
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.

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,

Correspondence received from Deloitte Touche.

Deloitte

Deloitte & Touche
P.O. Box 753
Koloria, Pohnpei FM 96941
Tel: +1 691 328 2781
Fax: +1 691 328 5402

October 26, 2005

Mr. Andrew Wright
Executive Director
Western and Central Pacific Fisheries Commission
Koloria, Pohnpei 96941

Dear Mr. Wright:

We are pleased to propose service as independent accountants and auditors for Western and Central Pacific Fisheries Commission. Mr. Daniel S. 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 his absence or work with him when a second viewpoint is desired. Mr. Lee Vensel will be the consulting partner for Western and Central Pacific Fisheries Commission.

It will be the responsibility of Mr. Fitzgerald and Mr. Vensel to make sure that your management receives quality service. They will, as considered necessary, call upon other individuals with specialized knowledge, either in this office or elsewhere in our firm.

While auditing and reporting on your annual financial statements is to be the recurring basic service we provide, we would also like to assist you on issues as they arise throughout the year. Hence, we hope you will call Mr. Fitzgerald whenever you feel he can be of assistance.

Audit of Financial Statements

Our audit of Western and Central Pacific Fisheries Commission's financial statements for the years ended December 31, 2005 and 2006, will be conducted in accordance with auditing standards generally accepted in the United States of America. The objective of an audit carried out in accordance with these standards is the expression of our opinion concerning whether the financial statements present, fairly, in all material respects the financial position and results of operations of the organization in conformity with accounting principles generally accepted in the United States of America. Our ability to express our opinion and the wording of our opinion, will, of course, be dependent on the facts and circumstances at the date of such reports. If we are unable to complete our audit or if our auditors' reports require modification, the reasons therefore will be discussed with Western and Central Pacific Fisheries Commission's management and the Board of Directors.

In addition, we will render a report on illegal acts, as required, depending on the results of our audit procedures.

An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 design the audit to obtain reasonable assurance of detecting errors and irregularities.

Member of
Deloitte Touche Tohmatsu

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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 irregularities, particularly those involving forgery and collusion, 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 designed 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 auditing procedures necessary for expressing our opinion on the financial statements, and not to provide assurance on Western and Central Pacific Fisheries Commission's internal control. Our auditing procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may 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 attorney as part of the engagement, and they will bill you for responding to this inquiry.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that arise 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, and the wording of our opinion, will, of course, be dependent on the facts and circumstances at the date of our report. If we are unable to complete our audit or if our auditors' report requires modification, the reasons therefore will be discussed with Western and Central Pacific Fisheries Commission's management and the Board of Directors.

Management's Responsibility

The financial statements are the responsibility of management. In this regard, management has the responsibility for, among other things, establishing and maintaining effective internal controls for identifying and ensuring that Western and Central Pacific Fisheries Commission complies with the laws and regulations applicable to its activities, for properly recording transactions in accounting records, for making appropriate accounting estimates, for safeguarding assets, for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America, and for making all financial records and related information available to us.

We will make specific inquiries of management about the representations embodied 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 inquiries and related written representations of management required by auditing standards generally accepted in the United States of America are part of the evidential matter that we will rely on as auditors 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

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of Deloitte & Touche personnel involved) relating to our services under this engagement letter attributable to any misrepresentation by management.

If Western and Central Pacific Fisheries Commission intends to publish or otherwise reproduce in any document our report on 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 debt or equity offering circular or in a private placement memorandum), Western and Central Pacific Fisheries Commission agrees that prior to making any such use of our report, or reference to Deloitte & Touche, Western and Central Pacific Fisheries Commission management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to Deloitte & Touche, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report and any request by Western and Central Pacific Fisheries Commission to reissue our report or to consent to its inclusion or incorporation by reference in an offering or other document will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request to make use of our report, or reference to Deloitte & Touche; fees for such services (and their scope) 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, auditing standards 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 fraud of which we become aware that involves senior management and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Board of Directors, unless otherwise directed by the Board of Directors.

We will inform the appropriate level of management of Western and Central Pacific Fisheries Commission and ensure that the Board of Directors are adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal act is clearly inconsequential.

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 reportable conditions. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect Western and Central Pacific Fisheries Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of Western and Central Pacific Fisheries Commission's operations or other recommendations concerning internal control.

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With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters prior to their communication to senior management and/or the Board of Directors.

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

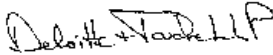
Fees

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses (printing, airfreight, etc.). Our total fees are estimated not to exceed \$12,500. As is our normal practice a \$1,000 retainer would be expected upon commencement of this engagement agreement.

If the foregoing is in accordance with your understanding, please sign and return to us the duplicate of this letter.

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

Very truly yours,



ACCEPTED AND APPROVED BY:

Western & Central Pacific Fisheries Commission

Authorized Signature _____

Print Name & Title _____

Date _____