Attachment Two

PACIFIC IMMIGRATION DEVELOPMENT COMMUNITY

FINANCIAL STATEMENT EXTERNAL AUDIT REPORT TO MANAGEMENT

FOR THE YEAR ENDED 30th JUNE 2018

30th January 2019

BDO

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31 January 2019

Dear Mr Vuniwaqa,

FINANCIAL STATEMENT EXTERNAL AUDIT FOR THE YEAR ENDED 30 JUNE 2018 REPORT TO MANAGEMENT

Our audit of the financial statements of Pacific Immigration Development Community (PIDC) is complete. The purpose of this letter is to bring to your attention the findings from our audit of PIDC for the year ended 30 June 2018.

In order to comply with the provisions of International Standard on Auditing (ISA) 260 - 'Communication of Audit Matters with those Charged with Governance', we are required to report to management on the findings of our audit, with particular reference to:

- respective responsibilities;
- views about the qualitative aspects of the Secretariat's accounting practices and financial reporting;
- the final draft of the letter of representation;
- unadjusted misstatements;
- matters specifically required by other Auditing Standards to be communicated to those charged with governance (such as fraud and error);
- expected modifications to the auditor's report;
- material weaknesses in the accounting and internal control systems; and
- any other relevant and material matters relating to the audit.

We also take this opportunity to comment on the Secretariat's performance for the year and to confirm our professional integrity, objectivity and independence.

We see effective communication with the Secretariat's Board (and the Audit & Risk Committee) as being a key part of our audit, and it is important that there is effective two-way communication. We welcome any feedback or questions regarding the conduct of the audit process.

This report is not intended to cover every matter which came to our attention during the audit. We do not accept any responsibility for any reliance placed on it by third parties. Our procedures are designed to support our audit opinion and cannot be relied upon to identify any weakness in systems or controls which may exist.

Thank you again for the opportunity to provide our services and please do not hesitate to contact us should you wish to discuss the contents of our report further.

Yours faithfully

BDO

BDO
Chartered Accountants

EBetham

Ernest Betham
Partner

1. Responsibilities

Our responsibilities

We are responsible for:

- Performing audits under ISA of the financial statements prepared by management, with your oversight
- Forming and expressing opinions about whether the financial statements are presented fairly, in all material respects in accordance with ISA
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Communicating specific matters to you

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letters including communications required by ISA.

Those charged with governance and management responsibilities

Those Charged with Governance (Board and Audit & Risk Committee):

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the Plans' activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks

Informing us about other matters that are relevant to our audit, such as:

- Objectives and strategies and related business risks that may result in material misstatement
- Matters warranting audit attention
- Matters related to the effectiveness of internal control and your related oversight responsibilities
- Your views regarding our current communications and your actions regarding previous communications

Management:

- Overseeing the financial reporting process
- Preparing and fairly presenting the financial statements in accordance with IFRS
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations

2. Summary of key audit issues

Risks or Issues	Audit Work Performed
Assessment of Fraud Risk ISA 240 "The Auditor's responsibility to consider fraud" requires us to consider the risk of fraud and the impact that this has on our audit approach. There is a presumed significant risk of fraud in two areas: **Revenue Recognition** Material misstatements due to fraudulent reporting often result from an overstatement of revenues, for example through premature revenue recognition or recording fictitious revenues. The auditor therefore presumes that there are risks of fraud in revenue recognition and considers which types of revenue may give rise to fraud risks. For PIDC the main income stream are donor funds and Members subscriptions. These two income streams are based on signed donor agreements and approved rates for membership subscriptions. We therefore have assessed the risk of fraud in the recognition of donor funding and members subscriptions as low. **Management Override** Under ISA 240 there is a presumed risk of management override of the system of internal controls. Material misstatements can arise from management overriding the controls which are in place or by manipulating the results to achieve targets and the expectations of the stakeholders.	Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement whether caused by fraud or error. We reviewed revenue recognition and management control override. As part of the audit planning: • We met management to discuss fraud related risks and the risk of material misstatement in the financial statements; • Reviewed relevant internal audit work and internal controls in place. At the audit visit: • We verified the amounts of the donor funds to the signed agreements and confirmed their receipt into the Secretariat's bank account; • We reviewed the approved rates for the members subscriptions and confirmed the receipt of members subscriptions into the Secretariat's bank account. • We reviewed the general journals to ensure that they represented valid transaction and that they were supported by relevant supporting documentation. Our audit did not highlight any significant errors in revenue recognition and there was no management override of controls.

3. Independence

We have reviewed our independence and confirm that, in our professional judgement, this firm is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner, Ernest Betham, and the audit staff is not impaired.

In our review, we concluded that:

- the firm is not dependent on the Secretariat as a client due to the significance of the audit fee to the firm;
- the firm is not owed significant overdue fees;
- there is no actual or threatened litigation between the firm and the Secretariat;
- no benefits have been received by the audit team which are not modest;
- the firm does not have any mutual business interest with the Secretariat;
- no members of the audit team have any personal or family connections with the Secretariat or officers;

  and

  – independence is not impaired through the provision of services other than the statutory audit.

Other services provided to the Secretariat include Xero (online accounting system) subscription. We do not believe that the provision of these other services compromises our independence as auditors.

4. Qualitative aspects of accounting practices and financial reporting

Accounting Policies

International Financial Reporting Standards (IFRS) requires that entities should review their accounting policies regularly to ensure they are appropriate to its circumstances for the purposes of giving a true and fair view. The Secretariat's Board/Audit and Risk Committee plays a key role in this process.

We confirm that there have been no changes in the accounting policies used by the organisation and that the accounting policies are fully disclosed in the financial statements.

Accounting Estimates

Key accounting estimates concern the depreciation of office furniture and office equipment as well as the leasehold improvements, the level of bad and doubtful debt provision against unpaid members subscriptions that are more than 180 days old.

We confirm that these estimates have been made appropriately in line with our knowledge of the Secretariat and the industry and are disclosed satisfactorily in the financial statements.

Timing of Transactions

Our audit work confirmed that material transactions were recorded in the correct accounting periods. Accruals and prepayments were made for material items.

Going Concern

The financial statements have been prepared on a going concern basis. We have evaluated your assessment of the Secretariat's ability to continue as a going concern for the foreseeable future and confirm that this assumption is appropriate.

Accounting for the foreign exchange gain/loss

The yearend financial statements reflect realised and unrealised currency loss of $133,436 tala. This figure is primarily comprised of 3 main transactions that relate to funds from Immigration New Zealand and MFAT of New Zealand. The table below outlines the details of the exchange losses from the funding received through New Zealand and they total $99,101.55 tala.

Particulars	Inv Date	Inv #	NZD	Rate	SAT Booked	SAT - Received	Date Rec'd	Realised Gain/(loss)
Immigration New Zealand	5/6/17	240617	180,000.00	0.548478	328,180.89	304,878.05	23/10/17	- 23,302.84
MFAT	17/10/17	461017	200,000.00	0.551602	362,580.27	326,020.16	3/11/17	- 36,560.11
MFAT	9/4/18	510218	200,000.00	0.538234	371,585.59	332,347.00	30/4/18	- 39,238.59
Total			580,000.00		1,062,346.75	963,245.21		**- 99,101.55**

Exchange losses/gains are a result of differences between the exchange rates at the time that they were booked in the accounts or invoiced and the date of receipt of cash or date of actual payment. In theory you should be able to prove the exchange gain/loss simply by comparing the effect of the differences between the two exchange rates.

However, when we verified the exchange loss calculation we were able to account for the difference due to the exchange loss. The table below provides an overview of the differences:

NZD	Rate	SAT Booked	SAT - Received	Date Rec'd	ANZ Rate	Converted SAT	Explained Loss due to exchange rates	Unidentified Loss	Total
180,000.00	0.548478	328,180.89	304,878.05	23/10/17	0.5929	303,592.51	- 24,588.38	1,285.54	- 23,302.84
200,000.00	0.551602	362,580.27	326,020.16	3/11/17	0.5905	338696.02	- 23,884.25	- 12,675.86	- 36,560.11
200,000.00	0.538234	371,585.59	332,347.00	30/4/18	0.5788	345,542.50	- 26,043.09	- 13,195.50	- 39,238.59
580,000.00		1,062,346.75	963,245.21			987,831.03	- 74,515,72	- 24,585.82	**- 99,101.55**

The variance may not be a result of the differences in the exchange rates between the time of invoice and the time of receipt into the local PIDC bank account simply due to the size of the variance.

A couple of possibilities are that the variance is explained by bank fees or that there was somehow a difference in the amount invoiced versus the amount remitted. These possibilities require further review by PIDC to determine what the variance is due to. It may also be the result of a forced error.

We recommend that PIDC identify this further as a matter of urgency and also to confirm whether our analysis is correct or whether we may have missed some particular aspect that should have been considered.

We further reviewed the subsequent documentation in relation to the exchange losses on the funds from New Zealand.

What appears to be occurring is that the MFAT amounts of $200,000 NZD are converted to WST equivalents and then remitted in WST to PIDC's bank account. We believe that this now explains the discrepancy, or the 'unidentified' exchange loss as detailed in our report to management. There is a difference between the exchange rate applied in New Zealand versus the exchange rate applied in Samoa. It is beyond our analysis or discussion to examine why there are differences. However, we are comfortable that the cause of what was believed to be an 'unidentified' loss is really a result of the different exchange rates applied. The conclusion is that they are in fact exchange losses.

Therefore, it is recommended that PIDC disclose the equivalent Samoan Tala of the New Zealand dollar invoiced amount on their invoices for clarity on the amount that is due in Samoan Tala.

5. Management representation letter

In accordance with ISA 580, we obtain written representation from management that they acknowledge their responsibility for preparing the accounts and have made all information available to us.

We presented our management representation letters to the Board to be signed off at the same time as the financial statements.

There are no non-standard issues included in the management representation letter.

6. Audit opinion

We have provided an unqualified audit opinion on the financial statements for the year ended 30 June 2017.

7. Audit adjustments

Our audit work is based upon an assessment of materiality to ensure there is no material misstatement contained in the financial statements. In assessing materiality, we consider both the materiality of the class to which the balance belongs and the overall impact of the balance on the income and expenditure account and balance sheet.

ISA 260 requires us to report to management on all uncorrected misstatements identified during the audit, and to include in this report how we have calculated materiality, and any misstatements identified during the audit which have been corrected.

We are not required to report on corrected or uncorrected misstatements we believe are clearly trivial.

Materiality

Our assessment of materiality was based on the first draft accounts received prior to the audit and calculated using a proportion of total income and the net result for the year. This materiality level was reviewed over the course of the audit and was judged appropriate and was set at $49,808 tala. The level at which items were considered clearly trivial was $2,490 tala.

Corrected misstatements

There are no corrected misstatements because of our audit work in the financial statements.

Uncorrected misstatements

There are no uncorrected misstatements because of our audit work in the financial statements that are not of a trivial nature to the results of the Secretariat.

8. Accounting and internal control systems

We normally test the systems of internal financial control to the extent that we intended to place reliance on them in forming our audit opinion on the accuracy of the figures in the financial statements. Since the Secretariat is, at this stage, a relatively small organisation with only 5 employees (with the Office Manager responsible for most of the financial and administration functions) we did not place any reliance on the operation of any key controls. Our audit approach was primarily substantive in nature.

However, ISA 260 requires that we report to those charged with governance any material weaknesses in internal control that we identify during our audit work. A material weakness is one that could adversely affect the Secretariat's ability to record, process, summarise, and report financial or other data to result in a material misstatement in the financial statements.

Observation on management's processes and controls that came to our attention during the course of our audit will be documented in a report to management following the completion of our audit.

However, we report below some recommendations that are useful for improving the financial management and accounting procedures and also include the responses from Management.

Issue and Recommendation	Management Comment
a. Formalise a service agreement with travel agency We note that all hotel and airline travel are completed with a travel agency in New Zealand and this arrangement has been in place for some time and is working well. We recommend that PIDC consider entering into a services agreement with the travel agency to ensure that this process is formalised given that there is a contractual relationship with the travel agency. A formal arrangement would protect both parties and might include matters such as travel rewards, discounts, commissions or a policy that Secretariat staff do not receive any indirect benefits unless appropriately disclosed to the Board. The services agreement should also outline the procedures in the event of a dispute, disagreement or a conflict. The above was highlighted in the management letter for 2017.	A service agreement with the travel agent was finalised in October 2018 and is now in place between PIDC and Corporate Traveller
b. Bank reconciliation - No dates From our review of bank reconciliations, we note that the bank reconciliations did not have date prepared and date reviewed. Therefore, we were not able to verify whether bank reconciliations are prepared and reviewed on a timely basis by the Secretariat. We Audit recommends that PIDC should ensure to include the date prepared and date reviewed on the bank reconciliations to ensure that the bank reconciliations are prepared on a timely basis and for audit purposes.	The reconciliation format has been revised to include the dates when the reconciliation is prepared and signed.

Issue and Recommendation	Management Comment
c. Solvency Analysis - Half Yearly From our review of the financials, we note that the Secretariat has incurred a loss during the financial year (the prior year was break-even due to the accounting process for deferred income). The net loss for the current year has reduced the net equity which is currently $131,494 tala compared to $169,872 tala in the previous year. A concern or risk that the Secretariat faces is a possible continual erosion of the net equity amount to the point where it becomes technically insolvent. We recommend that management complete a solvency analysis at least half yearly and present our update the board in relation to the solvency position of the organisation. This will assist PIDC to know their current position and will help them to any potential insolvency positions. One obvious possibility is to request additional grants from donors can be made to help recover the losses incurred and the Secretariats net equity will not be affected. However, it must also be appreciated that the net loss was partly a result of the foreign exchange losses of $133,436 tala. Therefore, considering how to mitigate future foreign currency losses is also an area that requires urgent attention.	The financial regulation has been amended to include solvency analysis when reporting financials to the Board. As mitigating factors in reducing exchange loss from revenue receipted, all PIDC foreign currency invoices now include a Samoan Tala equivalent amount.
d. Per diem rates used From our review of per diem payments, we note that the per day rate used, and the calculation of rate paid per day is not stated in the per diem sheets. The absence of the rate used and the calculation of how the rate was arrived will make it difficult for the participants and was also difficult for us to trace during our audit. We recommend that management should amend their per diem sheets and state the per day rate used and how the per day rate was calculated in the per diem sheets to make it more transparent to its participants on the per diems paid. This will also assist in audit trail of the per diem pay outs.	A revision has been made to the per diem sheet template which now displays the per diem rates paid per day

FOR MORE INFORMATION:

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