges the Secretariat to continue having dialogue and making payment arrangements with those members who are having difficulties paying their outstanding member contributions.

13. The increase of membership contributions up to 20% was approved in principle at the 28SM in 2017 but was subject to confirmation from capitals and governments; however, the Committee noted this has not been achieved successfully. The Committee request all members to consider an additional voluntary contribution on an annual basis to the core funding to ensure the continued financial sustainability and strengthening of the Secretariat's operations and efficient response to member's needs. The Committee respectfully request the members to fully implement its resolution of the 28SM regarding the 20% increase in membership contributions.
14. It is also the humble view of the Committee, that it is better for the members to gradually increase its annual voluntary contributions to improve the reserve position rather than a request for a substantial contribution in the future when SPREP may have difficulties in meeting its financial obligations. This approach also takes into account the current global financial uncertainties and difficulties in securing funding from non-members and other stakeholders in the future, hence the long-term survival of SPREP falls back to its members.

Programme Management

15. The Programme Management charges, which is a major internal revenue stream for Secretariat improved by 37% or US\$484,560 from US\$1,313,071 in 2021 to US\$1,797,631 in 2022. This was mainly attributed to the lifting off the COVID travel restrictions which increased the project delivery rate.
16. The Committee noted that the programme management fee(s) is dependent on the project implementation/delivery rate, hence, urges the Secretariat to continuously improve its systems and process support and enhance project implementation for timely and successful project completion.
17. The Committee, following its consultation with management, noted increased donor support and interest in engaging with the Secretariat and successful partnerships and collaboration with other organisations, increasing scope for project funding.
18. Recruitment continued to be a key challenge in terms of attracting the right candidates and timely filling up the position, noting the tight project delivery timeframe. This was even more challenging during COVID19 period. The Committee encourages the Secretariat to continue to negotiate with the donors for pre-approval to allow the recruitment process to proceed at least six (6) months prior to project commencement to ensure a full project team is recruited and on board within six (6) months of the commencement of the project.
19. The Committee also noted the Secretariat has piloted interim measures to lessen the burden on its Human Resources Department by decentralising the recruitment process across programmes and departments.

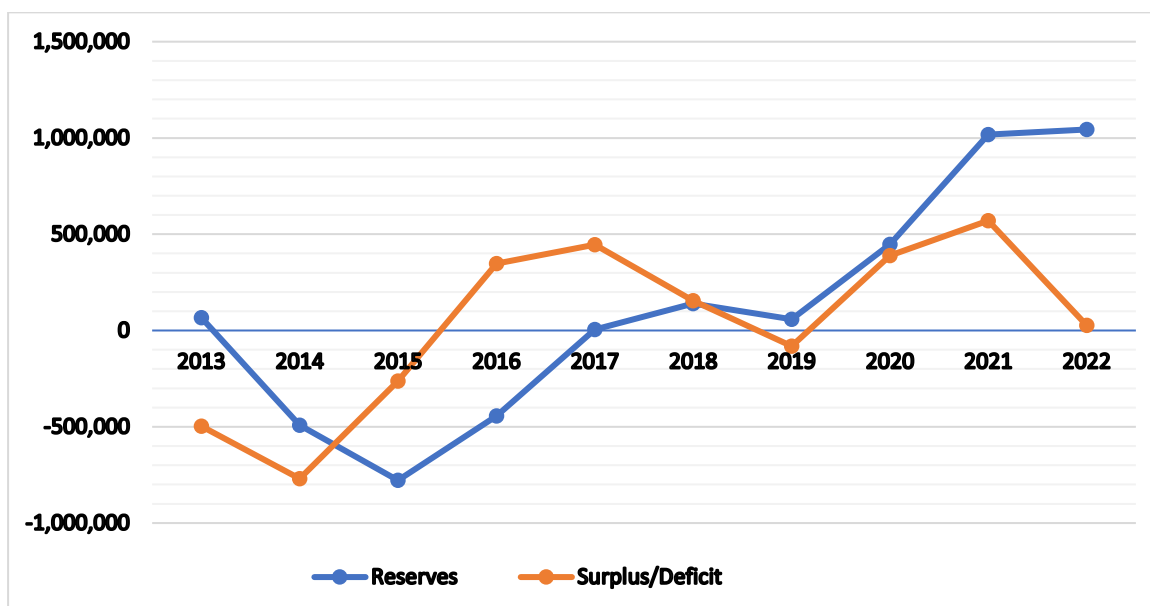
Reserve Position

20. The Committee is of the view that the reserve position of US\$1,043,972 as of 31 December 2022, though improved significantly in the last 10 years, **is still at a critical level** when benchmarked against the rising Secretariat annual cost of operation (2022: US\$5.8 million; 2021: \$4.9million).

The financial position (reserve), fixed asset, and financial performance (net surplus and deficit) for last 10 years (2013-2022);

Year	Financial Position (Reserve) US (\$)	Financial Performance Net Surplus/(Deficit) US (\$)	Fixed Asset US (\$)
2022	1,043,972	26,261	9,888,472
2021	1,017,711	570,573	10,146,967
2020	447,139	389,376	10,420,679
2019	57,763	(81,977)	10,655,582
2018	139,740	154,273	2,947,061
2017	5,123	445,982	3,124,076
2016	(443,762)	346,898	3,367,310
2015	(778,112)	(261,729)	3,530,095
2014	(492,631)	(769,488)	3,716,736
2013	67,448	(497,436)	3,538,258

Secretariat's Financial Position (Reserves) and Performance (Surplus/Deficit) from 2013-2022



21. The Committee supports and believes that having a strong reserve position is crucial for;
- a) efficient implementation of present operation and obligations,
 - b) maintaining assets and infrastructure to ensure its longevity.
 - c) managing employee welfare,
 - d) responding to unanticipated events; and
 - e) future Secretariat regional expansion and visibility.
22. The Committee encourage the Secretariat;
- a) to maintain vigilance and continue improving its revenue stream,
 - b) maintain existing and explore new partnership support arrangement,
 - c) to continue improving project delivery and efficiency,
 - d) to maintain *sound and balanced budgeting* and budgetary controls of core fund expenditure,
 - e) to be vigilant of risk exposure arising from impending global inflation which would impact the Secretariat cost of operations.

External Audit

23. The Committee has discussed the 2022 audited financial statements and the relevant accounting policies with the Director General, Director Finance and Administration and the External Auditors, BDO Samoa. It also reviewed the report of the external auditor on the financial statements, the related management letter; and provided its recommendations for future improvement of SPREP's operations.
24. The Committee noted that the external audit was undertaken in an environment of the utmost level of objectivity, independence, ethics, and integrity. The engagement team had no disagreements with management, and no scope limitations were imposed by the Secretariat during the audit.

Policy Review and Development

25. The Committee is of the view that policies and procedures need to be relevant to safeguard and mitigate the risk exposure arising from outdated policies and to address the current and future needs of the Secretariat. In 2019, the Committee highlighted that 62 existing policies were due for review, the need for a regular staff awareness of the existing policies and to establish a portal for easy access for staff reference.
26. The Committee noted that the Secretariat had made progress and established a staff intranet that served as a one-stop access point to all policies, procedures, and manuals and increased staff awareness of existing policies and procedures coordinated through its Knowledge Management Unit. As of July 2023, the Secretariat has undertaken in-house reviews leveraging on its existing expertise and completed 12 reviews, while most of the remaining reviews are in progress.
27. On the same note, the Committee also emphasised the need to develop project grievance redress and accountability mechanisms, anti-money laundering and countering the financing of terrorism, remote work policy, mainstream child protection and gender policy, and prioritise the review of its occupational health and safety (OHS) policy, particularly noting the risk exposure to staff, participants, and the Secretariat from the nature of the Secretariat's operation, which requires travelling and fieldwork and involves stakeholders.

28. The Secretariat is in progress with its review of gender mainstreaming policy, OHS policy and is working towards developing a flexible and remote work policy. The Committee also acknowledges the opportunity under the GCF Regional Readiness project to develop a Grievance Redress Mechanism for projects and urges the Secretariat to expedite this and to work towards developing policies for Anti-Money Laundering and Countering the Financing of Terrorism to safeguard the organisation against the potential threats.

Risk Management

29. The Committee in November 2019 also noted the Secretariat's risk register was outdated and gaps in the risk management process. The Committee emphasised the need to proactively manage risk and that risk management to be made an integral part of the operations noting its dynamic nature and detrimental impact it could have on the Secretariat's operations.
30. The Committee noted that the Secretariat subsequently reviewed its risk policy and risk management manual in November 2021 and is working on updating its risk register and risk mitigation response plan at the enterprise and programme levels. The Committee acknowledges the progress made, but it is still concerned and emphasises the need to have a proactive and robust risk management system in place. It urges the Secretariat to expedite its process and explore options to engage short-term consultants, fill in the vacant risk officer position, or seek a secondment opportunity.
31. The Committee advised the Secretariat on the emerging cyber-security risk and recent cyber-attacks encountered by some of the institutes in Samoa and the region. The Committee noted that the Secretariat has developed its Information and Communication Technology Strategy (2023-2028) which was approved in July 2023 and security is identified as area of strategic importance. This is important to safeguard and protect the organisation from potential threats.

Project Management Information System (PMIS)

32. The Committee highlighted in its previous report that the Secretariat developed the Project Management Information System (PMIS) system with intent for effective project monitoring, status tracking, and dashboard reporting in 2017. The project was designed and developed in-house and was funded from the GEF accreditation readiness MSP project with engagement of external consultant for US\$206,928 in addition to the significant internal staff time spent in developing the system.
33. The Committee expressed its early concerns with the system's limited usage and took notice of the Secretariat's efforts to redesign the system, which was relaunched in 2022 as Project Information Management System (PIMS). The Committee noted that the system was still work in progress yet to be fully operationalised.
34. The Committee is concerned about the prolonged time taken *seven years* (2017–2023) to address the teething issues, revitalise the system, and enforce and operationalise it. The Committee noted that these are being earmarked to be included in the proposed Integrated Enterprise Management System to which funding is being sought from donor partners.

Internal Audit

35. The Committee acknowledges the internal auditor's secretarial function and oversight support. It also notes the resource constraints faced at the Internal Audit Unit. The Committee emphasises the need to strengthen the resourcing capacity and potential consideration of the use of audit software to automate the manual task and to explore opportunities for twinning partnerships through DFAT and MFAT with their audit institutes, capacity-building trainings and workshops with partners and donors such as GCF and the European Union for increased awareness on the requirements of the donor's prohibited practises and grant conditions, strengthen capacity and partnership to respond to them, and strengthen collaboration and coordination with the regional CROP agencies internal auditors for capacity building and knowledge sharing.
36. The Committee noted the progress made in engaging an independent consultancy to review the internal audit function and provide pathways to strengthen its capacity, resourcing, independence, and governing structure and charter.

Fraud Prevention and Awareness

37. The Committee appreciates the continued donor's support and confidence with the Secretariat governance process and understands the need to safeguard the funds against any fraudulent activities. The Committee did not receive any fraud complaints through its dedicated channel during the current reporting period. Dedicated fraud awareness sessions were conducted to encourage staffs to take the necessary action to mitigate the risk of fraud occurring or, when it does occur, the reporting options and mechanisms in place to address it and the safeguards in place to protect the whistle-blower.
38. The Committee views the need to be more visible and proactive in terms of fraud prevention and awareness and extend the fraud awareness session to the projects and external stakeholders and include it at the project inception and at a regular interval. The Committee noted one awareness session was held with the GCF funded VANKIRP project in November 2022 which was attended by the Project Management Unit based in Vanuatu and the senior Vanuatu Meteorology and Geohazards Department staff.
39. In addition, the Committee noted that a fraud prevention poster was designed and circulated, and an additional clause added to the contract agreement as part of the fraud prevention awareness and visibility program.
40. The review of the SPREP Fraud Prevention Manual is being finalised which the Committee has been involved in by providing feedback and input.

Carbon Offsets Initiatives

41. The Committee is pleased to note that the Secretariat has extended its existing 20Kw solar panel grid at its Pacific Climate Change Center (PCCC) by additional 80kw funded through the Irish Government Fund support of US\$151,120. The Committee noted in 2022 that it has generated energy equivalent approximately to offset 80% of the Secretariats current energy consumption based on fossil fuel.

42. On the same note, the Committee understands the Secretariat's carbon footprint is the cost of doing the business in delivering its mandate. The Committee promotes transparency and emphasises the importance of environmentally sustainable practices and urges the Secretariat to take proactive measures to mitigate potential reputational and environmental risks that may arise from carrying out its operation and establish effective system and process to measure and report its carbon footprints and offsets.

VAN-KIRAP Project

43. The Committee noted that the Van-KIRAP project's GCF Proactive Integrity Review was completed in 2022, and the Secretariat is in the process of implementing the recommendations.
44. The Committee acknowledges and appreciates the Secretariat updating the Committee on the concerns raised by the Vanuatu government in relation to the implementation of the Vanuatu Klaemet Infomesen blong redy adapt mo protekt (Van-KIRAP) Project. The Committee noted the immediate response from the Secretariat and remedial measures put in place to rectify the situation.

Project Sustainability

45. In terms of the long term sustainability of project outcomes, the Committee emphasises the need for the Secretariat to develop longer term partnership arrangements with the members, partners, and donors at an early stage of project development and build them up to the project activities to ensure that once the primary project funding concludes, the Secretariat has a sound continuity plan to ensure the long-term sustainability of the outcome beyond the duration of the project, whether through extension of donor support, carryover at its programme level, or transfer of ownership to the members..
46. The Committee suggested that in addition to mid-term and end-of-project evaluation, the Secretariat to consider undertaking post-evaluation of the project to ascertain the result and sustainability of the project and assist in future designing and implementation of the projects. The Secretariat needs to explore financing sources and engage with donors to effectively accommodate this activity at the project design level.

Country and Territory Strategic Partnership Framework (CTSPF)

47. The Committee noted the Secretariat's current strategic plan (2017-2026) requires *establishing a simple and flexible Country Action Plans, which describe the agreed priorities for each Member country that will be delivered during the two-year period¹,* which was approved in the 2016 SPREP Meeting. The Committee noted that the Country Action Plan is now termed as the Country and Territory Strategic Partnership Framework (CTSPF)² which is work-in-progress and intends to provide practical and appropriately focused guidance to Secretariat support to, and interactions with members.

¹ This was the recommendation from the 2014 midterm independent corporate review.

² Approved in 2nd Executive Board Meeting 2-4 September 2020

48. The Committee is concerned, noting that "*seven years have passed and three years remain*" for the present strategic plan to be completed, as well as the need for ~~of having~~ an approved respective member country and territory strategic partnership framework.
49. The Committee noted progress the Secretariat has made on CTSPF to date; a circular to members was circulated in March 2023, inviting members to express their interest in initiating the CTSPF process in their respective countries. In addition, in 2023, the Secretariat visited RMI, Palau, and the Solomon Islands to initiate their in-person consultation with the focal point and key stakeholders, with a similar plan earmarked for Vanuatu later in the year.
50. The Committee encourages the Secretariat to continue progressing the CTSPF and further urges Members to provide their full support and commitment in finalising their respective country and territory strategic partnership framework in order for more effective engagement and intervention and support from the Secretariat in addressing their environmental challenges.

Monitoring and Evaluation Framework

51. To effectively support a strategic shift towards "*results and impact*" based reporting, the Secretariat is encouraged to develop a strong and coherent "*Monitoring and Evaluation Framework*" linked to the PIP and CTSPF, with established baseline data and performance target indicators, as well as guidance on collating data and evidence to objectively measure the Secretariat's effectiveness and performance at the project, programme, and institute levels and use the learnings to establish future pathways for the Secretariat.
52. In line with the CTSPF, the Committee recommends that the Secretariat investigate reactivating the "*country and territory profile and fact sheet(s)*" in collaboration with Countries and Territories to capture and highlight the work by the Secretariat and results achieved at the country level and have these available on the SPREP website and include in the Annual Report.

Communication and Visibility Strategy

53. The Committee noted that the Secretariat was in the process of developing its communication strategy and visibility plan. The Committee emphasises the importance of a robust communication strategy and visibility plan to effectively communicate the result and impact and increase awareness and visibility in member countries of the need for and benefits of the assistance and other support provided through donor funding channelled through the Secretariat in addressing the members environmental challenges.

Lesson Learned and Best Practice Management Portal

54. The Committee encourages the Secretariat to have a *central repository of key lessons learned and best practises* from the respective sources, such as different stages of the project cycle (from initiation to closure), mid-term and terminal review, monitoring, and evaluation reports, which were captured and could be centrally accessed for future project design and referencing and avoid mistakes noted and complications experienced in the project cycle process.

Membership and Partnership Feedback

55. The Committee encourages the Secretariat to conduct a membership and partnership feedback survey at least every two years in order to gauge members' views, perspectives, and satisfaction with the Secretariat's service delivery, to better and more effectively engage with members, to understand their challenges, and to improve the Secretariat's approach and future service delivery.
56. The Committee further urges that members engage completely in such member feedback surveys, give input, and capitalise on the opportunity.

Independent Corporate & Mid Term Review

57. The Committee noted that the Independent Corporate and Mid-Term Review of the SPREP Strategic Plan 2017–2026 were completed in 2021. Subsequently, an independent review of the Staff Remuneration was also completed. A SPREP Member working group was established to review the key findings and corresponding recommendations. The members of the working group comprise Australia, the Cook Islands, New Zealand, the Marshall Islands, Samoa, Tokelau, and Tuvalu.
58. The Committee noted that the working group review was in progress as of the date and recognised that the outcome of the implementation of the recommendation(s) depends on the outcome of the working group review.

Recommendations:

59. The SPREP Meeting is invited to:
 - 1) **Note** and **approve** the report of the Audit Committee for the period August 2022 to July 2023.
 - 2) **Note** the improvement in performance and reserve position in last 6 years, but it's NOT sufficient for long term sustainability and growth.
 - 3) **Urge** members to actively engage in dialogue with the Secretariat in making payment arrangements for outstanding contributions.
 - 4) **Request** members to fully implement the resolution of the 28SM regarding the 20% increase in membership contributions and to consider making extra voluntary contributions in support of their secretariat.
 - 5) **Request** that members provide full support and commitment in finalising their respective county and territory strategic partnership framework to allow more effective engagement, intervention, and support from the Secretariat in addressing their environmental challenges.
 - 6) **Request** that the review process be prioritised by the Independent Corporate, Mid-Term, and Staff Remuneration Review Working Group as it has a broader effect on the Secretariat's governance and operation.
 - 7) **Record** its appreciation for the cooperation and support it has received from the Director General, Deputy Director General, Senior Leadership Team and staff of SPREP over the past 12 months.