



**FORTY-SIXTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Noumea, New Caledonia, 28-30 June 2016)

AGENDA ITEM 6 – 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 46 on the committee's work in 2016.

Background

2. The ARC has met once since CRGA 45, in February 2016. A second meeting of the committee will be held in the first week of July 2016, with a further meeting planned for October 2016.
3. Sili Epa Tuioti has resigned as a member of the committee subsequent to his election to the Legislative Assembly of Samoa. Mr Tuioti has been a member of the ARC since 2012, and the committee wishes to place on record its appreciation of his contribution to its work. The ARC meeting in July will make a recommendation on a suitable replacement for Mr Tuioti and potential candidates with suitable qualifications and experience are being canvassed currently.

Internal audit work plan

4. In its report to CRGA 45, the ARC noted that progress with the implementation of the approved audit work plan for 2015 had been disappointing, with considerable delays and unsatisfactory quality in the work of the auditors. As a consequence, the internal audit work plan for 2016 was revised to focus on areas of key priority. At its February meeting, the committee agreed that two audits would be undertaken in 2016:
 - Review of project management; and
 - Review of risk management processes.
5. The review of project management has been completed and will be considered by the ARC at its next meeting. The review of risk management processes is scheduled to commence in the first week of July. This will be a particularly important report and will be used as a basis for determining the audit plan for 2017.

6. Progress has been made on the review of a number of SPC financial policies, albeit more slowly than the committee and SPC management would like. Revised policies on travel and procurement have been approved and implemented, and appropriate training has been rolled out. The priority is now the Manual of Delegations, which requires updating to reflect the current structure of SPC, and to provide greater flexibility through the use of electronic processes that are integrated with SPC's financial systems. A draft Manual of Delegations has now been completed and will be submitted to the ARC for review at its July meeting.

Project audits

7. A substantial proportion of SPC's programme activity is delivered through project funding provided by a range of bilateral and multilateral development partners. These projects incorporate their own audit requirements. ARC reviews these audit outcomes at each meeting as a standing agenda item. With the exceptions of those discussed below, these have received unqualified audit opinions.
8. As reported to CRGA 45, there has been an ongoing issue with respect to grants managed by SPC from the Global Fund to fight AIDS, Tuberculosis and Malaria (GF). These issues relate to grant management prior to 2013 and essentially relate to deficiencies in the finance systems of a small number of recipient countries to adequately acquit funds received at the national level. SPC has continued to work with GF and the matter is expected to be finalised in the course of 2016. An amount of approximately USD 340,000 has been provided for in the accounts.
9. An issue with potentially serious financial implications for SPC has arisen in relation to European Union funds. A number of projects funded by the EU, and for which unqualified audit reports had previously been received, have been re-audited by the EU and found non-compliant. Many related to projects before the revision of the Regional Institutional Framework (RIF). In some cases, SPC's documentation has been determined to be inadequate, while in others, it is documentation at the recipient country level. Where matters have been finalised, provision has been made in the 2015 accounts; where matters are still on-going, a contingent liability has been disclosed as a note in the accounts. The amount still unresolved is very material for SPC.
10. SPC management has drawn attention to the difficulties and high transaction costs for SPC associated with working with project funding from some development partners.

European Union seven pillar assessment

11. As previously reported to CRGA, following the EU's assessment of SPC's financial systems and procedures, SPC was found to be compliant with EU requirements in four assessments, but was considered not to have met the requirements in a further three assessments, the most important of which related to procurement policies and procedures. This assessment of procurement reflected more that there was not yet sufficient evidence that the procurement procedures (which had been comprehensively reviewed by SPC) were operating satisfactorily. A follow-up assessment is currently being undertaken by KPMG and a satisfactory assessment is anticipated early in the second half of 2016.

Accounting framework and external audit

12. SPC has now adopted the International Public Sector Accounting Standards (IPSAS) framework as its accounting platform. This is in line with the recommendation of the external auditors followed by an internally commissioned review of SPC's financial standards and procedures. The 2015 accounts will be presented in the IPSAS framework.

13. This has been a major exercise, involving a number of difficult technical issues relating to the way the accounts are structured and how some information must be presented. These technical issues have largely, but not completely, been resolved. SPC continues to work through these with the external auditors.

2016 Budget

14. The budget to be presented to CRGA for 2016 is a balanced budget. However, a number of difficult financial issues have confronted SPC in the preparation of this budget and the ARC is very conscious of the challenges these pose. Financial uncertainty and vulnerability constitute the major risk currently faced by SPC. The committee acknowledges the initiatives taken by SPC management to produce a balanced budget for 2016, but draws the attention of CRGA to the challenges faced by the organisation, and the even greater challenges that will be presented in the development of the 2017 budget.

2017 Budget

15. The committee notes the indicative draft 2017 budget presented to CRGA. SPC's prospective budget situation in 2017 and subsequent years is challenging and the committee agrees that SPC management will need to consider a range of further initiatives with a view to achieving a sustainable budget position. If the process for revising the 2017 budget recommended by SPC is endorsed by CRGA, and consistent with its charter, the committee will review the revised 2017 budget prior to its consideration later in 2016.

Conclusion

16. The committee expresses its appreciation for the continued support it has received from the Director-General, Deputy Director-General (OMD) and the Finance team at SPC.

Recommendation

17. CRGA is invited to note the report from the Chair of the Audit and Risk Committee.
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