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**FIFTY-FOURTH MEETING OF THE  
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**  
(5–6 November 2024, Papeete, French Polynesia)

## Working Paper

### **WORKING PAPER NO. 7.A AUDIT AND RISK COMMITTEE REPORT**

(Paper presented by the Chair of the Audit and Risk Committee)

#### **Paper summary**

1. The Audit and Risk Committee (ARC) is a sub-committee of the Committee of Representatives of Governments and Administrations (CRGA). Under section 8 of its Charter, the ARC has responsibilities in the following key areas:
  - Review of SPC's financial statements
  - Oversight of SPC's risk management functions
  - Oversight of internal and external audit programmes
2. This report expands on each of these areas of committee responsibility and on related matters.

#### **Recommendations**

3. CRGA is requested to:
  - i. note the report from the Chair of the Audit and Risk Committee (ARC); and
  - ii. note that the external auditors have provided an unqualified audit opinion for SPC's 2023 financial statements, and that ARC recommends the acceptance of these statements.

## Introduction

4. In accord with its charter, the ARC has met on three occasions since CRGA 53. Regular meetings were held in November 2023, March 2024, and July 2024. The next meeting is scheduled for 30 September–1 October 2024. The meetings in November and March were both held over two days at the SPC offices in Noumea and Suva, respectively. In these regular meetings, the second day has allowed the ARC to meet more broadly with divisions and discuss their operations as well as particular risk areas with SPC's management team. In addition to reviewing financial performance, these supplementary meetings are useful in informing the ARC how SPC's divisions are managing the risks that they face and engaging in more depth in matters of relevance to the work of the committee. With the situation that emerged in New Caledonia in May 2024, the ARC's July meeting was held remotely with a focus on events in Noumea and its impact on SPC.
5. ARC meetings continue to include a range of agenda items for discussion and decision together with standing items that are reviewed on a regular basis. The meetings seek to cover the scope of ARC's mandate and are 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.
6. The situation in New Caledonia will continue to be a priority area for discussion between ARC and SPC's management. Other major areas of focus and discussion for the committee in supplementary meetings during this period have included matters relating to information services, human resources, travel management, the donor due diligence process, and the management of project ineligible. These items are discussed further in this paper.
7. ARC continues to be mindful of the major review exercises underway and the potential impact on the direction and operations of SPC. These review mechanisms include the review of the regional architecture (RRA) and the Independent Institutional Review (IIR). The ARC will continue to discuss these matters with SPC management, and as appropriate, contribute to the processes pursuant to its charter and responsibilities.

## Analysis

### *A new challenge for SPC*

8. The outbreak of unrest in Noumea, and the surrounding areas, which started in May 2024 has led to a state of emergency and created an exceptional level of uncertainty for everyone in New Caledonia including SPC leadership, staff, and their families. The situation in New Caledonia remains uncertain.
9. Over this time, ARC has remained in close contact with management since the situation first emerged and measures were swiftly put in place to ensure the safety and wellbeing of staff and families and to adapt operations to maintain business continuity. The situation in Noumea, and its impact on SPC, was a key focus of the July meeting of the ARC and this will continue in upcoming meetings as ARC and management discuss the impact on SPC operations, the wellbeing of staff, the organisation's financial sustainability, and actions necessary to safeguard risks. This is discussed further below in the section on SPC financial performance, and elsewhere in other reports to CRGA on SPC's performance during this period.
10. With SPC recovering momentum post-pandemic, the disruptions in Noumea are particularly unfortunate. The progress that could be observed since late 2022 and the positive signs of improved implementation levels in 2023 will be adversely impacted again in 2024. On a positive note, while SPC's Noumea operations are directly and significantly impacted, operations from SPC's large base in Suva and its subregional offices are less directly affected

and have been able to continue with their significant programmes of work. Further, the experience SPC has garnered during the pandemic in adapting to periods of extreme disruption are again being put to good use.

11. From a risk perspective, the ARC is satisfied that risk measures and procedures have been adequately implemented and in a timely manner by SPC management during the crisis. The priority was in protecting the lives of the staff and their families and the ARC is satisfied with the strategies and operations that have been put in place. The slowdown in the implementation of projects is to be expected but it is encouraging to see a high level of projects in the pipeline. The liquidity position remains adequate, and funds are invested in line with existing procedures.

### ***Financial Performance***

12. The ARC continues to receive updates on SPC's financial performance and progress against the approved 2024 budget at each meeting. Further, in its July meeting the committee also received a preliminary update on the ongoing process and revisions to the 2024 budget.
13. As we have mentioned in recent reports to the CRGA, despite the uncertainties and constraints of the pandemic over the period 2020-2022, SPC maintained a balanced budget between its income and expenditure, and as such, has maintained its reserves. The events in Noumea, and the resulting disruptions in business continuity, yet again affirms the importance that SPC has placed, over time, on maintaining its financial discipline and strengthening its financial resilience. CRGA will be fully updated on the organisation's financial performance elsewhere on its agenda.
14. ARC notes that in early 2024, as operations gained momentum following a solid year in 2023, the rates of programme and project implementation had continued to improve. Unfortunately, this momentum has been impacted with the disruptions in Noumea leading to staff working from home and restrictions on duty travel for Noumea-based staff. As such, according to the most recent results (July 2024), program execution rates have fallen below budget but are still above the level for the corresponding period in 2023. ARC is continuing to support SPC management as it manages its portfolio of programmes during a new period of heightened disruption.

### ***Financial Statements and External Audit***

15. In our most recent meeting in July, ARC reviewed the audit report from the external auditor, KPMG, on the financial statements for 2023 and was pleased to note the auditors unqualified opinion. The ARC further notes, that the audit of the 2023 financial statements has included an expanded scope for the third successive year.
16. As has become standard practice, the ARC meets with the external auditor on three occasions during each financial year. In the first meeting there was a discussion on the audit plan for the 2023 external audit. The second meeting, in Suva, provided an opportunity for the committee to meet in-person for discussions with the external auditor. And in the third meeting, there was a discussion on the findings and report from the external auditors on the 2023 financial statements, and the matters raised in their accompanying management letter.
17. As part of the external audit process, and in line with standard practice, KPMG provided SPC with a management letter in which they raised a small number of matters. The external auditor noted instances of a lack of supporting documentation related to the creation of vendors. SPC management reviewed and provided clarity on this matter, which was noted not to have any material bearing on the financial statements and does not impact the audit

opinion. The external auditor also noted the steps that are necessary, and underway, to further strengthen the governance arrangements of the Provident Fund.

18. KPMG also noted the progress made in project ineligibles, specifically in completing and resolving the audits of historic projects, and in strengthening the processes and risk awareness of recent and current projects. They did however affirm the importance for SPC to be able to access and provide supporting documentation for any remaining historic projects. The matter of project ineligibles continues to be regularly monitored by ARC and its importance and the need for vigilance is raised in committee discussions with SPC management.
19. ARC noted that in discussions with the external auditor, the areas of cyber security and the growing use of artificial intelligence (AI) are two emerging areas of risk both globally and in the region. SPC management is mindful of these areas and is considering measures to mitigate and respond to risks within its IT strategy. Further, ARC also noted in discussions the new standards and new financial reporting and disclosure requirements that are emerging related to climate and sustainability. SPC will be working closely with KPMG to ensure the new accounting standards are adopted as appropriate.
20. ARC was pleased to note that the substantive matters raised in the 2022 audit process were or are being addressed by management.
21. ARC notes that KPMG is appointed as external auditor for the period 2022 to 2025. ARC continues to be satisfied with the audit performance of KPMG.

#### ***Internal audit***

22. ARC reviewed and approved the internal audit work plan for 2024 and notes that it is in accordance with the IAR role and responsibilities. The ARC also reviewed progress reports by the Head of Internal Audit and Risk; and provided advice to the Head of IAR and the unit on matters, as appropriate, throughout the period.
23. ARC notes that the in-house IAR unit continues to undertake a regular program of work which involves internal audits, advisory engagements, and overseeing the area of risk management. It is further noted, the unit's program of work has been modified, with staff changes during the period and two new replacement auditors being appointed to the unit. In addition to the approved program of work the IAR team also receives requests to conduct other audits and investigations in areas of specific interest to SPC management and the ARC. SPC's internal expertise is then supplemented with external assistance for matters that require technical expertise in specific areas.
24. In its meetings, the ARC receives, and reviews audits conducted by the IAR team and where necessary audits by external parties. Since our last report to the CRGA, internal audits have been progressed in the following areas:
  - a. Facilities and Property Management
  - b. Grant Management
  - c. Payment Processes
  - d. Project Management Framework
  - e. Human Resources

Two other internal audits are currently underway at the time of this report:

- f. Payroll
- g. Climate Finance Unit

Two other internal audits are at the planning stage:

- h. ICT Security
- i. Investments, bank, cash and advances

25. ARC notes that the internal audits over the period highlight a range of areas where systems and processes need to be strengthened, and compliance addressed. Progress in addressing these matters is monitored by SPC management and reported regularly to the ARC in its meetings. While progress is being made in addressing outstanding audit findings, the difficulties in Noumea over recent months are impacting some divisions in the timeliness of attending to outstanding issues.
26. ARC was also informed of investigations carried out by IAR during the period. In this regard, ARC notes that matters raised during these investigations have been reviewed to the satisfaction of SPC management.
27. ARC continues to be pleased with the impact the IAR unit is making on the overall risk management of the organisation. SPC will need to monitor the workload of the unit, and the number of investigations which appear to be increasing due to a variety of pressures including (i) normal operational requests; (ii) the growing area of subgrants; and (iii) the requirements of new development partners, including the Green Climate Fund and the Adaptation Fund. The committee is satisfied with the independence and support accorded to the IAR unit by management during IAR activities.

### ***Risk Management***

28. In recent years, SPC has established a risk management framework that is assisting the organisation to strengthen its awareness of risks and how they should be managed. The framework supports SPC management and ARC in monitoring the array of risks that are present and ensuring mitigation measures are considered and implemented. With the IAR unit back to full strength, the challenge for SPC is to regain momentum in this area, both at the enterprise-level (looking at the whole organisation), and with SPC divisional heads and risk champions in their respective areas.
29. In our last report, we informed CRGA that SPC management continues to explore new avenues of funding from development partners and philanthropic organisations. For SPC, the challenge is to ensure a positive alignment between SPC's mandate and strengths, the region's needs, and the profile of (potential) funding organisations. ARC has recommended to management the adoption of a strong due diligence process that assesses both the benefits and the risks for SPC as an organisation. A due diligence process is being developed to assist SPC management in assessing the viability and sustainability of funding relationships.
30. ARC has discussed with SPC management the insurance arrangements that are in place for the organisation, with particular consideration of the recent events in Noumea, but also being mindful of the varied and changing climatic patterns in the region and the risks they present. Management believes, that under its current policies, SPC has retained an acceptable level of cover. However, management is also aware of the challenges that may be present in securing a similar level of cover for the organisation in the future. ARC is monitoring this situation.
31. ARC is pleased to note that during this year, the SPC legal unit has commenced refresher training for all staff in a number of important areas. This includes (i) understanding fraud & corruption – prevention and reporting; and (ii) matters relating to conflict of interest.

32. ARC notes the work of the Investment Committee in cash management and investment. With SPC managing a portfolio of cash that has grown rapidly, and continues to grow with new development partners, this continues to be an important area of risk for SPC to manage, with currency and liquidity implications. Recently, an updated investment policy was drafted by SPC, and approved by ARC, to strengthen the work on financial investment and reflect current practice.

***Standing Items***

33. 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:
- a. audit register – to enable ARC to track progress in implementing ARC decisions
  - b. register of legal actions
  - c. list of procurement exceptions
  - d. gift register
  - e. vendor complaints register
  - f. insurance claims register
  - g. fraud, corruption and staff misconduct register
  - h. business class travel register
  - i. investment portfolio register
  - j. policies and financial regulations
34. Other items will be added as the need becomes evident.
35. 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 are minor. Further, ARC notes that SPC is scheduling training in priority areas to reinforce good practice.

***ARC Charter***

36. The Audit and Risk Committee Charter, as approved by CRGA in June 2019, is in effect.
37. ARC notes that the process of maintaining and strengthening probity, efficiency and effectiveness, and managing risk in another period of unusual disruption, is contingent on SPC’s leadership and its ability to create the necessary ‘tone from the top’. As always, the Director-General and Deputies are central to this endeavour. The presence and participation of executive management at ARC meetings is critical and highly valued by ARC.

***Committee Membership***

38. ARC includes Mr Alan Cairns (Chair, New Zealand), Mr Sholan Ivaiti (Cook Islands), Ms Beatrice Mahuru (Papua New Guinea), and Mr Savenaca Narube (Fiji). The four members attended all ARC meetings during the period.
39. With two ARC members, myself and Mr Savenaca Narube, both completing our second and final term on the ARC in May 2025, SPC is currently in the process of recruiting two new members for the committee. The Director-General, in consultation with the ARC Chair, will bring names to the CRGA out of session for its consideration. As Chair of the ARC, I would like to acknowledge the service and dedication of all ARC members, and particularly the commitment and valued contribution of Mr Narube over his two terms of service.

## Conclusion

40. SPC is navigating another period of significant disruption after the difficult and uncertain period the organisation faced during the years of the pandemic from 2020 to 2022. The situation in New Caledonia remains uncertain. With Noumea the site of SPC's headquarters, the unrest will continue to impact SPC's work and require ongoing and careful management to ensure the wellbeing of staff and the continuity of its work in serving member countries and territories across the Pacific.
41. ARC remains confident that SPC is an organisation that places a high priority on strong ethical performance and accountability. Its portfolio of work is growing, with new development partners having committed funding and potential relationships with large philanthropic organisations being explored. The challenge for SPC is to ensure the back-office systems and the operations and management directorates (OMD), that are vital in enabling this growth, are supported and resourced to meet the challenge of increased demand from a larger, more diverse portfolio of work. As I mentioned in my last report to the CRGA, the work to strengthen SPC in the broader area of audit and risk over recent years has been pleasing, with key pillars established and reforms promoted, however, the success of these initiatives is ongoing in nature, and highly dependent on continued strong support by management to ensure findings are addressed, good practice consolidated, and key risk areas identified and mitigated.
42. As required by the ARC Charter, as the Chair of ARC, I confirm that the responsibilities under this Charter have been fulfilled by all ARC members.

### ***Expression of appreciation to the Director-General and staff***

43. The committee expresses its appreciation for the support it has received from the Director-General Dr Stuart Minchin, Deputy Director-General Maria Fuata, and the senior leadership team at SPC. Meetings of the committee continue to be open and constructive and the relationship between the committee and management has ensured that continuing progress is being made in further developing audit and risk management as central pillars of SPC's activity and culture.

## Recommendations

42. 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 2023 financial statements, and that ARC recommends the acceptance of these statements.

*Alan Cairns*  
*Chair of the SPC Audit and Risk Committee*