



SPC/CRGA 45 (15)

Paper 9.1 A  
ORIGINAL: ENGLISH

**FORTY-FIFTH MEETING OF THE  
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**  
(Alofi, Niue, 31 October – 2 November 2015)

---

**AGENDA ITEM 9.1 A: AUDIT AND RISK COMMITTEE REPORT**

(Paper presented by the Chair of the ARC)

**Purpose**

1. This paper presents the report prepared by the SPC Audit and Risk Committee (ARC) to update CRGA 45 on the committee's work in 2015.

**Recommendation**

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

**Background**

3. The Audit and Risk Committee was formally established at CRGA 42 in 2012. At that meeting CRGA also endorsed the committee's charter and a charter for progressing and strengthening an internal audit function at SPC. This work has continued in 2015 with the committee meeting on three occasions – in March, July and October.

**Internal audit work plan**

4. In 2014, the committee appointed the international accounting firm Ernst and Young to undertake a three-year work plan based on the identified areas of greatest potential risk given the nature of SPC's activities. The areas identified included:
  - i. procurement policies and procedures;
  - ii. cash management and investment policies and procedures;
  - iii. foreign exchange management policies and procedures;
  - iv. consultant engagement policies and procedures; and
  - v. travel management and approval policies and procedures.
5. ARC advised CRGA 44 that reports on procurement, cash management and investment and foreign exchange management were completed in 2014. The reports on consultant engagement and travel management and approval were completed early in 2015. All reports have indicated that, while some improvements can be made to strengthen procedures and compliance with approved policies, in

general, SPC's current arrangements are sound. Ernst and Young made a number of recommendations to further strengthen SPC's systems and procedures. ARC has endorsed these recommendations and the management responses to them, and the recommended actions have been or are being implemented.

6. Consistent with the agreed three-year work plan, ARC approved the following areas for investigation by Ernst and Young in 2015:
  - i. follow-up of issues identified for all 2014 activities;
  - ii. grant management processes;
  - iii. asset management processes;
  - iv. information technology governance and control environment; and
  - v. business continuity and disaster recovery processes.
7. The follow-up of issues identified in 2014 indicated satisfactory progress in implementing the recommendations made by Ernst and Young. Key issues identified by the auditors and endorsed by the committee were the importance of ensuring compliance by all staff with approved policies and procedures, and consistency of processes and practices across divisions. The report on grant management processes identified a need to strengthen the consistency of policies, procedures and practice across the various SPC divisions. The policies now in place are consistent with strengthening these areas.
8. ARC has reviewed proposed revised SPC policies on Grant Management, Travel, and use of Corporate Credit Cards and, subject to some minor changes, has recommended to the Director-General that these policies be implemented.
9. Separate to the 2015 work plan, Ernst and Young was tasked with reviewing a range of SPC policies, including – Cash receipts, payments, advances and acquittals, Payroll, Capital projects, Borrowings, Fixed assets, Financial reporting, Managing fraud, Project accounting and reporting, Intangible assets and Inventories.
10. Disappointingly, with the exception of the report on Grant Management (received well after the agreed time), Ernst and Young has not completed the other tasks identified for the 2015 work plan. Work is currently underway to review asset management processes and a report is expected to be available in November. Despite repeated efforts by SPC management, Ernst and Young has not progressed work on the other issues in the 2015 work plan. Similarly, the work on reviewing SPC policies has not progressed as agreed.
11. ARC and SPC management have together concluded that other arrangements should be put in place to ensure the momentum of the internal audit and risk work is maintained. These new arrangements will include:
  - i. seeking proposals from other accounting firms to undertake the agreed internal audit and risk management work plan; and
  - ii. making greater use of SPC staff to review and draft revisions of SPC's policies and procedures, with external review of this work to be carried out under separate arrangements outside of the internal audit and risk management work plan.

12. Notwithstanding this unsatisfactory outcome, ARC is confident that recognition and acceptance of the importance of probity, sound policies and strong financial management and control, are well established within SPC.
13. At its first meeting in 2016, and consistent with the broad approach and priorities adopted in 2013, ARC will determine the audit and risk priorities to be progressed under the 2016 work plan.

#### **Accounting framework**

14. In its report to CRGA 44, ARC advised that SPC had accepted the recommendation of Ernst and Young and the external auditors that it should adopt the International Public Sector Accounting Standards (IPSAS) framework as its accounting platform. The 2014 accounts were to be presented using the IPSAS format.
15. This has proven more complex and time-consuming than anticipated. To ensure that the work is done properly, SPC has decided to defer the transition to the IPSAS format to the 2015 accounts. This deferral is supported by Ernst and Young, the external auditors and ARC. Work is continuing and Ernst and Young continues to provide detailed advice.

#### **2014 external audit**

16. ARC met with SPC's external auditors in July 2015 to review and consider the draft audited annual accounts for 2014 and the accompanying management letter from the external auditors. The committee noted with appreciation that the external auditors would be providing an unqualified audit opinion of the 2014 accounts.
17. ARC reviewed the matters raised in the external auditor's management letter and SPC management's responses. The committee is satisfied with the management responses and the actions that are being taken or proposed.

#### **Project audits**

18. A substantial proportion of SPC's programme activity is delivered through project funding provided by a range of bilateral and multilateral development partners. These project activities incorporate their own audit requirements. ARC reviews these audit outcomes and, with the on-going exception of the grants management issues discussed below, has noted with satisfaction that all have received unqualified audit opinions.

#### **Grant management**

19. As reported to CRGA 43, there is an on-going audit issue with respect to grants managed by SPC from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). A qualified audit opinion remains, relating to the manner in which funds are disbursed by SPC to national finance systems and the inability of a small number of recipient countries to adequately acquit funds received at the national level. The issues relate to grant management prior to 2013.
20. SPC management continues to work with the Global Fund to resolve the outstanding issues. SPC's potential liability has been considerably reduced through these efforts, but under a worst-case scenario, the amount still unresolved is significant in the context of SPC's overall budget position. ARC continues to monitor progress in resolving this issue.

### **European Union seven pillar assessment**

21. The European Union (EU) has undertaken a seven pillar assessment – a comprehensive assessment of SPC’s systems and procedures with implications for the management of EU funds by SPC. SPC was found to be compliant with EU requirements in four assessments, but was considered to have not met the requirements in three further assessments. This is not expected to have significant implications for the relationship between SPC and the EU. SPC has already strengthened its policies to address some of the identified weaknesses.
22. The EU has undertaken to provide a consultant to work with SPC to provide a road map to enable it to address any further requirements.

### **ICT fit for purpose**

23. At its three meetings in 2015, ARC reviewed the adequacy of SPC’s ICT capability and systems. The committee noted with concern the advice that under-investment in ICT over a number of years had left SPC vulnerable in a number of areas, including inadequate server, network and storage infrastructure, antiquated facilities and lack of proper backup and disaster recovery systems.
24. The committee has been made aware of management initiatives to begin to redress this weakness and strongly endorse the need for serious and prompt action.

### **The 2016 budget**

25. As requested by CRGA 44, ARC has included consideration and discussion of SPC budget issues in each of its meeting agendas in 2015. It has received regular briefings on progress in implementing the 2015 budget and the outlook for 2016 and beyond. It has also met with the Budget and Finance in SPC’s Senior Leadership Team to review options for 2016.
26. ARC has noted management advice that the 2016 budget to be recommended to CRGA 45 will include:
  - i. a balanced budget, achieved in large part by savings identified across divisions;
  - ii. a transfer to reserves of 1.2 million CFP units; and
  - iii. establishment of a pool of 600,000 CFP units to support implementation of priorities emerging from the new strategic plan.

### **Conclusion**

27. The committee expresses its appreciation for the support it has received from the Director-General, Deputy Director-General (OMD) and the senior management team at SPC. Meetings of the committee have been open and constructive and the relationship between the committee and management has ensured that continuing progress is being made in embedding internal audit and risk management as core areas of SPC activity.

### **Recommendation**

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