

**SECRETARIAT OF THE PACIFIC COMMUNITY****FORTY-FIRST MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Noumea, New Caledonia, 1 – 4 November 2011)*Financial Matters*

**AGENDA ITEM 10.2: 2010 ANNUAL ACCOUNTS, AUDIT REPORT AND AUDITORS'
MANAGEMENT LETTER**

(Presented by the Secretariat)

SUMMARY

1. The 2010 financial records for both the Secretariat and the Staff Provident Fund received unqualified audit opinions from auditors PricewaterhouseCoopers, New Caledonia. This is the 15th consecutive year SPC has received unqualified audit reports.
2. In accordance with the financial regulations, the 2010 audited financial statements and audit reports are hereby submitted for consideration by members.
3. The auditors' management letter with management responses is also submitted for members' information.
4. The auditors specifically draw the attention of members to the outstanding assessed contributions and encourage CRGA to reconsider its position on the treatment of long outstanding members' debts.

RECOMMENDATIONS

5. CRGA is invited to:
 - i. accept the 2010 audited financial statements as presenting a true and fair view of the financial position and financial performance of the Secretariat and of its Staff Provident Fund;
 - ii. note that proper accounting records have been kept and unqualified audit reports were received by SPC for the 15th consecutive year;
 - iii. note the comments of the auditors in the management letter and the responses of management; and
 - iv. note the issues raised by the auditors regarding arrears in member's contributions. These issues are considered in CRGA paper 10.1.
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2010 AUDIT REPORT AND AUDITORS' MANAGEMENT LETTER

PURPOSE

1. This paper presents the audited 2010 SPC financial statements and audit reports for the consideration of CRGA, as required under the financial regulations. It also notes issues raised in 2010 and provides an update regarding progress on the auditor's management letter recommendations covering previous years.

BACKGROUND

2. PricewaterhouseCoopers of New Caledonia conducted the independent audit of the financial records of the organisation for the 2010 financial year for both Noumea and Suva to provide assurance that the financial statements presented are free from material misstatement. The financial statements for the first time incorporate the accounts of the Secretariat of the Pacific Board for Educational Assessment (SPBEA).
3. The Secretariat's financial statements are presented in Part 2 of SPC's Annual Report, which includes:
 - (i) the 2010 SPC financial statements and audit report; and
 - (ii) the 2010 Staff Provident Fund financial statements and audit report.
4. As part of their service, the auditors provide a management letter which sets out areas of internal control weakness and recommendations for improvement. The 2010 management letter is attached, with management responses to the issues raised covering the 2010 financial year and progress updates on the issues raised in the management letter for previous years.

AUDIT RESULTS

5. Unqualified audit reports were received for the 2010 records for both SPC's financial statements and the Staff Provident Fund. This was the 15th consecutive year SPC has received 'clean' audit reports. The audit was conducted in accordance with the International Standards on Auditing and the Secretariat's Financial Regulations.
6. The following points are highlighted for members' interest:
 - The balance sheet has strengthened in 2010, with net assets and reserves at 3.11 million CFP units compared to 2.23 million CFP units at the end of 2009. It includes net assets and reserves of SPBEA of 738,771 CFP units carried forward from 2009 and surplus of 457,192 CFP units in 2010 (see Part 2 of the 2010 Annual Report, note 10).
 - Assets totalled 81.88 million CFP units, with 34.77 million CFP units held in cash or term deposits. Liabilities totalled 78.77 million CFP units, of which 48 million CFP units are current liabilities. Total reserves increased by 878,000 CFP units to 3.11 million CFP units at balance date 2010, with general reserves at 1.845 million CFP units, specific funds at 856,900 CFP units and special funds at 408,800 CFP units.
7. Outstanding assessed contributions at end of 2010 totalled 2,171,517 CFP units, and contributions received in advance (Federated States of Micronesia, Samoa, Solomon Islands) totalled 74,724 CFP units. The outstanding contributions include 61,136 CFP units (FJD 125,951) that relate to SPBEA. An update on outstanding contributions is presented in CRGA paper 10.1.

8. The statement of income and expenditure – core funds (page 6 of Part 2 of the Annual Report) shows a net consolidated (pre-RIF SPC and SPBEA) core surplus of 457,192 CFP units, reflecting the surplus from SPBEA. The net surplus from pre-RIF SPC of 108,550 CFP units from net exchange gains was transferred to the specific reserves in the financial statements (in particular the foreign exchange reserve).
9. Consolidated core income (inclusive of SPBEA income) totalled 14.1 million CFP units, compared to budget of 13.586 million CFP units, an increase of 0.519 million CFP units. Pre-RIF SPC income increased by 0.298 million CFP units (actual income of 4.189 million CFP units compared to budget of 3.891 million CFP units, while SPBEA income increased by 0.224 million CFP units (1.694 million CFP units compared to budget of 1.47 million CFP units). The increase for Pre-RIF SPC was due to higher exchange gains (0.64 million CFP units) from favourable movement of exchange rates; however this amount was reduced by lower project management fees (0.14 million CFP units), bank interest and miscellaneous income. The increase in SPBEA income was from higher fee income and in miscellaneous income/exchange gains.
10. Overall core expenditure exceeded budget by 61,872 CFP units. Administration exceeded its budget by 0.139 million CFP units, mainly because of increases in repairs and maintenance and cost of utilities at headquarters. There were savings by work programmes (0.115 million units) and SPBEA (0.236 million CFP units). Also reflected as over-expenditure (as these amounts did not have budgets) was 0.274 million CFP units, consisting of exchange losses on consolidation of accounts between Noumea and Suva (0.165 million) and the transfer of exchange gains of 108,550 CFP units to specific reserves (see paragraph 8 above).
11. Non-core income (including carried forward balances) totalled 84.16 million CFP units in 2010 compared to 70.93 million CFP units in 2009, an increase of 13.23 million CFP units. The balance of non-core funds held was 30.37 million CFP units at end of 2010, an increase of 16.99 million CFP units compared to the balance held at end of 2009 (details are shown in pages 16–36 of Part 2 of the Annual Report).

MANAGEMENT LETTER POINTS

12. The auditors' management letter provides the auditors' observations on a number of control-related issues that they believe to be significant, together with recommendations to strengthen business control and improve operating efficiency. Most of the findings from 2009 and prior years have been resolved, and management has undertaken to address the remaining outstanding issues.
13. The auditors raised two new issues in 2010. As noted in CRGA paper 10.1 on outstanding assessed contributions, the auditors bring to the attention of CRGA their concern regarding the outstanding contributions which at end of December 2009 totalled 2.04 million CFP units (204 million CFP), with 431,000 CFP units of debts from 2007 or older. The auditors request that CRGA reconsider its position on the treatment of old debts in the accounts. The other finding concerns receipts and is not a deficiency finding but a recommendation in conformance with best practice (rated as a Level 3 finding by the auditors).
14. The findings are classified into three levels, with Level 1 being the most significant.

Level 1: design deficiency or deficiency in operating effectiveness that could lead to significant issues.

Level 2: design deficiency or deficiency in operating effectiveness that could lead to minor financial issues.

Level 3: best practice recommendation, improvement to the process.

15. The issues raised in the management letter cover a number of specific areas under the general headings of response fund, general computer controls, revenue and receivable cycle, treasury cycle, payroll cycle, and general.

The management responses to the issues and recommendations by the auditors are noted on the management letter itself, immediately below each of the issues/recommendations. Progress update comments are provided for matters raised by the auditors in the previous management letters. Management has undertaken to address all Level 1 and 2 issues raised and to take on board matters raised under Level 3.

CONCLUSION

16. The 2010 records for both SPC's overall finances and the Staff Provident Fund received clean audit opinions, making this the 15th consecutive year that SPC has received unqualified audit reports. The auditors raised two new issues in 2010, with one major item relating to arrears in members' contributions (discussed as part of CRGA 10.1). Most of the issues and recommendations in the auditors' management letter from previous years have been resolved, and management has undertaken to address all that remain.

5 October 2011