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Secretariat of the Pacific Community

Management letter

SPC
Secretariat
of the Pacific
Community

September 2015

pwc

The Director-General
Secretariat of the Pacific Community
BP D5
98848 Nouméa Cedex
New Caledonia

July 16, 2015

Dear Dr Tukuitonga,

We enclose our recommendations for the improvement of internal control and administrative efficiency, drawn up following our 2014 external audit examination.

As part of our examination of the financial statements of the Secretariat of the Pacific Community for the year ended December 31, 2014, we performed a study and evaluation of the organisation's system of internal accounting control to the extent we considered necessary under the international auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Secretariat of the Pacific Community is responsible for establishing and maintaining a system of internal accounting control. In exercising this responsibility, management is required to make estimates and judgments in order to assess the expected benefits and related cost of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Secretariat of the Pacific Community.

Our report provides our observations on control-related weaknesses, which we believe are of most significance. These control-related issues have been previously discussed during the course of the audit with the management personnel responsible, and where relevant, we have referred to their comments on how these issues are proposed to be resolved.

This letter is intended solely for the information and use of the governing body, management, and others within the organisation and is not intended to be and should not be used by anyone other than these specified parties. We would like to take this opportunity to extend our appreciation to management and staff throughout SPC for their assistance and cooperation during the course of our audit.

If you would like any further information or would like to discuss any of the issues raised, please do not hesitate to contact us.

Yours faithfully,

PricewaterhouseCoopers Audit Calédonie

Anne-Marie Klotz

Contents

1 Executive summary

This report contains our external audit findings and recommendations for improvement of internal controls and administrative efficiency, drawn up as a result of our 2014 external audit examination. It is important to note that as part of our examination of the financial statements for the Secretariat of the Pacific Community (SPC), we study and evaluate internal controls to the extent we consider necessary under International Auditing Standards. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

We tested on a sample basis internal controls relating to Treasury, Procurements and Payroll. The results of our testing of the internal controls' operating effectiveness tested were satisfactory for all areas. We did identify a small number of exceptions that are detailed in section 3 of our report.

We have audited the financial statements presented by management for the year ended 31 December 2014.

The audit has been conducted in compliance with International Auditing Standards and SPC's Financial Regulations 41-46.

In November 2014, the CRGA confirmed the Audit & Risk committee to adopt the International Public Sector Accounting Standard (IPSAS) referential for the presentation of the financial statements for the year ended December 31, 2014. However delays encountered in the migration process, led SPC to defer adoption of the IPSAS referential for the year ending December 31, 2015. In part 4 of this report, we have presented our analysis of the key areas that require the finance team's attention to ensure a successful migration in 2015.

The audit was conducted to obtain reasonable assurance that the financial statements are free from material misstatement. As part of our audit we have identified some material and non-material errors which have been communicated to management and detailed in section 2 of our report.

2 Observations on audit findings and recommendations

The section below summarises the issues we have identified and includes a priority rating.

1	Financial impact likely to exceed XPF 60,000,000 in terms of direct loss or opportunity cost.
2	Financial impact likely to be between XPF 45,000,000 to 60,000,000 in terms of direct loss or opportunity cost.
3	Financial impact likely to be less than XPF 45.000.000 in terms of direct loss or opportunity cost.

2.1 Employees' liabilities

2.1.1 NOUMEA - Write back from the medical insurance accrual

The balance of the provision for Medical Insurance was XPF 100,496,682 as per the audited Noumea trial balance as at December 31, 2014. .

Our understanding is:

- the insurance policies contracted cover all medical, health and accident risks;
- the policy premium may vary on the basis of prior years' claims;
- as at December 31, all outstanding premiums are accrued for in the accrual account;

Consequently, the balance of the account represents the excess provision made over the years as shown in the template below:

Comparison between what is paid and provisioned

	2011	2012	2013	2014
Provision :	- 97 334 026	- 104 955 990	- 103 781 123	- 114 825 666
Paid :	68 207 084	82 642 265	87 600 990	82 685 228
	70%	79%	84%	72%
Overestimation :	- 29 126 942	- 22 313 725	- 16 180 133	- 32 140 438

In prior year, the rational for maintaining the provision has been that it was an allowance against any significant rise in the policy premium that would result from one or more significant claims. The rational is no more acceptable, given the magnitude of the provision.

We have recommended that the provision be written back. The portion affecting core budget employees should affect the statement of income and expenditures for the year. The portion affecting project employees may be assigned to a project account to be reaffected to projects and donors.

We understand the provision for medical insurance is 7,5% of the gross salary + annual leave.

Considering the fact that the balance for those provisions is actually drawn from the different projects' budgets, it is important to note that the provision is actually charged to the donors with no reimbursement at the end of the project.

We recommend that you reevaluate the contribution percentage regularly in order to better reflect the full salary costs charged to the projects.

Priority: 1

Management Response:

The observation that the provision is excessive is accepted. Consequently, we have reversed the overprovision of 99.8m into core and projects. We would like to note however that there is an element of self-provisioning there also for emergency medical evacuations. The coverage we have on our existing policy for this is very minimal. We are currently exploring options to increase this coverage. In the meantime SPC will continue to have to pay for these types of costs directly.

We also note your recommendation for a review of the 7.5% rate for provisioning. It will likely take place after we are satisfied that the provisioning % in Suva adequately covers the expanded medical coverage of all Suva staff. This Suva medical coverage review is currently being undertaken as part of the 2016 budget process.

2.1.2 SUVA - Write back from the medical insurance accrual

The medical expense is recorded at 6% of base salary. Premiums paid or reimbursements are off-set against the provision.

As at year end, an over-provision of XPF 14.957.963 ($ 302,609) was not adjusted.

Implication :

Risk of material misstatement in terms of over/ under provision of medical insurance.

We recommend that management record medical expenses as and when payments are made relating to insurance premiums, dental, optical and reimbursements.

reevaluate the contribution percentage regularly in order to better reflect the full salary costs charged to the projects.

Priority 1

Management Response:

The observation that the provision is excessive is accepted. We would like to note however that there is an element of self-provisioning there also for emergency medical evacuations. The coverage we have on our existing policy for this is very minimal. We are currently exploring options to increase this coverage. In the meantime SPC will continue to have to pay for these types of costs directly.

Furthermore, a review of the 6% rate for provisioning will likely take place after we are satisfied that the provisioning % in Suva adequately covers the expanded medical coverage of all Suva staff. This Suva medical coverage review is currently being undertaken as part of the 2016 budget process.

2.1.3 NOUMEA - Provision for leave

The balance of the provision for leave for Noumea based employees is XPF 297.722.049.

We understand the provision for leave is accrued on the basis of 7,5% of the gross salary.

When we make the comparison between the global provision recorded in the 2014 accounting and the detail of calculation per employee, it shows an overprovision of XPF 10.233.311.

As for medical insurance, we recommend you to reevaluate the amount to be provisioned on the base of what will be actually paid in the future.

Priority: 3

Management Response:

We don't accept that the provision is excessive. Considering the total balance of 282.5m, 10.2m is only 4% of the total. We pay maternity leave costs also from provisions although it is not specifically provided for. It is difficult to estimate this cost at year-end. Furthermore, during the year any gratuity paid for terminated staff contracts is also charged to provisions. The balance is also not accumulating from year to year, as we had a similar "overprovision" in 2013 of 30.4m.

SPC will continue to charge 7.5% provision for employee leave and benefits.

2.1.4 *SUVA - Provision for leave*

The annual leave provision was made based on 6% of gross salary. SPC maintains its leave on HR Online system. There is no reconciliation between the balance for annual leave per GL and HR Online system. It was further noted that HR Online system was not updated for leave taken in December 2014. This was subsequently updated in January 2015. We understand that the system is not able to generate the details for the same.

We understand at year end that the GL was overstated by XPF 20.582.009 ($416.387) without adjustment for leave taken in December.

Priority: 3

We recommend that annual leave provision be based on the HR Online system balances.

Also, we recommend that management ensure a reconciliation of leave as at 31 December is maintained by the HR department. This reconciliation should be supported with the details in the HR Online system.

Management Response:

The HR online system only provides leave balances which is only a component of the annual provision. The provision also includes costs such as home leave, per diem, airfares, and child visitation etc. Considering the total balance of 286m, 20,5m is only 7% of the total. We pay maternity leave costs also from provisions although it is not specifically provided for. It is difficult to estimate this cost at year-end. Furthermore, during the year any gratuity paid for terminated staff contracts is also charged to provisions. The balance is also not accumulating from year to year, as we had a similar "overprovision" in 2013.

2.2 Construction In Progress (CIP) Account

We noted the recording of air conditioning expenditure for XPF 27,964,672 but the installations were not fully completed in 2014. This expenditure should be recorded in a Construction In Progress (CIP) account.

Expenditures that meet the criteria of an asset should be recorded as fixed assets. The CIP asset account records the cost of construction work, which is not yet completed. A CIP item is not depreciated until the asset is ready for use.

Also, as this is a significant replacement, the old air-conditioning component should be written-off (Presentation effect only as we appreciate it should be fully depreciated).

Also, SPC has received a subsidy to finance these assets. The subsidy should be restated as deferred income to be brought to income over the years to balance the future depreciation charge of the assets.

Priority : 3

Management Response:

The recommendation to record CIP is accepted. A CIP account has been established and the air conditioning expenditure posted there. As the cost of the headquarter buildings is recorded in our fixed asset register as total values by building and not by components, it is not possible to write-off the old air-conditioning cost separately.

2.3 *Uncleared bank clearing account*

The account #580 shows a balance amounting to XPF 15.055.048 at 31 December 2014.

Per our interview with the financial accountant, we understand that this balance is related to a term deposit made by the SPC with the BCI.

It was transferred to the Provident Fund bank account when the term deposit was matured (in February).

Risk:

Financial statements presentation.

Recommendation:

We recommend that ensuring the bank clearing account is nil at the end of the year be integrated in the year-end process.

Priority: 3

Management Response:

The recommendation for the bank clearing account to be cleared to zero at year-end is not realistic. The nature of the account is such that there will nearly always be transactions there awaiting clearance in subsequent periods. The item in this account at year-end was properly cleared to zero in April 2015 when the term deposit matured and funds were transferred to the Provident Fund.

2.4 *Follow up on prior year audit findings*

Priority	Issue	Recommendation	Management response	Conclusion as at 12/2014
Provision against assessed contributions				
3	In 2011 SPC recognised a provision for doubtful debts of 40MF.CFP. This provision was made for all contributions outstanding for more than 3 years for the following countries: • Guam • Nauru • Northern Mariana Islands • Palau • Vanuatu	The amount for the provision for doubtful debts has not changed since 2011 and remains at 40 MXPF. We consider the provision to be adequate for balances greater than 3 years old, taking into consideration payments received in 2014, which have been applied against some of these arrears and the risk associated with the balances owned by Nauru and the Northern Mariana Islands.	It is also Management's opinion that the provision set aside is sufficient for the level and age of arrears for the FY2013 accounts. The policy on the treatment of arrears in assessed contributions approved by CRGA 2012 is provision for doubtful debts is made where debts are older than 4 years unless an agreed payment plan exists and is being implemented. Management will continue to follow up with members with arrears. Reminder letters have been sent to the members to pay their arrears and for those with old arrears to make arrangements to settle the debt over time.	No issue found. The provision for doubtful debt is appropriate. As at 31/12/2014, Northern Mariana Islands and Palau are the only countries with a total debt of XPF 30.528.800 exceeding 3 years, while Guam, Nauru and Vanuatu have paid all the outstanding arrears.

Priority	Issue	Recommendation	Management response	Conclusion as at 12/2014
Accrual basis of accounting for sundry supplies				
3	Our supplier statements reconciliation procedures highlighted a significant discrepancy between SPC books and the confirmation received from Mobil (3,9 MXPF). Per our interview with the financial accountant, we understand as the Mobil, Brock, etc... invoices come in a monthly basis for about the same amount, they are accounted for as expenses when the bill arrives. So for FY 2013, the expenses accounted for in the year are close to what was actually expensed (as the bills for the end of FY 2012 are also expensed in FY 2013). Our search for unrecorded liabilities highlighted also expenses for electricity and telephone that were not accrued for on the same grounds.	Although we acknowledge that a full year of expenses is recognized each year, the basis of accrual accounting should be restored for these expenses at one point of time. We have included the adjustment in our summary of unadjusted misstatements.	The recommendation is accepted. Utility bills and other sundry expenses will be accrued as expenses and liability recognized in future.	The recommendation of FY 2013 has been taken into account, as we noted an increase of 27 M.CFP during the FY 2014. The client has provisionned all the fixed expenses called "Utilities" (water, electricity ...) in Accruals account.

Priority	Issue	Recommendation	Management response	Conclusion as at 12/2014
Absence of depreciation on an Asset				
3	The fixed asset n°133070 which is the Villa Pentecost which was bought for 47 M XPF wasn't depreciated in the FY 2013 however, the depreciation start date for this asset was in April 2013 according to the FAR. Risk: Depreciation not recognised in accordance with the use of the asset.	We recommend you perform a coherence check at the end of the year on the fixed asset register to make sure no issues arise.	The recommendation is accepted. This instance was an isolated case where depreciated was not applied in error.	No issue found.

3 Observations on internal control findings and recommendations

What control recommendations can we share to strengthen your control environment?

The control environment establishes the tone for the organisation. It influences the 'control consciousness's' of its people and is the foundation for all other components of internal control. During our audit we reviewed a number of internal control processes and procedures. The section below summarises the issues we have identified and includes a priority rating.

H	Weakness that requires immediate attention as it has a potential to have a serious, adverse effect on the company.
M	Weakness that could adversely affect the company if not addressed or reduce the efficiency of company operations.
L	Weakness that results in controls falling short of best practice.

3.1 *Project audits based in Noumea – Summary of findings*

<u>Observation:</u>

PwC has audited the following projects during 2013/14:

- Development of Sustainable Tuna Fisheries in Pacific ACP Countries (Devfish2 project)
- Scientific Support for the Management of Coastal and Oceanic Fisheries in the Pacific Islands region (Scicofish project)
- Restauration des services écosystémiques et l'adaptation au changement climatique (RESCCUE project)
- Global Fund programs :
  - ✓ MWP R7 HIV – Multi-Country Western Pacific Program to Fight Aids/HIV,
  - ✓ MWP R7 TB – Multi-Country Western Pacific Program to Fight Tuberculosis,
  - ✓ MWP MRCC – Malaria Rolling Continuation Channel – Consolidated Global Fund support to harmonized collaboration in intensified Malaria control in the Pacific,

✓ SR R8 TB – Sustaining the Tuberculosis DOTS strategy in Solomon Islands

As a result of these audits we have noticed the following issues that could be considered in your accounting manual procedures projectWhereas core fund expenses and all payroll costs are recorded on an accrual basis, a large number of projects are accounted for on a cash basis or cash modified basis for reporting purposes ;

- For project reporting, reporting periods have been amended when required in order to meet budgetary commitments in the reported period. We believe that working on a large number of different closing dates for projects affects the overall closing process at year end. Moreover, for some projects, reporting periods overlap . For example, we noted for Scicofish that salaries for a period are reported under year 5 when operating expenses in the same period are reported under year 5 as the budget for year 4 is not fully spent.
- Sub-delegation accounting differs between projects managed for the Response Fund (expenses recorded on acquittal from the sub-recipient) and projects managed by the Global Fund where SPC as principal recipient records expenses on the basis of funds advanced to the sub-recipients. Basis for preparing note 15 to the accounts might not be consistent from one program to the other.
- Accounting for transactions in a foreign currency is the common source of difficulties encountered despite the double-currency functionality in the accounting system.
- Programs may be managed by one SPC office and accounted by another SPC office (for example Response Fund); this adds undue complexity to the process.Regarding Payroll, we noted several manual transfers throughout the year explained by project's manager requesting to transfer employee's costs from one project / budget code to another, after monthly payroll process is closed.
- Certain projects seem to loan money or proceed to cash advances to other projects leading to confusion between advances and expenditures. Certain projects seem to share the same bank account, making it difficult to track project's expenditures and to perform reconciliation at year-end.

Moreover, from our 2013 audit of Global Fund, we identified that SPC is exposed due to the potential default of some SRs to document and justify some expenses and to reimburse the advances they obtained from SPC. At this stage, SPC have obtained some commitments from the SRs and it appears too early to consider that these commitments might not be met.

Priority : M

Management Response:

Comments noted. As mentioned in earlier audits, there are certain reporting requirements from donors that need to be followed and certain process relates to nature of the operation example multiyear funding's and operating in multi currencies. The Finance staff would continue to work with program managers and divisional finance staff to ensure consistency in accounting principles to the extent possible.

3.2 Bank signatories

After review of our Bank Audit Certificates as at December, 31, 2014, we noted that BNP does not refer to double signature in their response. Indeed, we understand that BNP, the bank mainly used for the payment of local suppliers, have not an appropriate record of the double signatory policy.

Although SPC has a policy of double-signatures and of payment authorizations to allow that all check payments are under the control of appropriate personnel, we strongly recommend you to ensure that bank signatories are effectively up to date.

Management Response:

We will continue to have a double signature policy with BNP payments and to ensure that our bank signatory list is kept up to date at all times. BNP has also now amended their records to cater for our double signatory policy going forward.

3.3 Purchases and payable process

3.3.1 Procurement

Observation:

As part of testing internal controls, we selected a sample of paid invoices to determine if the expenses had been accounted for in accordance with the appropriate procurement policy.

The results of our testing procedures were satisfactory overall. However, we noted a lack of appropriate documentation for one invoice:

- One non-competitive form was missing for a September 2014 expense, related to a publication in The Economist newspaper. Per interview, we understand this form has not been completed because only this magazine met the requirements of the project.

Implication:

Risk of unappropriated expense.

Recommendation:

We recommended that all expense go through the authorization process as they are supposed to be budgeted & agreed.

Priority : L

Management Response:

The recommendation is accepted.

3.3.2 Canteen

Observation:

We noted that the canteen manager performs each month a reconciliation between sales and incomes received (Staff account and cash), but:

- differences are not analysed, and
- the reconciliation isn't reviewed by an external department.

Implication:

The lack of segregation of duty implies that errors are not detected and brought to the management attentions.

Recommendation:

We strongly recommend implementing internal procedures to settle segregation of duty. This could be done by ensuring that all deposits / monies received are allocated accordingly.

On a monthly basis, a reconciliation between sales and cash received could be done by the canteen, then reviewed by Finance.

Priority : M

Management Response:

The Canteen is a self-financed operation and the small nature of the operation does not warrant significant staff resources. However, processes have now been put in place for Finance Manager or Financial Accountant to sign off on monthly cash reconciliations. This would strengthen the control process.

3.4 *Review of programs with negative balances (deficits)*

Observation:

Based on our previous audit, we noted that SPC posted corrective journals in Medical insurance accrual to balance programs with deficit. Then, Payroll costs charged to programs have de facto been reversed to cover other programs negative balances. As this process isn't a best practice in terms of accounting standards, SPC has anticipated those issues for closure 2014. Indeed, to avoid any significant unexplained debtor balances at closure, we understand that you now follow throughout the year the progress of the project's budget. However, this is not always properly formalized.

Implication:

The lack of periodic review implies that deficits programs are not brought to the management's attention in a timely manner.

Recommendation:

We recommend implementing internal procedures with periodic formalized reports to track negative balances and allow Management to organize timely appropriate actions.

Priority : L

Management Response:

The comments are noted. The Management wishes to stress that it understands the importance of timely review clearing of deficit balances to avoid any write-offs. Reviews of project balances is done on a quarterly basis with division directors, deputy directors or divisional accountants. In 2014, SPC has also appointed a Reporting Accountant based in Suva whose main role is monitoring and review of the project balances. This is evident of the importance placed on project balance review and reporting.

3.5 *Payroll process - Reconciliation between PayGlobal and Navision*

Observation:

During our audit of payroll expenses and related expenses, we noted that the reconciliation process between PayGlobal and Navision was not performed on a timely manner.

There are various reasons that lead to differences; the most common is that the payroll related expense is directly recorded in Navision and not in PayGlobal, usually after the monthly payroll is paid. It leads to manual entries in Navision, which could increase the possibility of mistakes due to human error.

Also, some projects' employees are registered in HR Online with a suspended status and their wage payment, prepared by the local country offices, does not go through the payroll process.

Therefore, all payroll expenses are reflected in Navision but, as a whole, the amount differs from PayGlobal.

The amounts are not individually large; however, they accumulate over a 12 month period and amount to a total of XPF 14.740.000.

Implication:

Without periodic reconciliations between PayGlobal and Navision, there is no quantification of the differences between the two systems.

Recommendation:

We recommend implementing internal procedures to improve monitoring controls over the differences between PayGlobal and Navision. These procedures would include periodic reconciliations for all payroll related accounts for PayGlobal to Navision. These reconciliations should be reviewed and differences analyzed.

Priority : M

Management Response:

The recommendation is accepted. Periodic reconciliations between PayGlobal and Navision will be instituted in 2015.

3.6 *IT General Controls*

Observation:

We performed an IT General Controls review during our engagement in order to:

- to provide audit assurance that the IT environment has been operating effectively across the audit period;
- to support audit work relying on processes using automated application controls, system generated reports or IT dependent manual application controls.

The scope of our review was focused on the following areas:

- access to programs and data
- program change management
- computer operations

We met with the Chief Information Officer to obtain an understanding of the SPC IT environment and we reviewed the documentation provided by the IT department.

The key findings we identified through our review are related to:

- ✓ The lack of formalization (e.g. procedures or controls performed) ;
- ✓ The lack of segregation of duties within the IT department ;
- ✓ Weaknesses in the network & physical security.

For more details, please refer to the ITGC report.

Implication:

Not maintaining appropriate documentation and segregation of duties could increase the risk of IT incident (e.g. unauthorized changes and access to the systems)

Recommendation:

We recommend the ICT team to formalised and maintained procedures and controls related to change management, logical access and computer operation processes to limit the risk of incident within the SPC IT environment.

Priority : M

Management response:

The recommendation is accepted. Systems to better document and clearly define roles will be put in place however in a small and under resourced team it is not always possible to implement this to the total satisfaction of all concerned. Weaknesses in network security for example almost require a full time post looking at just that. Some advances have however been made in physical security.

3.7 Consolidation process

Observation:

The consolidation is currently performed in Excel, increasing the possibility of error due to human error.

Implication:

The automation of the consolidation process will ensure minimal manual intervention and secure information for future periods.

Recommendation:

Navision has the ability to automate consolidations between different companies in the system. It is recommended that SPC use this system functionality

Priority : L

Management Response :

The recommendation to automate consolidation within Navision itself is not possible in the current set-up. We decided not to create a consolidation company during the Navision 2013 project, but to instead use a new Microsoft reporting tool (SSRS Reports), that is directly linked into all Navision companies. This tool was to be used to facilitate the preparation of the consolidated accounts, so Excel would no longer be used. However, due to the recent departure of the Senior ICT Systems Administrator working on Navision 2013, it was not possible to transition to SSRS in time.

3.8 *Follow up on prior year internal control findings and recommendations*

Priority	Issue	Implication if not addressed / Recommendation	Management response	Conclusion as at 12/2014
Noumea bank reconciliation process				
L	Out of the 45 bank reconciliations we tested during our interim process : - 3 weren't signed by the financial accountant , - 3 bank reconciliations were not prepared, - One wasn't performed as it had no movements during the month but the previous & next months were performed, - Non accurate exchange rates were used for two bank reconciliations. However, accurate exchange rates were used for the next months, - One bank reconciliation indicates it's the July bank reconciliation, however, it is the one concerning the month of June, - Most of the bank reconciliations were reviewed in April, May 2014, which is 5 months after the bank reconciliation date. At year end, we noted that the bank reconciliations were reviewed only in May 2014 and that for 3 of them, the balance in the general ledger is different from the balance according to the GL as shown in the bank reconciliation. Indeed, the difference isn't	The lack of timely reviews implies that errors are not detected on a timely basis. Risk of issue in the presentation of the financial statements Risk of undetected misappropriation of funds Recommendation : Although, the process is globally compliant, we recommend that: - All bank reconciliations be signed by their reviewer; - Accurate exchange rates be used for the accounts in foreign currency ; - Bank reconciliations be done & reviewed in a timely manner. For the ANZ Apia bank, we suggest an official letter be addressed to the bank to request direct transmission of banks statements on a regular basis.	The recommendation is accepted. Bank reconciliations are now signed on regular basis. Finance staff have on-line access to ANZ – Apia account, thus on-line statements / transactions can be easily retrieved for processing and reconciliation.	No issue found.

Priority	Issue	Implication if not addressed / Recommendation	Management response	Conclusion as at 12/2014
	significant (4 to 5 K.XPF on each reconciliation); however, the control doesn't appear effective as these anomalies were not corrected. - The interests for 21 K.XPF on the BCI Lodgment account haven't been accounted for in FY 2013. - On the ANZ Apia account, there is no indication of the authorized signatories on the bank confirmation & SPC doesn't receive any bank statement.			
Interbranch account reconciliation				
	SPC uses a number of inter-branch accounts that are not periodically reconciled. There are numerous transactions recorded in these accounts throughout the year. Major adjustments were processed through these accounts in the year-end closing process.	Not performing a periodical reconciliation may result in late or non identification of errors in these intercompany balances and eliminations during the consolidation process. Recommendation: We strongly recommend that intercompany reconciliations are made on a regular basis; this would further facilitate financial the closing process at year end.	The recommendation is accepted for inter-branch reconciliations be performed regularly. The implementation of the NAV interbranch module later in 2014 will allow the reconciliation process to become more automated and for the inter branch transactions reconciled across locations regularly.	We understand that inter-branch accounts have been reconciled throughout the year. We confirm that this process has smothen the year end closing process.

Priority	Issue	Implication if not addressed / Recommendation	Management response	Conclusion as at 12/2014
Monthly review of the payroll report				
L	Our updating testing performed on November and December payroll reports showed no evidence of formalized review. We understand that this breach in the operating effectiveness of this control that has been tested with satisfactory results during our interim visit is mainly attributable to the fact that in November and December, the payroll was run both on HRB and on HRIS. During this testing period, numerous checks from a system to the other were performed and the usual formal approval was not documented.	Management review of monthly payroll reports is a key control to prevent unauthorized payments or payroll errors to occur. <u>Recommendation:</u> We recommend that the need to formalize the review of the monthly payroll report be reinforced.	The recommendation is accepted. These were exceptional instances that occurred during rollover to new system. While checks were performed to ensure new system is correctly processing pays, the reconciliation was not formalized.	No issue found.
Purchase value does not agree to quotations that have been approved				
L	Based on the work performed in testing of Fixed Assets, noted the Toyota Twin Cab was purchased with trade in vehicle valued at \$15,000, the invoiced amount showing \$78,555.70 VIP before trade in amount and the quotation provided for the same identical vehicle is at \$67,072 VIP before deducting of trade in amount. Noted the final purchase amount is \$11,483.70 more than the quoted amount.	If the purchased price was included during the review of quotations, decision as to whether purchase for the vehicle would be questionable. <u>Recommendation:</u> We recommend that management ensures that proper prices for quotations are presented to the procurement committee for proper judgement and management to	The recommendation is accepted.	No issue found.

Priority	Issue	Implication if not addressed / Recommendation	Management response	Conclusion as at 12/2014
		investigate further on how this issue arose.		
Fixed assets inventory				
L	During the asset physical verification procedures, we noted that the assets were not numbered properly in accordance to the fixed asset register and the certain assets were not in good working conditions. Furthermore, we also noted that there were recent no physical verification of fixed assets done by SPC and this has not been done for the past 2 years.	The assets in the register are not easily identifiable. <u>Recommendation :</u> We recommend that all assets are tagged with a unique asset number to enable easy cross reference to the fixed asset register.	The recommendation is accepted. Administration staff had conducted detailed counts of fixed assets each year, though these were completed after the lapse of the financial year. The 2014 verification exercise will be conducted during 2014.	We understand that a physical inventory of fixed assets has been initiated in Noumea but has not been finalized.
Financial statement Closing Process (FSCP)				

Priority	Issue	Implication if not addressed / Recommendation	Management response	Conclusion as at 12/2014
L	At the end of the final phase of the Noumea audit on April 25 2014, the trial balances had not yet been finalized for the following accounts: Fixed asset register, Inter-branch balances and Response Fund. Consequently, an additional Noumea balance final phase was planned the week starting May 26, 2014. A number of significant entries had been recorded in between our two visits including on balances that were not supposed to change (such as employees' entitlements or cash balances). The trial balance was not final format at the end of that week with more work to be carried on inter-branch balances. On June 19, 2014, timing originally planned for our final validation work on consolidation and financial statements, we were provided with the final trial balance for Noumea including other significant adjustments resulting in particular from currency differences highlighted in the inter-branch reconciliation process but also some new changes to employees' entitlements.	Rigorous planning for year-end closing is a key factor in early detection of risk areas and possible delays. <u>Recommendation:</u> We reiterate our recommendation for 2014 that SPC prepares a detailed plan listing key milestones and achievement dates. The achievement dates should span from January until end March 2015. Furthermore, to encourage and maintain momentum, we recommend regular finance meetings for status updates. We also recommend a soft close 2 or 3 months prior to year-end to help facilitate the year end process. Critical areas represented by sub-delegations (Response Fund, Core Fund) and inter-branch accounts need to be addressed earlier in the process.	The recommendation is accepted. The financial accountants at both Noumea and Suva locations will prepare detailed plans and follow through to ensure delays do not arise with the FY2014 accounts. With FY2013, the involvement of both financial accountants in the testing of the NAV consolidation module and work on the NAV 2013 upgrades contributed to the delays. An in-year 9 month set of accounts for FY2014 will be prepared during the second half of 2014 which is to be fully supported by reconciliations, trial balances and other supporting schedules. The implementation of the NAV consolidation and inter-branch modules will also provide data more readily and accurately across locations. Finance will also be trialing an e-filing system on share point which will store scanned copies of all payment vouchers that can be easily retrieved for accounting or audit purposes.	In 2015, the first trial balance obtained during our audit was well finalised. However, the completion has been disrupted by the decision to complete the 2014 accounts in compliance with IPSAS, which is finally delayed by 1 year.

4 Moving to IPSAS

During our discussions with the management over the past few years, we have highlighted the need for SPC to adopt international standards of accounting IFRS or IPSAS. We had suggested and discussed with SPC the International Public Sector Accounting Standard (IPSAS), which is an alternative international standard that has been adopted by many leading not-for-profit organisations.

SPC have well progressed on this matter during FY 2014 with the assistance of Ernst & Young. However, some restatements require detailed work and further investigation that could not be all dealt with in the initial time frame. During our 2014 examination, we have reviewed in more details the effects of adopting IPSAS and in addition to the comprehensive review produced by Ernst & Young regarding the impact of adopting IFRS or IPSAS, the notes below are things we are drawing your attention to.

4.1 Fixed assets restatement, approach to components and fair value disclosure

Restating the fixed assets to be IPSAS compliant is the most time consuming project and should be managed in project mode. This project will need to associate the housing department as technical services are usually helpful to estimate the maintenance plan in particular.

We present below the various tasks that need to be performed by year end to ensure compliance. Please do not hesitate to associate us to the meetings and conference call on this topic as we will be pleased to be associated to the decision making process.

4.1.1 Accounting for components (IPSAS 17)

Although the assets per components approach requires SPC to identify and depreciate significant components with different useful lives separately and adopting component accounting is likely to cause significant change in the measurement of depreciation and accounting for replacement costs, it would also allow SPC to have a more relevant and effective monitoring of the costs recorded each year. Indeed, a more accurate tracking of fixed assets helps to monitor the maintenance charges effect on the annual budgets. .

When an asset is made up of multiple components and these components have significant different useful lives, the asset should be broken down into the separate components and each component should be depreciated as a separate asset over its useful life.

Also, programmable significant maintenances should be identified as components and depreciated over the time planned between each maintenance.

From the review of repairs and maintenance performed during the audit, we identified a number of maintenance costs that could qualify as planned maintenance. The roof check is a good example of planned maintenance, external painting is another one.

Determining the components portion as assets can be realized for recent constructions using the analysis of the project capital expenditures. For older constructions, the components portion could be estimated using standard ratios established for example in 2004 when French accounting rules were modified to integrate component accounting.

4.1.2 *Fair value disclosure (IPSAS 17)*

In accordance with IPSAS 17, the fair value should be disclosed if materially different, which is the case for properties.

We suggested you to prepare a schedule listing for all properties with the following information: location (example Noumea Anse Vata), land acreage (in Ares), building surface (in square meters), date built, and date of key refurbishment (if any) to assist in determining the fair value by December, 31, 2015; IEOM (Institut d'Emission d'Outre-Mer) have prepared a few years ago a review of the land and building prices suburb by suburb. Such document could be used to support the internal estimate.

4.1.3 *XB fixed asset*

Currently, the fixed assets and the deferred revenues to be shown on the balance sheet through a year-end entry have been estimated from the records kept in the fixed assets register irrespective of whether these assets were financed from the core fund budget or funded by projects. When adopting IPSAS, it is clear that only assets financed by the core budget should be shown on the balance sheet.

4.2 *Transfers to and from reserves*

SPC's financial rules allowed to allocate items of revenues (such as foreign exchange gains) to specific reserves and to withdraw from reserves funds to cover non-recurring expenses such as major maintenance. This treatment is not IPSAS compliant. As a result, the following actions should be considered:

- Comparative year revenues and expenses that should be shown in the income statement in accordance with IPSAS but were affected directly to and from reserves will need to be restated.
- The financial rules should be re-written to allow full consistency between SPC financial rules and IPSAS standards.

4.3 Transition period

On first adoption of IPSAS, there are in each standard rules defining the elements that could be brought in line with the standard over a transition period. We have reviewed in particular the rules applicable to the fixed assets (IPSAS 17). We understand that the transition period applies in particular to entities that were not apply accrual accounting prior to adopting IPSAS. It should be researched whether SPC could benefit from the transition period provisions as at first sight, the entity does not seem to meet the conditions precedent.

4.4 Payroll

According to accounting IPSAS policies, the accrual should only cover events occurred in the period. SPC currently does not justify the accrual balance by a list of casualties or a statistics of late requests for payment.

5 Appendices

Secretariat of the Pacific Community

Management Letter
31 December 2014

Contents

Brief outline of the report:

The matters raised in this report are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention.

They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for not reporting all risks or all internal control weaknesses. This report has been prepared solely for the use of the Secretariat of the Pacific Community - Fiji and should not be quoted in whole or in part without our prior written consent.

No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose

1. GENERAL ISSUES

1.1 Significant delays in submission of critical reports / information for the purpose of the audit

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
During the audit, there were delays in the submission of information requested for our audits and this included and is not limited to the following: • Final trial balance and reporting pack for SPC Suva; • Investment schedule; • Bank audit confirmations; • Student fee income and bank statements from EQAP; and • other supporting documents as per our client assistance package We note that a Client Assistance Package (CAP) was submitted to SPC on 3 February 2015 which is well in advance of the agreed timetable for audit being in April. Despite being given ample time, we note that we had to constantly keep reminding staff for information that was requested in February. During the course of the audit, there were also numerous outstanding lists and reminders sent to management and staff. Whilst some information was provided in a prompt manner, others remain to be provided till date. With the tight deadlines imposed by the Group auditors, deliverables such as the trial balance and reporting package need to be completed on time and ready for the external audit. Management needs to be involved in this process and take ownership of these.	Significant delays in the audit which results in delays in clearance to Noumea.	We recommend that management become more stringent in ensuring that critical information is ready before the audit commences. Management also needs to drive the audit and ensure that staff is responding to the auditors request for information.	The recommendation is noted. A detailed 9 month annual account plan for FY 2015 is being put in place to enable the Finance team to meet the new audit for FY 2016. The key contributing factor to the delays was the unplanned EU project audits of the FACT, IACT, North Rep and Disaster reduction projects which ran simultaneously with the corporate audit. Most of these projects covered 7 years of audit (2008 – 2014) and with the limited resources; this was always going to be a challenge. Furthermore, the PWC Suva audit team was new and had to familiarise themselves with all SPC policies and processes and conducted a very detailed audit which would require more than the allocated time. We have also faced similar issues with project audits conducted by PWC Suva which are being delayed.

			The comments from management is noted and our response is as follows: • Of the four staff assigned on the audit, two who were seniors have been involved in the audit of the Secretariat in prior years; • the extent to which we performed the audit is in line with global PwC methodology. There are areas each year where we may choose to do more or less audit work depending on the risks and the issues; and • delays in finalisation of project audits were as a result of incorrect accounting policies adopted which were not in line with donor agreements, transactions not appropriately recorded (which led to audit adjustments) and inconsistent explanations provided by project accountants to justify in-eligible expenditure.

2. CASH MANAGEMENT

2.1 Unused cheque not cancelled

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
During our review of cut-offs, we noted that cheque number 44010 which had not been used as a result of an oversight by the staff was not cancelled. The cheque was not pre-signed.	Possible misappropriation of cash.	We recommend that management perform a sequence review of the cheques. Also, in cases such as these, the cheques should be cancelled and filed properly to maintain the audit trail. All unused cheques should be safely locked.	The recommendation is accepted. At the closure of the SPC office at year end, the checks are set aside for any emergency payments during the break. All checks are kept under lock and key.

3. OPERATING EXPENSES

3.1 Withholding tax not deducted

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
During our review of expenses, we noted 21 instances where 15% withholding tax (non-resident) was not deducted for contracted services. Whilst SPC is exempt, its suppliers may not exempt from local taxation. Refer to Annex A for instances noted.	Non-compliance with local taxation laws.	We recommend that management ensure provisional tax/ withholding tax is deducted where applicable.	15% provisional tax is being deducted for all local service contracts where a valid certificate of exemption is not made available to SPC. However, withholding tax for overseas payments are not deducted due to SPC tax exempt status.

4. MANUAL JOURNALS

4.1 Controls surrounding manual journals

Observation	Implication	Recommendation	Management Comments
			Risk Rating: High
During our review of a sample of manual journals, the following was noted: 1 We note that some journals were raised without the manual journal forms attached to the journal voucher. We also noted instances whereby journals were raised in the system, printed and subsequently authorised, though there were also instances where journals were not duly authorised. The journals are required to be prepared and approved by the Finance Manager. Approval should be sought prior to it being raised in the system. 2 Inadequate or no supporting documents attached.	Without the journal vouchers, it becomes difficult to know what the journal entry is for as there is no narration to refer to. Also, not having the journal entries authorised and reviewed could result in unintentional and intentional errors not being prevented or detected.	We recommend that management ensure journal vouchers are used for every manual entry passed with adequate supporting documents. Also, the journals should be approved prior to and reviewed after being passed in the system so as to ensure that there are no unauthorised entries.	The recommendation is noted. Previously, journals were manually prepared. However the NAVISION financial system allows for journals to be raised electronically thus eliminating the need for manual journals. Low value journals such as bank fees are authorized by assistant accountants to enable efficient monthly processing

5. TREASURY

5.1 Bank Reconciliation

Observation	Implication	Recommendation	Management Comments
			Risk Rating: High
During our review of the bank reconciliations we noted that the preparation and review dates were not noted on the reconciliations to evidence timeliness of the process. We further observed that some bank reconciliations were not signed-off by both the preparer and reviewer.	Errors such as incorrect postings / payments will not be detected on a timely basis and brought to the attention of management.	We recommend that management ensure bank reconciliations are prepared and reviewed in a timely manner. This will ensure that there is proper monitoring of the bank account and also will detect any errors in a timely manner.	The recommendation is accepted. Reconciliations are performed monthly.

5.2 Inconsistent application of conversion rate

Observation	*Implication*	*Recommendation*	*Management Comments*
			Risk Rating: Low
We noted that some foreign bank accounts were converted at year end using the average of *Inward TT* and *Cheques & TC* rates whilst others are converted using the *Inward TT* rate.	This implies that there is an inconsistency in exchange rate being used.	We recommend that a consistent exchange rate be used when preparing the bank reconciliations.	The recommendation is accepted. While the difference between the two rates is very minimal. The average of Inward TT and cheques is used to book foreign currency balances in SPC books.

6. PROPERTY, PLANT AND EQUIPMENT

6.1 Fully depreciated assets still being used

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
Audit noted 5,264 out of 7,716 assets which are still in use and in good working condition but have nil written down values. The depreciation rates currently in use may not reflect the useful life of the assets noted for computers and furniture and effects.	Value of the asset incorrectly reflected in the trial balance.	We recommend that management consider a review of the depreciation rates of the assets to properly reflect its economic/useful life	The recommendation is noted. Management will review the assets with nil values to ascertain if there is sufficient justification to change the assets depreciation rates.

6.2 Physical asset verification

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
During the asset physical verification procedures, we noted that the assets were not numbered properly in accordance to the fixed asset register and there were certain assets not found at all.	The assets in the register are not easily identifiable and it is difficult to physically track these assets.	We recommend that a fixed asset verification exercise be carried out and the results be used to update the FAR. Where appropriate the assets should be tagged to facilitate the identification of assets	The recommendation is noted and will be factored into the physical verification and tagging exercise carried out by the Admin section of OMD in the 4th quarter of 2015. While the fixed asset verification exercise was undertaken in 2014, low value items such as mobile phones, cameras etc., may not have been tagged. However, they are maintained in the FAR.

6.3 Double posting of fixed asset

Observation	*Implication*	*Recommendation*	*Management Comments*
			Risk Rating: Moderate
Asset No: 144046 - HD 5450 Plus Scan Station, was recorded twice. It was initially recorded at $45,000 when a deposit of $9,000 was paid. However, it was again recorded when the remaining balance of $36,000 was paid. This further indicates that creditors listing are also not reviewed.	Overstatement of assets and liabilities and possibility of double payment.	We recommend that management ensure all postings to Navision are accurate.	The observation is accepted. And the recommendation is noted. This was an isolated case and reconciliation of asset capitalization to GL is now carried out quarterly to ensure accuracy.

6.4 Lease agreements

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
SPC is yet to renew the lease agreement with Nands Pharmacy upon expiry on 31 December 2013. SPC is currently paying rent based on the expired lease agreement.	The absence of an updated current lease agreement could impose difficulties on SPC in cases where the lessor pursues legal claims on them.	It is recommended that the tenancy agreements be updated and signed between the landlord and SPC to formalise the rental details and change in rental rates	The recommendation is noted. The landlord has been requested to process renewal of the tenancy agreement, however this is still pending because SPC had requested for a short term lease extension. This was due to the uncertain requirement for the office space pending decision on the Pacific Village. In line with clause 5 (f) of the agreement, it was agreed that monthly invoices will be submitted by the lessor and payments would be made by SPC.

7. PROVISIONS AND ACCRUALS

7.1 Medical expense accrual

Observation	*Implication*	*Recommendation*	*Management Comments*
			Risk Rating: Moderate
The medical expense is recorded at 6% of base salary. Premiums paid or reimbursements are off-set against the provision. As at year end, an over-provision of $ 302,609 was not adjusted.	Risk of material misstatement in terms of over/ under provision of medical insurance.	We recommend that management record medical expenses as and when payments are made relating to insurance premiums, dental, optical and reimbursements.	The observation that the provision is excessive is accepted. We would like to note however that there is an element of self-provisioning there also for emergency medical evacuations. The coverage we have on our existing policy for this is very minimal. We are currently exploring options to increase this coverage. In the meantime SPC will continue to have to pay for these types of costs directly. Furthermore, a review of the 6% rate for provisioning will likely take place after we are satisfied that the provisioning % in Suva adequately covers the expanded medical coverage of all Suva staff. This Suva medical coverage review is currently being undertaken as part of the 2016 budget process.

8. ANNUAL LEAVE

8.1 Provision for annual leave

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
The annual leave provision was made based on 6% of gross salary. SPC maintains its leave on HR Online system. There is no reconciliation between the balance for annual leave per GL and HR Online system. It was further noted that HR Online system was not updated for leave taken in December 2014. This was subsequently updated in January 2015. We understand that the system is not able to generate the details for the same. We understand at year end that the GL was overstated by $416,387 without adjustment for leave taken in December.	Misstatement of provision for annual leave and annual leave expenses.	We recommend that annual leave provision be based on the HR Online system balances. Also, we recommend that management ensure a reconciliation of leave as at 31 December is maintained by the HR department. This reconciliation should be supported with the details in the HR Online system.	The HR online system only provides leave balances which is only a component of the annual provision. The provision also includes costs such as home leave, per diem, airfares, and child visitation etc. Considering the total balance of 5.8m, 416k is only 7% of the total. We pay maternity leave costs also from provisions although it is not specifically provided for. It is difficult to estimate this cost at year-end. Furthermore, during the year any gratuity paid for terminated staff contracts is also charged to provisions. The balance is also not accumulating from year to year, as we had a similar "overprovision" in 2013.

9. ACQUITTALS AND SUB-RECIPIENTS

9.1 Incomplete supporting documents

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
It was noted that the acquittal vouchers raised by the Geoscience department did not have complete/ adequate supporting documents such as invoices, receipts, contract, etc.	Increased risk of misappropriation of funds which may result in ineligible expenditures.	We recommend that management ensure all supporting documents in relation to acquittals are obtained from the sub-recipients and that these are all attached to the acquittal calculation form.	The recommendation is noted. However, the project in question has been audited by EY with an unqualified audit opinion. The acquittals are based on expenditure reports submitted by the countries while supporting documents are held with the countries.

10. ACCOUNTS RECEIVABLE

10.1 Un-identified deposits

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
We noted that there were instances where credit balances were allocated into an account known as "Un-identified Deposits". These deposits relate to monies received but due to limited details on payment given by the banks and the respective schools, EQAP could not; with certainty allocate these receipts to the invoices raised.	This implies that certain invoices in the detailed accounts receivable listings have been paid accordingly, but due to limited details payments received could have been incorrectly allocated.	We recommend that management ensure that all deposits / monies received are to be allocated accordingly. This could be done by advising schools to provide comprehensive details on payments that are made or asking them if bulk payment could be made to settle the invoice, and for students to provide details such as school, and level.	The recommendation is noted. The un-identified deposits account is held to ensure that monthly bank reconciliation processes are not held back. There are instances when students deposit payments without proper narration or banks do not record proper narrations to the deposit and these cases are unavoidable. The EQAP Finance team carries out year-end reconciliations to match unidentified deposits with the actual number of students who sit for exams.

11. EDUCATION ALLOWANCE

11.1 Allowance paid above staff limit

Observation	Implication	Recommendation	Management Comments
			Risk Rating: Moderate
The education allowance for Rupeni Mario was paid in excess of his limit. SPC was not aware of this until queried by auditors.	Inadequate review of education allowances reimbursements where SPC could stand to lose funds.	We recommend that persons preparing payment vouchers duly scrutinise the details of the reimbursement and ensure, were applicable, that they liaise with other departments within SPC before a payment is made.	This recommendation is accepted. This was an isolated incident and deduction of the excess has been made from the staff concerned.

12. STAFF CAR LOAN

12.1 Loan details

<table>
<tr><th>Observation</th><th>Implication</th><th>Recommendation</th><th>Management Comments</th></tr>
<tr><td colspan="4" align="right">Risk Rating: Moderate</td></tr>
<tr><td>SPC provides motor vehicle loans to staff. Part of SPC's practice is to obtain third party documents from to validate that the loan was taken for the purchase of vehicles.

During our review of staff car loans, we noted copies of the motor vehicle third party policies for Petra Seeto and Lia Maka were not retained by SPC in order to validate the ownership of the vehicle purchased.

Furthermore, there is no specific stipulated timeframe in the contract as to when loan repayments commence nor any supporting documents for delay in deductions.

The following loans were taken in 2014 but repayment commenced in 2015:

<table>
<tr><th>Staff</th><th>Payment date</th><th>Repayment Commencement Date</th></tr>
<tr><td>1030-Shalvin Chand</td><td>12/09/2014</td><td>April 2015</td></tr>
<tr><td>0584-Fane Waqa</td><td>30/07/2014</td><td>April 2015</td></tr>
<tr><td>0360-Ruby Awa</td><td>23/06/2014</td><td>April 2015</td></tr>
<tr><td>0831-Sanivalati Tubuna</td><td>23/05/2014</td><td>April 2015</td></tr>
</table>
</td><td>No evidence to support that vehicle purchased belongs to staff

SPC will not be able to enforce the repayment of loan from staff if it is not specifically stipulated in the contracts.</td><td>We recommend that management strengthen controls over staff motor vehicle loans.</td><td>The recommendation is accepted. This was an oversight by staff concerned since the loan deductions are manually entered into Pay global system for deductions. Our IT team is looking into automating this process. The loan interest component is also adjusted for the 4 staff concerned.</td></tr>
</table>

13. XB DEBTORS

13.1 XB debtors – Geoscience Department (GSD)

<table>
<tr><th>Observation</th><th>Implication</th><th>Recommendation</th><th>Management Comments</th></tr>
<tr><td colspan="4" align="right">Risk Rating: Moderate</td></tr>
<tr><td>During our review of the XB Debtors balance, we noted that there was no supporting schedules for GSD XB Debtors as follows:

<table>
<tr><th>Project Code</th><th>Description</th><th>Balance to be adjusted.</th></tr>
<tr><td>GRBE01XS</td><td>Reduce Vulnerability - B Envel. Multicountry Proj.</td><td>- 445,071</td></tr>
<tr><td>GRDP07XS</td><td>EU - Natural Disaster Facility</td><td>- 210,553</td></tr>
<tr><td>GRCE01XS</td><td>Reducing Vulnerability - EDF9 C Envelope Project</td><td>- 121,328</td></tr>
<tr><td>Total</td><td></td><td>- 776,951</td></tr>
</table>

We understand that the above is a result of foreign currency exchanges and over expenditure of project funds. These balances will be recovered from GSD pre-merger funds.</td>
<td>Over expenditure of funds leads to non-recoverability of these funds from donors.

Foreign currency translations are considered to be ineligible expenditures which may lead to non-compliance with Project Agreements.</td>
<td>We recommend that management reconcile and resolve XB debtor balances.</td>
<td>The recommendation is noted. The GSD Finance team is currently reconciling all GSD project XB debtors to clear the project deficits. This exercise is to be completed by October 2015.</td></tr>
</table>

Annex A

No.	Date	External Document Number	Amount	Payee
1	1/03/2014	JAN20 AUD	73,794.69	University of Melbourne
2	2/04/2014	AUD14/04.001	55,773.51	GHD Pty Ltd
3	14/04/2014	WB008	114,521.98	NIWA Taihoro Nukurangi
4	14/05/2014	FJD14/05.013	57,888.37	CAB International
5	26/06/2014	KIR EU002	60,104.55	John E Hay & Associates Limited
6	27/06/2014	NREP14/06.003	433,419.37	Joh Gram-Hansen A/S
7	7/07/2014	USD14/07.001	60,173.24	Digital Globe
8	15/08/2014	FJD14/08.009	64,985.50	Tautai Limited
9	15/08/2014	FJD14/08.040	55,897.15	Bruce Chapman
10	5/09/2014	NREP14/09.003	840,494.11	Hangzhou Nannan Hydropower Development Co Ltd
11	11/09/2014	FJD14/09.008	96,047.43	Platts McGraw Hill Financial
12	16/09/2014	USD14/09.004	78,358.21	Norense Iyahen
13	18/09/2014	NZD14/09.001	43,134.89	Atlas Professionals
14	18/09/2014	NZD14/09.001	30,194.42	Atlas Professionals
15	18/09/2014	NZD14/09.001	28,756.59	Atlas Professionals
16	18/09/2014	NZD14/09.001	17,253.96	Atlas Professionals
17	19/09/2014	WB009	118,132.84	NIWA Taihoro Nukurangi
18	31/10/2014	FJD14/10.019	58,162.08	Ian White
19	21/11/2014	EUR14/11.001	549,759.33	Hangzhou Nannan Hydropower Development Co Ltd
20	28/11/2014	NREP FJ14/11.002	560,838.13	Marshalls Energy Company
21	17/12/2014	KIR EU14/12.005	24,245.44	Connolly Environment

Annex B

No.	Date	External Document Number	Amount	Payee
1	03/07/2014	AUD14/07.001	105,600.21	University of Sydney
2	12/11/2014	43493	81,738.76	Wolf Forstreuter

Annex C

No.	Date	External Document Number	Invoice Date	Invoice Number	Payee
1	14/04/2014	WB008	28/03/2014	169278	NIWA Taihoro Nukurangi
2	04/04/2014	FJD14/04.004	19/03/2014	V001594	R2Sonic LLC
3	07/07/2014	USD14/07.001	Various	Various	Digital Globe
4	08/10/2014	000286	8/10/2014	1460	Fiji Ships and Heavy Industries
5	28/11/2014	NREP FJ14/11.002	24/10/2014	MECPh2-001/2/3/4	Marshalls Energy Company
6	10/12/2014	AJ1400038	10/12/2014	00000262	Future Forest Fiji Limited

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