Pacific Immigration Development Community

AUDIT COMPLETION

30 June 2024

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Secretariat and is not intended and is not to be used by anyone other than these specified parties.

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BDO
Chartered Accountants
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Apia, Samoa.

13 November, 2024

Mr Jefrey Markson
Chairperson
Pacific Immigration Development Community
Level 3,
DBS Building
Apia,
SAMOA

Dear Mr Markson,

AUDIT COMPLETION LETTER FOR THE YEAR ENDED 30 JUNE 2024

During the course of our audit of the financial statements of *Pacific Immigration Development Community (the Secretariat)* for the year ended 30 June 2024, we observed the *Secretariat's* significant accounting policies and procedures and certain business, financial and administrative practices.

In planning and performing our audit of the financial statements of the *Secretariat* as of and for the year ended *30 June 2024*, in accordance with International Standards on Auditing (ISAs), we considered the *Secretariat's* internal control relevant to the preparation of the financial statements (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the *Secretariat's* internal control.

The Secretariat has a relatively limited number of staff employed and relatively low transaction volumes. This does not enable a comprehensive system of internal controls and adequate segregation of duties to exist. Therefore, our audit approach concentrated on substantive procedures rather than reliance on internal controls or tests of internal control activities.

Accordingly, we do not express an opinion on the effectiveness of the *Secretariat's* internal control. The matters being reported are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to those charged with governance.

Our consideration of internal control was for the limited purpose described in the previous paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies. Had we had performed more extensive procedures on internal control, we may have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not, in fact, have been reported.

This communication has been prepared solely for the use of the Board of Directors and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

We summarize below the findings and observations for the current year and the prior year. We would be happy to discuss these further and to also receive your comments and responses on the issues raised. We have also included the issues raised in the prior year for comparative purposes and also to receive any updates and/or resolutions to the issues raised in the prior year.

CURRENT YEAR Accounting practices and policies and other recommendations

We outline below recommendations from our observations in accounting practices and other areas of the business that have come to our attention as a result of performing the audit for the current year.

a) Recording asset purchases as an expense rather than capitalizing through the fixed assets register

We noted a number of assets acquired during the year which were initially captured as part of expenses rather than being captured through the fixed assets register. The following transactions are some of the examples of assets that were initially recorded as an expense:

- Office refurbishment - $48,500

We have updated the fixed assets register and removed the transactions from the expense accounts.

We recommend an updated training for the accounts team on the key areas for Xero and accounting requirements for processing certain transactions.

Management comment
Will contact BDO Business Services and Outsourcing to organise a time to conduct a refresher training.

b) Transactions recorded using general journals rather than accounts payable module

We noted that the accounts team at the Secretariat sometimes use general journals to record transactions rather than using the accounts payable feature of Xero (i.e.: Xero is the secretariat's accounting system). The following are some examples:

- ID 22600, 17/06/2024, RAM Accountable Advance, $7,500
- ID 22584, 4/06/2024, Pacific Jewell, $4,215
- ID 22581, 12/06/2024, Copier World Limited, $24,351
- ID 22580, 11/06/2024, Our travel, $6,207

We recommend an updated training for the accounts team on the key areas for Xero and accounting requirements for processing certain transactions.

c) Accounting policy for income recognition re membership receivables

Subscriptions for membership subscriptions are entirely a voluntary contribution and not a mandatory obligation for membership of PIDC. PIDC issues invoices every year for the rated membership dues for each member country. The invoice procedure records income and accounts receivable at the same time in the books of the Secretariat i.e.: accrual basis. The receivable is reduced once the cash is received.

However if a member does not pay for their membership before the end of the financial year the account receivable is carried forward. There are cases where some members may not pay or there is a significant delay in remitting payment to the Secretariat. This may result in the recording of income for membership fees that has not been received or will not be received resulting in a write off or a charge to the income statement for provision for doubtful accounts receivable.

We recommend that management consider whether a policy of income recognition on a 'cash basis' specifically in relation to membership fees would be more appropriate given the voluntary nature of the fee.

Management comment

We agree with the recommendation and will seek Board approval at the next meeting.

d) Decreases in net asset position

The net asset position on the balance sheet has decreased from $1,172,467 in 2023 to $361,814 in 2024. This is a result of recording net deficits in the income statement of $630,097 in 2023 and $810,654 in 2024. Cash at bank has also reduced from $1,329,394 in 2023 to $320,794 in 2024.

The decrease in the net asset position is a concern that the secretariat should address as a priority. Another net deficit result of $400k for 2025 would result in a net liability position or a 'negative' balance sheet.

Funding sustainability is a key factor in ensuring sufficient income to fund expenditures. Another key factor is the selection of accounting policy to recognize income from donors. For donor funded organizations income is usually matched with expenditures and unused donor funds at the end of the financial year are deferred to the new year. Sometimes there is a requirement to return unused funds at the end of the period.

Depreciation and net exchange losses are some of the accounts that are not specifically considered by donors. However if these are not matched with income, the net asset position will continue to deteriorate over time.

We recommend that PIDC consider adopting this accounting policy, if at least, to preserve the net asset position of the organization. There would need to be some accounting process modifications if this were the accounting policy that will be adopted. In addition we also recommend that donor funding agreements include allowances for depreciation and net exchange losses to be managed through donor income.

Management comment

The secretariat is looking for additional funding from other sources and will be presenting a strategy for securing other potential donors and not being limited or restricted to the historical principal donor partners.

Members have endorsed have also endorsed the revised membership subscription fee to be implemented from July 2025. This will also result in an increase in membership funding.

The recommendation regarding the accounting policy for recognition of donor income will also be discussed at the Board meeting to determine a consistent policy.

e) Commencing the audit earlier before the end of June

The audit has traditionally been performed after the financial year end i.e.: June and usually in the last quarter of the calendar year.

We prefer breaking up the single visit into two separate audit visits – one before the end of the financial year and the final visit after the end of the financial year. The first visit will concentrate on validating income and expenditures, the bulk of which relate to consulting and work programs. The last visit will concentrate on the year end balances and reviews of account reconciliations. This allows for a much more effective and efficient audit approach and will allow sufficient time for preparing and finalizing the audit for the Board meeting (usually in November).

Therefore we recommend that management consider scheduling the audit earlier with the first visit at least a month before the year end and then the final visit(s) shortly after year end.

Management comment

We are happy to work with the suggested timing of the audits for next year.

PRIOR YEAR Accounting practices and policies and other recommendations

We outline below recommendations from our observations in accounting practices and other areas of the business that have come to our attention as a result of performing the audit for the current year.

a) Consider preparing a comprehensive accounting/finance procedure manual (i.e.: SOP)

The Secretariat continues to employ more people and/or experience turnover through personnel in the finance and administration areas. The movement of people in this important area of business results in a loss of institutional knowledge and a steep learning curve.

Therefore we recommend that the Secretariat develop an accounting procedures manual that guides the accounting procedures and more importantly how those procedures integrate with Xero. The secretariat may not have the requisite expertise in to develop the relevant SOPs and we also recommend that they engage and work with an external firm to undertake such an activity.

Management comment
This will be actioned in the new financial year i.e.: before 30 June 2025.

b) Consider formalizing an accounting policy that recognizes income as expenses are incurred i.e.: match income with expenses

The Secretariat receives funding from the Governments of Australia and New Zealand to support and finance the Strategic Focus Areas of the business. The Australia donor funding agreements provide for funds to be returned if not spent at the end of the funding cycle. Whilst the New Zealand donor funding agreement does not have this requirement.

Therefore there may be an inconsistent approach to income recognition for the financial statements where one component of donor funding may be deferred whilst the other component of donor is not.

The effect of not having a consistent approach for income recognition or no formalized policy for income recognition is that income received for a particular year may not match when the expenditures are incurred. Or expenditures are deferred to the next year and will not match income that was recognized in the previous year. The result would be year on year differences (which may be significant) in the reported results i.e.: net surplus on one year whilst a net deficit in the next year.

If the income recognition policy is correctly applied, the remaining items that would have an impact on the reported results would be for non-strategic focus activities i.e.: depreciation expense and the effects of foreign exchange.

This would provide more visibility to the Board on how to manage the effects of foreign exchange and depreciation as these will over time, erode the balance in the General Funds accounts (which is part of Contributed Equity) on the balance sheet.
It is worthing noting that there will necessarily be changes to the current accounting process when you adopt a consistent income recognition accounting policy that matches income with expenses.

We recommend that the Secretariat adopt and formalize a consistent income recognition policy (as discussed above), however this is subject to the Board and management's perspective and subsequent decision.

Management comment
This will be discussed formally with the Board and a policy decision to be finalized i.e.: before 30 June 2025.

c) Long outstanding debtor accounts

The gross accounts receivable balance as of 30 June 2024 was $74,751 tala. When we reviewed the ageing report for the accounts receivable balances, the majority of the accounts were more than 300 days old.

Therefore, we have recommended an increase in the provision for doubtful debts from $29,307 tala in the prior year to $64,642 tala in the current year to which management has accepted.

Management comment
We confirm that these balances have been written off per the Board's approval.

d) Accounts Payable long outstanding accounts

We noted that there were accounts payable balances that related to former staff members of PIDC that are still listed on the schedule for accounts payable at year end. From discussions with management they have agreed to write these amounts back to income. The total accounts payable relating to the former staff were $22,236 tala.

Management comment
We confirm that these balances have been written off per the Board's approval.

Independence

Our engagement letter to you dated 24th October, 2024 describes our responsibilities in accordance with professional standards with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Secretariat with respect to independence as agreed to by the Secretariat. Please refer to the engagement letter for further information.

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 a material 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 board, management and its employees or its officers;

  and

  – independence is not impaired through the provision of services other than the audit of the financial statements. Our Business Services & Outsourcing division has assisted in the compilation of your financial statements. BDO does not, nor has it assumed responsibility for your financial statements as this rests with management and the Board.

Disagreement with Management

There have been no significant disagreements with management during the course of our audit.

Summary of corrected and uncorrected misstatements

Please refer to the schedule of corrected misstatements in the appendix to this letter.

Also refer to the schedule of uncorrected misstatements in the appendix to this letter. We concur with management's assessment that the effects of not recording such adjustments are, both individually and in aggregate, immaterial to the financial statements taken as a whole, considering both qualitative and quantitative factors. None of the proposed adjustments could potentially cause future-period financial statement to be materially misstated.

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.

Audit Opinion

We expect to issue an unmodified audit opinion on the financial statements for the year ended 30th June 2024. The audit opinion issued in the prior year was also unmodified.

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.

Signing of audit opinion

We will sign the audit opinion once the Board has approved the financial statements for signing and we have received the signed management representation letter and the signed financial statements.

General

This communication is intended solely for the information and use of management *and those charged with governance* within the Secretariat and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the *Secretariat's* financial statements. We would be pleased if you would kindly convey our thanks to them.

Yours sincerely

BDO
Chartered Accountants

Ernest Betham
Engagement Partner

Summary of corrected misstatements

The following are the corrected misstatements by management.

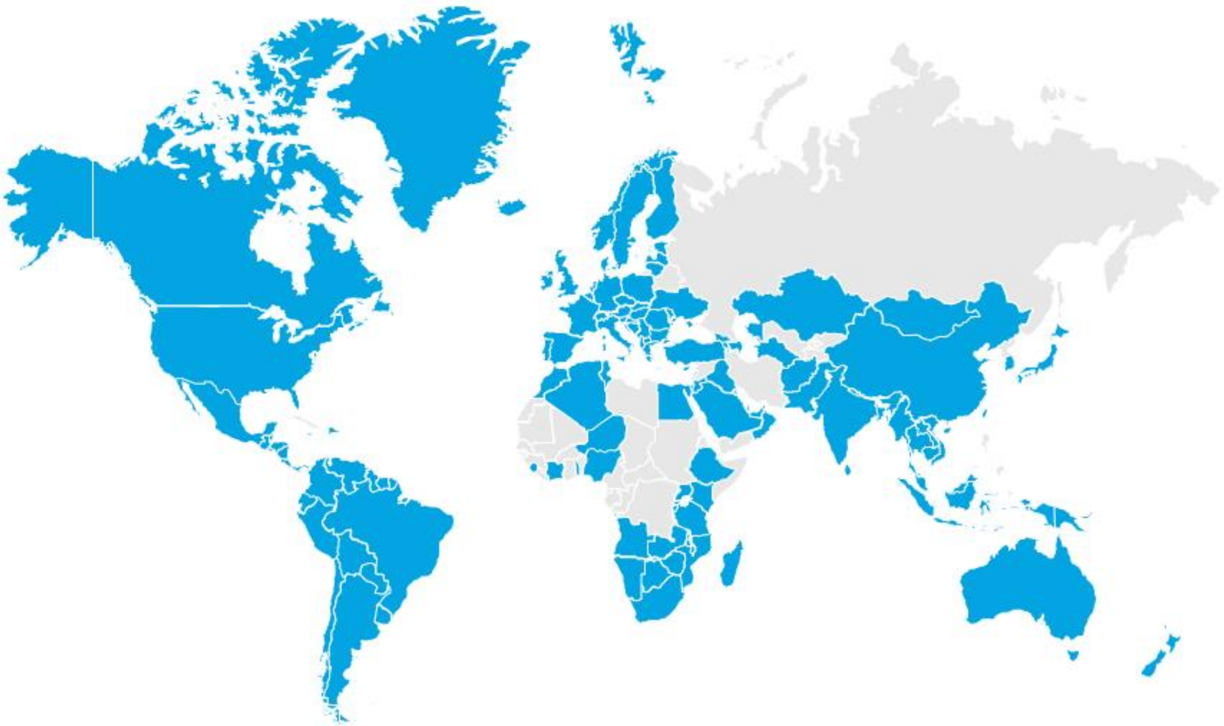
	Debit (Credit)			
	Assets	Liabilities	Equity	Net income
Subscription and memberships (expenses)				3,278
Account payable		(3,278)		
To correct credit amount in the AP listing				
Computer Equipment	19,243.63			
Leasehold improvements	48,500			
Office Operation expense				(19,243.63)
Property Other				(48,500)
To capitalized assets that were recorded as expense				
Total				
Tax effect				
Effect of prior year’s reversing errors				
Total uncorrected misstatements	65,296	(3,278)		**(64,466)**

Summary of uncorrected misstatements

The following are the uncorrected misstatements by management.

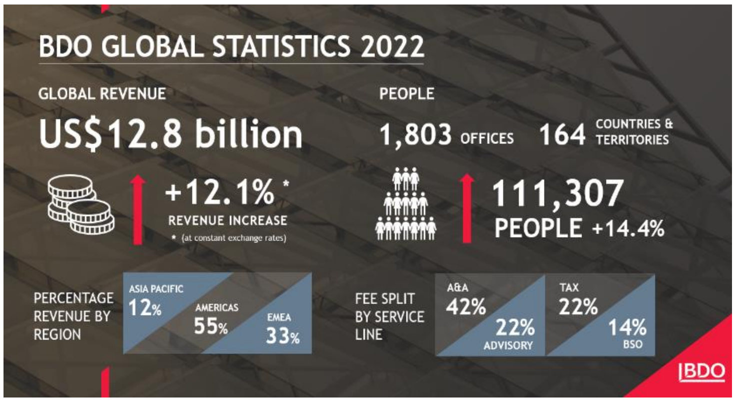
	Debit (Credit)			
	Assets	Liabilities	Equity	Net income
Insurance				1,641
PIDC – Current Account	(3,590)			
Prepayment	1,949			
To record prepayment for the FYE24				
Total				
Tax effect				
Effect of prior year's reversing errors				
Total uncorrected misstatements	(1,641)			1,641

Get to know BDO



BDO's strength is derived from our structure as a cohesive global network and dedication to internal integration and seamless client service - when and where our clients need us. In each country, BDO Member Firms are composed of people who are knowledgeable about national laws, business customs, and local and international business methods.

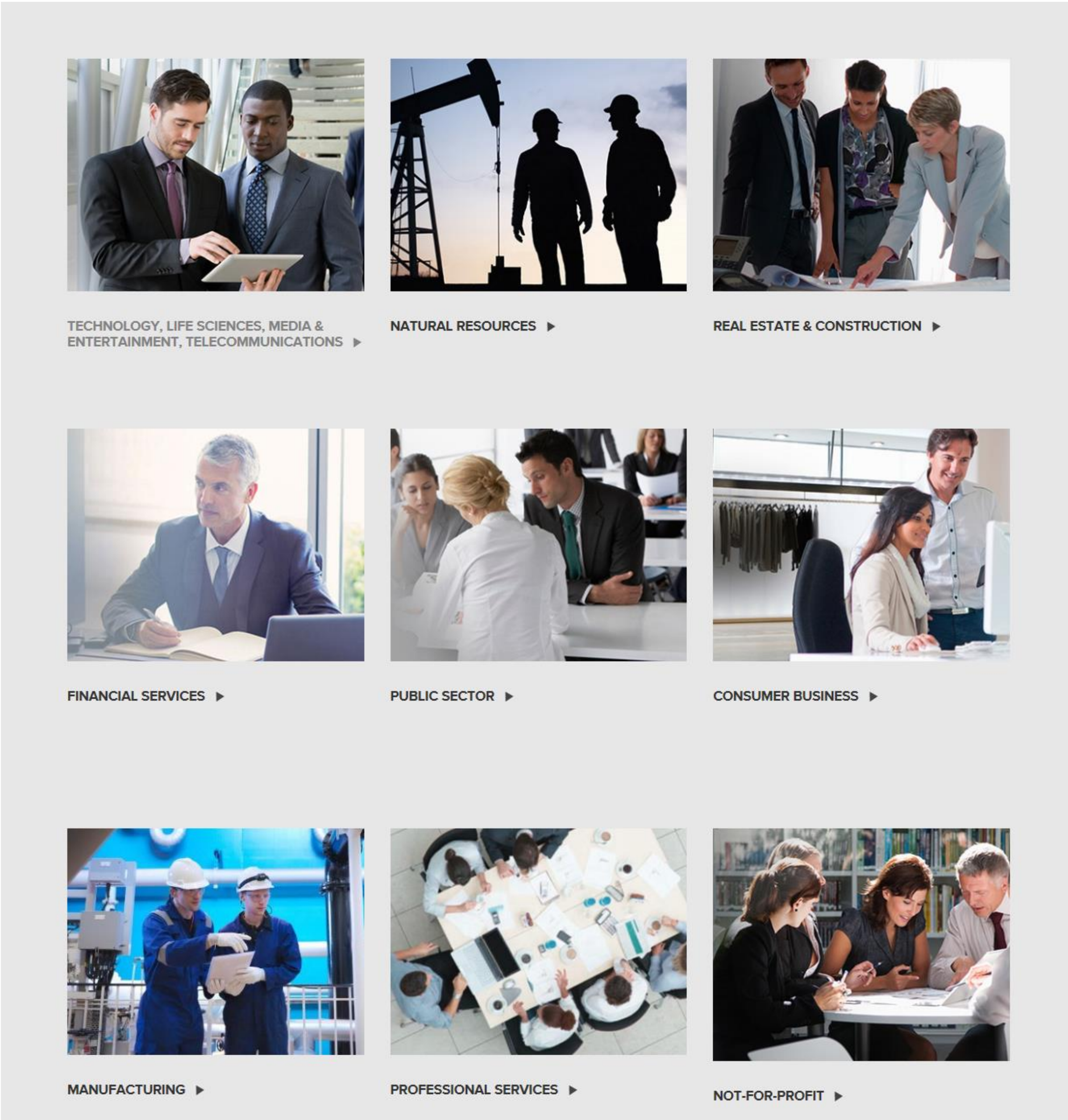
As our clients expand globally, access to our international network provides depth of experience in international matters, significant resources and international client service capabilities.



Get to know BDO

Industry experience has emerged at the top of the list of what businesses need and expect from their accountants and advisors. The power of industry experience is perspective - perspective we bring to help you best leverage your own capabilities and resources.

BDO's industry focus is part of who we are and how we serve our clients. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.



A variety of publications and insights depicting specific industry issues, emerging trends and developments are available here.