

**FIFTIETH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(17–19 November 2020, Virtual Meeting)

Working Paper

AGENDA ITEM No. 5: Audit and Risk Committee Report

(Paper presented by the Secretariat)

Purpose

1. This paper presents the report prepared by the SPC Audit and Risk Committee (ARC) to update CRGA 50 on the Committee's work over the last year.

Recommendations

2. CRGA is invited to:
 - i. note the report from the Chair of the Audit and Risk Committee (ARC);
 - ii. note that the external auditors have provided an unqualified audit opinion for SPC's 2019 financial statements and that ARC recommends the acceptance of these statements.
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Background

3. ARC has met five times since CRGA 49: in October 2019, November 2019, March 2020, April 2020 and, most recently, June 2020. The meetings in October 2019, and in April and June 2020 were held remotely using video conferencing.
4. The agenda for these meetings comprised items for discussion and decision, and standing items covering the scope of ARC's mandate, designed to provide assurance to the Committee that the organisation is operating in line with approved policies and procedures, and with the highest levels of probity, professionalism and accountability.

COVID-19 crisis

5. With its emergence in the first quarter of 2020, the COVID-19 crisis has created an extraordinary level of uncertainty for everyone, both regionally and globally, and SPC as an organisation with a regional mandate is not immune to this disruption.
6. Following ARC's March 2020 meeting, an extraordinary meeting was also convened in April 2020 specifically for discussions on the emerging situation relating to COVID-19. The crisis and its impact on SPC's operations and financial sustainability continues to be an important topic of discussion at each ARC meeting as SPC management continues to monitor the situation and take action to safeguard against risk. This is discussed further in the section on SPC's financial performance (below), and elsewhere in other reports to CRGA on SPC's performance during this period.

2020 SPC financial performance

7. As is standing practice, ARC continues to receive updates on SPC's financial performance and progress against the approved 2020 budget. As the situation relating to COVID-19 and its impact on SPC operations became more apparent, a revised budget was prepared by SPC and shared with CRGA missions in Noumea and Suva on 27 and 28 August 2020. CRGA 50 will be fully updated on the organisation's financial performance elsewhere on its agenda.
8. In its last two reports to CRGA, the Committee has drawn particular attention to SPC's financial vulnerability and indicated its view that this was the greatest risk facing the organisation. The Committee also noted, and welcomed, the renewed focus by management on project execution, which led to an improvement in project management fee recovery rates, and on firm expenditure control. These are important measures that collectively contribute to an improved financial performance in 2019.
9. The challenges presented by COVID-19 in 2020 affirm the need for, and importance of efforts made in recent years to strengthen SPC's financial resilience as it now seeks to navigate the uncertain operating environment in the region and beyond. During this period of uncertainty, and with reduced levels of project implementation, ARC supports management's efforts in contingency planning, monitoring, and commitment to maintain a balanced budget under these times of unusual and extreme operating and financial pressure.
10. At the Committee's invitation, the external auditor attended ARC meetings on two occasions during 2020 to participate in discussions related to the operating environment and the evolving situation with COVID-19. They attended the extraordinary meeting held in April 2020 and the regular meeting held in June 2020.

11. In early 2020, the Committee supported an initiative to consult with member countries on member contributions. This is an important area of deliberation and fundamental to the sustainability of the work of SPC across the region. Progress in this regard has been interrupted by COVID-19 but will need to be revisited when matters settle.

Internal audit programme

12. Since the establishment of ARC following the 2012 Independent External Review of SPC, the larger issues related to internal audit have been addressed through the engagement of external accounting and audit firms to address priorities within the risk framework approved by the Committee and to report to the Committee.
13. With the standard of the work delivered by top-tier external firms over a number of years being of decidedly mixed quality – with some reports providing useful analysis and others either inadequate in quality or disappointingly slow – the Committee and management have reviewed the options and approaches that are available to support this work in the future. A decision was made to adopt a dual approach that involved strengthening SPC’s in-house capacity to undertake a regular programme of internal audit work and to complement this with external assistance for matters that require technical expertise in particular areas.
14. Accordingly, in 2020, SPC conducted the recruitment of a Director of Internal Audit and Risk, who will be based in Noumea, and an additional team member, who will be based in Suva. Whilst the travel restrictions that currently prevail have delayed bringing the appointees onboard, at the time of writing we anticipate their arrival in early quarter four. Their initial priorities will include a review of the overarching risk framework for SPC, and work on the design of the 2021 internal audit programme of work.
15. In the interim, in 2020, ARC reviewed and approved a programme of work and the engagement of a new external accounting and audit firm to undertake a series of discrete internal audit reviews in the areas of payroll; procurement; cash management, disbursement and handling; and the internal controls framework. The Committee anticipates these reports will be tabled and presented at the next ARC meeting in October 2020. These reports will help inform any key steps required to strengthen these areas, and future work programmes in internal audit.
16. Other work, conducted principally in-house by SPC staff over the past year, has included:
 - (i) the adoption of a suite of policies, including in the areas of human resources and finance;
 - (ii) further work to review finance policies (ARC has asked to be part of this process).
17. ARC noted that the new arrangements approved by the Committee in May 2019 are now in place for oversight and management of project audits. The steps taken to strengthen this area, including the formation of the EU Project Management Unit within the Finance Department, will help mitigate the issue of project ineligible expenditures, which have been a cause of concern over recent years.

Grant management

18. ARC notes that steps are being taken to strengthen the area of grant management at SPC with support from the EU Project Management Unit. A review of policy and practice is underway, with new tools and a database being created. These initiatives will position SPC in readiness for a new EU pillar assessment for grant management (under pillar 5) in 2021.

Procurement

19. ARC supports continuing efforts to strengthen procurement, with Procurement Committees now chaired by divisional heads and not by members of the procurement team. Introducing this separation of duties provides additional independence and improves the overall governance framework.

Investment policy

20. ARC has supported efforts by management to review and strengthen the work of the Investment Committee and investment policy. This continues to be an important area of risk for SPC to manage, with currency and liquidity implications, and unusually low returns from traditional fixed interest investments. SPC management is to report back to ARC.

Business systems review

21. ARC notes that SPC is conducting a review of its business system requirements – assessing its existing system, organisational needs, and future direction. SPC informational requirements are of critical importance, and ARC and management will discuss the findings of the review shortly.

Insurance

22. SPC management is continuing to review the insurance cover to assess value for money, given the upward pressure on premiums, and to ensure that all insurable risks are adequately covered. SPC management is to report back to ARC.

Standing items

23. At each meeting, ARC continues to review a range of standing items. These are items ARC considers important in maintaining oversight of a range of policy and operational issues and areas of potential risk. Currently these standing items are:
- (i) audit register – to enable ARC to track progress in implementing ARC decisions;
 - (ii) register of legal actions;
 - (iii) list of procurement exceptions – this is a critical area of SPC activity and one which requires constant close monitoring. Procurement is included in the scope of work being carried out by the external accounting and audit firm;
 - (iv) gift register;
 - (v) vendor complaints register;
 - (vi) insurance claims register – ARC has requested an update on work in this area to ensure all insurable risks are adequately covered;
 - (vii) fraud register;
 - (viii) business class travel register;
 - (ix) investment portfolio register – ARC has requested an update on the investment policy and its implementation.
24. Other items will be added as the need becomes evident.
25. ARC has not identified any systemic concerns with SPC's procedures. While some issues requiring rectification have been identified as a result of this monitoring process, these have been isolated and relatively minor.

2019 Audited financial statements

26. SPC's external auditors have again provided an unqualified opinion on the organisation's 2019 financial statements.
27. ARC met with the external auditors to discuss their report and matters raised by the auditors in their accompanying management letter. These matters include comments made on cash handling, the updating of financial policies, and the management of annual leave balances. Management is progressing these issues, but they do not affect the auditors' unqualified opinion on the financial statements.
28. ARC was pleased to note that the substantive matters raised in the 2018 audit process had been addressed by management.

ARC Charter

29. ARC notes the updated Audit and Risk Committee Charter approved by CRGA in June 2019.
30. Whilst the Director-General is no longer a member of the Committee, his presence and participation at ARC meetings is critical and highly valued by ARC. The process of maintaining and strengthening probity, efficiency and effectiveness, and managing risk, is contingent on SPC leadership and its ability to create the necessary 'tone from the top'. The Director-General is central to this endeavour.
31. ARC notes that Clause 6 of the ARC Charter was amended. With ARC members engaged on a part-time basis, and subject to a variety of demands on their time, the revised wording provides some flexibility for the work of the Committee.

Committee membership

32. The ARC Charter provides a maximum term of six years for ARC members. Mr Alan Morris was the Chair and served on the Committee since its inception in 2012. He concluded his term at the end of 2019. The Committee warmly acknowledges his commitment to SPC through his work with ARC.
33. CRGA has approved the appointment of Mr Sholan Ivaiti (Cook Islands) who joins Mr Savenaca Narube (Fiji) and Mr Alan Cairns (Chair, New Zealand) on the Committee. Mr Ivaiti, who is a Cook Islander resident in New Zealand, has excellent qualifications including audit expertise and his appointment is welcomed on the Committee. During the year, Mr Christophe Badda (New Caledonia) and Ms Caren Rangī (New Zealand) resigned. A fourth member will be identified and referred to CRGA for appointment in due course.

Conclusion

34. In a year of unprecedented challenge and ongoing uncertainty, ARC continues to support management in its efforts to implement its programme of work in an adaptive manner. The situation calls for particular vigilance and ongoing monitoring. The organisation's financial resilience will be tested during this time.
35. ARC remains confident that SPC is an organisation that places the highest priority on strong ethical performance supported by strong accountability. The importance of the audit and risk function continues to receive strong support from management, and a responsive attitude ensures steps are taken in a timely manner to strengthen areas of policy and practice. Further work needs to be done

and this focus needs to be sustained going forward. The strengthening of the SPC in-house internal audit function is an important initiative that positions the organisation to drive future improvement in the area of audit and risk.

36. As required by the ARC Charter, as Chair of ARC, I confirm that the responsibilities under this Charter have been fulfilled by all ARC members.

Acknowledgement

37. The Committee expresses its appreciation for the cooperation and support it has received from the Director-General, management, and staff of SPC over the past year. This has greatly strengthened the effectiveness of the Committee in carrying out its mandate in support of the overall governance responsibilities of CRGA.

Recommendations

38. CRGA is invited to:
- iii. note the report from the Chair of the Audit and Risk Committee (ARC);
 - iv. note that the external auditors have provided an unqualified audit opinion for SPC's 2019 financial statements and that ARC recommends the acceptance of these statements.
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