



**FORTY-NINTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(18–20 June 2019, Noumea, New Caledonia)

AGENDA ITEM No. 7.2: 2018 Audited financial statements

(Paper presented by the Secretariat)

Summary

1. In accordance with the Pacific Community's (SPC) financial regulations, this paper presents the 2018 audited financial statements for consideration by CRGA.
2. The annual financial statements for both the Pacific Community and the Pacific Community Provident Fund received unqualified audit opinions for the 2018 financial year.

Recommendation

3. CRGA is invited to adopt the 2018 audited financial statements for the Pacific Community and the Pacific Community Provident Fund, noting that they were unqualified and presented a true and fair view of the financial position and performance of these entities in accordance with International Public Sector Accounting Standards (IPSAS).

2018 Audited financial statements

Background

4. SPC's external auditors, KPMG of Fiji, conducted an independent audit of the financial records of the organisation for the 2018 financial year and provided an unqualified audit opinion. The audit provides assurance that the financial statements presented are free from material misstatement.
5. As part of the 2018 audit, the auditors also provided a letter to management based on their testing of the design, implementation and operating effectiveness of key financial reporting and regulatory controls. The Audit and Risk Committee reviewed, and accepted, management responses to the findings presented in the management letter.

2018 Financial results

6. SPC recorded a surplus of EUR 4.135 million for the year ended 31 December 2018. This result was due to the following major factors:
 - a. Project income amounted to EUR 64.73 million, a 5.3% increase compared to 2017. The material improvement in project execution rates to 99% substantially increased the level of project management fees generated during the year by EUR 1.52 million over budget and EUR 0.709 million over 2017;
 - b. There was a net exchange gain of EUR 0.031 million compared to an exchange loss of EUR 1.73 million in 2017;
 - c. In 2018, no additional provisions were created relating to potential losses arising from project audits (in 2017, an additional provision of EUR 3.5 million was created, with a total provision of EUR 7.5 million).
7. SPC's overall cash position remained strong with year-end cash and short-term investments amounting to approximately EUR 63.0 million (2017: EUR 60.7 million). It is noted, however, that EUR 45.3 million (2017: EUR 46.3 million) of cash balances derive from project advances; therefore, SPC's operating cash balance is only EUR 17.7 million (2017: EUR 14.3 million). When current liabilities in the sum of EUR 16.7 million, arising from creditors and accruals (EUR 4.0 million) together with provisions (EUR 12.6 million), are taken into account, we see that SPC is effectively operating under a very constrained 'free cash' position. This position highlights the critical importance of member states meeting their obligations for assessed contributions and host country grants.
8. SPC maintains a conservative cash investment policy designed to ensure that capital losses are avoided. As at year-end, EUR 36.3 million of cash holdings were invested in fixed term bank deposits. Despite the low global interest rate environment, interest income was EUR 0.48 million (2017: EUR 0.31 million), resulting in a 52% (EUR 0.16 million) increase compared to 2017. The increase reflects improved cash management practices.
9. Unpaid assessed contributions amounted to EUR 1.85 million (2017: EUR 2.2 million). This was a result of continued strong action by the Secretariat to reduce the level of outstanding contributions.
10. While the majority of development partners provide pre-financing for project activities, certain projects are undertaken on a cost reimbursable basis. Project receivables amounted to approximately EUR 6.76 million at year end (2017: EUR 3.35 million). Furthermore, partner advances were at EUR 2.28 million (2017: EUR 4.20 million).

11. Due to the direct impact that the balance of project receivables has on SPC's operating cash position, ongoing management attention is required to minimise the balance of project receivables and ensure acquittals are received to clear partner advances.
12. Total reserves amount to EUR 23.69 million as at year end (2017: EUR 19.55 million). While this is a relatively strong level of reserves, the Secretariat wishes to note that EUR 18.1 million of SPC's total net reserves are represented by the value of our investment in real property assets, which, given their nature and location, are illiquid. The surplus for 2018 assisted in creating liquid reserves of EUR 5.6 million, which represents just over three months of core operating cost.

Provident fund

13. The principal value of the Pacific Community Provident Fund at year end was EUR 7.33 million (2017: EUR 7.72 million). This largely stable value reflects that withdrawals by participants more or less equalled new contributions during 2018.
14. Interest income remained low as the provident fund is invested in low-risk term deposits in banks and financial institutions to maintain sufficient liquidity to provide for withdrawals by participants in accordance with provident fund rules. The interest rates, driven by the market, varied between Fiji (4.0% per annum) and Noumea (1.6% per annum).

Audit results

15. KPMG (Suva) has conducted the external audit since 2017 and will conduct the audit for the 2019 financial year, after which audit services will be re-tendered. KPMG was appointed following a competitive tender process, replacing PWC (Noumea), who were SPC's auditors for the previous nine years.
16. Unqualified audit reports were received for the 2018 financial statements for both the Pacific Community and the Pacific Community Provident Fund, making it the 23rd successive year of unqualified audit reports for SPC.
17. The Secretariat notes that the audit was conducted in accordance with International Standards on Auditing and that the financial statements were prepared in accordance with International Public Sector Accounting Standards (IPSAS).
18. The adoption of IPSAS was mandated at CRGA 44 and first implemented for the 2015 financial year. The content and quality of SPC's annual financial statements continue to evolve as part of an ongoing process of incrementally implementing additional disclosure requirements relevant to SPC's financial operations.

Recommendation

19. CRGA is invited to adopt the 2018 audited financial statements for the Pacific Community and the Pacific Community Provident Fund, noting that they were unqualified and presented a true and fair view of the financial position and performance of these entities in accordance with International Public Sector Accounting Standards (IPSAS).