SPC/CRGA 48 (2018)

Paper no. 7.1
ORIGINAL: ENGLISH

FORTY-EIGHTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS
(26–28 June 2018, Noumea, New Caledonia)

AGENDA ITEM No. 7: 2017 Audited Financial Statements

(Paper presented by the Secretariat)

Summary

1. In accordance with the Pacific Community's (SPC) financial regulations, this paper presents the 2017 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 financial year 2017.

Recommendation

3. CRGA is invited to adopt the 2017 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).

Background

4. SPC's external auditors, KPMG of Fiji, conducted an independent audit of the financial records of the organisation for the 2017 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 2017 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 contained within the management letter.

2017 Financial results

6. SPC recorded a surplus of EUR 1.257 million for the year ended 31 December 2017. This result was due to the following major factors:
    a. Project income amounted to EUR 61.46 million, a 17.5% increase compared to 2016. The material improvement in project execution rates substantially increased the level of project management fees generated during the year, helping to offset the EUR 523,000 reduction in core funding that occurred in 2017.

   b. Staff costs reduced by EUR 1.1 million compared to 2016, reflecting the direct impact of staff restructuring decisions implemented by the Secretariat in the second half of 2016;
   c. Increased interest income amounted to EUR 313,000 (2016, EUR 264,000);
   d. Self-funding units exceeded budget forecasts by EUR 455,000 (2016, by EUR 476,000);
   e. The positive impact of the above gains was offset by:
      i. an increased provision of EUR 3.5 million (2016, EUR 3.9 million) relating to potential losses arising from ongoing project audits;
      ii. foreign exchange losses of EUR 1.7 million arising from a cyclical reversal of gains recognised in 2016;
      iii. provision for non-payment of assessed contributions, EUR 220,000.

7. Total staff costs amounted to EUR 31.2 million, representing 40% of total operating expenditure for the year (2016, 44%).

8. Travel costs of EUR 10.3 million were incurred during the year, representing 13% of total 2017 expenditure, consistent with the prior year (2016, 13%).

9. SPC's overall cash position remained strong with year-end cash and short-term investments amounting to approximately EUR 60.6 million. It is noted, however, that EUR 46.3 million of cash balances derive from project advances; therefore, SPC's operating cash balance is only EUR 14.3 million. When current liabilities in the sum of EUR 16.9 million, arising from creditors and accruals (EUR 5.9 million) together with provisions (EUR 11 million), are taken into account, we see that SPC is effectively operating under a very constrained 'free cash' position, which highlights the critical importance of member states meeting their obligations for assessed contributions and host country grants.

10. SPC maintains a conservative cash investment policy designed to ensure that capital losses are avoided. As at year-end, EUR 11.7 million of cash holdings were invested in fixed term bank deposits. Despite the low global interest rate environment, interest income increased by 18.5% compared to 2016 due to improved cash management practices.

11. Unpaid assessed contributions decreased by EUR 2.2 million during 2017. This was a result of strong action by the Secretariat to reduce the level of outstanding contributions following a material deterioration in 2016. Despite the improved recovery, the Secretariat was required to set aside additional provisions amounting to EUR 220,000 to provide for possible non-recovery of amounts due from members. The Secretariat notes, however, that the improvements achieved in 2017 have since been eroded with the result that outstanding member contributions amount to approximately EUR 5.8 million as at the end of May 2018.

12. 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 3.35 million as at year-end, a reduction of approximately EUR 0.9 million compared to 2016. 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.

13. Total reserves amount to EUR 19.55 million as at year-end. While this is a relatively strong level of reserves, as noted above, SPC's level of operating cash reserves remains very low, relative to the level of annual programme activity that is undertaken and existing current liabilities. SPC's total net reserves are effectively represented by the value of our investment in real property assets which, given their nature and location, are illiquid. Therefore, the Secretariat will be required to address the

need to increase the level of discretionary reserves – a significant challenge given an environment in which total core funding continues to decline.

Audit results

14. KPMG (Suva) conducted the 2017 audit following a competitive tender process whereby they were appointed to replace PWC (Noumea), who were SPC's auditors for the previous nine years.

15. Unqualified audit reports were received for the 2017 financial statements for both the Pacific Community and the Pacific Community Provident Fund, making it the 22nd successive year of unqualified audit reports for SPC.

16. 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).

17. 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

18. CRGA is invited to adopt the 2017 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).

Annex 1: Pacific Community Financial Statements for 2017