FIFTIETH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS
(17–19 November 2020, Virtual Meeting)

AGENDA ITEM No. 5: 2019 Audited Financial Statements

(Paper presented by the Secretariat)

Purpose of paper

1. In accordance with regulation 46 of SPC's Financial Regulations, this paper presents the 2019 audited financial statements for consideration by CRGA.

2. The annual financial statements for both SPC and the SPC Provident Fund received unqualified audit opinions for the 2019 financial year.

Recommendation

3. CRGA is invited to adopt the 2019 audited financial statements for the Pacific Community and the Pacific Community Provident Fund, noting that they were unqualified and presented a true and fair view of the financial position and performance of these entities in accordance with International Public Sector Accounting Standards (IPSAS).

2019 Audited financial statements

Background

4. SPC's external auditors, KPMG of Fiji, conducted an independent audit of the financial records of the organisation for the 2019 financial year and provided an unqualified audit opinion. The audit provides assurance that the financial statements presented are free from material misstatement.

5. As part of the 2019 audit, the auditors also provided a letter to management based on their testing of the design, implementation and operating effectiveness of key financial reporting and regulatory controls. The Audit and Risk Committee, in their meeting on 25 June 2020, reviewed and accepted management's responses to the findings presented in the management letter.

2019 Financial results

6. SPC recorded a surplus of EUR 5.01 million for the year ended 31 December 2019, as a result of net total income of EUR 78.01 million (2018: EUR 82.82 million) and total expenditure of EUR 73.0 million (2018: EUR 78.49 million). This result was due to the following major factors:

   a. Core expenditure of EUR 18.8 million was below the 2019 approved budget by EUR 2.46 million due mainly to lower salary costs and the impact of the SDR currency rate.

   b. Core income of EUR 17.14 million was higher than the 2019 approved budget by EUR 0.98 million due to a net exchange gain of EUR 0.34 million, interest generated of EUR 0.47 million, and additional other income of EUR 0.25 million. This was offset by the net provision for the Commonwealth of the Northern Mariana Islands' unpaid contribution for the year, and an adjustment to New Caledonia's host country grant.

   c. The net cost recoveries from ICT, Event management and Facilities of EUR 0.51 million were higher than the 2019 approved budget by EUR 0.60 million.

   d. Project management fees (PMF) of EUR 5.83 million were higher than the 2019 approved budget by EUR 0.54 million, despite lower project and programme execution for the year. The higher amount of project management fees is due to an improved average actual PMF rate of 10.66% compared to 9.33% in 2018, reflecting successful efforts to progress towards the target PMF rate of 15% for new programmes and projects.

The surplus for self-funding units of EUR 0.33 million was higher than the 2019 approved budget by EUR 0.38 million.

7. The actual level of project and programme execution was EUR 60.53 million, which was below the 2019 approved budget by 6% (EUR 64.09 million) and below the 2018 budget by 7% (EUR 64.73 million). However, the execution rate remained high overall at 94%.

8. SPC's overall cash position remained strong, with year-end cash and short-term investments amounting to approximately EUR 65.59 million (2018: EUR 62.97 million). It is noted, however, that EUR 39.52 million (2018: EUR 45.3 million) of cash balances derive from project advances. Therefore, SPC's operating cash balance is EUR 26.07 million (2018: EUR 17.7 million). The higher operating cash balance is due to the reduction in project fund receivables, lower partner advances and lower operating cash outflows during the year. This contributed to the higher net operating cash balance of EUR 9.95 million compared to 2018, when taking into account current liabilities in the sum of EUR 16.12 million, arising from creditors and accruals (EUR 4.24 million) together with provisions and loans (EUR 11.88 million).

9. SPC maintains a conservative cash investment policy designed to ensure that capital losses are avoided. This includes diversifying cash holdings between banks in Noumea and Suva. As at year-end, EUR 38.6 million (2018: EUR 36.3 million) of cash holdings were invested in fixed-term bank deposits, representing 58.9% of total cash holdings (2018: 57.5%). Interest income earned during the year was EUR 0.57 million (2018: EUR 0.48 million), an increase of 20.5% or EUR 0.09 million compared to 2018. The increase reflects improved cash management practices.

10. Unpaid assessed contributions, prior to provision for impairment, amounted to EUR 2.06 million (2018: EUR 1.85 million). This is related to the increase in unpaid member contributions (assessed contributions and host grants) for the year 2019 amounting to EUR 0.48 million, which was offset by overpayment from some members during the year by EUR 0.27 million.

11. While the majority of development partners provide pre-financing for project activities, certain projects are undertaken on a cost reimbursable basis. Project receivables amounted to approximately EUR 3.03 million at year end (2018: EUR 6.76 million). Furthermore, partner advances were at EUR 1.43 million (2018: EUR 2.28 million). The reduced balances reflect the ongoing work by management to minimise the balance of project receivables and ensure that acquittals are received to clear partner advances.

12. The total provision for ineligible expenditure, calculated at 5% of the total portfolio subject to audit, as at the end of 2019, was EUR 7.78 million (2018: EUR 7.47 million). The Secretariat engaged with the Forum Fisheries Agency (FFA) in respect of a recoveries liability to SPC and has been in discussion with the EU Delegation to explore resolution of pending ineligible expenditure amounting to EUR 2.48 million while working collectively with other CROP agencies.

13. Total reserves amounted to EUR 28.89 million as at year end (2018: EUR 23.88 million). EUR 19.85 million represents General Reserves, and the rest of the reserves balance is made up of Special Funds of EUR 8.54 million and Specific Reserves of EUR 0.5 million. While this is a significantly higher level of reserves than in 2018, the Secretariat notes that EUR 14.67 million of SPC's total General Reserves are represented by the value of investment in real property assets, receivables and inventories. The surplus for 2019 assisted in creating liquid reserves of EUR 5.18 million, which represent about three months of core operating cost.

14. A statement is provided in *Note 27 Event subsequent to balance date* on the COVID-19 pandemic, which has had no effect on the 2019 financial statements as the pandemic only became widespread in early 2020. The impact of the pandemic on the Secretariat will be considered in the 2020 financial year, presented in the 2020 revised budget, and reflected in the 2020 audited financial statements, which will be submitted to CRGA in 2021.

Provident Fund

15. The principal value of the Pacific Community Provident Fund at year end was EUR 8.0 million (2018: EUR 7.33 million). This largely stable value reflects that withdrawals by participants of EUR 1.58 million were exceeded by new contributions of EUR 2.25 million during 2019.

16. Interest income remained low as the Provident Fund is invested in low-risk term deposits in banks and financial institutions to maintain sufficient liquidity to provide for withdrawals by participants in accordance with Provident Fund rules. The interest rates, driven by the market, varied between Suva (4% to 4.5% per annum) and Noumea (1.1% to 1.6% per annum).

Audit results

17. KPMG (Suva) has conducted the external audit since 2017 and will conduct the audit for the 2020 financial year, after which audit services will be re-tendered. KPMG was appointed following a competitive tender process, replacing PWC (Noumea), who were SPC's auditors for the previous nine years.

18. Unqualified audit reports were received for the 2019 financial statements for both the Pacific Community and the Pacific Community Provident Fund, making it the 24th successive year of unqualified audit reports for SPC.

19. The Secretariat notes that the audit was conducted in accordance with International Standards on Auditing and that the financial statements were prepared in accordance with IPSAS.

20. The adoption of IPSAS was mandated at CRGA 44 and first implemented for the 2015 financial year. The content and quality of SPC's annual financial statements continue to evolve as part of an ongoing process of incrementally implementing additional disclosure requirements relevant to SPC's financial operations.

Recommendation

21. CRGA is invited to adopt the 2019 audited financial statements for the Pacific Community and the Pacific Community Provident Fund, noting that they were unqualified and presented a true and fair view of the financial position and performance of these entities in accordance with International Public Sector Accounting Standards (IPSAS).