

**VERBATIM REPORT OF THE PUBLIC ACCOUNTS COMMITTEE MEETING HELD IN THE COMMITTEE ROOM (EAST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS, ON THURSDAY, 1<sup>ST</sup> SEPTEMBER, 2016 AT 10.10 A.M.**

**Submittee: Ministry of Local Government, Housing and Environment.**

In Attendance:

- |    |                  |   |                      |
|----|------------------|---|----------------------|
| 1. | Mr. Azam Khan    | - | Director             |
| 2. | Mr. Nilesh Naidu | - | Senior Admin Officer |
| 3. | Mr. Leone        | - | Technician           |
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MR. DEPUTY CHAIRMAN.- Honourable Members, good morning and a very warm welcome to the Officials from Ministry of Local Government, Housing and Environment. We also welcome the Officials from the Office of the Auditor-General and the Ministry of Public Enterprises.

Honourable Members, we have before us the submission from the Ministry of Local Government, Housing and Environment on the audit accounts of the Municipal Councils, the councils which primarily fall under their realm. Before we begin with the submissions, I would like introduce the Honourable Members of the Committee this meeting.

(Mr. Chairman introduced the Committee Members)

Without further ado, I would like to give this opportunity to the officials from Ministry of Local Government, Housing and Environment. Before you make your submission, if you could please briefly highlight us on the roles and responsibilities of your Ministry and a bit of introduction about the Ministry as well.

MR. A. KHAN.- Thank you very much for inviting us, Mr. Deputy Chair, and the Honourable Members of Public Accounts Committee, the Secretary and the representatives from the Office of the Auditor-General.

Just for the brief of the responsibilities and functions of the Department of Local Government when it comes in relation to the municipal councils' operations, since 2009 there has been a Local Government Review Reform Programme that has been introduced at the municipal council level, directly supervised by the Ministry of Local Government, Housing and Environment. In this reference there have been a number of areas that have been picked for which reviews are taking place, specifically in relation to governance, there has been area of ensuring that the structure of governance is such that it is able to very much keep the right results and create an institution which is able to steadfast at the desirability of the people within the community.

In general as far as the Local Government Act goes, the Ministry of Local Government through the office of the Honourable Minister, plays a supervisory role as far as the management and the operations of municipal councils goes in Fiji. The Local Government Act has established a common objective for municipal councils' operation in Fiji and that is, to promote the health, welfare and convenience of its inhabitants and preserve the credits thereof as per Section 88 of the Local Government Act.

The Act also gets the municipal councils to very much operate in conformity with any other written laws established through the Parliament of Fiji, and municipal councils at its level do operate in conformity with any other written laws and ensure that at the end of the day, the results are in line with the Acts of Fiji.

For the purpose of reporting as per the Local Government Act, the Standing Committee meetings via the ordinary council meeting, the Minutes are always at the interval of every 28 days, is tabulated to the Ministry of Local Government, Housing and Environment and then assessed at the Local Government and then following up, we give in our comments about where and how things are supposed to happen. That is the general brief, as far as our role goes.

In reference to the municipal accounts audit interview for this specific purpose today, for us, municipal financial accounts have been upgraded to match international financial reporting standards effective from 1st March, 2016. Prior to the upgrade, a joint meeting was held with Finance Managers from all municipal councils and the Auditor-General's representatives in February 2016. A key point of development was the realignment and the establishment of reporting structures. Whilst Suva and Lautoka City Councils will comply to full international financial reporting standards, the other municipal councils would be covered under small medium enterprise category given the level of transactions and the equity base of the municipal councils.

For the purpose of upgrade, all municipal councils have established starting point of upgrade, so full international financial reporting standards are as follows:

▪ Suva City Council	-	2011
▪ Lautoka City Council	-	2011
▪ Nadi Town Council	-	2013
▪ Nasinu Town Council	-	2012
▪ Tavua Town Council	-	2015
▪ Nausori Town Council	-	2012
▪ Labasa Town Council	-	2014
▪ Lami Town Council	-	2014
▪ Ba Town Council	-	2015
▪ Rakiraki Town Council	-	2015
▪ Savusavu Town Council	-	2011
▪ Levuka Town Council	-	2012
▪ Sigatoka Town Council	-	2014

All municipal councils are in the process of upgrading their annual accounts to international financial reporting standards and submitting to the Auditor-General's Office for audit purposes. To avoid disclaimer opinion, the upgrade for the prior areas are being undertaken. In this area, what we are doing is that wherever the audit of the last annual account was done and where we see it is feasible, we are trying to take a backdate and upgrade from that time, to ensure that we are able to avoid disclaimer status when it comes to the audit purposes. To assist the small councils with the adaptation process, assistance from larger and medium sized councils are being sought for, and in some instances, services outsourced.

The second financial meet between the Department of Local Government and the councils has been planned for September 2016. This forum will evaluate the progress made and a way forward mapped from there onwards. This will then set the platform for a shared service, model where smaller councils which struggled to find resources to manage their finance and accounting processes will come together and form a shared service platform, a one-stop-shop model that would provide these services for a cluster group of councils. This will assist with resource sharing, financial intelligence sharing and above all, it will also assist in getting valuable cost-saving component.

In here, Mr. Deputy Chair, as far as the share services goes, what we have noted through our assessment was that small councils usually lack technical capacity. The reason being that they are unable to afford the right technical capacity, so what we have introduced from this year is a shared services

structure whereby people will be pooled, technical professionals not only for financial purposes but in other areas as well, and they will be shared amongst councils on a cost-sharing basis model which will very soon be made available to local councils.

MR. DEPUTY CHAIRMAN.- So these people will be from your own Ministry?

MR. A. KHAN.- They will be pooled and stationed at various councils. For instance, for the Western Division we are thinking of having one group based at Lautoka City and one group based at Nadi Town for Nadi and Sigatoka, given that we have a bit of a special place for Nadi. Given that, we are going through a massive town boundary extension and Nadi, we are looking at the prospects of it increasing its volume of activities, given the level of investment coming in. So, we want Nadi to be given some sort of special treatment.

Then from the Central Division, given the size of the Central Division another two sets of shared services structure will be introduced on this side and one for the Northern Division.

MR. DEPUTY CHAIRMAN.- Alright, thank you.

MR. A. KHAN.- To further strengthen technical capacities, Senior Financial Managers are being given the opportunity to attend Global Financial Management Training Programmes relevant to Municipal Financial Management, and inclusive of these, we are also sending our staff to attend relevant courses as given by the Fiji Institute of Accountants.

MR. DEPUTY CHAIRMAN. Thank you, Mr. Khan. I see that you have supported your presentation with documentary evidence of the meetings that you have had which is assuring the Committee that you have taken the steps, so that is a very well presented report, as a matter of fact, the first report that was presented before the House which was not only presented but justified as well with relevant documents and I see your Minutes there. Before we proceed, I believe there must be some issues and questions my Members would like to raise but I just have two questions.

Firstly, you have mentioned there that some services will be outsourced. Can you elaborate more on that which services are you talking about and outsourcing to who?

MR. A. KHAN.- Thank you, Mr. Deputy Chair. As far as the idea goes of outsourcing services, this is for the short-term, for the purpose of catching up. What we have noted is that, certain councils have been improving and working closely with the OAG and the OAG is also been very helpful in guiding us. Over the last 10 years, council have been proved significantly from cash to accrual and then to Fiji Institute of Accounting Standard.

Now, some of them need to shift to IFRS. They will need support in the short-term, whilst we are trying to introduce the shared services structure and for them, we have given the chance to outsource by getting in a private accounting firm well established in the country to get them, at least, update their accounts to the current level and from there, the shared services could be introduced.

MR. DEPUTY CHAIRMAN.- But that is a short-term measure until you recruit your staff.

MR. A. KHAN.- Yes, Sir.

MR. DEPUTY CHAIRMAN.- The second issue that I would like to just seek a bit of elaboration on is the cluster group of councils. These cluster group that you are talking about, can you just elaborate

more on how you have planned to have this system, which Councils will fall under which respective cluster?

MR. A. KHAN.- We have been internally assessing at the moment, Sir, and our internal assessment that is yet to be submitted to the Honourable Ministers Office shows that in our assessment, some councils volume of activities is such that they can be classified under small councils, some can come under medium and some under large. We have been grouping municipal councils under large, medium and small.

The other thing is that as per the size of the council, we have noted the technical capacity requirements. For instance, a small council may require a technical person to be based at the office for only three hours per week, a medium council may require a technical officer to be there for four hours per week, and then a larger council may require a technical officer to be based there for four days per week. So, the shared services structure will be such that it will take into account all these factors and it will be modelled in such a way, to ensure that at the end of the day the services are provided equally to all the councils and reporting structure is very uniform.

For the purpose of initiating this, we have been able to get funding from the Government under the Town Support Management Scheme for the year 2016 and 2017 fiscal year.

MR. DEPUTY CHAIRMAN.- Just off the record, since I am from Nadi, you said that you are going to give a special priority to Nadi because you are planning to extend the town boundary. This is for the purpose of making Nadi a city, if I am correct on this.

MR. A. KHAN.- Yes, the process is in progress and there will be an official announcements coming from the Office of the Minister.

MR. DEPUTY CHAIRMAN.- That is right. In Nadi, what people asked us Members of Parliament; when will Nadi become a city? It will come later. The announcement will be this year or next year, any idea or the onus will be on the Honourable Minister?

MR. A. KHAN.- We will be reporting to our Honourable Minister, Sir, and we will be making public statements.

MR. DEPUTY CHAIRMAN.- Thank you.

HON. A.D. O'CONNOR.- Mr. Deputy Chair, just a question on that, I hope you do not mind and you may feel free to answer or not, but the new city boundary will include Nasoso and Votualevu too?

MR. A. KHAN.- The boundary extension is a process by itself and currently the process is progressing and the report will be given by the Local Government Committee to the Honourable Minister to decide upon.

MR. DEPUTY CHAIRMAN.- Just one final comment. This International Financial Reporting Standard, I think Mr. Chairman wanted to raise this but unfortunately he is not here, but he was speaking about a certain workshop that has recently happened whereby your officers were trained in this system. He just asked me to get a confirmation from you whether similar trainings like that has been going on or not?

MR. A. KHAN.- Thank you very much, Mr. Deputy Chair. As highlighted, we are consistently getting our staff trained and ensuring that they get very much adopted to the financial requirements and the financial standards that are happening globally. We have also established a programme whereby we would like to carry out a needs analysis for staff in within councils, what sort of training they require, and in within

two weeks when our Permanent Secretary back from overseas (he is on an official trip), we will be meeting Fiji Institute of Accountants to see the way forward and how to make strategies and we will be working with universities locally also.

HON. M.R. LEAWERE.- Thank you very much for your presentation, Sir. On the second last page of your report, can I refer to you that, on Investment and General; there are two paragraphs there in terms of Finance Managers to work close with Chief Executive Officers, as well as a need for Directors and Manager Finance. What is the current situation now? That is probably part of your recommendation. What is happening right now in the municipals councils?

MR. A. KHAN.- Thank you very much, Honourable Member. In reference to investment in general, what we have proposed to municipal councils is to develop their own capital investment plans. This is the area where we had picked up at that time, when this meeting did take place, there were ad hoc plans available. So, we are now wanting consolidated capital investment plans by every municipal council that will be brought to the national level, so that we are able to consolidate.

The other area of investment projects, when we spoke with the Manager Finance and the Directors in February, was to see that decision-making of investments are more business-oriented and are more in a way that supports Council initiatives and institutionally organised. So, from this angle, this is the reason why we had informed our Manager Finance and the Director of Finances on the need for them to work closely with SAs and COs in developing these plans for the future.

MR. DEPUTY CHAIRMAN.- Honourable Radrodro?

HON. A.M. RADRODRO.- Thank you, Director, for the very comprehensive submission that you have prepared. On the compliance issue with IFRS that you have highlighted there on Point 5 from the Municipal Councils, what is the cost involved in terms of compliant to the new accounting standards and whether these costs are borne by the Ministry or by the individual municipal councils themselves?

MR. A. KHAN.- Thank you, Sir, for the cost involved in improving and upgrading the Council Accounting practices to IFRS certainly, there is a cost borne but we treat it as an investment whereby we are able to improve the financial structures and prepare a more in-depth comprehensive report with more disclosures and we are supported from the Ministry of Local Government. If you see the *dailies* on Saturday there is an advertisement for a senior accounts officer. It is a project position which will totally be a person who will take responsibilities to assist municipal councils in this area and at the same time councils are also investing to ensure that they are able develop this report for the purpose of consistency.

HON. A.M. RADRODRO.- Is there any costing bond? I know it is an investment cost but how much is it?

MR. A. KHAN.- On the investment cost, we will not be able to adjudge and give figures at this moment because it varies from council to council. Some councils are small, some medium and some are large but we have noted one thing and that is, in the large councils the investment level is not that high given the reason that they are able to afford technical capacity and professionals to look after these programmes, so the cost borne in small councils we have seen relative to its size is high, this is the reason why we are introducing shared services here.

HON. A.M. RADRODRO.- Mr. Deputy Chairman, just a follow-on question, basically leading on to my second question. The reason why I ask that question is that, now the Ministry is trying to encourage municipals councils to adopt the new IFRS Accounting Standard and the costs involved will also be varied. In our interview with the Fiji Institute of Accountants, they are aware of some municipalities

which might not be able to meet the level that is required by the Standard so whether the Ministry has also taken into consideration about small municipalities that might not need to meet the International Standards and it is incurring them unnecessary costs rather than just adopt to the old style because it is just in line with their modes of operation, rates collection and also the township that they are involved in, it will not be the same for all the municipal councils and on that also, how updated are the municipal councils in terms of complying with the submission of audited accounts. I know you have highlighted here the date in which they have started reporting but how updated are they in terms of submission of audited accounts?

MR. A. KHAN.- As far as the first question goes, for this purpose this meeting was organised and it was organised with only large and medium councils and some of the large and medium councils have taken responsibility to assist the small councils and it is on the first page of that summary report.

For the second one, as far as the compliance goes for audit purposes, it has been agreed generally that accounts previously from the day in February that were not prepared or supposed to be submitted for audit purposes, we will upgrade and give it to the Auditor-General's Office to ensure that that we do not get the opinion of the disclaimer, the reason being that it is not up to IFRS Standard. That is in progress at the moment and we have been working with the Auditor-General's Office.

There is a schedule that has been made available and we are forecasting and we want to get all accounts updated and audited by the end of next year for all the municipal councils.

HON. A.M. RADRODRO.- To the Director: just comments from the Auditor-General in terms of the exercise taken by the Ministry and whether the Auditor-General would assist especially in terms of qualified audit opinion for those small municipalities which are incurring unnecessary just to meet the Standard and giving a qualified audit opinion.

MS. F. NAGERA (OAG REP.).- Honourable Deputy Chair, through you, financial statements for municipal councils are for general purpose and it is a requirement that they report to the ratepayers and it is only fair that the reporting framework that they use are acceptable locally in Fiji or internationally as well.

Previously, before that the municipal councils were preparing their financial statement based on the Fiji Accountings Standard. With the withdrawal of the Fiji Accounting Standard, the only other Standard that they have to comply with is either the full International Financial Reporting Standard (IFRS) or IFRS for SMEs. Probably the cost will come in in the convergence from Fiji Accounting Standards to IFRS, or IFRS for SMEs. It provides a Standard Reporting Framework too for the municipal councils instead of using so many financial reporting framework for municipal councils because these are the standards that have been issued and approved by the Fiji Accounting Standard so there are only two options that they have, either comply with full IFRS or IFRS for SMEs and there are criteria issued by the Fiji Institute of Accountant on whether you should follow the full IFRS or IFRS for SMEs, which is a bit suitable for most municipal councils.

The Auditor-General has been issuing disclaimed opinion on financial statement that has been submitted to the Auditor-General and has been audited if they are still using the Fiji Accounting Standard as the basis for preparing their financial statement because the Fiji Accounting Standard does not exist. That is the reason why the Auditor-General has decided to provide the disclaimer meaning that he will not give an opinion on the financial statement because it has not been prepared in accordance with IFRS or full IFRS or IFRS for SMEs.

In terms of the cost, I am sure the better person to answer that is the Director – Local Government but that is where the Auditor-General is coming from. If I could also comment on the submission that has

been made by the Municipal Council: the Local Government had requested the Auditor-General's Office to attend forums with their finance managers and advise them on the challenges that we, particularly the auditors, face when we audit the municipal council's accounts and some improvements that they may have.

It is really good to see in the submission and it is also highlighted on No. 16, one of the major challenges we have is the out-dated manual of accounts. I think the manual of accounts that is currently being used by the municipal councils was drawn-up in the 1980s or 1970s. Most of the practices that municipal councils have now are not documented, so each municipal council have their own processes and procedures. So, that is one of the issues that we (OAG) took up with the Director Local Government, that aside from trying to comply with IFRS or IFRS for SMEs, one of the major points is for them to update their manual of accounts to the current standard so that everyone is on the same page, each municipal council.

It is good to see that the Ministry of Local Government is proactive in getting the municipal councils to update their accounts and provide them for audit. We will work with municipal councils on their timelines. We know there are a lot of work that we have to do because we will be receiving financial statements in batches. The OAG will conduct the audit as soon as the financial statements come in and we will assist in whatever way we can, bearing in mind that the Auditor-General must also maintain his independence from the clients that he audits.

MR. DEPUTY CHAIRMAN.- Honourable O'Connor.

HON. A.D. O'CONNOR.- Just making reference to item 19, expenditure, I mean there is no monetary references there, however, you list down 'repair and maintenance to infrastructure'; can you just enlighten us on the infrastructure as I understand all the roads have been taken over by Fiji Roads Authority and the lights have contracted been out to PRIME? I could be raw but if you could just enlighten us on that?

MR. A. KHAN.- When we are speaking about infrastructure, these are in certain areas where we still are responsible for infrastructure, a major component being the drainage. Drainage itself is a very peculiar system with which it has been designed and there are certain drainage in this country which crosses in-between two properties. So, they are not owned by Fiji Roads Authority, given that it is not on the side of the highway and they do not come under the Drainage Board because it is not a rural drain. So, we are supposed to take responsibility for that.

Why we have tried to plug in an investment on infrastructure was to very much understand the value of investment on infrastructure, given that this is something that now we require for the purpose of analysing, particularly for drainage on how we are maintaining and going with Climate Adaptation Programmes. Also for drainage, after creating this area, we were able to speak positively with the Government and Government was very positive in allocating for the first time, grants this year for Drainage and Flood Mitigation Programmes at municipal council level.

MR. DEPUTY CHAIRMAN.- Thank you, Sir. I seek clarification on the IFRS standard, it will be implemented by your Ministry and we can see the process and the plans are already underway but in terms of human resources, let us say for instance, we know that the Fiji Institute of Accountants have their own set of standards. They would prefer a certain employee with an accounting background to have some sort of Degree or Diploma. Let us say, for instance, some of your staffs through experience have become Finance Managers or people with good positions. So, do you think in terms of human resources in such cases your officers will be recognised or they are ready to adapt to these changes or there might be some barriers in terms of their own standards which an institution like the Fiji Institute of Accountants have?

MR. A. KHAN.- Thank you, Mr. Deputy Chair. We have analysed and have gone at the grassroots level to check the reliability of introducing a structure which can be maintained and sustained, and from that angle that is the place where we have highly recommended for the introduction of shared service structure so that we are able to pool technical resources, we are able to pay them and get them to work effectively and produce results.

If we have in-house personnel placed at all councils, it may become not good in as far as the cost effectiveness goes and also the volume of hours to be spent. We have councils in Fiji which have below 200 ratepayers. Then we have the councils in Fiji where we have got 11,000 ratepayers plus. So, to have technical capacity of equivalent level at all councils will be difficult, so with that in mind, shared services have been introduced and people coming in will be coming in and those who are available with us at this very moment who understand the full structure and are qualified will be maintained

Together with this, Sir, we are also improving our electronic finance structures (e-finance) to ensure that we are able to group all transactions and get one person to manage it in totality.

HON. M.R. LEAWERE.- Thank you, Director. Still on number 19 but it is overleaf, I am looking at the operations in terms of your report. I saw this grass-cutting daily but given the structures, some roads are being looked after by the councils and some by Fiji Roads Authority. Which areas do you demarcate, which one is Fiji Roads Authority's and which one is yours?

MR. A. KHAN.- Prior to the transfer of public roads to Fiji Roads Authority, highway and fortuitous roads which would form the highway, were under the Director of National Roads, while country roads and streets which had a velocity traffic of about five per hour were with municipal councils. In generality what would happen is that every council had an understanding with the then Director National Roads on how grass-cutting, drain cleaning and sweeping programmes will be handled.

After the transfer, all roads have been bested with the Fiji Roads Authority. After that we have entered into an understanding where all gras-cutting, drain cleaning and sweeping along roadsides are supposed to be looked after by the municipal councils through an understanding with the Fiji Roads Authority. In return Fiji Roads Authority has agreed to invest heavily in road maintenance and up keeping of drains.

HON. M.R. LEAWERE.- Meaning that there will be a Memorandum of Understanding (MOU) signed?

MR. A. KHAN.- Yes.

MR. DEPUTY CHAIRMAN.- Honourable Members, it is almost 11 o'clock and is there any final issue or question that you wish to raise before I end this session?

HON. A. M. RADRODRO.- Mr. Deputy Chair, just a last question from my end on the compliance of the municipal councils and the monitoring by your Department to ensure that they are in compliance. In most of the possible issues that we had requested a meeting was because of the previous audit reports have highlighted a lot of non-compliance with accounting standards. Will these amendments, adoptions and changes that are being made for municipal councils to adopt be ensured that there will be minimal to zero audit qualification coming out from the municipal councils?

MR. A. KHAN.- Thank you, Sir, that is the aim for this whole exercise to reduce the Auditor-General's disclaimer reporting, qualifications and bring it to a level whereby simply, they are able to give us reports without qualifying or giving us a disclaimer. We are working very hard towards achieving that



goal and we hope to see that in the near future, perhaps in the short to medium term we are able to achieve it. As far as the overall supervision goes from the Department of Local Government, that is the Ministry of Local Government, Housing and Environment, we have established programmes under the new fiscal year whereby monitoring structures have all been introduced to ensure that we are able to support and at the same time guide as far as compliance goes.

MR. DEPUTY CHAIRMAN.- I will take that as the final comment and once again, Mr. Khan, I thank you and your team for a rather very elaborate and a very well presented submission.

(Vote of Thanks by Mr. Deputy Chairman)

MR. A. KHAN.- Thank you very much Mr. Deputy Chair and the Honourable Members of the Public Accounts Committee, the Secretariat and the Auditor-General's Office for giving us this opportunity to come and present our status and the progress that we are making from our side in reference to the report as submitted by the Office of the Auditor-General. Certainly, we will continue with the upgrades and we hope to see that we are able to take municipal council financial management to another level. Thank you.

MR. DEPUTY CHAIRMAN.- That is the end of this session, and I wish your team and your Ministry the very best of wishes in terms of the work that you are doing.

The Committee adjourned at 10.53 a.m.

The Committee resumed at 10.52 a.m.

**Submittee: Housing Authority (HA)**

**In Attendance:**

- |    |                        |   |                                         |
|----|------------------------|---|-----------------------------------------|
| 1) | Mr. Isikeli Navuda     | - | Acting Chief Executive Officer          |
| 2) | Mr. Iliesa Rakaseta    | - | Acting General Manager Land Development |
| 3) | Ms. Fantasha Lokington | - | General Manager Customer Relations      |
| 4) | Mr. Poasa Verevakabau  | - | Acting General Manager Finance/Admin    |
| 5) | Mr. Maciu Katamotu     | - | Acting General Manager Lending          |
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MR. DEPUTY CHAIRMAN.- Good morning everyone. First of all, I would like to apologise the notice for a session with the entity might have come very late.

We were not able to address specific issues but just a general invitation if officials from the Housing Authority can come and enlighten us on some of the Audit issues that were raised as per the Parliamentary Paper of the Audit Reports.

Nonetheless, I would like to extend my warm welcome once again. Before I do so I would like to just for the benefit of my Committee Members and the staffs just to introduce the resource personnel and professionals we have from Housing Authority of Fiji. We have Mr. Iliesa Rakaseta, the Acting General Manager, Ms Fantasha Lokington, the General Manager Customer Relations, Mr. Poasa Verevakabau, the Acting Finance Manager, Mr. Isikeli Navuda. While you are introducing yourself you can just at the same time inform about your designation as well in the entity. We welcome Mr. Maciu Katamotu.

I welcome you all once again and before we begin with the submission and the report as to what you have to present before us I would like to welcome my Members.

(Mr. Deputy Chairman introduced the Committee Members as well as OAG and MPE Officials)

Thank you once again and I would like to give the opportunity to the Acting General Manager if you could introduce yourself and your Officials, and give us a brief highlight on the work and responsibilities of your entity.

MR. I. NAVUDA.- Mr. Deputy Chair and Honourable Members.

(Introduction of Housing Authority Officials)

Today, very briefly an overview from Housing Authority (HA), we were tasked to facilitate the provision of housing for the low and middle income people of Fiji and our major functions hinder around actual land development and acquisition and development of land for homes. The land that we develop we construct houses whether internally or individuals actually build their own homes.

We also facilitate the provision of loans when people secure finance from HA in the purchase of land and the building of homes and get financing internally from HA as well. We also manage mortgage portfolios up to now around about \$84 million in total currently, and manage portfolios and look after accounts, follow them up in times of arrears or further loan. Basically, those are the major functions that we undertake.

As of now, HA is doing quite well financially compared to some years in the past, and this has come about with lately, HA has been able to start producing lots from our developments. With this we have started to build homes and also in the building of homes, we managed to increase our mortgage portfolios and make good some of the bad loans that we have had and that has kind of put us in a better position than what we were initially. As I state earlier, Sir and Honourable Members, currently our mortgage portfolio stands at 84 and we are looking at building on this with the number of lots that we are producing that we are financing internally and the number of houses that are being built on this land that we have developed.

In terms of bad loans, we acknowledge, we have about \$11 million in non-performing loans or bad loans that we are trying to either make good or sell but in that context, we do not really enforce this area because of the desire to maintain the homes of individuals rather than booting them out of their homes. We try and explore all that we can to try and see that they retain their homes but in the circumstances where we have to, then we go to that eventuality.

We have about 4,000 active accounts with us and in addition to that, those who are in the past have paid off their loans with HA, we have around about 12,000 ground rent accounts, who are our customers but have paid off their loans and are living in their own homes.

Going forward, Honourable Members, we are looking forward to providing more products. Over a period back in the late 1990s to early 2000, we acknowledge that we were not able to produce lots. This came about because of decision to outsource the function of our land development. Lately, we are beginning to reinforce this theme and the theme has resulted in the developments that we have accomplish lately, like Tacirua, we have done Wainibuku. Currently we are doing Matavolivoli in Nadi, Nepani is starting again and we have got developments in Davuilevu that is coming up and also in Tavakubu, so the team is now reinforcing itself, through the Government directions in this regard and it has allowed us to produce a lot as we are seeing a construction on this is now ongoing.

Going forward, our focus is to make it as affordable as we can. It is common knowledge that the cost of production today is really high and that has been one of our major challenges. We try and see what we can do to get the products to the customer at the lowest or cheapest that they can afford. In doing that over the past years, we have tried to maintain with the low interest spread that we have and provide the cheapest home loan packages that we could. In that, we have been able to secure, for example, an RBF Loan of about \$25 million that we have channelled only to the lower end of our income customers to provide them lower interest loans for periods of one year up to five years before they revert to the standard rate of 7.5 percent in which time we hope they would have been able to reduce their initial loan amounts but hopefully with some more initiatives we are looking at and reducing our borrowing costs, we intend to go further in that regard and reduce our interest rates and I think we are also working with RBF to see if we can extend this loan term from the five-year current existing one to another 5 years.

With that, Honourable Members, in our development focus, we are also looking at some innovative designs that we could see reducing our construction prices. In the market today, we have been tendering some of our houses and they are quite expensive. Construction rate ranges from \$1,000 to \$1,200 even for the low income, and that is when you convert it to a 60-square meter home, it is within the range of \$70,000 to 80,000 just for the land.

Land development: we are trying to go below \$100 – we were hitting the \$100-square meter mark for some time, and the later developments that we are doing, they have begun to reduce to \$90 and \$85 and probably I may have to add, in one of the latest developments in Matavolivoli we have been fortunate to have given about \$4.9 million from government. That subsidy of \$4.9 million will dramatically reduce the price of the lots in Matavolivoli which we intend to sell later this year.

Those are some of the good things that are coming out. We have been trying to liaise with the asset owners like Water Authority, FEA to see where they can contribute to this reduction. FEA has given us the 7-year refund period for all that cost of infrastructure and that to us is a positive thing. All this is being given to the customers as we move along. Probably, in terms of numbers we know that the demand is still very substantial. Going from next year, we are confident we can produce round about 1,000 lots per year and that should be the minimum. We intend to increase that, so every year we should be able to home about a 1,000 customers all around Fiji and with that, if we can increase those numbers, we hope things should be increasing and improving with us.

In terms of our development and the focus of development, the majority of our developments are focussed on the very low end of our customers, between 60 to 80 generally and we have some commercial, industrial and some are a bit on the higher end lots but again, these are still being sold and used to cross-subsidise for the lower end markets. We acknowledge that we are not the best, yet we are improving and in doing that, our process of re-engineering ourselves, we are putting a lot of effort into our process of re-engineering ourselves, so that we improve our efficiency and processes so that we can optimise operations and provide the best service that we can for the people of Fiji. We have our plans in terms of our future developments for the next five years, that is in our development programmes.

We rely a lot on our land acquisition, so buying off land is a very big part of our operation and we are getting a lot of difficulties in purchasing land because the lots are getting smaller and it is quite difficult to secure this today, but again just going back to the focus, Honourable Members, with regards to the issues that have been raised by the Audit Committee, we have done system upgrades within our internal system to see that these are being addressed and non-recurring as we move forward.

With that, we have also done risk-grading which were some of the recommendations that were done by the auditors and provisioning is also being done in compliance with RBF standards.

In terms of IFRS, we are probably not in a position to comply fully with that yet but the commitment is there, Honourable Members, that we will be complying with that as we are moving forward in consultation with our Board of Directors.

We have to make an apology: we believe that in one of these years, there were no comments probably received by the Office of the Auditor-General. We would like to state that these comments were prepared and were sent but if it is still required, we can provide these comments but we do apologise if that had not been received. We have got copies of the correspondences where we had forwarded this to the OAG's Office. As I said, we still have them and we can provide them.

Going forward, we acknowledge and accept the comments from the OAG's Office, and all efforts are being made towards facilitating and complying with these in compliance with the Accounting Standards, so Honourable Members, probably that is the end of the brief and we would welcome any comments or questions directed at us, thank you.

MR. DEPUTY CHAIRMAN.- Thank you, Sir, indeed I was just going over the Audit Reports and I was reading the introduction that the Housing Authority has been there since 1955. Yes, I agree with you that the market demand is very substantial, very high. A lot of people want to build houses these days, everyone wants viability and stability.

Housing Authority: we have been seeing is one of the best ways for people to say probably that "we have a property and we belong to Fiji by being residents here."

Sir, your entity's attention must have gone through certain parliamentary papers as per the Audit Reports while the e-mail was sent to you. The first one is on Parliamentary Paper No. 26 of 2016, the Audit Report of February 2009.

HON. A.D. O'CONNOR.- Mr. Deputy Chairman, just to mention that the Audit Reports are right in-front of you, if you need to make reference, there are copies there, thank you.

MR. DEPUTY CHAIRMAN.- That is No. 26 of 2016?

HON. A.M. RADRODRO.- Just to assist, the numbers are at the bottom.

MR. DEPUTY CHAIRMAN.- Alright, I am pretty much sure that the officials must have gone through the Audit Reports and nonetheless, for any issues, we do have this trust that you are prepared for it anyway. The issue that was supposed to be raised as per the Auditor-General's Report on Parliamentary Paper No. 26 of 2016 was on Section 8 of the Report, so I would like to just give this opportunity to any Official from your entity to just brief us as to how that was addressed?

MR. I. NAVUDA.- Mr. Deputy Chair and Honourable Members, Section 8 that is raised in that particular Parliamentary paper is probably best addressed by our Finance and Lending general managers.

MR. DEPUTY CHAIRMAN.- As long as anyone addresses it.

MR. M. KATAMOTU.- On item 8.3 - Quality of loan portfolio to be improved; from 2007 to date, the position of our loan portfolio for HA has improved in terms of the performing loans, as well as the non-performing loans.

The non-performing loans are the loans that actually generate income for HA and non-performing loans are bad loans. Over the years from 2007, the value in terms of the non-performing was around \$26 million which was around 18 percent. Now as we speak as at the end of last month, the non-performing loan has actually reduced from \$26 million to \$11 million which is around 13 percent of the total portfolio for HA.

In terms of our performing loans, it has also improved. From 2009, there was a reduction in performing loan because the activities that we were doing were not actually in terms of subdivision, there were actually not many activities from that period 2009 to 2013, and also because of the competition from other commercial banks, our portfolio was also shrinking. It was reduced throughout the years, then increased from 2015, we managed to reverse the trend in terms of our performing portfolio. That is the improvement in terms of our loan portfolio.

One of the things that we have also noticed which is one of the challenges of portfolio management is the issue that we are currently facing at HA where we have been advised, through our Minister, where we have been suspending the mortgagee sales from June 2015. So, that is one of the challenges that is actually affecting the movement of our loan portfolio.

In terms of us trying to turn or convert the loans from non-performing loans to performing loans, that is one of the challenges that we are still facing because if you want to actually convert or change bad loans to performing loans, then one thing you can do is either you go for exit, follow the normal recovery process - we have to do the mortgagee sale and try and close off the account or even rehabilitate the accounts. Due to the difficulties that we are facing, for most of our cases, we have actually rehabilitated but to the extent that the ones that are within our control, we managed to do that, turn that around but as we speak, there are about 275 accounts with the value of \$9.6 million where we actually need to complete

the recovery process so that we can actually convert, turn these loan portfolio around. Those are some challenges that we have faced and the good thing is that, we have to some extent, improved our portfolio position from 2007 till today.

Also in terms of the amount, in the past it was around \$26 million, now it has reduced to \$11 million for non-performing loans.

HON. A. M. RADRODRO.- Thank you for the explanation. I seek clarification on whether the HA is reporting under the Ministry of Public Enterprises or under the line Ministry?

MR. I. NAVUDA.- We come under both Ministries, Sir. We are under the Ministry of Housing and Local Government but we are also coming under the statutory organisation, so we also report to the Ministry of Public Enterprises.

MR. DEPUTY CHAIRMAN.- Ministry of Public Enterprises can you further elaborate on this, please, especially on your roles and responsibilities when it comes to this entity?

MPE REP.- Mr. Deputy Chair and Honourable Members, HA is a commercial statutory authority established under the Housing Act so for policy issues they report to the Ministry of Housing and the Minister for Housing also appoints the Board Directors but for reporting, they also report to the Ministry of Public Enterprises, especially with regards to corporate plans and financials.

MR. DEPUTY CHAIRMAN.- The Board of Directors for the entity is decided by the Ministry of Housing?

MPE REP.- Yes, they are appointed by the Ministry of Housing.

HON. A. M. RADRODRO.- Follow up to that question, there is no intended review of HA in terms of reporting to the Ministry for Public Enterprises?

MPE REP.- Honourable Member, I think that is the same case for all of our commercial statutory authorities, they do dual reporting, both to the line Ministry and to the Ministry of Public Enterprises.

HON. A. M. RADRODRO.- On that particular explanation by the HA on the loan portfolio, there is mention about the reduction from \$26 million to \$11 million on non-performing loans. Can the HA inform the Committee whether part of this reduction was also the write-off exercise that was undertaken by the HA over the period and if it is, what was the amount involved in that write-off exercise that involves the HA customers?

MR. M. KATAMOTU.- Thank you, Mr. Deputy Chair, and Honourable Members, dealing with lending business, one way that if you want to reduce your non-performing loan, two things can happen, it can either grow your portfolio or you can write-off some of the bad ones in your books.

Throughout the years, part of the contributing factors to the reduction in the non-performing loan for HA, one was we managed to restructure some of the accounts, as well also managed to write-off some of the accounts. In the process of writing off some of the accounts from 2011, we were given some assistance from the Government to assist those of our customers who were actually facing financial difficulties.

From 2011 to date, we have assisted a total of 367 customers and a value of \$5.8 million worth of loans. So, part of reduction in our NPL was through the writing off we have done and partly contributed

by Government on the assistance that we have received from 2011 to date. As I have also said, we have also managed to turn those accounts, not the hard-core ones, but these are accounts that have the arrears age of more than three to six months. These are the accounts we managed to actually go back to the customers and we also added some kind of arrangement and have a policy in place like once those arrangements fall within our policy, then we reschedule and restructure some of these accounts.

MR. DEPUTY CHAIRMAN.- It is good to see that the entity trying to maintain its social responsibility that seeking Government assistance, even though there are defaults in payment as long as the clients are able to have their properties and homes with them.

Moving on, I think we have deliberated more on that. Our next issue is from the Audited Report of June, 2012 as per Parliamentary Paper No. 31 of 2016.

HON. A.M. RADRODRO.- Mr. Deputy Chair, while we are still waiting on that, just seeking a clarification to the HA on the assistance being rendered by the HA to middle and low income earners. What is the criteria that is being adopted by the HA to demarcate the middle to low income earners from the others?

MR. I. NAVUDA.- In terms of classification, 16,500 are considered on the lower end and our ceiling is up to 50,000 per annum in terms of overall household income, that is the ceiling for us. Anyone who wants to get assistance from HA beyond \$50,000 we need to seek the approval of the Honourable Minister.

MR. DEPUTY CHAIRMAN.- Sir, referring back to Audited Report of June, 2012 as per Parliamentary Paper No. 31 of 2016, what is the status/update of the issues in terms of the Audit Report that was highlighted. Thank you.

MR. P. VEREVAKABAU.- Thank you, Mr. Deputy Chair. The first one on the collective repayment or receivables, we are complying with the RBF guidelines. While the auditors are emphasising on the IFRS standards to comply with that but there is still revision in that standards, so we are still moving forward with the RBF guideline.

On the VAT, Honourable Members, this has been resolved by the Authority and one of the measures that we have taken is to have this regular meetings with FRCA to ensure that any change in regulation of tax laws, we understand that and we comply with that as we move on.

In terms of interest income, I believe it is about the realisation of the income from the non-performing loan. The practice right now that we have is, once the accounts is in arrears over 90 days, then the interest income is not realisation income it is suspended, so once they prepay their loan and the account is made good, we realise that interest. However, the auditors have also commended that we may move away from that and allow provisioning, but again in terms of overall numbers it come to the same figure but we will continue to explore the better practice to ensure that we are complying with the standards.

In terms of credit rating, Sir, we had a AS400 System prior to 2009 and it was upgraded to Lendsphere system. Now, we have this Navision Grading System A, B, C until E, so we have that in place and that really assist in terms of provisioning. That is also in line with the RBF guideline.

Lending Procedures, maybe I will ask our General Manager Lending to comment on the policies.

MR. M. KATAMOTU.- Mr. Deputy Chair and Honourable Members, on lending procedures, HA has currently got policies that are in place which actually covers our customers applying for loans, as well

as the management of accounts in our portfolio. These are all in place at HA, it does not also take away the fact that we are also doing annual reviews on our lending procedures. In fact, our policies are also that we do benchmarking with other lending institutions so we are confident to say that the policies that we have in place have actually been followed by HA and we have also done benchmarking with other lending institutions.

MR. DEPUTY CHAIRMAN.- I will say it is alright, it is not really necessary to go over all the headings. I mean you can just brief us with some of the important ones which you find in the Audit Reports, the important ones which you feel that you need to address. Any supplementary question?

HON. A.M. RADRODRO.- Probably we can direct HA to land sales issue that has been highlighted on Item 10.10.

MR. DEPUTY CHAIRMAN.- Yes, on land sales issues?

MR. I. RAKASETA.- Sir and Honourable Members, this again relates to system issues that we have. In AS400, actually this was not well captured while in the Lendsphere system and the upgraded accounting system which is Navision, we have all these recorded by individual lots and DPs reference. In the old system, the reporting was not really that up-to-date to give a detailed analysis of what comprised of the balance in the GL but now with the Lendsphere system we have that in place and we have controlled the issues that have been raised in here.

MR. DEPUTY CHAIRMAN.- I would like to just make reference to the Audited Report dated December, 2011, Parliamentary Paper No. 34 of 2016.

MR. I. RAKASETA.- Thank you, Mr. Deputy Chair and Honourable Members. Maybe, one of the important issues is the balancing of the loan portfolio which is a compliance issue in terms of audit. It is the balancing of the portfolio and the subsidiary ledger. This was an issue and migration started in 2007 when the data was migrating in 2009 but we have managed these issues going forward from then.

The next one is on cash and bank which is the serious one. After 2013, we upgraded our accounting system from NAV4 to NAV13, and we have automated this process. It is done daily but before it was done manually and now it is automatically done through the system. In 2015 Audit there was no issues highlighted in regards to this.

For the Assets and Liabilities Committee (ALCO), we have the Board Finance and Audits Subcommittee, who also look at the risk (future risk) that the organisation face in terms of liquidity and cash flows.

The squatter settlement, there was an outstanding of \$327,000. This has been recovered from Ministry of Health. This was used to assist the resettling of squatters from Tacirua to Sasawira.

HON. MEMBER.- Inaudible.

MR. I. RAKASETA.- Yes, part of it was in Tacirua Stage 2 that we are developing right now.

MR. DEPUTY CHAIRMAN.- Just a supplementary question on that, the resettlement of squatters, the cost of resettlement, is it borne totally by the Authority responsible to remove them or part and partial of that cost is also borne by the people who were there in the squatter areas?



MRI. NAVUDA.- Sir, when we relocate, relocation from within HA acquired lands for development, we pay for that internally from HA. In this instance for the Sasawira land, that was the intention of Government to have a place set up where they could relocate some of their squatters as well. So, that was done by HA. We did it for Government and then when it was done, we gave it to Government but for our developments we pay for it. Even though we have an agreement in place for the Ministry to assist us to pay for the squatter relocation but up to now we are paying for that, like Tacirua. All the relocations were done and paid from HA.

HON. A.D. O'CONNOR.- Mr. Deputy Chair, you mentioned the ministry, which Ministry are you referring to?

MR. I. NAVUDA.- I am referring to the Ministry of Local Government and Housing.

HON. M.R. LEAWERE.- Just a question on 4.18 in terms of those who are legally occupying land which belong to the HA, how does the Authority address that?

MR. I. NAVUDA.- Thank you, Sir. Part of the process is to remove them from the land and we obtain court orders in the process of removing those living illegally on HA land. With that, in our developments, anyone we remove we give them the first choice to purchase in any of our next development. We give them a commitment letter in that regard so even though we are removing, we repay some compensation but in the process of when the development is completed, the first choice to buy is given to them.

MR. DEPUTY CHAIRMAN.- Thank you.

We will now make reference to Parliamentary Paper No. 35 of 2016, Audited Report of June 2012. One question from our side, this is in regards to ALCO. The recommendation came from the Auditor-General's Office that this Committee should be set up to oversee the Authority's plan in managing liquidity risk and assisting in dealing with these issues in greater detail before the deliberation by the full Board.

The comments from the Authority was none, so I would like to just get a feedback on whether this Committee has been set up or not by the HA? That is the only issue that we will highlight from Report No. 35/2016.

MR. I. NAVUDA.- This was highlighted in 2009 and 2010. There ALCO was selected and was also endorsed by the Board. The Committee members are GM Finance, GM Land, Housing and Development, Manager Lending, Manager Customer Relations, Manager Finance and Credit Manager Recovery. Those are the members of that Committee.

MR. DEPUTY CHAIRMAN.- Any supplementary question to that?

HON. A.M. RADRODRO.- Just a question on 6.8 on that same Parliamentary Paper in terms on gratuity accruals.

MR. DEPUTY CHAIRMAN.- If he could make a reference to 6.8.

HON. A.M. RADRODRO.- The OAG highlighted the payment of gratuity to \$80,000 but no comments has been received from the HA. Can you just give us a brief detail on this payment and this allocation of gratuity?

MR. P. VEREVAKABAU.- Thank you, Honourable Member. This is an accrual of 189 and the payout is 80 because the gratuity is paid out after three years of service for its managers.

HON. A.M. RADRODRO.- This gratuity payment is for the employees?

MR. P. VEREVAKABAU.- It is not for the employees, it is for management.

HON. A.M. RADRODRO.- 6.1 also, Mr. Deputy Chair, on the Audit Issue raised by the OAG the ageing of inventory. The issue that has been highlighted is a number of years of idle land that has been developed by HA averaging 11.5 years it takes to dispose of or sell off its land which has been developed. How has the Authority try to address these developments, especially those lands that have been developed but not been able to be sold out to the intended customers?

MR.I. RAKASETA.- Thank you, Honourable Member. All the land development subsequent to the development were all sold out. During the period after that, there were some later on and we deducted. They came up with the complaint and said that there were issues with these lots. What happened, we have to revert that back to our land stock, our inventory. That was the reason why it is sitting there and in some cases where there is encroachment in the process, where they have started building and neighbours encroach, so we still have those issues and we are addressing those issues.

From 2010, I think there were about 200 old stock and we have classified them as old stock, and right now we have reduced that to around 50 where 30 is saleable and we are in the process of selling that and the balance is, there are issues relating to those properties and we will be dedicating that to councils and Fiji Electricity Authority (FEA) because they have their sub-stations and some other utilities in those properties.

HON. M.R. LEAWERE.- The land development, does that also include Waila City?

MR. I. RAKASETA.- No, these are the developed land. Waila is the partial of land that is classified in our land bank, this is inventory, so that is for development.

HON. M.R. LEAWERE.- Just further to that, on 6.10 in terms of repairs and maintenance, does that also include unsold houses and due to their deteriorating condition in terms of the market value, how does the Authority address that?

MR. I. RAKASETA.- This provision relates mostly to the medical insurance which we are no more providing for but it is for the staff. The Board had approved some blanket cover of about \$100,000 for staff. Before we were allowing provisioning every month but now we have changed that concept and putting it in the budget so the provision would not build up.

Secondly, the provision for repairs and maintenance, these had accumulated from the old development that had carried out before where there were provisions to cater for any defects after the development period. All these provisions have been cleared by now. According to IRFS, we are not permitted to allow such provisions.

MR. DEPUTY CHAIRMAN.- Thank you Sir. I would like to give the opportunity to Honourable O' Connor.

HON. A.A. O'CONNOR.- With reference to Parliamentary Paper 38 of 2016, and the questions raised there, much of it has already been addressed in the foregoing Audit Reports. Perhaps, at this junction

I would just ask the office of the Auditor-General if they may wish to make comments on the comments made this morning from HA?

OAG REP.- Thank you, Mr. Deputy Chair. Almost all the comments made by the representative from HA are correct and we accept those. Most of the issues which we raised in the prior years have been subsequently resolved while the issues about provisioning and we are saying to follow the IFRS and they are following the guidelines from the Reserve Bank of Fiji, that one is currently work in progress. We are working closely with the HA. I guess, he correctly mentioned that there is some amendments made to the standard so once the standard gets finalised we would be in a position to agree on the correct treatment.

The other point which the Authority raised is the provisioning, that has also been subsequently resolved. I think currently there would be some issues about the software, I believe, the Navision and the Lendsphere software. We had some cases where some of the accounts had zero balance, so I believe the Authority is equally aware of these issues and they are addressing them.

The other important issue that we had raised is on the VAT, the reconciliation of VAT returns. I think that one has also been corrected. Just for the information of the Committee, the reason why the comments were not included in our report is because the comments came in from the Authority but was late because our legislative deadline was to submit the report to Cabinet then by the end of December that year. However, the comments came in January so for that reason, we could not include those comments when the reports were printed.

MR. DEPUTY CHAIRMAN.- Thank you, Sir, from OAG. Parliamentary Paper 45 of 2016 which is on the audited reports of June 2013, this is a very general question, an issue that I have found recurring and this is the audit gaps that were identified, especially in terms of inconsistencies occurring while data flowed from Lendsphere to Navision system. This issue has been raised in almost all the audit reports. I just wanted to get a feedback on the status of this issue.

MR. I. NAVUDI.- We acknowledge and agree to that, we have a system that is based in India. We have had issues and going through that period our team have been working with them to reconcile issues that have been coming up. As of now we are considering changing our system as well into a new system. The proposals are with us which we will have to get approval from the Board. This system has been with us for about seven years now and we are hoping that with the Board's approval going from next year, we will be moving into designing and putting in place a new system that we believe should address some of the issues and weaknesses that we have faced with the current systems that we have.

MR. DEPUTY CHAIRMAN.- This Lendsphere to Navision system, if you could just elaborate more on what this system is like and why this system is occurring problems for the Authority for the past seven years?

MR. P. VEREVAKABAU.- Honourable Members, Lendsphere system is our main operating software which is lending. So it handles loans, loan processing and the mortgage portfolio itself.

The Navision system is the accounting software. Information from the Lendsphere has to be interfaced to Navision so that we can extract financial reports and these reports are the financials of the organisation. This was an issue from the very beginning and it continued to occur as, Sir, has mentioned. We have managed these issues, it has been audited and they have highlighted some issues but we tried to keep it at a minimum to avoid any flaws or risk to the organisation in terms of misstatement. That is the process that is involved.

As the Acting CEO has mentioned, we are looking forward to get a new system that is more robust because this current system is not really that flexible while there is competition in the market and we want to change our product, it does not handle that. Once we twig to suit our needs, a few other errors that come up which is a challenge to us. So, we are trying to manage this but there are proposals to change and bring in a more better system.

MR. DEPUTY CHAIRMAN.- Honourable Members, any more comments?

HON. M.R. LEAWERE.- I am going back a bit but my question is on 1.17 on Parliamentary Paper 38 of 2016, in terms of human resources. There is incomplete employee files in terms of human resources. I have seen in the report that some employees have not received appointment letters. The question is; how are they are getting paid in terms of their appointment in all the salaries that they should receiving, JDs, all these to be included in their appointment letters? How they getting into the payroll in terms of this report on 1.17?

MR. P. VEREVAKABAU.- Honourable Member, we acknowledge that there are few gaps in our HR and we have managed to address that over the years but in terms of these overlaps, it is just a few weeks overlaps where the team was not able to address this on time. It is in the following two to three weeks, then their contracts are renewed. Is not that we totally overlooked them.

HON. A.M. RADRODRO.- Just a question for the HA and probably Auditor-General too can pitch in, in terms of the continuous audit issues regarding interest calculations, suspension and the application of insurance and unsold houses. Audit has highlighted the issues in the suspending of interest whilst HA has commented that it is following the RBF policies. Can you explain how you try to mitigate these differences so that this issue can be addressed and not reoccurring as showing in the last Parliamentary Papers discussed.

MR. P. VEREVAKABAU.- Thank you, Honourable Member. The interest suspension with HA and in compliance with the RBF requirement when it is in arrears of about 90 days, we still realise that as income, so once it goes over 90 then that is suspended. If I am correct, the issue was on the interest realisation of the suspended income, not to be transferred to the Balance Sheet but to be realised in the P&L and to allow provisions. That is the issue we are trying to address with the external auditors.

HON. A.M. RADRODRO.- So, I take it that anything that is outside of the 90 days, it should not be recorded as per the IFRS standards.

MR. P. VEREVAKABAU.- RBF guidelines.

HON. A. M. RADRODRO.- What is the Auditor-General's comment?

OAG REP.- Thank you, Mr. Deputy Chair. The issue here is like we got two guidelines, one is the Reserve Bank Guideline and we have the International Financial Reporting Guideline. It is just the recognition part of the interest income is separated into two pieces of requirements. We are coming from the side of what the Standard wants and the Authority is arguing from what the Reserve Bank is requiring them to do.

However, as I have said before, I think there has been some revisions made to the IFRS Standards which the International Accounting Standard Board is reviewing that Standards, so until and unless the time this Standard gets finalised, then we would be in a better position to come to an agreement on what is to be the correct recognition of suspended interest income.

MR. DEPUTY CHAIRMAN.- Any final comments, Honourable Members?

HON. A.M. RADRODRO.- I tried to understand what the two entities are saying. They are saying two different scenarios here but the issue keeps appearing in the audit issue for HA. From the explanation, it looks like that going forward it will keep appearing. It will not be resolved because of the two difference standards that are being applied by these two entities, is that the case?

MS. F. NAGERA (OAG REP.).- HA is adopting the requirements of the Reserve Bank of Fiji. From the external auditors' perspective, from the Auditor-General's side, he will give an opinion on whether the financial statement has been prepared and presented in accordance with International Financial Reporting Standards (IFRS).

The financial statement belongs to HA, HA make the accounting policies on what goes into the financial statement but when the Auditor-General provides his opinion, he will provide an opinion on whether those policies comply with IFRS for SMEs or with full IFRS. That is why the issue will keep on recurring. It is not only confined to HA, there are other entities that have their legislation that specifically states the accounting of certain transactions, but the Auditor General when he issues his report, he is issuing his opinion on whether the financial statements are presented and prepared in accordance with IFRS.

The HA can raise that in their financial statement as part of their policy but in the Auditor-General's Audit Report he has the right to raise those issues because that is the opinion that he is going to provide. So, going forward unless HA decides to change its policy or unless the accounting standard is changed or the Reserve Bank of Fiji reviews its policy, then it will continue. It is an accounting issue, it is probably a technical issue with regards to what is required by Reserve Bank and what is required by the standard.

HON. M.R. LEAWERE.- From a layman's point of view, why two standards? Why do we not only have one standard?

MR. DEPUTY CHAIRMAN.- That is more like a policy issue, so you can choose to comment on that one.

HON. A.M. RADRODRO.- Mr. Deputy Chair, just another audit issue that has been highlighted in Parliamentary Paper No. 38 was the deposits from FNPF received by HA was delayed in terms of the Authority recognising this FNPF deposits for HA Loans. How has the Authority tried to address these FNPF deposits on HA Loans?

MR. P. VEREVAKABAU.- These FNPF deposits are system limitations, like once we are processing a loan it needs us to put in a deposit. What management and executive has decided, like they create an account where we advance this FNPF into these customers' account. So, once they claim if from FNPF, it replaces these GL. There are few outstanding processes so the lending team is currently reviewing that and once the new system comes in, I believe this will not be an issue.

HON. A.M. RADRODRO.- Just one very last question which is regarding the whole of Fiji and whole of HA exercise. The Waila City development, we have heard about its plans over the years and people were anticipating to buy land and lots in there. What is the current status in terms of the development in Waila City?

MR. I. NAVUDA.- Thank you, Sir, Honourable Members, probably we will provide this later in terms of a public release but for the information of Honourable Members, today we confirm that we have terminated the contract with the Malaysians and not only that, if you will see the *dailies* we have proceeded into working on a new master plan for the Waila City, that will be closing this week whereby we are moving

forward. Part of it will probably be done internally by the in-house team and part of it will be done probably by some external contractors as well. Even though it has not been put out publicly as yet, but that is the status now.

HON. A.M. RADRODRO.- What is the reason for the termination?

MR. I. NAVUDA.- Honourable Members and Mr. Deputy Chair, I think we have noted two things over the period: it has taken quite some time for the last four years I believe we still have not been able to go on the ground apart from some very small clearing on the ground. Secondly, the affordability is an issue with us. Any development we do, it has to be affordable to the target market and the tests were not able to clearly give us indicative figures on the product pricing that will match the clients that we are earmarking for that area and because of that, it is very difficult to go ahead and if it does not sell, we would be in a difficult situation, so those are the two reasons we have decided to terminate that contract.

MR. DEPUTY CHAIRMAN.- Thank you, Sir, on a personal and professional capacity, I would like to convey my sincere gratitude to your organisation and your entity for availing yourself and you came with your team and that was good to see that nearly almost all the Members contributed to the issues that we had highlighted. We apologise on behalf of the Committee that we were not able to send specific questions but nonetheless like I elaborated earlier, we do trust and have faith in the people who are running the entities and we know that they are always prepared for any hands-on question and we are grateful for that too.

On behalf of the Committee, we acknowledge your presence and we wish your entity, staff and officials all the very best in your future endeavours. I will give you an opportunity for your final comments.

With those words, we will end the session for the day, thank you, Sir.

MR. I. NAVUDA.- Thank you, Mr. Deputy Chairman and Honourable Members, it has been a privilege to have been called to the Standing Committee this morning. We reaffirm our commitment towards the provision of the best and affordable housing for the people of Fiji and also with good standards, and we are committed to that. With that, we welcome any issues or features that will help us do that job better and we are looking forward to the usual support from Parliament and everyone, to allow us to do our job, thank you, Sir.

MR. DEPUTY CHAIRMAN.- Thank you, Sir, do not forget to give your card, we might contact you if we need to buy properties.

The Committee adjourned at 12:14 p.m.

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The Committee resumed at 2.30 p.m.

**Submittee : Fiji Hardwood Corporation Limited (FHCL)**

In Attendance:

- |    |                        |   |                                    |
|----|------------------------|---|------------------------------------|
| 1. | Mr. Giuseppe Dal Bosco | - | Chief Executive Officer            |
| 2. | Ms. Sobna Lata         | - | Acting Accounts Supervisor         |
| 3. | Mrs. Raijeli Sasau     | - | Accounts Supervisor                |
| 4. | Mr. David Kolitagane   | - | PS, Ministry of Public Enterprises |

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MR. DEPUTY CHAIRMAN.- Good morning, Honourable Members, and the team from Fiji Hardwood Corporation Limited (FHCL).

(Mr. Deputy Chairman introduced Committee Members)

We have before us representatives from the FHCL. We do understand the sensitivity of the Corporation and likewise, we will very strictly adhere to the purpose as to what we have called the meeting for and that is to only discuss the audit accounts because that is primarily what we are here for as a Committee. That is basically what we are interested to know as a Committee from the Officials of FHCL, so please whatever you present just focus on the audit issues that have been raised as per the Parliamentary Paper. So without further ado, I will request the PS to just briefly introduce the members once again and then the necessary Official can take the floor.

MR. D. KOLITAGANE.- Thank you, Mr. Deputy Chair and Honourable Members of the Committee, we are fortunate to have the Chief Executive Officer (CEO), Mr. Bosco, who has just been appointed in January to the Corporation and he will try his best to go through the issues that are highlighted in the Audit Report. They are addressing most of it and given the recent changes that has been put in place by Government, in overall the Company is doing very well now as compared to its performance prior to the restructure which the Honourable Members are well aware of. Most of the issues that are highlighted in the Audit has been addressed adequately by the Board, I have been briefed on that but the CEO can go into detail on that.

As with other entities because it is dealing with prior audits, they have implemented systems and process, especially the controls. Again, I highlight the discipline at the Board level and the Management, so we are very fortunate to have an expatriate. Maybe, the CEO can briefly explain his background, he is on the technical side. His specialities in the industry so he is coming from that industry background and he also has international experience. So, this is one of the changes that has been implemented by Government, introducing new CEOs, expert support into the sector.

MR. DEPUTY CHAIRMAN.- Before you start your presentation, I am very sorry for the interruption. I just want to confirm that you are aware that we are discussing audit reports of February 2009, Parliamentary Paper No. 26 of 2016; the audit report of December 2009, Parliamentary Paper No. 27 of 2016; and audit report of June 2012, Parliamentary Paper No. 31 of 2016. So I would like to just request if your focus can be only on those three reports and whatever the consequential questions and answers will come from the Committee. If you find that those question and answers were not given to you in writing, the onus lies on you whether to answer that, and also if you feel that any question is very sensitive and not related to the audit reports.

HON. A. M. RADRODRO.- Mr. Deputy Chair, just before the CEO begins, can you just elaborate on your ruling now, what is the sensitivity? What are the things that you would not allow to be asked to the CEO?

MR. DEPUTY CHAIRMAN.- Any question which is not related to the audit report.

MR. G.D. BOSCO.- I am Italian, I am a forester. I am very honoured to be here, I have been appointed as a Chief Executive Officer. As I had said, I am a forester and have been for 16 years. I have grown mahogany since I was a little kid because I was born in *Guatemala* where mahogany is native forest. You have one of my boys here so I came to take care of him.

FHCL is a very exciting place. I do not know if you are aware but you hold the biggest plantations of mahogany in the world. No one else in the world has this much mahogany put together in the same place. So, for me as a forester and for me a Guatemalan, it is an honour to be on this boat

Considering the value of time, I will address the issues as stated. We have made an analysis on the Parliament documents and referred to the different audits and the way they were developed, and we have found certain continuity in certain questions. Essentially, relate to the fact that during the period of 2009 to 2015 there were no audited accounting statements. Therefore, since last November the tender process was done to select an accounting firm to do this process.

On March, we signed off the winning contender's signed off their contract and we had work started. We are happy to announce that hopefully by the end of the year, we will have all seven years of accounts audited. That is the good thing. It is time to put things in order, straighten things up but most of our work effort is, of course, in the field with the trees to put an order there, to have it straight. On that line too, I would also like to announce that this year, we are retaking the reforestation programme that was laid down before. We will be planting this year half a million trees. Very soon, we will have a nursery ready to be visited, so we put in some make up on it and when it is ready, we will be very happy to have this Committee there.

In regards to the questions, 70 percent of the issues are related to the fact that there was not audited accounts so for that we are hoping to have it by the end of the year. The remaining 30 percent of the questions are related to control systems for their Pay as You Earn taxes, for the value of the assets, et cetera. All these systems were taken into account and today, the company has internal controls and now with the auditors' external controls to carry on this forward. So, the remainder of the issues were related to the assets that used to be property of the FHCL before the sale of the properties in Navutu and Waivunu. The Navutu Sawmill was sold and Waivunu has not been sold yet. We have plans to reuse that area for other logistic purposes.

There are other remaining questions, such as the hiring of personnel and the compliance of certain regulatory rules. All of these have been taken care of, the only remaining thing is that, if you get the chance to be repeating this hearing by the end of the year, we will be able to present you with everything. If I am not wrong, by the end of this month we will have the signature of the first audited accounts for years 2009 and 2010.

Sir, we can go into detail into every questions. We divided them into Section 10, 5 and 2 according to the years. Many of them are repetitive, and therefore some of the answers are repeated as well.

MR. DEPUTY CHAIRMAN.- Yes, now the floor is with the Committee Members. If you wish to ask questions to the CEO?



HON. M.R. LEAWERE.- Thank you Mr. Deputy Chair. You mentioned something about Waivunu and Navutu, Navutu has been sold, according to what you have just mentioned. I do not know whether there are plans in place or you are probably preparing something else for it in terms of something like logistics as you had mentioned.

The likelihood of opening that mill was because of the vast resources that are available in that area. What is FHCL thinking about because most landowners are concentrated in that area and I am part of that?

MR. G.D. BOSCO.- Thank you very much. I have been in that place, I have seen the implements there. The scope of the plans of the company towards that are not related to reopening the sawmill, we are focussing on the operations of managing the forest, harvesting the logs and replanting for the time being, for the one or two years as we have to really put order and straight out the increased in activity in that area.

MS. F. NAGERA (OAG REP.).- Mr. Deputy Chair, if I can just seek clarification from both FHCL and the Ministry of Public Enterprises, if they can correct me if I am wrong, I have heard from the CEO that the 2009 and 2010 accounts have been audited?

MR. G.D. BOSCO.- No, the work done by the auditors is almost complete. They are about to be signed by our Directors.

MS. F. NAGERA (OAG REP.).- ..and then submitted to the Office of the Auditor General for audit.

MR. G.D. BOSCO.- Yes.

MS. F. NAGERA (OAG REP.).- Thank you.

MR. DEPUTY CHAIRMAN.- So, the update on the Audit Reports, so far did your office has received any of those?

MS. F. NAGERA (OAG REP.).- The last audit carried out was for and we are awaiting the submission of the 2009 to 2015 Draft Financials for audit which I believe they are currently in the process of putting together.

MR. DEPUTY CHAIRMAN.- Thank you. Honourable Radrodro?

HON. A.M. RADRODRO.- In terms of governance of the organisation, who are the current Board Members for FHCL?

MR. G.D. BOSCO.- The current members, are Mr. Adrian Sofield as Chairman and the Directors are Mr. Sanjeet Patel, Mr. Malakai Finau, Mr. Shaheen Ali and Mr. Sharvada Sharma.

HON. A.M. RADRODRO.- On Parliamentary Paper No. 31 - 2.9, the auditors have picked out some of the inventory issues regarding the different inventory classes of the company. The management at that time had mentioned that it will adopt the specified system, so have you also taken time to look into these inventory issues?

MR. G.D. BOSCO.- Thank you very much. In fact, the Company did. By the time I got here the company had arranged the .....system to account for the feasibility and registry of every single log from the moment they are brought into the landing until they are delivered to the buyer.

I would like to expand on that, in fact, we included from this year a triple check control system under which logs and the numbers are controlled by our technicians at the landing, concentration yard and at the gate of the station. If there any given moment there is an inconsistency in the dockets, their technicians has the authority to stop it and to redo it, if necessary.

HON. M.R. LEAWARE.- Mr. Deputy Chair, on 54.5 - litigation claims, I note there is loss of mahogany plantation in Vugalei, in Naimasimasi, Tailevu, and the loss of profits derived from the supply of logs. Can we have some explanation on that?

MR. G.D. BOSCO.- I believe if we can refer to Section 5.5 - Litigation Claims, the last paragraph says; "Subsequent to balance statement on November 8, 2007 the Native Land Trust Regulation 2007 were gazetted. The effect of this regulation is that all court cases against the Corporation claiming validity of the Mahogany 99 year leases do not have legal ground." That is, I believe, is connected to this question.

However, let me add, there are other claims and almost every week we have *mataqali* members coming with certain issues. We attend them all, we listened to their cry, we try to identify, we engage with the Fiji Mahogany Trust, the people in charge of attending to their social issues and we try to solve it. We are also engaged with iTLTB. The most common issue is boundaries. They want to log in the mahogany areas outside the lease, so we send our team and we verify their borders.

We also engage with the Ministry of Fisheries and Forest for that. That is the most common source of communication. Internally, sometimes we have issues with the contractor who "has a problem with this, did not pay this" or "did not pay that" so we try to come in between. We are trying to implement the policy by which, whenever we have a contractor who is engaging with the community or the *mataqali*, that at least Fiji Hardwood has a vision and an opinion on this contract and the disagreement is written, otherwise there is always "he said", "he said", and there is no legal ground for it but at least if you force or try to push out people like our *mataqali* members to have the things written then we can put our eyes maybe our stamp there, because we can pressure the contractors by holding payments but we have to have evidence which are the most common things.

HON. A.M. RADRODRO.- Just another question on the issue with one *Mataqali* from Sote, Tailevu. I think they have some outstanding issues in terms of a contractual arrangement that they had with the Company prior to your time, but in that particular contract, they have been levied ongoing charges despite the equipment, maybe your staff is aware of it despite the equipment not actually working. The equipment was supplied by the company and they have been trying to contact the Mahogany Company to assess that agreement.

I think they have been coming to your office, whether you have been made aware of that or not, the outstanding rate has been accumulating because of the system of a company automatically charging them interests and outstanding fees, despite the actual machine not working, so I do not know whether you have been made aware of that particular *mataqali* issue?

MR. DEPUTY CHAIRMAN.- Before you answer CEO, like I said some of the questions if you feel is coming out of the context-s of the Audit Report, the onus will lie on you and you are most welcome to give your opinion on whether you want to answer that or not.

MR. G.D. BOSCO.- Thank you, Mr. Deputy Chairman, I think indeed and in fact we do not have that update information about that but we will gladly carry on with this discussion.

HON. A.M. RADRODRO.- Maybe you can ask your staff.

MR. G.D. BOSCO.- I would like to add that if these people have been trying to contact you, if they have even relocated offices, numbers, et cetera, maybe they can try us at any time, and I can take it from there.

MR. DEPUTY CHAIRMAN.- Likewise, as the Honourable Member has mentioned, if the levies, et cetera, are still being charged, that does become a financial issue so I am requesting if you could just go back and see to this matter.

MR. G.D. BOSCO.- Well done.

HON. A.M. RADRODRO.- Just a clarification: are your office staff new in the accounts section, or some of them are from previous management because they might be aware if they are?

MR. G.D. BOSCO.- Yes, they are well aware, I was aware of the case too.

MR. DEPUTY CHAIRMAN.- Since it is a financial issue, please, just look into that and give an update, thank you.

HON. A.M. RADRODRO.- Just on this inventory operation here, under 2.9: is this scenario still continuing now when you joined the company? What is now the function of the FHL (Fiji Hardwood Limited), has it changed to just a policy-maker rather than involve in this particular operation?

MR. G.D. BOSCO.- Can you, please, elaborate on policy-maker?

HON. A.M. RADRODRO.- Where it is still recording inventory - still taking in inventory as part of its operation on 2.9, on 31 of ...

MR. G.D. BOSCO.- Let me just clarify: when you say "inventory" I am a forester, for me inventory is going to the bush and measure the trees, give me a second, please.

HON. MEMBER.- (Inaudible)

MR. G.D. BOSCO.- Yes, in fact, we have a systematic way to register every single log that is harvested and it is according to the J's system. On top of that, we have a cross-check system with Excel and they manage their own business software so everything is accounted for and at the end, just one detail, at some point, the document refers to sawn timber, we do not operate any sawn timber now, everything is round logs.

HON. A.M. RADRODRO.- The closure of Waivunu Sawmill, is this Item No. 3 still being carried out by the company?

MR. DEPUTY CHAIRMAN.- Item No. 2.9.

MR. G.D. BOSCO.- Yes, thank you, Navutu has been sold, so no longer in the case.

HON. A.M. RADRODRO.- Would you have the same ....

MR. G.D. BOSCO.- No, there is very little sawn timber, essentially abandoned three years ago in Waivunu, so now it is essentially scorched by the sun. We might use some of that timber to rebuild some certain areas depending on the logistics we are going to develop there but it is still a plan. As I said, we are focusing now on the current operations.

HON. A.M. RADRODRO.- Navutu is being sold, Waivunu is still closed so where does this mahogany get processed by the company?

MR. G.D. BOSCO.- Just to clarify: the company does not process timber. We have term buyers and we sell the logs to distant buyers as instructed by the Mahogany Industry Council, so we do not mill any mahogany now.

MR. DEPUTY CHAIRMAN.- Sir, if I could make my reference to Parliamentary Paper No. 31 of 2016, that issue of 2.11 – Segregation of Land and Buildings. According to the Audit Report, the recommendation that came from the OAG's Office was that the cost of land should be segregated from the cost of buildings as to charge depreciation only on the cost of buildings to ensure compliance with IFRS. Now management comments are noted, just wanted a feedback whether that issue has been rectified or not?

MR. G.D. BOSCO.- Thank you, as I stated, currently the Corporation has no property on land, everything is leased, we have 105 leases in the two main islands, so note that.

HON. A.M. RADRODRO.- You know your Principal Officer mentioned that you are no longer processing. Your principal activity as in the Auditor-General's Report, involves-Business Management of Forest Plantation, Timber Growers and the Sale of Trees and Timber, so you mean to say that you are no longer involved in the sale of trees and timber?

MR. G.D. BOSCO.- May I apologise, this is not my first language, so ....

HON. A.M. RADRODRO.- It is my second language so sometimes I combine trees and timber.

MR. G.D. BOSCO.- Essentially, looking at it from a forester's point of view, we are a logging, forest managing and a replanting company. So for the first half, I would like to call it the funny part, the good part of the forestry cycle because I love that. The second part, they call it ripping the timber, I prefer sawing it or it .....sawing if you want. No longer engaged and as it is for now, maybe in the future. As it is for now it is managing the forest, logging and replanting.

HON. A. M. RADRODRO.- Is there a reason why that arm of the company is no longer been taken on by the Corporation?

MR. G.D. BOSCO.- Not to my knowledge, Sir. I was appointed after that scenario, I have no documented answer on that.

HON. A. M. RADRODRO.- It looks like it will be a great challenge for you since when they were involved, the revenue was around \$13 million so now you have a big challenge on your hand since that operation is no longer in existence.

MR. G.D. BOSCO.- I love challenges. If I may add, this is a very interesting business as I said and forestry is really a good green business and it can be productive but it has to be very clear on what you want and where you going which is part of it. Make your clear goals so that you can have clear pathways to get there but it is a very interesting business.

MR. DEPUTY CHAIRMAN.- Honourable Members I believe there would not be any more questions but definitely once you have submitted your draft financials, it will be coming back to the Committee anyway sooner or later so we might be calling you once again.

I thank the CEO, I understand that you are a busy man and maybe, this is not a forest environment, you would not prefer coming in an environment like this but on a personal note, I can see that passion in you having this interest in the forestry industry and the passion at which you were saying, especially when you were elaborating about the trees and the forest, I can see how interested you are in the green industry.

PS Public Enterprises, I thank you also for availing yourself personally with the CEO. I do understand that he is a very new recruitment so you were here with him to guide him and once again on behalf of the Committee, I acknowledge everyone for your presence.

We have a small tea prepared before us and before we break for tea, I would like to request you if you have any final comments for the Committee.

MR. G.D. BOSCO.- I Just wanted to thank you for the opportunity. I hope to see you next time in my area.

MR. DEPUTY CHAIRMAN.- We are actually trying to develop some plans to visit certain entities and we would love to see some mahogany trees as well.

The Committee adjourned at 3.04 p.m