



SECRETARIAT OF THE PACIFIC COMMUNITY

**FORTY-THIRD MEETING OF THE COMMITTEE OF REPRESENTATIVES OF
GOVERNMENTS AND ADMINISTRATIONS (CRGA)**
(Suva, Fiji, 12–15 November 2013)

AGENDA ITEM 4.1 – AUDIT AND RISK COMMITTEE REPORT

(Paper prepared by the Secretariat)

Summary

1. The Audit and Risk Committee (ARC) has met four times since its establishment, including three meetings in 2013.
2. The committee has approved a work programme for the internal audit function for the period 2013–2015 and has engaged a professional audit firm, Ernst and Young, to undertake the work.
3. The committee reviewed the external auditor’s opinion on SPC’s draft annual accounts for 2012 and noted with satisfaction that an unqualified audit opinion would be provided.

Recommendations

4. CRGA is invited to:
 - i. note the ARC chair’s report;
 - ii. note that ARC has agreed to a three-year internal audit work programme and has appointed an international accounting firm to undertake the work; and
 - iii. note that ARC will provide a report on the first year’s outputs from Ernst and Young to CRGA 44.
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AUDIT AND RISK COMMITTEE REPORT

Purpose

1. This paper updates CRGA 43 on the work of the CRGA Audit and Risk Committee (ARC) in 2013.

Background

2. ARC was formally established at CRGA 42 in 2012, following a recommendation made by the independent external review (IER). At that meeting CRGA also endorsed the committee's charter and a charter for progressing and strengthening an internal audit function at SPC. The committee has met on four occasions, including meetings in February, July and October 2013. The committee presented an initial report to CRGA 42 and a progress report accompanying the Director-General's first quarter update report to members in 2013.

Internal audit work plan

3. In its progress report (March 2013), the committee reported on a number of issues that were under consideration and review. Of particular importance was the engagement of a professional accounting and audit firm to prepare a detailed proposal involving the development of:
 - i. an assurance framework to provide a structure for the internal audit and risk function;
 - ii. A high-level strategic risk plan that reflects the areas of greatest potential risk given the nature of SPC's activities; and
 - iii. A three-year internal audit and risk plan outlining the audit coverage to be provided over the next three years.
4. Subsequent to that report, which the committee endorsed at its July meeting, expressions of interest were invited from qualified accounting firms to undertake the three-year work plan. The committee has selected the international accounting firm Ernst and Young to undertake this work. The work will be carried out principally through Ernst and Young's Suva office, with support from other offices as appropriate. While it is appropriate to allow some flexibility in the work programme to deal with issues that may arise, it is anticipated that the coverage in the first year will include a review of:
 - i. procurement processes;
 - ii. consultant engagement processes;
 - iii. travel processes;
 - iv. foreign exchange management processes; and
 - v. cash management and investment processes.
5. These areas have previously been identified as potential risk areas given the nature of SPC's activities. Indicative areas for internal audit coverage have also been identified for 2015 and 2016.
6. ARC will monitor and review the first year's outputs from Ernst and Young and will provide appropriate advice to CRGA 44 in 2014 in order to ensure that CRGA is well informed regarding this area of governance.
7. In its progress report in March 2013, ARC expressed concern in relation to the funding of this work. The committee expressed the strong view that this work must be funded as a core function of SPC. This view was fully shared by SPC management. ARC notes with satisfaction that SPC's core budget is increasingly meeting the costs of the internal audit function and, by 2015, this work will be fully core funded.

8. Other issues under active consideration by ARC include a review of SPC policies and procedures in the areas of finance, human resources management and administration (including travel, property management and insurance). A review of SPC's Manual of Delegations is also required, particularly following the changes to the structure of senior management positions in SPC following the decisions of CRGA 42. The committee anticipates reporting on the outcomes of this work to CRGA 44.

2012 external audit

9. In line with arrangements previously agreed with SPC's external auditors, ARC met with the external auditors in July 2013 to review and consider the draft audited annual accounts for 2012, and the accompanying management letter from the external auditors. The committee noted with appreciation that the external auditors would be providing an unqualified audit opinion on the 2012 accounts. The external auditors emphasised that SPC's internal controls were strong, and they commended the strong compliance culture in the organisation. The committee agreed that the Director-General sign off on the 2012 annual accounts.
10. In the accompanying management letter, the external auditors made a number of observations and recommendations designed to further strengthen the effectiveness of SPC's internal controls. Several of these matters are carry-over issues relating to the former SOPAC. ARC has reviewed these recommendations, and SPC's management responses to the matters raised. The committee is satisfied with the management responses and the actions that are being taken or proposed.
11. One issue needs to be brought to the attention of CRGA. The audit of a United Nations Development Fund – Global Environment Facility (UNDP GEF) project has been qualified. The qualified audit relates to the manner in which the funds are disbursed to national finance systems and the inability of recipient countries to adequately acquit the funds received at the national level. This matter is being resolved by SPC management. SPC is also actively reviewing its role in relation to grant management generally.

Conclusion

12. The committee would like to record its appreciation of the support it has received from the Director-General and the senior management team at SPC. The relationship between the committee and management has been extremely constructive and open, and has enabled significant progress to be made in establishing and embedding internal audit and risk management as core areas of SPC activity. This is an important part of a stronger governance framework and will provide more robust assurance to CRGA as SPC's governing body that SPC's internal controls, policies and processes are robust and that compliance with these controls is strong.

Recommendations

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 - i. note the ARC chair's report;
 - ii. note that ARC has agreed to a three-year internal audit work programme and has appointed an international accounting firm to undertake the work; and
 - iii. note that ARC will provide a report on the first year's outputs from Ernst and Young to CRGA 44.
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