

SECRETARIAT OF THE PACIFIC COMMUNITY**THIRTY-FOURTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Noumea, New Caledonia, 16-19 November 2004)**AUDIT REPORTS - FINANCIAL YEAR 2003**

(Paper presented by the Secretariat)

BACKGROUND

1. The audited financial statements and audit reports for the 2003 Financial Year are hereby submitted for consideration by members as required under our Financial Regulations. The independent audit was conducted by the firm of Deloitte, Touche, Tohmatsu of Papua New Guinea in March/April 2004.
2. There are two documents presented as annexes to this working paper:
 - a) SPC Financial Statements and Auditor's Report for the year ended 31 December 2003; and The Provident Fund Financial Statements and the Auditor's Report for the year ended 31 December 2003. The two sets of financial statements are presented in one cover.
 - b) The Auditors' Management Report on control related accounting issues; and the Secretariat's response to the Auditors' Management Report.
3. The Secretariat is pleased to note that the 2003 Financial Statements have received a clean and unqualified report from the auditors. This is the seventh year in a row that the auditors have given a clean bill of health to the SPC's accounting system.
4. In the Auditors' Management report, the auditors identified two concerns. The first deals with recoverability of assessed contributions, and the second with Bank Reconciliation in one of our accounts. In the Secretariat's response on the first concern, we agree on the need to actively pursue the recovery of assessed contribution arrears, and further describe the processes involved in bringing this to the attention of the Members. With reference to the second concern, the Secretariat acknowledges an error in bank reconciliation, however, has put internal control measures into place to ensure the problem does not occur again.

RECOMMENDATION

5. CRGA is invited to consider and accept the attached audited SPC and Provident Fund Financial Statements and Auditors' Reports; the Management Report on control related accounting issues; and the Secretariat's response to the Management Report.

Attachment 1

Deloitte

14 July 2004

Lourdes T Pangelinan
The Director-General
Secretariat of the Pacific Community
BP D5 – 98848 Noumea Cedex
New Caledonia

Dear Lourdes

**MATTERS ARISING FROM THE AUDIT OF THE FINANCIAL STATEMENTS OF
SECRETARIAT OF THE PACIFIC COMMUNITY FOR THE YEAR ENDED 31 DECEMBER 2003**

We have pleasure in presenting this report to management in respect of our findings arising from the audit of the financial statements of Secretariat of the Pacific Community for the year ended 31 December 2003. Management have accepted all the findings arising from the audit but will respond separately after the meeting with the governing council.

We have concentrated on areas of material risk of error in the financial statements to allow us to reach our opinion efficiently. Therefore, we have not and cannot examine every activity and procedure in the Secretariat and only report on those matters that have come to our attention. Accordingly our audit may not have identified and the comments on this letter may not be a comprehensive record of all weaknesses that may exist. We would gladly discuss with you an extension of our audit review of any activities of the Secretariat that may potentially concern you.

Our report provides our observations on control related accounting and issues that we believe are of most significance.

This report has been prepared solely for the use of the Secretariat and should not be made available to third parties. If a third party were to obtain a copy without our written consent, we would not accept responsibility for any reliance that they may place on it.

We take this opportunity to thank you and your staff for the cooperation and assistance extended to us during our audit visit.

Yours sincerely

Paul Barber
Partner
Assurance and Advisory Services

RECOVERABILITY OF ASSESSED CONTRIBUTIONS

Observation

The Secretariat's balance sheet at 31 December 2003 includes Assessed Contributions Receivable of CFP 71,422,000 (2002 - 76,011,500). It is our understanding that this relates to assessed contributions for various countries relating to years between 1997 and 2003 where the respective Governments have committed to pay but as at balance date no funds had been received.

We noted that arrears for some member countries have been accumulating over more than one year as follows:

Member Country	Years in arrears	Balance O/S (CFP units) 2003	Balance O/S (CFP units) 2002
Guam	1998-2003	291,918	239,797
Nauru	1997-2003	150,782	127,589
Solomon Islands	2000-2003	109,507	82,383
Marshall Islands	2002-2003	30,946	45,690
N Mariana Islands	2002-2003	54,028	48,519
Others	2002-2003	227,821	216,136
Total arrears		865,002	760,114

We understand from management that the member countries in arrears have given an undertaking to bring their assessed membership contributions up to date. A provision has been taken up in the financials for 2003 in accordance with the requirements of International Accounting Standards relating to the arrears from Nauru due to the financial situation in that country.

Risks

These arrears represent a drain on the organization's liquidity and the longer they accumulate the greater the risk that SPC may not be able to collect these assessed contributions. In such circumstances the assets shown on the balance sheet would be overstated because of inadequate provisions and an alternative source of funding obtained to make good the shortfall if the organization is to meet all its projected obligations.

Recommendation

Based on our subsequent discussions and communication with management of SPC we recommend that management actively pursue recovery of these arrears. Consideration should also be given to adoption of an accounting policy to provide for all contributions in arrears over a specified period.

Such an approach should not reduce the forcefulness of collection activities within the organization nor encourage non payment by members but may more accurately reflect the realizable value of assets on the organization's balance sheet and assist decision makers where the strength of that balance sheet is a factor considered in the decision making process.

BANK RECONCILIATIONS

Observation

We noted during the testing of the Procfish bank account that a direct deposit amounting to CPF 180,640 was made in May 2003. However this deposit was never reflected in the general ledger as it was not detected until December 2003 when the final quarter reconciliation was performed. We understand a monthly reconciliation is made of the cash-book balance with the bank statement, however the cause of this difference is uncertain.

Risk

A material difference may arise where the general ledger is not updated on a timely basis between the actual funds and the accounting records.

Recommendation

We recommend that variances between the accounting records and the bank statements be promptly investigated and corrected as soon as possible.

Attachment 2**SECRETARIAT'S RESPONSE TO THE AUDITORS' REVIEW**

Following the completion of the Year 2003 Audit, the Auditors submitted a report on their findings of identified weaknesses in relation to the Secretariat's administrative and accounting internal control systems of operations (Refer Part I).

The Secretariat has considered the findings and recommendations of the Auditors and submits the following comments:

1 Recoverability of Assessed Contributions

The Secretariat agrees with the recommendation that arrears be actively pursued. We would like to confirm that the process of following up on assessed contribution arrears is in operation, and has been successful over the years. This is evident from the history of the Secretariat's recoverability of outstanding contributions, where all arrears were subsequently recovered, and no debts were ever written off.

The Secretariat actively pursues the remittances of assessed contributions. There are several avenues available to the Secretariat in bringing this issue to the attention of the countries concerned as well as to the attention of the governing council. These are pursued as follows:

- (i) Through annual visits by members of the Executive to member countries;
- (ii) Once the governing body approves, at its annual meeting, the level of assessed contributions for the following financial year, the Director-General sends out a formal letter confirming this decision to our members. Attached to this letter is a corresponding debit advice together with supporting invoices, and a corresponding statement of accounts;
- (iii) Once payment is received, the Secretariat sends out a letter acknowledging the payment and at the same time advises the member country concerned of the balance to date of its assessed contributions;
- (iv) At around the middle of the year, follow-up advices are sent out to member countries from whom we have not received payments. If we still do not receive payment, we send out a friendly reminder a couple of months before our annual governing council meeting;
- (v) the subject becomes an agenda item in the governing council meeting every three years when members review the assessed contribution formula. In these discussions, member country representatives make pledges regarding their commitment to meet their country's assessed contribution.
- (vi) The Director-General in her report to the annual meeting of the governing council highlights this situation whenever there is lack in response regarding payment of arrears.

It is through these continual reminders and avenues available to the Secretariat, that governments and administrations have been prompted to pay their dues and settled their assessed contribution arrears. The Secretariat continues to place its confidence and trust in the respective governments pledge to meeting their obligations.

For information, and with reference to the amount of arrears as at 31 December 2003, the Secretariat has since received payment totalling XPF 23,133,206, representing 27% of the arrears at balance date.

The Secretariat's view on the treatment of assessed contribution arrears is that approved by CRGA/Conference last year, that no provision for doubtful debts be made in respect of these debts as these are recoverable over time, as experience has demonstrated . In the case of Nauru , the Secretariat has made a provision to the value of the arrears owed by Nauru in conformance with the requirements of the International Accounting Standards in light of Nauru's apparent severe financial difficulties.

2 Bank reconciliations – ProcFish bank account

We acknowledge the concern raised and admit that the deposit should have been detected a lot earlier. There was, indeed, a breakdown in our internal control and we have now put in place measures whereby reconciling items are accounted for on a timely basis and that there would not be a repetition of this problem in the future.
