APPOINTMENT OF EXTERNAL AUDITOR

WCPFC/Comm.2/17
15th November 2005

Paper prepared by the Secretariat

Introduction

1. Article 19 of the Convention, elaborated at Regulation 12 of the Financial Regulations, requires the Commission to appoint an external auditor who shall be the Auditor-General or the equivalent statutory authority from a member of the Commission or an internationally recognized independent auditor with experience in the audit of international organisations. The audit will be undertaken annually.

2. Financial Regulation 12 states that the auditor shall be appointed for a period of two years and may be re-appointed.

Options for the appointment of the Commission’s External Auditor

3. During the Executive Director’s visit to Pohnpei in August 2005 a meeting was arranged with the Office of the FSM Public Auditor in Palikir and a private accountancy firm, Deloitte and Touche, to explain the scope of services envisaged for the annual audit of the Commission’s accounts. The two offices were advised that the annual budget of the Commission was envisaged to be US$1.6 million.

4. When the interim office for the Secretariat was established in late October the FSM Public Auditor’s Office and Deloitte Touche were formally contacted with an invitation to apply to be considered for appointment as the Commission’s external auditor.

5. The FSM Public Auditor has advised that his Office is not currently in a position to provide the audit service required by the Commission. A copy of correspondence received from the FSM Public Auditor in relation to this invitation is annexed at Appendix A.

6. Deloitte Touche have responded positively to the invitation with a tender of US$12,500 to undertake the annual audit and provide additional accountancy advice, as may be required, by the Commission. A copy of correspondence received from Deloitte Touche in response to the invitation is annexed at Appendix B.

7. No other Pohnpei-based firms capable of providing the service required by the Commission have been identified by the Secretariat.
Correspondence with the FSM Public Auditor’s Office

From: Haser Hainrick [mailto:hhainrick@mail.fm]
Sent: Thursday, November 03, 2005 5:44 PM
To: 'WCPFC'
Cc: Ryan Torvik
Subject: RE: Financial Audit of WCPFC Books

Hi Herolyn,

Thanks for the email and sorry for the delay in getting back to you.

On the subject of the annual financial audits for the Western and Central Pacific Fisheries Commission (WCPFC), I regret to say that my Office will not be able to provide the annual audits for WCPFC financial accounts as solicited. In fact, our annual Audit Plan is quite tight and I just don’t see any possibility for doing WCPFC’s annual audits. Hope this answers your query. Let me know if you need additional information.

Best wishes.

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Haser Hainrick
FSM National Public Auditor
Email: hhainrick@fsmpublicauditor.fm
website: www.fsmpublicauditor.fm

-----Original Message-----
From: WCPFC [mailto:wcpfc@mail.fm]
Sent: Friday, October 28, 2005 2:44 AM
To: hhainrick@mail.fm
Subject: Re: Financial Audit of WCPFC Books

Dear Public Auditor,

I would like to apologize first for the misunderstanding in our meeting arrangements on Monday, October 25, 2005.

The Executive Director requested a meeting to see if you could provide him with the Auditors position on whether you could provide annual financial audits of the books of the Commission March of every year and what it would cost for your office to perform that service. As we discussed in our telephone conversation, a statement to that effect would be fine.

Please let me know if you need additional information.

Sincerely,
Appendix B

Correspondence received from Deloitte Touche.

Deloitte

October 30, 2003

Mr. Andrew Wright
Project Director
Western and Central Pacific Fisheries Commission
Honolulu, Hawaii 96814

Dear Mr. Wright:

We are pleased to propose services as independent scientists and auditors for Western and Central Pacific Fisheries Commission. Mr. Daniel L. Fitzgerald will be responsible for all services we perform for you.

It is our usual practice to have a second partner act in a consulting capacity on each client assignment. The purpose of this arrangement is to have another partner who can substitute for Mr. Fitzgerald in the event he is unable to work with you when a second viewpoint is needed. Ms. Lee Velasquez will be the consulting partner for Western and Central Pacific Fisheries Commission.

It will be the responsibility of Mr. Fitzgerald and Ms. Velasquez to make sure that your management receives quality service. If there are any concerns or questions or if you would like to know more about our firm, please contact us.

Audit of Financial Statements

Our audit of Western and Central Pacific Fisheries Commission's financial statements for the year ended December 31, 2003 and 2004, will be conducted in accordance with generally accepted auditing standards in the United States of America. The objective of our work is the expression of our opinion concerning the financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Our audit of financial statements in accordance with generally accepted auditing standards requires the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

In conducting the audit, we will render an opinion on the financial statements in accordance with our audit procedures.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe the audit to obtain reasonable assurance at detecting errors and irregularities.

Sincerely,

[Signature]

Deloitte Touche
that are material to the financial statements and we will perform tests of Western and Central Pacific Fisheries Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, because of the characteristics of insecurities, particularly those involving injury and pollution, a properly designed and executed audit may not detect such items. Therefore, an audit conducted in accordance with auditing standards generally accepted in the United States of America is directed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we will consider the organization's internal control and assess control risk, for the purpose of establishing a basis for determining the nature, timing, and extent of audit procedures necessary for expressing our opinion on the financial statements, and to provide assurances to Western and Central Pacific Fisheries Commission's internal control. Our audit procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and will include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representation from your company as part of the engagement, and you will have an opportunity to respond to this report.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that occurred during any later periods for which we have not been engaged as auditors and for which we have performed no auditing procedures.

The objective of our audit is the expression of an opinion on the fairness of presentation of Western and Central Pacific Fisheries Commission's financial statements in conformity with accounting principles generally accepted in the United States of America. Our ability to express that opinion, will, of course, depend on the facts and circumstances at the date of our report. If we are unable to complete our work in a timely manner, our report requires modification, the reasons therefore are discussed with Western and Central Pacific Fisheries Commission's management and the Board of Directors.

Management's Responsibilities

The financial statements are the responsibility of management. In this regard, management has the responsibility for preparing financial statements that are free of material misstatement, for designing and establishing and maintaining effective internal controls for financial reporting and for maintaining records, and for preparing accounting policies generally accepted in the United States of America, and for making all financial records and related information available to us.

We have no specific review of management about the representations embedded in the financial statements. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the financial statements and confirming certain representations made to us during our audit. The responses to those letters and related written representations of management required by auditing standards generally accepted in the United States of America are part of the evidence we rely on and we rely on the evidence in forming our opinion on Western and Central Pacific Fisheries Commission's financial statements. Because of the importance of management's representations, Western and Central Pacific Fisheries Commission agrees to release and indemnify Deloitte & Touche and its partners, principals and employees, from and against any and all actions, losses, damages, claims, liabilities, costs, and expenses (including, without limitation, attorney's fees and expenses), and the time
Mr. Andrew Weir
Western and Central Pacific Fisheries Commission
October 26, 2005

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of Deloitte & Touche permitted involuntarily relating to our services under this engagement, nor attributable to any misrepresentation by management.

If Western and Central Pacific Fisheries Commission intends to publish or otherwise reproduce in any document our report, or Western and Central Pacific Fisheries Commission's financial statements, or otherwise make reference to Deloitte & Touche, in a document that contains other information in addition to the audited financial statements (e.g., in a white paper, energy forum, or in a private placement memorandum), Western and Central Pacific Fisheries Commission agrees that prior to doing so, we will review the document and/or reference in question with us to confirm its inclusion or incorporation by reference in an offering or other document will be accomplished, based on the form and circumstances existing at the time of such request. The estimated fee for that work does not include any services that would need to be performed in connection with any such request to make sure of our report, or reference to Deloitte & Touche, from for such services (and fees therefor) would be subject to our mutual agreement at such time and would be described in a separate engagement letter.

Other Communications Arising from the Audit

In connection with the planning and the performance of our audit, matters generally accepted in the United States of America, require that we ensure that certain matters are communicated to the Board of Directors.

We will report directly to the Board of Directors any findings which we believe are matters that could result in management's or for which we believe there is a material misstatement of the financial statements. We will report to the Board of Directors any legal, regulatory, or other matters we become aware of in the course of our audit that have not already been brought to our attention during the course of our audit and that, in our judgment, are material to our audit.

We will also report directly to Western and Central Pacific Fisheries Commission management and the Board of Directors matters coming to our attention during the course of our audit that we believe are regulatory violations, including any alleged law that have been discovered or have been brought to our attention in the course of our audit, unless such alleged law is clearly insubstantial.

We will also report directly to Western and Central Pacific Fisheries Commission management and the Board of Directors matters coming to our attention during the course of our audit that we believe are improper conditions. Regrettable conditions are significant deficiencies in the design or operation of internal controls that could adversely affect Western and Central Pacific Fisheries Commission's ability to report, prevent, or detect material misstatements in the financial statements.

We may also have other comments for management or matters we have observed and possible ways to improve the efficiency of Western and Central Pacific Fisheries Commission's operations or other matters of interest concerning internal control.
Mr. Andrew Wright  
Western & Central Pacific Fisheries Commission  
Oceans 2021  

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With respect to direct sales communications, it is our practice to discuss all comments in accordance with the level of management responsible for the matter prior to their communication to senior management and/or the Board of Directors.

Assistance to be provided by your personnel, including preparation of schedules and analysis of accounts will be commensurate to you during the planning phase. Timely completion of this work will facilitate the conclusion of our work.

Rates

Our rates are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses (printing, mailing, etc.). Our normal practice is a $1,000 retainer would be expected upon commencement of this engagement agreement.

If this agrees in accordance with your understanding, please sign and return us a duplicate of this letter.

We appreciate this opportunity to serve Western & Central Pacific Fisheries Commission and trust that our association will continue to be a long and pleasant one.

Very truly yours,

[Signature]

ACCEPTED AND APPROVED BY:

Western & Central Pacific Fisheries Commission

Authorized Signature

[Signature]

Title

[Title]

Date

[Date]