



**FORTY-NINTH MEETING OF THE  
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**  
(18–20 June 2019, Noumea, New Caledonia)

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**AGENDA ITEM No. 7.1: Audit and Risk Committee Report**

(Paper presented by the Secretariat)

**Summary**

1. This paper presents the report prepared by the Pacific Community (SPC) Audit and Risk Committee (ARC) to update CRGA 49 on the ARC's work over the past 12 months.

**Recommendations**

2. CRGA is invited to:
  - i. note the report from the Chair of the Audit and Risk Committee;
  - ii. approve the amendment of Clause 3 of the ARC Charter to include the addition of the words ***“The Director-General will be expected to be present at and participate in all ARC meetings”***;
  - iii. approve the amendment of Clause 6 of the ARC Charter by inserting in the final sentence the words ***“without having sought leave of absence”*** following the words ***“... two consecutive ARC meetings ...”***.

## **Audit and Risk Committee report**

### **Purpose**

3. This paper presents the report prepared by the SPC Audit and Risk Committee (ARC) to update CRGA 49 on the ARC's work over the past 12 months.

### **Background**

4. In line with previous years, ARC has met three times since CRGA 48, in November 2018, March 2019 and May 2019.
5. The meetings of ARC comprise agenda items for discussion and decision, and standing items covering the scope of ARC's mandate and designed to provide assurance to the ARC that SPC is operating in line with approved policies and procedures, and with the highest levels of probity, professionalism and accountability.

### **2019 SPC financial performance**

6. The ARC continues to receive updates on SPC's financial performance and progress against the approved 2019 budget. CRGA will be fully updated on the organisation's financial performance elsewhere on its agenda.
7. In its report to CRGA last year, the ARC drew attention to SPC's financial vulnerability and indicated its view that this was the greatest risk facing the organisation. While the ARC considers this to still be an issue of great concern, it has noted, and welcomed, the efforts management has made to strengthen SPC's finances. In particular, the ARC has welcomed the much improved rate of project execution across the organisation, and the improvement in the average project management fee recovery rates. These, together with firm expenditure control, are contributing to a more optimistic outlook for SPC's overall financial position.
8. Notwithstanding this, the ARC believes the organisation continues to be financially vulnerable and the need for further financial strengthening remains an urgent priority. The degree to which SPC is financed by non-members raises questions that need to be carefully addressed by the membership and the organisation. These issues are also covered elsewhere on the CRGA agenda.
9. The ARC welcomed the establishment of the Project Management Unit to improve the handling of EU-funded projects. Given the number of EU-funded projects now managed by SPC, and their importance to the organisation's overall work, this is an important step.

### **2019 SPC budget**

10. As required under currently agreed CRGA procedures, the ARC reviewed the 2019 budget proposed by SPC management and provided its comments and conclusions to the CRGA Subcommittee on the Implementation of the Pacific Community Strategic Plan (the Subcommittee). The ARC's conclusion was that the proposed budget was a responsible approach to CRGA's earlier decision that the revised budget should substantively address the (then) current forecast deficit (of EUR 2 million). In making this assessment, the ARC said it was important for CRGA to be clear about the risks and uncertainties that SPC will need to manage.

11. ARC noted that the key assumptions on which the balanced budget outcome would depend were a strong lift in project execution rates across the organisation; the strength of the project pipeline; securing adequate project management fees; and continuing progress to achieve full cost recovery. Exchange rate volatility continues to be a risk (these issues are covered elsewhere on the CRGA agenda).
12. However, as in its 2018 report to the Subcommittee on the draft 2019 budget, the ARC also highlighted the “inadequacy of SPC’s financial structure”. In particular, the ARC noted that “more than half the organisation’s funding comes from non-members through programme and project funding” and that “this has implications for the way in which SPC priorities can be set and vigorously pursued” including the effectiveness with which SPC can implement its strategic plan and respond to members’ requests.

### **Internal audit programme**

13. Since the establishment of ARC following the 2012 Independent External Review of SPC, the larger issues have been addressed through the engagement of outside accounting and auditing firms to undertake priorities within the risk framework approved by the ARC and to report to the ARC. Over the past year the ARC has received reports on grant management and business continuity.
14. SPC is continuing to follow up the report on grant management received shortly before CRGA 48. This has been an area of concern and the need to strengthen SPC management’s oversight of grant management, including where this is part of the project management scope, has been a priority.
15. Over the last 12 months, the principal focus of the contracted auditors has been the development of a Business Continuity Plan for the organisation, although this work has not progressed as far as had been expected.
16. Over recent years, while some of these reports have provided useful analysis and recommendations, others have been disappointing for two principal reasons. In some cases, the ARC has considered the quality of the work to be inadequate, while in others, progress has been disappointingly slow. ARC had anticipated receiving reports on data management and security and a Manual of Procedures during the past 12 months, but these have not progressed. The major focus for the year on business continuity is taking far longer than the ARC anticipated.
17. The ARC is currently reviewing options for undertaking the internal audit work more effectively. The current contract concludes at the end of 2019, and it is the ARC’s intention to take the necessary decisions on the best way forward by that time.
18. In previous reports to CRGA, the ARC has drawn attention to the inconsistent approach across some divisions of SPC to the implementation of policies and processes. This has included the lack of a harmonised approach across SPC on how project terms of reference are decided, how project auditors are selected and how they operate. This has contributed to some significant issues with project management fees and project ineligibles, which management has had to deal with. The ARC and SPC management are also currently considering options to strengthen this area.

19. Other work conducted principally in-house by SPC staff and reviewed by the ARC over the past 12 months has included:
  - (i) a whistle blower programme;
  - (ii) Provident Fund rules;
  - (iii) systems upgrades – jobs module and HR and payroll remediation systems;
  - (iv) a travel policy.
20. The ARC is also addressing with management ways to ensure that better procedures for undertaking project audits are put in place to mitigate the issue of project ineligible expenditures, which has been a cause of concern over recent years.

### **Standing items**

21. At each meeting, the ARC reviews a range of standing items. These are items the ARC considers important in maintaining oversight of a range of policy and operational issues and areas of potential risk.

#### **Current standing items:**

- (i) Audit Register – to enable the 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 that requires constant close monitoring. There are currently some areas where further strengthening is needed, including the number of post-facto approvals that have been identified.
  - (iv) Gift register.
  - (v) Vendor complaints register.
  - (vi) Insurance claims register – the ARC has requested a review be undertaken to ensure all insurable risks are adequately covered.
  - (vii) Fraud register.
  - (viii) Business class travel register.
  - (ix) Investment portfolio register – the ARC has identified that some investments are currently held in non-compliance with the Investment Policy and these will be phased out on maturity.
22. Other items will be added as the need becomes evident.
  23. While some issues requiring rectification have been identified as a result of this monitoring process, these have been isolated and relatively minor. ARC has not identified any systemic concerns with SPC's procedures. The importance of ensuring a consistent approach to the implementation of policies and procedures across all divisions of SPC remains the principal challenge in this area.

### **2018 Audited financial statements**

24. SPC's external auditors have again provided an unqualified opinion on the organisation's 2018 financial statements.
25. The ARC met with the external auditors to discuss some related matters raised by the auditors in their accompanying Management Letter. These include comments made on project ineligibles and project audits, and a longer running issue relating to SPC's VAT-exempt status in Fiji. Management

is progressing these issues, but they do not affect the auditors' unqualified opinion on the financial statements.

### **ARC Charter**

26. Over the past 12 months, a CRGA working group has reviewed the Internal Audit and ARC Charters. A number of amendments to the previous charters were recommended and subsequently approved by CRGA out of session.
27. The ARC has reviewed these changes, and in particular the ARC Charter. The amendments recently approved by CRGA included an amendment that removed the Director-General as a member of the ARC. ARC members are strongly of the view that personal participation by the Director-General in meetings of the ARC is critically important. Such participation will ensure that the Director-General is fully informed about the ARC's work and is able to be proactive if issues are identified that need management action.
28. The ARC's clear preference is for this amendment to be repealed. If that is not in line with CRGA's thinking, the ARC recommends that the wording of Clause 3 of the Charter be amended by adding a further sentence to the first paragraph to the effect that "the Director-General will be expected to be present at and participate in all ARC meetings".
29. Clause 6 of the ARC Charter states that "a member who does not attend two consecutive ARC meetings will be considered to have automatically resigned their position ...". ARC notes that members are part-time and is conscious of the variety of demands made on them. ARC recommends that the words "without having sought leave of absence" be added following the words "... two consecutive ARC meetings ...". This will provide some flexibility for the work of the ARC

### **ARC membership**

30. The ARC Charter provides a maximum term of six years for ARC members. Mr Alan Morris and M Thomas Govedarica have served on the ARC since its inception in 2012 and will conclude their terms at the end of 2019.
31. CRGA has approved the appointments of Mr Alan Cairns (New Zealand), Mr Christophe Badda (New Caledonia) and Mr Savenaca Narube (Fiji) out-of-session, with Mr Cairns as Chair of the ARC. Mr Narube was briefly a member of the ARC in 2017. Mr Narube, Mr Badda and Mr Cairns will commence their terms at the next meeting of the ARC. Ms Caren Rangi (New Zealand) was appointed in June 2018 for a period of three years.

### **Conclusion**

32. The ARC is 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, and the role of ARC have been embraced and supported by management over the years, contributing to the development of increasingly well-defined policies and procedures, and high professional performance across the organisation. Further work needs to be done and this focus needs to be sustained going forward.
33. 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.

### **Appreciation of Director-General and staff**

34. The ARC would like to place on record its appreciation for the cooperation and support it has received from the Director-General, management and staff of SPC over the past 12 months. This has greatly strengthened the effectiveness of the ARC in carrying out its mandate in support of the overall governance responsibilities of CRGA.

### **Recommendations**

35. CRGA is invited to:
- i. note the report from the Chair of the Audit and Risk Committee (ARC);
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