



**ELEVENTH REGULAR SESSION
FINANCE AND ADMINISTRATION COMMITTEE
Eighth Session
Faleata Sports Complex, Apia, Samoa
30 November - 6 December 2014**

**AUDITOR'S REPORT FOR 2013 AND GENERAL ACCOUNT FUND
FINANCIAL STATEMENTS FOR 2013**

**WCPFC11-2014-FAC8-04
28 October 2014**

Introduction

1. The Commission's Financial Regulations require that the independent external auditor issue a report on the audit of the annual financial statements and relevant schedules relating to the accounts (Finance Regulation 12.6). Following consideration of the audited financial statements and audit report, the Commission shall signify its acceptance of the audited financial statements or take such other action as it may consider appropriate (Financial Regulation 13.1).
2. In undertaking the audit, the auditor is required to report on all relevant matters, including:
 - whether the statements are based on proper accounts and records;
 - whether the statements are in agreement with the accounts and records;
 - whether income, expenditure and investment of moneys and the acquisition and disposal of assets by the Commission during the year were in accordance with the Regulations; and
 - provide observations with respect to the efficiency and economy of the financial procedures and conduct of business, the accounting system, internal financial controls and the administration and management of the Commission.
3. The audit and compliance documents, which comprise all of the formal communications from the external auditor, were circulated to all Commission Members, Cooperating Non-Members and Participating Territories in August 2013. The audit, compliance reports and annual financial statements are attached for reference. They show a compliant and unqualified set of accounts and reports.

External Audit Timing Requirements

4. In accordance with the requirements of Finance Regulation 12, the Commission's annual financial statements for the 2013 financial period were submitted to the Auditor prior to 31 March 2013. The audit was submitted to the Commission on 14 August 2014. The delay in circulating the audit was due to the late submission of reports from several Members.

Scope

5. The primary reporting focus of the financial statements is the Commission's General Account Fund established in accordance with Financial Regulation 6.1 (a). However, detailed information about the other funds in existence as at 31 December 2013: the Working Capital Fund; Special Requirements Fund; Regional Observer Programme Support Fund; Western Pacific East Asia Oceanic Fisheries Management Project; the Japanese Trust Fund; and the Voluntary Contributions Fund was provided to the auditor and addressed in Note 7 to the Financial Statements. These other funds were therefore subject to the same audit process as the General Account Fund. The reporting format for the other funds was adopted on the recommendation of the external auditor.

Audit findings

6. The audit report and compliance report provides:
- the external auditor's opinion was that the "financial statements referred to above present fairly, in all material respects, the financial position of the general account fund of the Commission as of December 31, 2013, and the results of its operations and its cash flows for the year..."; and
 - a statement that there was no evidence of noncompliance with the Commission's Financial Regulation 12.4 (c) which requires an opinion on regulatory compliance in relation to income, expenditure, the investment of moneys and the acquisition and disposal of assets.

Financial results

7. For the General Account Fund, the financial statements show that there was an excess of income over expenditure of USD326,003. In addition to the surplus, prior years' contributions of USD117,771 were paid by some Members in 2013 and the liability for unliquidated obligations was reduced by USD22,996 in 2013. Thus, the General Account Fund balance at the end of the year was USD466,770. In accordance with Financial Regulation 4.4 this balance was transferred to the Working Capital Fund.

Recommendation

8. The Commission is invited to consider the audited financial statements.

**WESTERN AND CENTRAL PACIFIC
FISHERIES COMMISSION**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED DECEMBER 31, 2013

Independent Auditors' Report

The Chairman
Western and Central Pacific Fisheries Commission:

We have audited the accompanying financial statements of Western and Central Pacific Fisheries Commission (the "Commission"), which comprise the general account fund statement of assets, liabilities and fund balance as of December 31, 2013, and the related statement of income and expenditures and changes in fund balance, of cash flows and of appropriations and expenditures for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Commission's financial regulation 12.4; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards, which are consistent with the generally accepted auditing standards referred to in the Commission's financial regulation 12.4, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

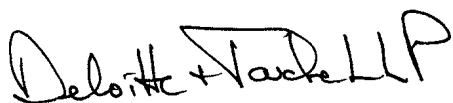
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the general account fund of the Commission as of December 31, 2013, and the results of its operations and its cash flows for the year then ended on the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 to the financial statements, which describe the basis of accounting. The financial statements were prepared in conformity with financial regulations of the Commission and certain accounting standards adopted by other international organizations, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

We have also issued our report dated August 4, 2014, on the Commission's compliance with financial regulation 12.4(c) and our consideration of the Commission's internal control over financial reporting as required by the Commission's financial regulation 12.4(d).

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

August 4, 2014

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

General Account Fund
 Statement of Assets, Liabilities and Fund Balance
 December 31, 2013
 (With Comparative Totals as of December 31, 2012)

<u>Assets</u>	<u>2013</u>	<u>2012</u>	<u>Note</u>
Cash and short-term deposits	\$ 1,310,851	\$ 1,677,403	
Contributions receivable	171,822	124,321	
Less provision for delayed contributions	(171,822)	(124,321)	4
Due From Other Funds	9,378	393,970	
Accounts receivable	27,053	18,908	
Other assets and advance payments	16,358	-	
Total assets	<u>\$ 1,363,640</u>	<u>\$ 2,090,281</u>	
 <u>Liabilities and Fund Balance</u>			
Unliquidated obligations	\$ 409,900	\$ 683,194	
Accounts payable	30,158	36,988	
Member contributions in advance	155,566	288,490	
Owed to Other Funds	543,545	878,821	
Accrued entitlements	188,791	167,316	
Income tax withheld	5,905	5,390	
Social security tax withheld	(225)	82	
Provision for medical expenses	30,000	30,000	
Fund balance	-	-	
Total liabilities and fund balance	<u>\$ 1,363,640</u>	<u>\$ 2,090,281</u>	

See accompanying notes to financial statements.



Glenn Hurry
 Executive Director

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

General Account Fund
 Statement of Income and Expenditures and Changes in Fund Balance
 Year Ended December 31, 2013
 (With Comparative Totals for the Year Ended December 31, 2012)

<u>Income</u>	<u>2013</u>	<u>2012</u>	Note
Contributions:			
Assessed contributions	\$ 6,478,367	\$ 5,568,883	4
Voluntary contributions	<u>10,883</u>	<u>10,608</u>	
Total contributions income	6,489,250	5,579,491	
Miscellaneous income:			
Interest	3,932	7,416	
Other	<u>572,002</u>	<u>505,060</u>	
Total income	<u>7,065,184</u>	<u>6,091,967</u>	
Less			
Expenditures	<u>6,573,924</u>	<u>6,033,144</u>	(refer Statement of Appropriations & Expenditures, page 5)
Excess of income over expenditure	491,260	58,823	
Less			
Delayed contributions	<u>165,257</u>	<u>79,660</u>	
Net excess of income over expenditure (expenditure over income)	326,003	(20,837)	
<i>add</i>			
Prior year contributions paid in current year	-	(60,379)	
Fund balance at beginning of year	-	320,000	
Transfer to Working Capital Fund	<u>(326,003)</u>	<u>(238,784)</u>	
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	

See accompanying notes to financial statements.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

General Account Fund
Statement of Cash Flows
Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

Cash flows from operating activities:	<u>2013</u>	<u>2012</u>
Net excess of income over expenditures (expenditures over income)	\$ 326,003	\$ (20,837)
(Increase) decrease in other accounts receivable	376,447	(386,259)
(Increase) decrease in other assets	(16,358)	44,466
Increase (decrease) in advances from member states	(132,924)	288,490
Increase (decrease) in unliquidated obligations	(273,294)	145,135
Increase (decrease) in other liabilities	(320,423)	326,419
Previous year's contributions paid	<u>-</u>	<u>(60,379)</u>
Net cash from operating activities	(40,549)	337,035
Transfer to Working Capital Fund	<u>(326,003)</u>	<u>(238,784)</u>
Net change in cash and short term deposits	(366,552)	98,251
Cash and short term deposits at the beginning of the year	<u>1,677,403</u>	<u>1,579,152</u>
Cash and short term deposits at the end of the year	<u><u>\$ 1,310,851</u></u>	<u><u>\$ 1,677,403</u></u>

See accompanying notes to financial statements.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

**Statement of Appropriations and Expenditures
Year Ended December 31, 2013**

WCPFC Budget Items 2013 Assessed and Voluntary Contributions General Account Fund Expenditure	Approved Budget 2013	Transfers	Revised Budget	Total Expenditures 31/12/13	Balance of Budget
Part 1 - Administrative Expenses of the Secretariat					
Sub-Item 1.1 Staff Costs					
Professional Staff Salary	1,020,679	-80,000	940,679	902,373	38,306
Professional Staff Benefits and Allowances	945,596	-114,000	831,596	793,047	38,548
Professional Staff Insurance	129,990	-10,500	119,490	114,585	4,905
Recruitment/Repatriation	55,130	-20,000	35,130	33,643	1,487
Support Staff	339,971	0	339,971	323,256	16,715
Total, sub-item 1.1	2,491,366	-224,500	2,266,866	2,166,905	99,961
Sub-Item 1.2 Other Personnel Costs					
Temporary Assistance/Overtime	10,000	0	10,000	3,477	6,523
Chairman's Expenses	0	0	0	0	0
Consultants	138,000	0	138,000	126,215	11,785
Total, sub-item 1.2	148,000	0	148,000	129,692	18,308
Sub-item 1.3 Official Travel					
	220,000	-12,050	207,950	163,920	44,030
Sub-item 1.4 General Operating Expenses					
Electricity, Water, Sanitation	132,000	-8,300	123,700	117,188	6,512
Communications/Courier	65,000	4,610	69,610	69,609	1
Office Supplies & Fuel	46,500	-4,610	41,890	40,950	940
Publications and Printing	7,500	0	7,500	402	7,098
Audit	8,000	0	8,000	7,000	1,000
Bank Charges	11,500	0	11,500	4,576	6,924
Official Hospitality	11,000	0	11,000	10,102	898
Community Outreach	5,000	0	5,000	4,861	139
Miscellaneous Services	9,000	8,300	17,300	17,264	36
Security	58,990	0	58,990	55,702	3,288
Training	30,000	0	30,000	17,213	12,787
Total, sub-item 1.4	384,490	0	384,490	344,867	39,623
Sub-item 1.5 Capital Expenditure					
Vehicles	0	8,000	8,000	7,278	722
Information Technology	50,200	0	50,200	47,452	2,748
Website New Projects/Enhancements	35,000	0	35,000	32,341	2,659
Furniture and Equipment	32,000	6,900	38,900	38,810	90
Solar Power Installation	0	114,000	114,000	113,447	553
Total, sub-item 1.5	117,200	128,900	246,100	239,327	6,773
Sub-item 1.6 Maintenance					
Vehicles	4,500	0	4,500	4,275	226
Information and Communication Technology	78,500	25,600	104,100	104,044	56
Buildings & Grounds	53,500	0	53,500	50,291	3,209
Gardeners and Cleaners	61,090	0	61,090	56,291	4,799
Insurance	37,000	-10,000	27,000	21,511	5,489
Repairs to Electrical System	0	80,000	80,000	80,000	0
Total, sub-item 1.6	234,591	95,600	330,191	316,412	13,779
Sub-item 1.7 Meeting Services					
Annual Session	275,000	44,500	319,500	319,453	47
Scientific Committee	180,000	-26,000	154,000	153,674	326
Northern Committee	18,000	3,100	21,100	21,040	60
Technical and Compliance Committee	140,000	-12,800	127,200	127,156	44
Management Objectives Workshop	100,000	3,250	103,250	103,202	48
Total, sub-item 1.7	713,000	12,050	725,050	724,525	525
TOTAL, Section 1/Item 1	4,308,647	0	4,308,647	4,085,647	222,999
Part 2 - Science & Technical & Compliance Programme					
Section 2 (Item 2)					
Sub-item 2.1 Scientific Services (SPC)					
	871,200	0	871,200	871,200	0
Sub-item 2.2 Scientific Research					
Additional Resourcing SPC	160,000	0	160,000	160,000	0
Regional Tagging	10,000	0	10,000	10,000	0
Refinement of BE Tuna Biological Parameters	70,000	0	70,000	70,000	0
Limit Reference Points	30,000	0	30,000	30,000	0
WPEA OFM Project Co-finance	25,000	0	25,000	25,000	0
Bigeye Multifan CL	40,000	0	40,000	40,000	0
High Priority Project(s) - to be allocated	83,000	0	83,000	83,000	0
Collection/Evaluation: PS Species Composition	75,000	0	75,000	75,000	0
Total, sub-item 2.2	493,000	0	493,000	493,000	0
Sub-item 2.3 Technical & Compliance Programme					
ROP - Audit/Remediation	15,000	-3,800	11,200	3,574	7,626
ROP - Special Projects and Research Activities	30,000	0	30,000	24,282	5,718
ROP - Training, Assistance & Development	30,000	0	30,000	15,188	14,812
Reg. Obs. Prog. Data Entry (SPC)	256,569	300	256,869	256,847	22
By-Catch Mitigation - Website	10,000	0	10,000	10,000	0
Vessel Monitoring System - Capital Costs	40,000	0	40,000	40,000	0
Vessel Monitoring System - SLA Costs	400,000	0	400,000	382,018	17,982
Vessel Monitoring System - Airtime	90,000	6,000	96,000	95,860	140
Vessel Monitoring System - Security Audit	9,000	0	9,000	7,229	1,771
C/M/Staff VMS Training	60,000	0	60,000	0	60,000
VMS Redundancy Provision	18,700	-6,000	12,700	0	12,700
Information Management System	100,000	3,500	103,500	103,410	90
Workshops/IATTC Cross Endor. Train.	25,000	-2,200	22,800	21,693	1,107
AR Part 2/CMS Online Host. and Pub.	18,000	0	18,000	16,796	1,204
Targeted Capacity Building	30,000	0	30,000	24,213	5,787
Catch Documentation Workshop	140,000	0	140,000	30,800	109,200
CMM 2012-1 Workshop	90,000	2,200	92,200	92,167	33
Total, item 2.3	1,362,269	0	1,362,269	1,124,077	238,192
TOTAL, Section 2/Item 2	2,726,469	0	2,726,469	2,488,277	238,192
Total, Parts 1 & 2	7,035,116	0	7,035,116	6,573,924	461,191

See accompanying notes to the financial statements.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

1. Organization

The Western and Central Pacific Fisheries Commission (the Commission) is an international organization established under the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the western and central Pacific Ocean. The Commission came into existence on 19th of June 2004 through force of the Convention. The Secretariat was established in September 2005 when the Executive Director took up his post.

The Commission is the organization through which state parties to the Convention seek to ensure, through effective management, the long term conservation and sustainable use of highly migratory fish stocks in the western and central Pacific Ocean in accordance with the United Nations Convention on the Law of the Sea of 10 December 1982 and the Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks.

The subsidiary bodies of the Commission are a Scientific Committee, a Technical and Compliance Committee, a Northern Committee and a Finance and Administration Committee.

The Commission is currently concentrating on:

- (i) Implementing the decisions of the Annual Sessions of the Commission in relation to conservation and management measures;
- (ii) Monitoring the effect of the conservation and management measures adopted in terms of supporting the sustainable use, conservation and management of western and central Pacific fish stocks and improving data acquired from fisheries in the Convention Area as a basis for monitoring the fisheries supported by members;
- (iii) Operationalising an integrated system for monitoring, control and surveillance, as provided for in the Convention, including establishment of the Commission's Vessel Record and Authorizations to Fish, Procedures for Listing Vessels that have undertaken IUU fishing activities in the Convention Area, implementation of the High Seas Boarding and Inspection scheme, the satellite-based vessel monitoring system and the Regional Observer Programme.
- (iv) Administration of relationships with other Regional Fisheries Management Organizations;
- (v) Monitoring initiatives to establish an international convention for straddling fish stocks and discrete high seas fish stocks in the southern Pacific Ocean;
- (vi) Supporting efforts to improve data collection and research associated with tuna fisheries and the WCPO ecosystem including initiatives to scale up tuna tagging programmes;
- (vii) Supporting efforts to promote an ecosystems approach to fisheries (EAF) and its application to WCPO;
- (viii) Supporting efforts to mitigate the impacts of tuna fishing on non-target species and the marine ecosystem;
- (ix) Supporting initiatives to evaluate management options for WCPO tuna resources including the matter of allocation;
- (x) Monitoring and engagement with global efforts to address tuna fishing capacity concerns;
- (xi) Monitoring developments in the tuna industry; and
- (xii) The establishment of a fully functional Secretariat.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

2. Summary of Significant Accounting and Financial Reporting Policies of the Commission Scope

These financial statements primarily reflect the assets, liabilities and transactions relating to the General Account Fund. The Commission administers the following other funds:

- Working Capital Fund;
- Special Requirements Fund;
- Regional Observer Programme Support Fund;
- Western Pacific East Asia Oceanic Fisheries Management Project Fund;
- Japanese Trust Fund;
- Fees and Charges Trust Fund; and
- Voluntary Contributions Fund

The Fees and Charges trust fund was established in 2010 following a decision by the Commission at WCPFC6 to impose a fee on non-member carrier and bunker vessels.

The accounts of the Commission are maintained in accordance with the financial regulations of the Commission and administrative instructions issued by the Executive Director of the Commission. They also take into account certain accounting standards adopted by the United Nations Common System.

The Commission accounts are maintained on a fund accounting basis. The funds are maintained as distinct financial and accounting entities.

The financial period of the Commission consists of a calendar year. The financial statements presented are for the calendar year 1 January to 31 December 2013.

Generally, income, expenditure, assets, and liabilities are recognized on the accrual basis of accounting (please refer "Assets" hereunder).

The accounts of the Commission are presented in United States Dollars (USD). Accounts maintained in other currencies are translated into USD at the time of the translation at the current rates of exchange.

Income

The amounts necessary to finance the activities of the Commission are assessed to Member States according to the agreed scale of assessments set out in the Commission's Financial Regulations. Interest income includes interest earned on various bank accounts and term deposits.

Expenditure

All General Account Fund expenditures are recorded against allocated lines of budgetary appropriation.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements

December 31, 2013

(With Comparative Totals as of December 31, 2012)

2. Summary of Significant Accounting and Financial Reporting Policies of the Commission Scope, Continued

Assets

Cash and term deposits comprise funds on deposit in operating accounts, interest bearing bank accounts, and petty cash holdings.

The asset Contributions receivable is matched by a Provision for delays in collection of the outstanding contributions, in accordance with United Nations System Accounting Standards. This is done in the interests of prudence and no judgment is made about collectability.

Acquisition of capital assets are charged against expenditure accounts in the year of purchase, hence furniture, equipment and other non-expendable property are not included in the assets of the Commission appearing in the Statement of Assets, Liabilities, Reserves and Fund Balance. The estimated total of non-expendable property held by the Commission is stated in note 6.

Use of Estimates

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and any adjustments that may be necessary would be reflected in the year in which actual results are known.

Taxation

The Commission is exempt from taxes and custom duties as follows:

Within the scope of the official activities, the Commission, its property, premises and assets and its income, including contributions made to the Commission under the Convention, shall be exempt from all national taxes. Goods, including the Commission's publications, motor vehicles and items for official entertainment purposes that are intended for the official use of the Commission shall be exempt from all customs and excise duties payable at customs, except payment for services.

Goods imported or purchased under an exemption shall not be sold or otherwise disposed of in the Federated States of Micronesia, except under conditions agreed in advance with the Government.

The Commission is subject to Pohnpei State Tax but has an arrangement in place with the national government for that tax to be reimbursed.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

3. Cash and Term Deposits

Funds being held in the name of the Commission but which are not included in the General Account Fund statements amounted to \$2,789,684. These funds are:

<u>Fund</u>	<u>2013</u>	<u>2012</u>
Working Capital Fund	\$ 1,730,167	\$ 1,595,691
Western Pacific East Asia Oceanic Fisheries Management Project Fund	268,111	642,114
Regional Observer Program Support Fund	118,799	156,035
Special Requirements Fund	83,906	146,435
Fees and Charges Trust Fund	415,871	460,572
Japanese Trust Fund	15,477	13,555
Voluntary Contributions Fund	<u>157,353</u>	<u>30,390</u>
Total	\$ <u>2,789,684</u>	\$ <u>3,044,792</u>

4. Provision for Delays in the Receipt of Contributions Receivable

The provisions of \$171,822 in 2013, are derived as follows:

	<u>2013</u>	<u>2012</u>
Assessed member contributions for the approved current year budget	\$ 6,478,367	\$ 5,568,883
<u>Add</u> Outstanding Contributions as at beginning of year	<u>124,321</u>	<u>517,935</u>
Total member contributions available for collection	6,602,688	6,086,818
<u>Less</u> current year Contributions received	<u>6,313,095</u>	<u>5,489,238</u>
Provision for delayed contributions	289,593	597,580
<u>Less</u> prior year contributions received in current year	<u>117,771</u>	<u>473,259</u>
Total provision as at end of year	\$ <u>171,822</u>	\$ <u>124,321</u>

5. Transfer of Excess Funds to the Working Capital Fund

Transfers of \$466,770 did not take place in the 2013 fiscal year but will take place at the beginning of the 2014 fiscal year.

6. Non-Expendable Property

A lease and grant for the Commission's headquarters building were obtained at no charge during 2007. The cost value of the building has been estimated at \$2.9 million.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds

Working Capital Fund

The Commission's Working Capital Fund as at December 31, 2013 totaled \$1,730,167. A copy of the financial statements related to the Working Capital Funds is on page 12.

Western Pacific East Asia Oceanic Fisheries Management Project

The balance of this fund as at December 31, 2013 totaled \$268,111. A copy of the financial statements related to the fund is at page 13.

Regional Observer Program Support Fund

The balance of this fund as at December 31, 2013 totaled \$118,799. A copy of the financial statement related to the fund is on page 14.

Special Requirements Fund

The balance of the Special Requirements Fund as at December 31, 2013 totaled \$83,906. A copy of the financial statements related to the fund is on page 15.

Japanese Trust Fund

The balance of the Japanese Trust Fund as at December 31, 2013 totaled \$15,477. A copy of the financial statements related to the fund is on page 16.

Fees and Charges Trust Fund

The balance of the Fees and Charges Trust Fund, as at December 31, 2013 totaled \$415,871. A copy of the financial statements related to the fund is on page 17.

Voluntary Contributions Fund

The balance of the Voluntary Contributions Fund as at December 31, 2013 totaled \$157,353. A copy of the financial statements related to the fund is on page 18.

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
 December 31, 2013
 (With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Working Capital Fund
 Schedule of Income and Expenditures and Changes in Fund Balance
 Year Ended December 31, 2013
 (With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income and Other Additions:		
Balance brought forward from prior year	\$ 1,595,691	\$ 1,139,584
General Account Surplus, savings on prior year obligations and prior year's contributions received	481,569	807,094
Interest	<u>2,918</u>	<u>3,533</u>
Total income	<u>2,080,178</u>	<u>1,950,211</u>
Expenditures	<u>350,011</u>	<u>354,520</u>
Fund balance	\$ <u>1,730,167</u>	\$ <u>1,595,691</u>

Working Capital Fund
 Schedule of Assets, Liabilities and Fund Balance
 December 31, 2013
 (With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ 665,113	\$ 542,095
Money market account	598,284	596,502
Owed from General Account Fund	<u>466,770</u>	<u>807,094</u>
Total assets	<u>1,730,167</u>	<u>1,945,691</u>
<u>Liabilities</u>		
Liabilities	<u>-</u>	<u>350,000</u>
<u>Fund balance</u>	\$ <u>1,730,167</u>	\$ <u>1,595,691</u>

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Western Pacific East Asia Oceanic Fisheries Management Project Fund
Schedule of Income and Expenditures and Changes in Fund Balance
Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income and Other Additions:		
Balance brought forward from prior year	\$ 642,114	\$ 649,863
Contribution:		
International Seafood Sustainability Foundation	-	10,000
WCPFC GAF co-financing	25,000	25,000
Japan Trust Fund	-	34,330
UNDP	-	379,715
Interest	<u>472</u>	<u>705</u>
Total income	<u>667,586</u>	<u>1,099,613</u>
Expenditures	<u>399,475</u>	<u>457,499</u>
Fund balance	\$ <u>268,111</u>	\$ <u>642,114</u>

Western Pacific East Asia Oceanic Fisheries Management Project Fund
Schedule of Assets, Liabilities and Fund Balance
December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ 119,483	\$ 191,137
Money market account	126,666	126,486
Prepaid expense	566	566
Tranche payment from UNDP	-	313,008
Owed from General Account Fund	<u>26,775</u>	<u>25,000</u>
Total assets	<u>273,490</u>	<u>656,197</u>
<u>Liabilities</u>		
Amount due to General Account Fund	<u>5,379</u>	<u>14,083</u>
<u>Fund balance</u>	\$ <u>268,111</u>	\$ <u>642,114</u>

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Regional Observer Program Support Fund
Schedule of Income and Expenditures and Changes in Fund Balance
Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income and Other Additions:		
Balance brought forward from prior year	\$ 156,035	\$ 155,677
Interest	<u>231</u>	<u>358</u>
Total income	<u>156,266</u>	<u>156,035</u>
Expenditures	<u>37,467</u>	<u>-</u>
Fund balance	\$ <u>118,799</u>	\$ <u>156,035</u>

Regional Observer Program Support Fund
Schedule of Assets, Liabilities and Fund Balance
December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ <u>118,799</u>	\$ <u>156,035</u>
Total assets	<u>118,799</u>	<u>156,035</u>
<u>Fund balance</u>	\$ <u>118,799</u>	\$ <u>156,035</u>

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Special Requirements Fund
Schedule of Income and Expenditures and Changes in Fund Balance
Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income and Other Additions:		
Balance brought forward from prior year	\$ 146,435	\$ 236,160
Interest	<u>204</u>	<u>530</u>
Total income	<u>146,639</u>	<u>236,690</u>
Expenditures:		
Cook Islands to MCSWG Meeting	5,110	-
Tonga for Regional Observer Coordinator Workshop	3,450	-
Cook Islands to Pago Pago Meeting	3,664	-
FSM to Data Workshop	7,382	-
Fiji to Stock Assessment Workshop	875	-
Samoa to Stock Assessment Workshop	1,579	-
FSM to VMS related Workshop	8,317	-
Samoa to SC9	10,960	-
Nauru to MOC9	5,350	-
Cook Islands to WCPFC10	5,004	-
Nauru to WCPFC10	5,707	-
Samoa to WCPFC10	5,335	-
Cook Islands Prior Year Meetings	-	46,147
Tonga for an internship at WCPFC Headquarters	-	10,986
Marshall Islands i2Fish Group Meeting	<u>-</u>	<u>33,122</u>
Total expenditures	<u>62,733</u>	<u>90,255</u>
Fund balance	\$ <u>83,906</u>	\$ <u>146,435</u>

Special Requirements Fund
Schedule of Assets, Liabilities and Fund Balance
December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ <u>83,906</u>	\$ <u>146,435</u>
Total assets	<u>83,906</u>	<u>146,435</u>
<u>Fund balance</u>	\$ <u>83,906</u>	\$ <u>146,435</u>

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Japanese Trust Fund
Schedule of Income and Expenditures and Changes in Fund Balance
Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income and Other Additions:		
Balance brought forward from prior year	\$ 13,555	\$ 13,560
Contribution from Japan	403,380	428,354
Interest	<u>992</u>	<u>-</u>
Total income	<u>417,927</u>	<u>441,914</u>
Expenditures:		
Administrative expenses	30,259	29,885
Payments for projects	<u>372,191</u>	<u>398,474</u>
Total expenditures	<u>402,450</u>	<u>428,359</u>
Fund balance	\$ <u>15,477</u>	\$ <u>13,555</u>

Japanese Trust Fund
Schedule of Assets, Liabilities and Fund Balance
December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ <u>39,934</u>	\$ <u>114,696</u>
Total assets	<u>39,934</u>	<u>114,696</u>
<u>Liabilities</u>		
Unliquidated obligations (including admin expenses)	24,457	71,256
Owed to General Account Fund	<u>-</u>	<u>29,885</u>
<u>Fund balance</u>	\$ <u>15,477</u>	\$ <u>13,555</u>

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Fees and Charges Trust Fund
Schedule of Income and Expenditures and Changes in Fund Balance
Year Ended December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income and Other Additions:		
Balance brought from prior year	\$ 460,572	\$ 410,407
Carrier and bunker fees	9,942	70,396
Contributing non-members	254,025	214,467
Interest	<u>526</u>	<u>574</u>
Total income	<u>725,065</u>	<u>695,844</u>
Expenditures:		
Transfer to Working Capital Fund	191,748	125,000
Bank fees and other charges	9,962	95
Write off of CNM prior year unpaid contributions	<u>107,484</u>	<u>110,177</u>
Total expenditures	<u>309,194</u>	<u>235,272</u>
Fund balance	\$ <u>415,871</u>	\$ <u>460,572</u>

Fees and Charges Trust Fund
Schedule of Assets, Liabilities and Fund Balance
December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ 300,405	\$ 314,288
Amount due from General Account Fund	-	46,727
Amount due from Vol. Contributions Fund	2,600	-
Uncollected Contributions from CNMs	<u>128,325</u>	<u>102,553</u>
Total assets	<u>431,330</u>	<u>463,568</u>
<u>Liabilities</u>		
Advance Payments by CNMs	2,917	2,996
Carrier and Bunker Fees to be returned	<u>12,542</u>	<u>-</u>
Total liabilities	<u>15,459</u>	<u>2,996</u>
<u>Fund balance</u>	\$ <u>415,871</u>	\$ <u>460,572</u>

WESTERN AND CENTRAL PACIFIC FISHERIES COMMISSION

Notes to Financial Statements
December 31, 2013
(With Comparative Totals as of December 31, 2012)

7. Other Funds, Continued

Voluntary Contributions Fund
Schedule of Income and Expenditures and Changes in Fund Balance
Year Ended December 31, 2013
(With Comparative Totals as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
Income:		
Balance brought forward from prior year	\$ 30,390	\$ 5,309
Contribution from China	25,000	25,000
Western Pacific Reg'l Fishery Mtg Council contribution	35,000	-
NORMA SC9 & TCC9 contribution	4,000	-
NFA-PNG CDS Framework contribution	30,000	-
AusAid contribution	50,000	-
Interest	<u>92</u>	<u>81</u>
Total income	<u>174,482</u>	<u>30,390</u>
Expenditures:		
Project expenses	<u>17,129</u>	<u>-</u>
Total expenditures	<u>17,129</u>	<u>-</u>
Fund balance	\$ <u>157,353</u>	\$ <u>30,390</u>

Voluntary Contributions Fund
Schedule of Assets, Liabilities and Fund Balance
December 31, 2013
(With Comparative Totals as of December 31, 2012)

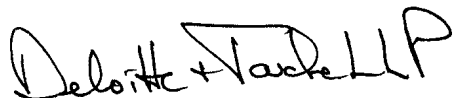
	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash at bank	\$ 123,953	\$ 40,390
Amount due from General Account Fund	<u>50,000</u>	<u>-</u>
Total assets	<u>173,953</u>	<u>40,390</u>
<u>Liabilities</u>		
Amount due to Fees and Charges account	2,600	-
Amount due to General Account Fund	4,000	-
Unliquidated Obligations	<u>10,000</u>	<u>10,000</u>
Total liabilities	<u>16,600</u>	<u>10,000</u>
<u>Fund balance</u>	\$ <u>157,353</u>	\$ <u>30,390</u>

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
SECTION 12.4(C) OF THE COMMISSION'S FINANCIAL REGULATIONS**

The Executive Director
Western and Central Pacific Fisheries Commission:

We have audited the general account fund statement of assets, liabilities and fund balance of the Western and Central Pacific Fisheries Commission (the Commission) as of December 31, 2013 and the related statements of income and expenditures and changes in fund balance, of cash flows and appropriations and expenditures for the year then ended, and have issued our report thereon dated August 4, 2014.

As a result of our audit, no instances came to our attention to indicate noncompliance with the Commission's financial regulation 12.4(c).

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive font.

August 4, 2014



Deloitte & Touche LLP
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Tamuning, GU 96913-3911
USA

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August 4, 2014

The Chairman
Western and Central Pacific Fisheries Commission

Dear Chairman:

We have performed an audit of the financial statements of Western and Central Pacific Fisheries Commission (the Commission) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated August 4, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Commission is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under generally accepted auditing standards has been described to you in our engagement letter dated March 31, 2014, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Commission’s financial statements in conformity with the financial regulations of the Commission and certain accounting standards adopted by other international organizations, in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by us with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with those accounting standards. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control relevant to the Commission’s preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control. Accordingly, we do not express an opinion on the operating effectiveness of the Commission’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. We are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates during the year ended December 31, 2013.

CORRECTED MISSTATEMENT

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud.

The material misstatements included in Appendix A to Appendix I was brought to the attention of management as a result of our audit procedures and were corrected by management during the current period.

SIGNIFICANT ACCOUNTING POLICIES

The Commission's significant accounting policies are set forth in note 1 to the Commission's 2013 financial statements. During the year ended December 31, 2013, there were no significant changes in previously adopted accounting policies or their application.

OTHER INFORMATION IN THE ANNUAL REPORT

The 2013 audited financial statements were not included in documents containing other information such as the Commission's Annual Report as of the date of this letter.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Commission's 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Commission's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Commission is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix I, a copy of the representation letter we obtained from management.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Commission's management and staff and had unrestricted access to the Commission's senior management in the performance of our audit.

OTHER MATERIAL WRITTEN COMMUNICATIONS

There were no other material written communications between management and us related to the audit of the financial statements for the year ended December 31, 2013.

CONTROL-RELATED MATTERS

We also noted a matter that we have attached to this letter, as Appendix II, related to the Commission's internal control over financial reporting as of December 31, 2013 that we wish to bring to your attention.

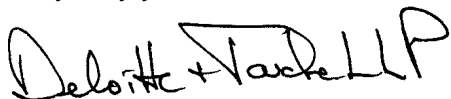
The definition of a deficiency is also set forth in Appendix II.

* * * * *

We wish to thank the staff and management of the Commission for their cooperation and assistance during the course of this engagement.

This report is intended solely for the information and use of management, the Board of Directors and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.



August 4, 2014

Deloitte & Touche
P. O. Box 753
Kolonias, Pohnpei 96941

Gentlemen:

In connection with your audit of the general account fund statement of assets, liabilities and fund balance as of December 31, 2013, and the related statements of income and expenditures and changes in fund balance, cash flows and appropriations and expenditures for the year then ended of the Western and Central Pacific Fisheries Commission for the purpose of expressing an opinion as to whether these statements present fairly the financial position, results of operations and cash flows of the Western and Central Pacific Fisheries Commission in conformity with accounting principles described in Note 2 to those financial statements, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. We are responsible for the fair presentation in the statements of financial position, activities, and cash flows in conformity with accounting principles described in Note 2 to the financial statements. We understand that, as is customary, your audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements. We note that the auditing standards generally accepted in the United States of America are consistent with the generally accepted auditing standards mentioned in the Commission's finance regulation 12.4. We also confirm that we are responsible for the design and implementation of programs and controls to prevent and detect fraud. We also understand that certain representations in this letter are being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of the surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. We confirm, to the best of our knowledge and belief that the financial statements and additional information referred to above are fairly presented on the basis of accounting described in Note 2 to those financial statements.
2. We have made available to you all -
 - a. Financial records and related data.

- b. Rules of Procedures as adopted at the Inaugural Session, financial regulations, the Headquarters Agreement and the staff regulations pertinent to the operations of the Commission.
3. WCPFC has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
4. There have been no -
 - a. Fraud involving management or employees who have significant roles in the system of internal control.
 - b. Fraud involving other employees that could have a material effect on the financial statements.
 - c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
5. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
6. We have advised you that there are no -
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
7. There are no unasserted claims or assessments that are probable of assertion and must be disclosed. We have not consulted an attorney concerning any such matters as we are not aware of any potential litigation or claims that are outstanding or that have been asserted.

Except where otherwise stated below, matters less than \$36,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

8. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
9. WCPFC has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged.

10. We have complied with the aspects of contractual agreements that have a material effect on the financial statements in the event of noncompliance.
11. WCPFC has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in WCPFC and do not believe that the financial statements are materially misstated as a result of fraud.
12. No events have occurred subsequent to the balance sheet date and to the date of our signatures below that could require adjustment to or disclosure in the financial statements.
13. In preparing the financial statements in conformity with the basis of accounting described in Note 2 to the financial statements, management makes estimates. The WCPFC secretariat is aware of its responsibilities to disclose in the financial statements all estimates where it is reasonably possible that the estimates will change in the near future and the effect of the change could be material to the financial statements. However, we do not believe that any events have occurred to the date of this letter, which would require revisions to the estimates used in the preparation of the aforementioned financial statements.
14. We have included certain comparative financial information from the prior year's financial statements in accordance with Section 11.2 of the Financial Regulations, which provides that the Executive Director shall give such other information as may be appropriate to indicate the financial position of the Commission.

Very truly yours,



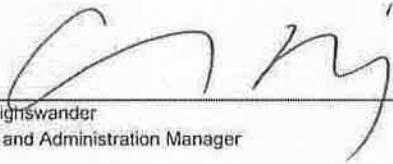
Glenn Hurry
Executive Director



Aaron Nighswander
Finance and Administration Manager

<u>Summary of Corrected Misstatement</u>									
Description of Misstatement	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
AJE 1 (WCAF)									
(Dr) 81000DT Transfer between funds (Expense)							350,010		350,010
(Cr) 81000 Transfer between funds (Revenue)								350,010	(350,010)
AJE 2 (WPEAFMP)									
(Dr) 42200DT Voluntary contributions (Expense)							22,796		22,796
(Cr) 42200 Voluntary contributions (Revenue)								22,796	(22,796)
AJE 3 (FTF)									
(Dr) 44000DT Ship registration fee (Expense)							9,962		9,962
(Cr) 44001DT Ship registration fee (Revenue)								9,962	(9,962)
AJE 4 (GAF)									
(Dr) 81001DT Transfers to WCF (Expense)							443,774		443,774
(Cr) 81000 Transfers Between Funds								443,774	(443,774)

The above adjustments were made only to the GL and not to the financial statements provided by WCPFC.
 The above corrected misstatements do not represent fraud or illegal acts.



Aaron Nighswander
 Finance and Administration Manager

SECTION I - OTHER MATTER

Our observation concerning another matter related to the Commission's internal control over financial reporting that we wish to bring to your attention is as follows:

Provision for Medical Evacuation

Comment: The provision for medical evacuations is not periodically reviewed or approved by management.

Recommendation: We recommend that management regularly review and evaluate all asset and liability accounts.

SECTION II - DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.