

VERBATIM REPORT OF THE PUBLIC ACCOUNTS COMMITTEE MEETING ON MONDAY, 29TH AUGUST, 2016 IN THE BIG COMMITTEE ROOM (EAST WING), PARLIAMENT AT 10.05 A.M.

**Submittee: Airports Fiji Limited
Office of the Auditor-General
Ministry of Public Enterprises**

In Attendance:

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|-------------------------|---|-----------------------------|
| 1. Mr. Faiz Khan | - | Executive Chairman, AFL |
| 2. Mr. Vinit Naidu | - | Business Analyst |
| 3. Ms. Sanjana Mishra | - | Senior Financial Accountant |
| 4. Mr. Dineshwar Prasad | - | Acting Audit Director, OAG |
| 5. Mr. Esala Nuibalavu | - | Audit Manager |
| 6. Ms. Laisa Bolalevu | - | Director Monitoring, MPE |

MR. DEPUTY CHAIRPERSON.- I welcome you to the meeting of Public Accounts Committee.

(The Deputy Chairperson introduced the Committee Members)

Before we start I would like to welcome you all once again especially Mr. Khan. Mr. Khan before we proceed with our discussion I would like to request you to enlighten us about Airports Fiji Limited (AFL), its roles and responsibilities and any other specific or introductory information which you find necessary for the benefit of the Committee.

MR. F. KHAN.- Mr. Deputy Chairperson, Members of the Committee, to explain briefly what AFL does, AFL looks after about 6 million square kilometres of upper airspace. This upper airspace if you would like to picture it, it would span from New Caledonia to Wallis and Futuna, to a little East of Fiji. We do not cover Tonga and Samoa, so it covers about 6 million square kilometres. One of Airports Fiji Limited's core roles is safe air navigation of flights, even flights that do not land into Fiji, flights that go mainly from Australia to North America. We safely navigate them through the upper airspace. In addition to that, we are responsible for flights that land into and out of Fiji. We are also responsible for domestic flights that span in our domestic airspace, that is the lower airspace which is the domestic, areas such as Lau, Matei, Vanua Levu and Rotuma that we navigate.

In addition to that, we also look after the commercial side of operating a terminal, we have concession spaces that we lease out to duty free operators and ultimately our aim in managing the terminal is to provide seamless processing of passengers in and out of Fiji. That is the objective and that is why you would have witnessed in the newspapers that we are currently undertaking a major upgrade of the Nadi Airport, we call it the "Nadi Airport Terminal Modernisation Project" and part of the check-in terminal which is a brand new check-in terminal came fully on line just on Saturday (two days ago).

So as we progress, we will see that the processing of passengers, the time that it has taken to process passengers will significantly reduce from what we used to have under the old infrastructure. So, fundamentally those are our roles and objectives in terms of air navigation and providing seamless processing of passengers in and out of Nadi International Airport and other airports as well. Just to add that in addition to Nadi, we manage and look after Nausori Airport and we also look after 13 other outer island stations, the smaller airstrips that we have.

MR. DEPUTY CHAIRPERSON.- Thank you, Mr. Khan. For the benefit of the officials present here, we have gone through Parliamentary Paper No. 39 of 2016 namely, that is the audited report and Parliamentary Paper No. 31 of 2016, Parliamentary Paper No. 35 of 2016, Parliamentary Paper No. 39 of 2016 and Parliamentary Paper No. 45 of 2016. I believe there were some questions and issues raised which you have addressed according to this report on the clarification of issues that you have given. Just for the benefit of the Committee and the officials present here, I would like to go into the issues that were raised and I believe you have already clarified those issues but we will go issue by issue nonetheless.

The first issue was raised by Honourable O'Connor and now I give the opportunity to Honourable O'Connor to raise his issue with you and perhaps you can also deliberate and highlight as to what you have already mentioned there.

HON. A. D. O'CONNOR.- To the AFL Executive, as per the question as you have rightly answered but if I can just quickly go through that again.

AFL provides air traffic management to the Nadi Flight Information Region (NFIR) which includes airspaces of Fiji, New Caledonia, Kiribati, Vanuatu and Tuvalu. Is your traffic management still contracted to Strategic Air Services Limited (SASL) and if so why?

MR. F. KHAN.- Honourable Chair, as you have rightfully pointed out, in fact we received the full set of questions on Friday morning by courier.

MR. DEPUTY CHAIRPERSON.- We are sorry about that.

MR. F. KHAN.- That is fine but what we have done over the weekend is that we have drafted a written response so that in addition to what we say here today, there is a reference to the written response as well.

Honourable O'Connor, the short answer to your question is no. The management of our FIR is done in-house and that happened from November 2006. There were a number of issues relating to the quality of services that was provided by SASL that led to AFL assuming the responsibility and bringing it in-house.

HON. A. M. RADRODRO.- Supplementary question. In your response you stated that you are unable to resolve the industrial relation dispute between SASL and AFL. Can you elaborate further on what is the status now and whether there is going to be a continued unresolved issue? How is AFL going to resolve these indifferences with SASL?

MR. F. KHAN.- We did not say in our response that we have not been able to resolve the industrial relations issues with SASL. What the response states is that SASL was unable to resolve its industrial relations disputes. So these are issues that they had with the air traffic controllers that they could not resolve and that led to AFL assuming that responsibility in-

house. I think it must be noted that the issues about the industrial relations that SASL faced is dating back now to 10 years. We have superseded that fairly and largely, SASL is no longer in the picture.

HON. A.M. RADRODRO.- Does AFL take over the human resources in SASL or does it find its new complex?

MR. F. KHAN.- We took over the human resources, the air traffic controllers in particular, in November 2006.

MR. DEPUTY CHAIRPERSON.- Honourable Radrodro I believe the next question and issue is yours so I give the floor to you.

HON. A.M. RADRODRO.- Just before I ask that question, just on the airport operation. In your introduction of the airport operation you also mentioned about Nausori Airport. We have been hearing a lot about the extension of Nausori Airport and the upgrading. Can you tell us what is the company's status in that project?

MR. F. KHAN.- At present we are undertaking Nadi Airport Terminal Modernisation Project as I said in my introduction, we have a project plan in place over the next 5, 10 to 15 years. Nausori fits in immediately after Nadi Airport Terminal Modernisation Project. So Nadi Airport should be largely completed in May of next year and that is when we start the planning phase of Nausori. One of the pending issues in Nausori that we still have, although we have made a significant degree of progress is the land requisition. The Director of Lands negotiates on our behalf as all of the land that is owned by airports is leased by Director of Lands and then Director of Lands leases that back to AFL. They have made significant progress over the last one year and I think we were very close to acquiring the land that we require.

Immediately after that we get into the planning phase. In the planning phase, we have both the upgrade of the runway in Nausori, not the upgrade but building a completely new terminal in Nausori in order to ensure that we can accommodate code "E" aircrafts which is the size of A330s into Nausori. At present we have a number of international flights into Nausori. However, they have restrictions in terms of the load which they can carry. So, the 737 which is a smaller aircraft than the A330s has a payload restriction, so it is not able to carry full loads.

MR. DEPUTY CHAIRPERSON.- I will take that as the last supplementary question. Honourable Nanovo, your turn to ask.

HON. RATU. S.V. NANOVO.- Still on the airport expansion, I think in the Budgeted that was presented this year, there is an allocation over there for another major airport to be built in the North. When do you think that will go ahead? You said at the moment you are still trying to upgrade Nausori and yet you are planning to move to the North.

MR. DEPUTY CHAIRPERSON.- Mr. Khan, since the question was not given to you in written form, should you choose to answer the choice is yours.

MR. F. KHAN.- Thank you Mr. Deputy Chair. I will answer. The budgetary allocation for the North, ideally an airport in the middle of Labasa and Savusavu which will be Seaqaqa is to undertake feasibility or preliminary studies whether Seaqaqa could be a suitable location for an international airport. So, it is simply to carry out that preliminary study.

One of the biggest stakeholder in this is Fiji Link so in undertaking the preliminary studies, Fiji Link is participating with AFL to find a space which is large and flat enough without constraints of mountains nearby or other obstacles that could allow us to build an international airport. I will say that, as of now, we have not been able to find a space in Seaqaqa.

MR. DEPUTY CHAIRPERSON.- Honourable Radrodro, your issue and question

HON. A.M. RADRODRO.- Mr. Khan, just my question which you have provide the answer to. I will just read it for the record. On the concession income. Provide details of your concession income valued at \$8.1 million in 2009 and \$8.04 in 2008 and what are they?

MR. F. KHAN.- Thank you, Honourable Radrodro. In the answers that we have provided, we have detailed that concession income is income that we derive through duty free spaces, through a specialty retail spaces. It is another name for rental income but in addition to rent the floor space that we have, the reason we call it concession is because there are number of revenues that were derived by agencies through the airport infrastructure such as advertising which we share with the concession air and that is why is called “concession income”. It is based on a mixed formulae of either per square meter of the floor space or based on percentage of share of the gross income and that is the similar model that is used internationally.

We have given specific list of revenues that were derived in 2008 and 2009 that formed that concession income. I must say that our figures based on our annual report did not reconcile with the figures in the question. It was out by a few \$100,000 but largely I think your question is answered.

HON. A.M. RADRODRO.- Supplementary question to these concession details. The rental, is it based on per square foot or is based on turnover?

MR. F. KHAN.- As I have said it is a combination. So, in certain instances such as your inbound tour operators, it is square meter or it was based on the bids that we received through a tender process that we carried out starting the end of 2014. So, certain tenants would say, “okay, we want this spot and we are willing to pay this much.” In fact, we had bidding wars as well where competitors wanted a particular spot so the competitive and tender process decided, we basically went to the highest bidder.

MR. DEPUTY CHAIRPERSON.- Mr. Khan just one supplementary question to that. With the modernisation of the services and the infrastructure of airports, are there any new types of concession income generation that you are looking at or it will be basically all that is mentioned there?

MR. F. KHAN.- Thank you, Mr. Deputy Chair. If you look at 2008 and 2009 concession and income revenues, there is about \$8.5 million in those years. So, we have worked on the same spaces, on the same concept of deriving concession income, however based on the tender process that we carried out in 2014 and 2015, you will note that the revenue from this

year, from that \$8.5 million we used to receive about six to seven years ago, we will now receive around \$35 million per year. So, that is the restructure of revenue, largely through a competitive process allowing people to bid. I think that is really good news for the Government of Fiji and the people of Fiji because with that money which is, we believe fair and reasonable, we are then able to undertake the huge capital infrastructure projects that we have planned for over the next five to ten years.

MR. DEPUTY CHAIRPERSON.- By the way, the departure lounge is very nice now.

HON. A.M. RADRODRO.- (Inaudible)

MR. F. KHAN.- The written response that we have gives the reason for it and the simple reason is the passenger numbers decreased in 2009 compared to 2008 by 49, 219. Therefore there was a reduction in revenue.

(Inaudible)

MR. DEPUTY CHAIRPERSON.- Passenger service charge.

MR. F. KHAN.- It is a form of revenue for AFL. As far as departure tax is concerned, we receive \$10 VIP from every passenger that pays departure tax and as far as passenger service charge is concerned, \$10 as well (VIP).

MR. DEPUTY CHAIRPERSON.- Still the same?

MR. F. KHAN.- It is a different stream of revenue.

(Inaudible)

MR. F. KHAN.- Yes, so it in-built in the air ticket sales and we get the funds remitted either through FRCA which is the departure tax or through the airlines for the passenger service charge.

HON. RATU S.V. NANOVO.- Still on that question, Mr. Chair, can we be advised of why there is a drastic drop, 49, 000 in passengers during that year? How did that come about?

MR. F. KHAN.- Mr. Deputy Chairperson, 2009, I believe, that was the year of global financial crisis and GFC, so I would think that, that would have led to the decrease in the number of tourists coming into Fiji in 2009.

HON. A. M. RADRODRO.- (Inaudible)

MR. F. KHAN.- I make the initial point that this is an event or something that happened about seven years ago, so neither the current Board nor the Executive Management that was there at that time, is at AFL now. So we can only respond to that question with the benefit of hindsight and with certain assumptions. However, we are guided fundamentally by the Board resolutions and we have put the Board resolution in our written response where the Board had noted that the payment was outside of the General Manager Finance's contract and in fact prior to making that payment, the Board had entered into an agreement with the General Manager

Finance based on contingency, stating that, “if you succeed you will get ‘x’ percentage of the total revenue increase that you derived from your successful submissions.”

So in trying to understand what really happened then, I have put some comments to state that it appears that the Board looked at this in terms of the job description of the former General Manager Finance and said, “Okay, you have got us job description, 1-20, however this particular exercise was not part of your job description therefore, we are going to enter into an agreement with you that should you succeed, you get a reward for that.” I must say that, that is not the approach that we follow today and I have put that in my written response because the contracts that we have with executives today, it states to do whatever necessary in order to achieve the broad objectives of your role or the broad objectives of your department.

Yes, there is a contract in place between the employer and the employee and that contract fundamentally governs how we reward the employee and if an employee does well, which in this instance it appears the former General Manager Finance did, then we reward the employee going forward. We could in the middle of the three-year term rewrite his contract and say, “a job well done, you receive a bonus based on your current contract, however we are giving you a pay rise for the future.” So that is the approach that we follow now which is based on empowering our staff, our human resources so that if they perform well they get a reward but not something where we go outside of the ambit of the contract to enter into some contingency agreement with them.

HON. A.M. RADRODRO.- A supplementary question, who was the General Manager Finance involved in this particular exercise?

MR. DEPUTY CHAIRPERSON.- Like I said it was not a written question directed to you so you can choose to answer or if you cannot answer, you can send us an email later on informing us if you are not sure about certain questions and issues.

MR. F. KHAN.- We have got an answer for that, the name of the former General Manager Finance was Chaminda Ratnayake.

MR. DEPUTY CHAIRPERSON.- Honourable Members, any other supplementary questions to that? If none, then I would request Honourable Nanovo to ask his question.

HON. RATU S.V. NANOVO.- To the team from AFL, we thank you very much for your presence this morning. My question will be based on Parliamentary Paper No. 35 of 2016 and one of the queries that was raised No. 1.4 was on the fixed assets of the company. There should be tight control on the usage and custody of fixed assets within the company and the fixed assets record should be updated at all times. Have the problems been addressed by the company at this stage? If not why?

MR. F. KHAN.- I will invite my colleague Vinit Naidu to answer this question.

MR. V. NAIDU.- This issue was highlighted regarding the updating of our fixed assets register. Since then we have had a number of measures implemented so that there is effective record keeping of our fixed assets. We have had an independent verification of our fixed assets in 2011 by an independent organisation called KPMG and since then we have had another verification in 2012 by our AFL Audit Executives. We have got forms designed for new assets where we record all the necessary details which are required for our assets register. We also

have an inventory module system which keeps the manual entries into the system to a minimum.

HON. RATU S.V. NANOVO.- With that, Mr. Chairman, we hope that with the verification that you are doing, it will also update the cost of these assets at that point in time?

MR. V. NAIDU.- Yes.

HON. RATU S.V. NANOVO.- On that, I will refer you again to Audit Query 1.5 under debtors. Details of invoices upon payments should be clearly demarcated. Has this issue been fully resolved at this stage?

MS. S. MISHRA.- Yes, the debtors now clearly mention all the invoice numbers when submitting their payments and we are able to correctly allocate invoices.

HON. RATU S.V. NANOVO.- On that I will take you across to Audit Query 2.4, the delay in audit. Management was unable to provide all the necessary documents to the auditors at the time it was required. Has this issue been finally resolved?

MR. F. KHAN.- We did not receive a question on that issue.

MR. DEPUTY CHAIRPERSON.- Okay, if you could note that question, after the meeting then you can provide us a written submission and clarification on that.

MR. F. KHAN.- Thank you Mr. Chair.

HON. A. M. RADRODRO.- Supplementary question. This is a question regarding the fixed asset, I think it is probably good to ask the Auditor-General to verify whether the statement is correct in terms of addressing the audit verification exercise that has been continually highlighted in 2008, 2009 and 2010.

MR. D. PRASAD.- The audit has carried out a review of the financial statements till 2015, I totally agree with the statement made by the AFL team. The necessary internal controls are now in place and that has taken care of the issue that was raised by us in that year.

MR. DEPUTY CHAIRPERSON.- Any other supplementary questions in regards to that issue? If not, then I will give the opportunity to Honourable O'Connor.

HON. A.D. O'CONNOR.- Questions raised, I requested an update on issues raised in the following items-

- a) 1.4 Executive Remuneration and Job Evaluation Exercise
- b) 1.5 Rotuma Airport Upgrade
- c) 1.6 Savusavu Airport Upgrade

MR. F. KHAN.- The first query is regarding Executive Remuneration and Job Evaluation Exercise. The query is related to the appointment and salary packages of General Managers. The first response that we have given to that is that we have been unable to find the relevant legislative provisions that require the General Manager positions to be governed by the Higher Salaries Commission. However, when digging through the files over the weekend,

our records show that there were a number of correspondences between the Higher Salaries Commission and AFL on GM positions; so that is the first point of note. We have also included the last correspondence that we received on this subject that is a letter by the then AFL CEO to the Higher Salaries Commission dated 25th May, 2011 seeking a formal response to a reference of a verbal approval given for the GM position's package.

We do not have any communication thereafter in our records by a way of response from the Higher Salaries Commission. We make a further point that most of the GM positions that were under review at that time have now been made redundant. Currently, the only GM position that we have is the GM Air Traffic Management. Mr. Deputy Chair should I go to the three queries?

MR. DEPUTY CHAIRPERSON.- Yes.

HON. A.D. O'CONNOR.- (Inaudible)

MR. F. KHAN.- The second issue raised is regarding Rotuma Airport Upgrade.

MR. DEPUTY CHAIRPERSON.- Yes.

MR. F. KHAN.- Until the end of 2015, all of the capital budget for outer island stations was provided for by a National Budgetary allocation. The National Budget would state "x" amount of dollars given for Matei, Rotuma et cetera. From the beginning of this year, AFL has largely assumed that responsibility. So, therefore, you will see in the latest National Budget, you have a budgetary allocation as Honourable Nanovo pointed out to a feasibility study for an airport in Vanua Levu.

However, the capital investments that are now carried out, they are funded largely from Airports Fiji Limited. Rotuma is a case in point.

MR. DEPUTY CHAIRPERSON.- If I may interrupt you, Sir, sorry for that. Whatever the allocation is there in the National Budget that does not necessarily mean that the allocation is less. The real picture is that most of the chunk of the allocation will now come from AFL.

MR. F. KHAN.- Absolutely correct Sir.

MR. DEPUTY CHAIRPERSON.- That is right.

MR. F. KHAN.- The National Budgetary allocation, it is in line with Government's vision so the Government states that we want AFL to explore an international airport in Vanua Levu and that gives us the trigger point to go ahead and explore that and the capital costs that will be required to set up an international airport is going to be significant.

MR. DEPUTY CHAIRPERSON.- Of course.

MR. F. KHAN.- Similarly with Matei, the Government has allocated \$150,000 in the latest National Budget which is a 2016/2017 Budget. However, that is just a trigger point to push AFL to start the scoping works, et cetera, but the actual cost will be significantly higher than the budgetary allocation.

If you look at Rotuma, in 2011 AFL had given an estimate for the upgrade of Rotuma Airstrip to allow the ATRs to land into Rotuma and that estimate was \$19.5 million. The budgetary allocation that we had at that time was around \$1.9 million, so at that time the Government had then said to us to put the project on hold. However, as I have stated earlier that AFL has largely assumed that responsibility from 2016, so we are not relying on Government budget to carry out the projects. I have stated in my general response that we have re-scoped and re-tendered the upgrade of Rotuma Airstrip in April 2016. Currently, we are going through a tender evaluation process. We have received five bids in total. I cannot comment any further on the details because we have not finalised the tender and therefore there is a certain degree of confidentiality, until such time as we finalise the tender. However, the good news is it is happening and we are going to fund it through AFL by way of Government's vision for connecting the outer island people to main land Fiji.

MR. DEPUTY CHAIRPERSON.- Savusavu.

MR. F. KHAN.- Savusavu is the last query on those issues that were raised. So we have provided written response to state that Savusavu Airport upgrade that was picked out in the Auditor-General's Report admittedly was poorly scoped under design and build model. It ended up in a dispute with the contractor. Certain disciplinary actions were taken internally within AFL for the Project Manager that was involved in it, that led to his termination. In fact, the dispute between the contractor and AFL is currently before the Arbitration Court.

We have also made a point that undertaking capital projects in particular is very challenging. I think Savusavu gives us the unsuccessful terminal upgrade project is one of the many examples that we have that make us focus on good skill sets that are required, the human resources in order to deliver capital projects successfully. We learn from the mistakes that are made. That is a mistake and that is the purpose of an audit because no one is perfect, so companies and people make mistakes. The Auditor-General's Office is there to pick those mistakes so that AFL takes actions to ensure that they correct going forward so that the mistakes are not repeated.

MR. DEPUTY CHAIRPERSON.- Honourable O'Connor.

HON. A.D. O'CONNOR.- Thank you Mr. Khan for those replies.

MR. DEPUTY CHAIRPERSON.- Is there any supplementary question to that, I believe that issue was thoroughly clarified before the Committee. Mr. Khan, I have one last issue to raise. This is what I had identified in Parliamentary Paper No. 45 of 2016, Audit Query 1.3, if there has been an increase in international passenger arrivals, was it necessary to introduce a domestic passenger service charge for that?

MR. F. KHAN.- Thank you, Honourable Chair. With respect, we believe that the question is a little simplistic.

MR. DEPUTY CHAIRPERSON.- Yes.

MR. F. KHAN.- Because the aeronautical fees and charges is governed by Commerce Commission under a set of guidelines and rules where in order to introduce any passenger service charge, any new charges or to get an increase on the existing charges, we have to make detailed submissions to the Commerce Commission and the Commerce Commission

determines or makes a determination after holding stakeholder consultations mainly with the airlines. One of the key factors that is considered by the Commerce Commission is the need to do infrastructure upgrades and in this particular instance, the reason that was given to introduce a domestic passenger service charge of \$5.75 VIP per passenger was to undertake the upgrades at Nausori International Airport.

MR. DEPUTY CHAIRPERSON.- I think my question was moreso based on that, I am sorry if it sounded very simplistic.

MR. F. KHAN.- Very respectfully, Mr. Chair, so the \$5.75 VIP per domestic passenger was based on the need to develop Nausori International Airport. It is probably worthwhile explaining a little about AFL business. The only airport where we make profit is Nadi International Airport. Every other airport that we operate, Nausori and the 13 outer island stations, they are loss making assets. So there is no business case for us to undertake development in Nausori or the outer island stations. However, we are not driven just by a business case in order to do the developments. We are guided by the Government that wants us to do developments based on national growth, based on the growth of the network between the outer island stations and the main land as I have suggested earlier.

For the information of the Committee that is sitting here, we make in excess of \$3 million operating losses in operating Nausori and 13 outer island stations, these are operating losses. In addition to that, we are undertaking capital investments into loss making assets, there is no business case, so we made a submission to get some money from the domestic passenger service charges considering that we are largely subsidising the domestic air travel in Fiji in line with Government's vision. For the information of the Committee, until December 2015 we had collected about \$4.5 million from the domestic passenger service charge and nowhere enough. If we are going to develop Nausori to allow A330s to land, if we are going to upgrade the runway, if we are going to build a new airport in Nausori, \$4.5 million is not enough. It is just a supplement that AFL is going to again top-up as I have earlier explained.

HON. RATU S.V. NANOVO.- Can we be advised once the Nausori International Airport will be upgraded, will you be able to make some profit out of it rather than going at a loss again or what sort of projects have you come up with?

MR. F. KHAN.- With the upgrades, we will definitely improve the loss making situation at Nausori. However, I think I have said this before in other forums where Nausori is not Nadi. Nadi has international passengers because of the tourism market that is there. Nausori is mainly connecting the international world to the CBD hub of Fiji which is Suva and also providing a domestic hub between Suva and the other 13 outer island stations. If we are to forecast the profitability of Nausori after the upgrade, it is likely that it will stop making losses but we are not going to see the big numbers similar to what we see in Nadi. I hope that answers your question.

HON. A. M. RADRODRO.- The operations of AFL also looks after those private run airports in the region like Laucala and Wakaya?

MR. F. KHAN.- The runway itself, the safety regulations comes under Civil Aviation Authority of Fiji not under AFL. However, AFL manages the lower airspace, so navigating the flight from Laucala to Nadi will be done through our air traffic controllers. That is the

service that we provide for the privately owned airstrips. However, the safety aspect is governed by Civil Aviation Authority of Fiji.

HON. A. M. RADRODRO.- One last question, I think your audit of 2010, the increase in your net asset was due to buildings that were transferred from CAAFI to AFL. This is probably, I guess the ones around the Namaka area, so how is that impacting on your operations especially when you are now starting to own properties as well?

MR. F. KHAN.- It is a supplementary question, that is not part of the list however we will answer it.

MR. DEPUTY CHAIRPERSON.- The onus lies on you, you can always submit the answers later. Honourable Vunivalu, do you have any comments?

HON. S.B. VUNIVALU.- Thank you, Mr. Khan for the clarifications from your team. This is just like a general comment and later on there will be a question. As I am from Nadi and being a military officer for 25 years at the airport, I am aware of some things in regards to the security of the Nadi International Airport. We are dealing with the service offered to tourists coming in and going out. At the same time, I also have a taxi business in Denarau. Coming to the new roundabout in Votualevu, there is a tramline and moving on to the entrance of the airport there is a tramline, this is in regards to the service that we provide to the nation. As we have experienced, and you might have experienced too, once approaching the Votualevu roundabout the six month of cane harvest....

MR. DEPUTY CHAIRPERSON.- Honourable Vunivalu, please direct your question as per the audit, we also have FBC waiting.

HON. S.B. VUNIVALU.- There is a need for another gate to the main entrance because of the fact that when there is green light, we move on but when we experience the six month's tramline there will be stack of cars going out and coming in?

MR. F. KHAN.- The short answer is that we do not have an alternative access into Nadi International Airport. If you look at the area where you talking about, the tramline before Votualevu roundabout coming from Nadi or Denarau, if you then look left, you have got University of Fiji and as you keep progressing further you have got our smaller runway which is runway 0927, so we cannot go past the runway in order to get to the terminal, so the access that we have is the most suitable access point and that will remain. The constraints posed by a cane laden train during the crushing season is one of the constraints that we all have to live with. I am so sorry, I cannot really help over there.

MR. DEPUTY CHAIRPERSON.- Thank you, Mr. Khan, I take that as the end of session.

HON. RATU S. NANOVO.- Honourable Chair, can I just ask the last question.

MR. DEPUTY CHAIRPERSON.- One minute, please.

HON. RATU S. NANOVO.- To the Executive Chairman of the AFL, we understand that AFL is really doing a marvellous job at the moment, and you are acting Chairman for the time being. When do you think will you will finally appoint a permanent CEO?

MR. F. KHAN.- I am not the Acting Chairman, I am the Executive Chairman of Airports Fiji Limited. I have been in charge of that role since 2013. I have got to give a bit of history to answer that question.

At the end of 2012, we had our former CEO and former Chairman who both resigned and that was at the height of the Nadi Airport Terminal Modernisation Project Planning Phase, so it is almost by necessity. At first, I was appointed by the Ministry as the Chairman and assumed the role because it was needed, so it was necessity that drove it. As you know that currently I am also in charge of the Fiji Pine Group of Companies, so the answer to that is, it cannot be indefinite because personally for me as well, it is difficult to commute daily between the two entities so the fact that we are only about eight or nine months away from the completion of the Nadi Airport Terminal Modernisation Project, I think the answer to your question would be, that soon after the completion of this major project, the Ministry would make a determination because clearly, you cannot just continue in this manner, personally for me as well.

MR. DEPUTY CHAIRPERSON.- Thank you, Mr. Khan. On behalf of the Public Accounts Committee, I would like to thank you for your presence before the Committee and also for clarifying the issues and the questions we raised as well as some supplementary questions and issues.

Before we end the session, I would like to request the team from AFL to join us for tea.

Any last comments, Mr. Khan, before we break for tea?

MR. F. KHAN.- Mr. Chair, probably a general comment. Audit is very necessary in order to ensure that state-owned enterprises and the funds of Government, which is taxpayers' money is spent well, however, and as you have noticed, we have invited questions, even outside of the written questions that were given to us because we believe in openness and transparency. There is no hidden agenda, there is sincerity in our approach.

My colleagues sitting on either side of me are here as well and answered a couple of questions, but audit, one of the things that I make a general observation on, in many instances audit is treated as creating fear in people where the one mistake that is made out of a hundred and as I have said everyone makes mistakes, it is focused upon so much that executives in state-owned enterprises or Government sector stop making any decisions at all with that fear factor. So the point is that, with one bad decision, you make 100 good decisions, the fact is you have made 101 decisions, and that 101 decision leads to progress, leads to development. So one of the general comments I would make is, "yes, it is very important to focus on the mistakes, but it is also important to look at it in light of the fact that we want to encourage people to make decisions, not fraudulent, not abuse, there is zero-tolerance for that, however these are business decisions and they are made at the point in time when they are made, like we have gone through issues arising seven, eight years ago. So, the consideration that would have been placed by the Board and the executives at that time, looking at the circumstances that existed at that time, an audit is always retrospective, looking backwards. It is just my suggestion because I believe in Fiji, I believe that state-owned enterprises must grow and develop in accordance with the Government's vision, but it is important to understand that it is not perfect, it is never going to be perfect, as long as mistakes are picked out rightfully by the Auditor-General's Office and your Committee, and then they are not repeated. That is the general idea as opposed to creating fear amongst people.

MR. DEPUTY CHAIRPERSON.- Thank you, Sir. That is why I said, this is more so like a positive discussion session. We would now break for tea. Sirs and Madams, you are most welcome to join us.

The Committee adjourned at 11.02 a.m.

The Committee resumed at 11.17 a.m.

**Submittee: Fiji Broadcasting Corporation
Office of the Auditor-General
Ministry of Public Enterprise**

In Attendance :

- | | | |
|----------------------------|---|----------------------------|
| 1. Mr. Riyaz Sayed-Khaiyum | - | CEO, FBC |
| 2. Mr. Vimlesh Sagar | - | CFO |
| 3. Mr. Dineshwar Prasad | - | Acting Audit Director, OAG |
| 4. Mr. Esala Nuibalavu | - | Audit Manager |
| 5. Ms. Laisa Bolalevu | - | Director Monitoring, MPE |

MR. DEPUTY CHAIRPERSON.- Honourable Members, I welcome you once again to this session of the Public Accounts Committee. For the benefit of the Committee and the officials present, we have officials from the Fiji Broadcasting Corporation, commonly known as FBC. We have Mr. Riyaz Sayed-Khaiyum as its CEO and we have Mr. Vimlesh Sagar who is the CFO. Gentlemen, I welcome you to this session.

Just briefly about what this session is all about? We have gone through some audit reports, namely Parliamentary Paper No. 35 of 2016 and Parliamentary Paper No. 38 of 2016. Some Members have raised certain issues and questions which they would like to ask and get clarifications on. Before we start with the questions, I would like to ask if you could just introduce yourselves and brief us on the roles and responsibilities of FBC.

MR. R. SAYED-KHAIYUM.- Good morning everyone. How are you? Everyone looks very sombre and serious so we will try and not make this sombre and serious affair.

My name is Riyaz Sayed-Khaiyum. I am the Chief Executive Office of the Fiji Broadcasting Corporation and to my left is Mr. Vimlesh Sagar, he is our CFO. We are here because we received a letter from the Public Accounts Committee to answer some of the queries which we will gladly do today. The role and the responsibility, as you mentioned, you wanted to know more about it, we are a Public Service Broadcaster, yet we are also a commercial government company so we are very unique animal in the world of broadcasting in Fiji because not only are we supposed to provide services that do not make us any money, we also do provide services that make us money so it is a very unique work environment that we have and has been the case since the FBC became corporatized in 1998, so it has been awhile.

The FBC, for a long time, has had the reputation of not performing very well and in fact, when I first joined in 2008, we were faced with the prospect of closing down the FBC because the company was defunct, the building that we were established in was condemned. In fact, it was not officially but we should have been. I think the only reason we kept on going was because it was a Government company in a Government building but a lot has changed since then.

Profits have been made after the first year then a major undertaking took place where not only did we refurbish the whole building and all our infrastructure including all our transmission sites, but also got into the very competitive and challenging business of television with the aim of not only providing commercial television but a public service broadcasting television arm as well.

Here we are, about nine years later, we consider ourselves to be one of the better performing public enterprises. We are the only media company in Fiji to have won a business excellence award and we have a lot of firsts and a lot of other things that we have done that has contributed towards the building of Fiji as a united nation and more so seemingly as you would have noticed in the last couple of weeks as a patriotic nation. I do not want to say too much, I would rather answer some questions. If you have any questions then I will hand it back to you.

MR. DEPUTY CHAIRPERSON.- Thank you, Sir, for a brief and very fruitful introduction. We have the first issue raised by Honourable Radrodro.

HON. A.M. RADRODRO.- Thank you, Mr. Sayed-Khaiyum and your executive CFO. I think a copy of this question was sent to you in regards to 2008 audit and the audit issue was that the delay in the audit and the provision of documents. The question that we raised was, has this issue been finally resolved in terms of the provision of documents for audit?

HON. R. SAYED-KHAIYUM.- With the questions, I will let Vimlesh answer them and if you need any further clarifications, then we will both contribute.

MR. V. SAGAR.- Looking at the first issue, there was a bit of delay in audit for nine to 13 and that is all resolved now. In fact, we underwent a massive upgrade project of radio and television and even without compromising the PSB obligations, as the CEO has mentioned that FBC is covered under the Public Service Broadcast contract for radio and television so without even compromising the PSB obligations, that upgrade project was successfully done.

The business operations were already happening, the radio operation was already happening and then we shifted to Civic Towers so there was a bit of delay in moving from there and then coming back in doing the audits. Coming back to the first question, the initial question, yes, audits are all done now. We have successfully completed all audits and in fact we were the first state-owned enterprise to submit our audited report of 2015 financial year as well. It was lodged to the Ministry of Public Enterprise on 15th May, this year, so going back from 2015 till all the pending years of audits, there was a bit of catch up process for us as well. We did two years of audits in 2009, 2010 in one year, 2011, 2012 and 2013 in one year and then 2014 and 2015 so it is all up to-date now.

MR. DEPUTY CHAIRPERSON.- Honourable Members, any supplementary question to that before we proceed on to the next issue?

Honourable Radrodro, you still have the floor, Item 38 of 2016.

HON. RATU S.V. NANOVO.- I thank the team again from FBC for their presence this morning. Now, I would like to refer them to Parliamentary Paper No. 38 of 2016 under the following audit issues, one was 4.3 about the balance sheet. Interest-bearing borrowing increased from \$195,000 in 2008 to \$11,865,000 in 2009. What was this for, can we be advised of how there was a big increase from \$195,220 in 2008 to \$11.8 million in 2009? Can we be given some explanation in regards to that?

MR. V. SAGAR.- Coming back to the question of Item 4.3, as earlier mentioned, we had initially taken a loan from FDB with the initial interest rate of 12 percent so within that timeframe, the repayment interest that came into effect. First it involves a drawdown, so a drawdown of that loan, the amount was sitting in the balance sheet item and then came the repayment part, principal plus interest so that is the reason why there is a huge jump including the repayment part of it.

HON. RATU S.V. NANOVO.- (Inaudible)

MR. V. SAGAR.- The restricted cash of \$5.58 million is the cash available in overseas bank accounts solely for the purpose of acquisition of new television and radio equipment which was not available in local markets, so FBC went through a normal tender process and from there, based on the project proposal and scope of work, the acquisition of hardware and software was that. That included the acquisition of microwave linking, FM transmission and FM and radio transmission equipment. So that is custom designed and is based on, if you look at our transmitter, it is based on a transmission requirement, so it is based on where it is located, in what frequency it is being transmitted to, so based on the requirements of these equipment then custom orders were placed.

That account is now closed after the project was completed, it is all now closed.

HON. RATU S.V. NANOVO.- On Item 4.4 regarding missing receipts, improper accounting of receipts exposed, the risk of fraud, what measures have you taken in order to improve this area?

MR. V. SAGAR.- Looking at Item 4.4, the only instance in which the receipts were found missing was in 2009 and as I have mentioned earlier, there was a transmission phase in which the documents were shifted from FBC Building to Civic Towers. We were given a small location to place all our documents in, and then possibly bringing the documents back from Civic Towers to FBC, in that process some of the records did go missing but eventually after the audit processes, there are stringent policies now in place whereby we have internal control measures, so these strict actions have now been taken. So it is all resolved now. I think after the 29 sign off of audited financial reports in the draft, audit memorandum reports we had also updated the Auditor-General's office about the policies and procedures that we now have in place.

HON. RATU. S.V. NANOVO.- On 4.5 - Contra Accounts. Condition of contra accounting must be strictly applied with. How far have you gone in this area? Have you managed to finally comply with the requirements?

MR. V. SAGAR.- All the financial reports are now prepared according to International Financial Reporting Standards (IFRS). Now, the treatment of recording are contra is based in IFRS standards. What happens is that a double entry principle gets applied to the contra account as well and that gets reflected in the financial reports. That is in place now, but I am confident that we have also updated OAG on that so it is all in order.

HON. A.M. RADRODRO.- Mr. Deputy Chair, supplementary question. Firstly on the provision of audit services. Can the Office of the Auditor-General confirm to us that the FBC audit has been up to date and all these issues that have been highlighted as I mentioned earlier has been resolved. That is the first question.

MR. D. PRASAD.- The OAG has confirmed that the FBC audit is now up to-date.

HON. A.M. RADRODRO.- In 2015?

MR. D. PRASAD.- Yes, the 2015 as well. The issue that has been discussed are also being resolved. I think we had also earlier indicated to the Committee that the issues for FBC have all been resolved until 2015. The latest report as per 2015 were the issues that were being highlighted from 2009 to 2013 have now all been resolved.

HON. A.M. RADRODRO.- Thank you Mr. Deputy Chair. Just another supplementary question. I have just been given this 2008 and 2009 Audited Financial Statements for FBC and likewise for all the other entities as well. We are not too sure about the current operation but looking at this and the loan that was shown in the FBC accounts, how was that impacted in the operations revenue earning capacity of FBC considering the existence of other broadcasting companies?

MR. DEPUTY CHAIRPERSON.- Sir, before you answer because since this is a supplementary question and it was not given prior in writing so the onus is on you whether you choose to answer or not or if you think that you are not prepared to answer, you can always send us later a written explanation.

MR. R. SAYED-KHAIYUM.- We are glad to answer any question. We have come here to answer questions. No problem. Can you clarify your question because I did not quite understand what you are trying to say.

HON. A.M. RADRODRO.- The operating revenue earning of FBC. Looking at the figures there is not much changes. There is a \$3 million advertising revenue in 2008 likewise in 2009, but you have incurred a loan of \$11 million in 2009. How has that impacted in terms of the earning capacity of the FBC?

MR. R. SAYED-KHAIYUM.- I can answer that for you. The project started in earnest in about mid-2008. It was so massive that it took us about three to four years to complete it. In fact television did not come on line until 2011, so way after the period that you are talking about. You will notice from our books that in that period of time the revenue in regards to radio which was the only thing that was available.

HON. A.M. RADRODRO.- (Inaudible)

MR. R. SAYED-KHAIYUM.- As these sorts of things that we try to fix it at FBC when we did the upgrade. The upgrade work was very massive. That sort of work has never been done in Fiji before, have never been done and I do not think will be done for a very long time. It was a complete overhaul of the Public Service Broadcaster. We had radio studios that were leaking, the whole building was like I said, condemned or close to being condemned. We had done a feasibility study before we did the upgrade. We were more off air than on air on an average week. That put us in a situation when I started that we hardly had any advertisements because our services was so poor and yet Ministry of Public Enterprise was supposed to make money. Just a little correction we are “corporation” not “commission” anymore and we drop the “limited” a long time ago so it is just good old “FBC”. It took a long time, the revenues did increase but because the services had to be completed for us to be able to go into the market

and say, “guess what guys, we have improved our services now more people can hear us, we are not going off air anymore et cetera and that takes time.

So, the radio upgrade was completed about six to eight months before television started and the television started. Obviously, you had to go out into the market and tell people about what you are doing, what your services were. So, we went from virtually being a broadcaster that you could not catch here to being the widest covering in the country in three years’ time. The period of time that it took us to make the reversal was a longer period of time because we had to work from the same building. In any other country, I am sure you will do some studies on these two, in any other country when a major broadcaster does a major overhaul like this, in fact they do not do it because it is always periodical upgrades. We went from zero to everything. You usually are not operating in the same building when you do the upgrade. We had a huge challenge that we were operating in a more than 50-year plus building and we had to work our way around it. We were constructing while we had studios in the building. There were hundreds and hundreds of challenges but to answer your question, the change came about later when the services were upgraded.

HON. A.M. RADRODRO.- Supplementary question, Mr. Deputy Chair. The reachability of television. How does FBC monitor the reachability of its television programme especially within the city and outside of...

MR. R. SAYED-KHAIYUM.- You will have to qualify that a bit more. Do you mean in regards to the viewers or the people that we can reach?

HON. A.M. RADRODRO.- Probably both. One is the quality.

MR. R. SAYED-KHAIYUM.- W we monitor as a quality?

HON. A.M. RADRODRO.- Yes.

MR. R. SAYED-KHAIYUM.- In regards to who can reach us. We took the bold step usually and for those of you who are old enough to remember this when Fiji Television first started, they started television of in Fiji in stages. It was not throughout Fiji because the capital costs are so great. We took the bold step of taking a substantial loan because we are the national broadcaster, we had to be available nationally from day one and that is the other reason why it took us a longer period of time. What you see at the FBC in terms of the building and television is just probably a third of the work that was done. The major part of the work was done at the transmitting stations - acquiring land, constructing new towers, getting in equipment from overseas et cetera. It was not easy thing to do but after it was completed, we were available to 93 percent of the population from day one and we still are in regards to television. In regards to FM radio, that should have the same coverage because wherever TV goes FM radio should go. In regards to AM radio, if you take that into account, then we are available on radio at least for the *iTaukei* station for *Radio Fiji One*, both on FM and AM that would be 100 percent of the population.

I cannot tell you how many people view us because due to the lack of any credible survey companies in Fiji, we do not really have the statistics on that but what we do is informal statistics. We sometimes do ask the business people that we deal with, who buys our advertising, a lot of the business houses do that in Fiji, they have their own in-house statistics and surveys where about they question customers as to what TV stations they watch and what

radio programmes they listen to. Last time it was done about two years ago by Courts, we had 71 percent viewership which I can assure you people overseas would die to get these sorts of numbers and we did that in less than three years.

HON. A. M. RADRODRO.- That question was basically to inform you because I live in Bayview and I have a quality problem with FBC Television, would it be because of the aerial

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MR. R. SAYED-KHAIYUM.- Probably because of the aerial. I know people who live in Bayview who get television. Broadcast is one of those things especially television, there could be a myriad of things that could be wrong from your end.

In terms of how we check our quality, we have what we call a “technical control room” within the building where all signals going out is checked. We have phone calls on a daily basis to people in different parts of Fiji to double check and we can remotely monitor our stations in terms of radio and television signal, et cetera on a daily basis (24 hour basis).

When we get complaints from people who cannot see our television, it could be two reasons. One is that you cannot because you live in a place where you cannot get a signal because terrestrial television signals are made that way. If you are in a deep valley somewhere or too far away like over the horizon, for example Lau, you would not be able to get terrestrial television because Lau is over the horizon. That would be one of the reasons you would not be able to get us and the other reason is that there could be something wrong with the antenna, as simple as that or something wrong with the cable or your antenna may not be pointing in the right direction.

HON. A. M. RADRODRO.- (Inaudible)

MR. R. SAYED-KHAIYUM.- No, because our transmitters are in Nakobolevu so you have to have your antenna pointing towards Nakobolevu. You cannot point it towards Suva City because you would not get anything or at least the signal would not be very good, it has to point in a certain direction. My best advice is that if you need some help, we can always help you.

HON. RATU S.V. NANOVO.- This is different from 4.6. We noted that in the last budget debate in Parliament there is a huge assistance being given to FBC throughout these years and now we have been advised that a loan has been obtained from Fiji Development Bank (FDB). With that loan from FDB, will you be able to go on your own rather than relying on Government for assistance throughout the future years?

MR. R. SAYED-KHAIYUM.- I had a feeling you would ask this. I would like to correct you, it is not assistance, we have what we call a Public Service Broadcast agreement with the Government of Fiji and that in essence means that for a fee that is paid, a lot of people call it a grant, a lot of people call it assistance but it is neither, it is a fee.

What we do as a Public Service Broadcaster, we are in the business apart from having a commercial arm for radio and television, we also do public service broadcasting services which means we produce local programmes that are of public interest including health, religious, education, community programmes, et cetera and what we do is we put a value on this and there is a value for those programmes and a value for broadcast, et cetera.

You said that we got a lot of money before, we got peanuts. Compared to other Public Service Broadcasters in the other parts of the world, we get very little to do what we do. Our bill of value of what we provide as a public service broadcast and this was raised in Parliament before, maybe you were not there on that day but this was being read by the Minister, the value of the Public Service Broadcasting is close to round about \$23 million. So what we are getting at the moment is \$11.2 million, that has been revised, is really less than half of what we should be getting.

To answer your question, it is not a gift or a grant, it is a fee and we will lobby Government for more in the coming years because if the Government of the day expects its own company to produce programmes that is not going to have any commercial value but done only as a service for the community than someone has to pay for that.

MR. DEPUTY CHAIRPERSON.- Honourable Members respecting the fact that we have other officials from other entities waiting, we will strictly base our questions as to what we were supposed to ask so if we could proceed with 4.6.

HON. RATU S.V. NANOVO.- Mr. Deputy Chairman, 4.6 issue is the accounting treatment of offshore as for bank account. Is FBC still purchasing assets through offshore contracting companies?

MR. V. SAGAR.- As I had mentioned earlier, the project was completed in 2011 so after that, that account was closed off. At the moment whatever acquisition FBC does, it is through the normal procurement process.

MR. R. SAYED-KHAIYUM.- We still buy overseas assets, we have to.

HON. RATU S.V. NANOVO.- Mr. Deputy Chairman, 4.7 is in regards to the review of Age debtor's report. Is FBC still reviewing debtor's list on a monthly basis or how are you looking after this area?

MR. V. SAGAR.- At the moment we have a 30-day account with clients so what happens on a monthly basis, that account and the review of that report is done and on a monthly board report that is sent to the Board of Directors on a monthly basis, that report is explained to. Yes we have stringent policies in place and if you look at the collection side, we have interest element now present there as well so based on 30-day account, if it exceeds that number of days then we have an interest element there as well. That is reviewed and passed onto the Board in monthly board reports, and then sent to the Board of Directors and to the Ministry of Public Enterprise.

HON. RATU S.V. NANOVO.- Mr. Deputy Chair, 4.9 regarding risk management, I think this is also very important to any entity like FBC. Is FBC's risk management policy effectively being managed as compared to what was been practised previously?

MR. V. SAGAR.- Taking into consideration the nature of business that we are operating, it is radio and television broadcast so monitoring and risk compliance is very important and the types of risk management policies that we have in place includes financial risk management, credit risk management, liquidity, regulatory risk management and interest risk management. So that is monitored on a timely basis and based on the three-year corporate

plans that we send to the Ministry of Public Enterprise, these factors are taken into consideration and based on the rating system, that is provided in the Corporate Plan documents. That is also highlighted in the reporting part in the financial reports which is clearly stated as to what mechanisms are in place to cater for this process.

HON. RATU S.V. NANOVO.- Last question, we understand that the *FBC TV* is now on, I think there is a commercial channel in that one whereby you also earn money by stating your TV station will that income derived from television income be able to assist you to be on your own in the years ahead or will you still be relying on Government assistance?

MR. R. SAYED-KHAIYUM.- Again, we are not relying on Government assistance. I think I have answered your question previously.

HON. MEMBER.- (Inaudible)

MR. R. SAYED-KHAIYUM.- You are talking about FBC?

HON. RATU S.V. NANOVO.- (Inaudible)

MR. R. SAYED-KHAIYUM.- For advertisements, yes, absolutely, I understand now. I thought you are talking about the channels available on *walesi*.

Yes, of course, the revenue that is earned for commercial advertising is for the FBC and this is where I keep on saying that we are a strange animal. We have to operate on a commercial basis and we have to show that we are earning revenue and we are, and that has been increasingly at a steady pace since television started, but at the same time, there is an element of work that we do that is not done by other operators and that is in regards to local programming, health programmes, for example, we are about to start an *itaukei* programme on finance. That will not attract us any sponsorship, that is just to give you an example. No one is going to sponsor that. What is going to happen, to produce that, is going to cost us a fair bit of money so this is where programmes like that fall under the ambit of the Public Service Broadcasting contract and that is the money that we receive from Government for us to be able to produce and broadcast them. So there is a slight demarcation between the two operations that come under the same umbrella. That is the reason why we submit out acquittals on a quarterly basis to the Ministry of Public Enterprise, the total of which, which I had mentioned earlier is more than \$23 million a year. That is the reason why, take for example the ABC, I do not know how many of you know this, but the ABC is owned by the Government of Australia. They are supposed to be independent, sometimes they are, even after a cut of \$50 million, they are still getting more than a billion dollars a year and even if you do a comparative ratio population breakdown, what we get compared to what every Fijian gets for Public Service Broadcasting compared to what every Australian gets is way way shorter than what the norm is. So to answer your question, if we are going to continue to do Public Service Broadcast programmes, we will need the money to continue to do that.

MR. DEPUTY CHAIRPERSON.- Honourable O'Connor, I believe you have a question.

HON. A.D. O'CONNOR.- Thank you, Chair, perhaps just to round off, the core question initially was, FBC provides commercial and Public Broadcasting Services throughout the nation and operates six radio stations. How does FBC see that as a competition or is a

Communications Pacific, FM 96 crowd, they are in the same sort of six station as well nationwide, what sort of competitive

MR. R. SAYED-KHAIYUM.- The Fiji media landscape is extremely competitive, if you think about it. We are less than a million people. We have got two national newspapers, three commercial television stations, more on the way, a pay-service station and lots of magazines and periodicals and all the rest of it.

For a country of less than a million people, that is a fair bit of competition. Competition is very tough, Honourable O'Connor. I will give you an example. When FBC first started television in 2011, we were so confident of our product because of our reach and the programming that we had been able to secure, very eclectic mix of programmes and a lot of people liked our programmes and that was because a lot of thought process goes into it. Our rates were almost the same as a Fiji Television rate. To give you an example, a Fiji TV rate for a 30-second commercial at that time was a little over \$500 for a 30-second spot, so if you have a business, you wanted to advertise news because a lot of people watch news, you had to pay more than \$500.

We started off at round about the same rate. I think we were only about \$20 or \$30 shy of the \$500 because we are new, so we had to convince people to spend with us. Four years later, we sold the same spot for anywhere between \$550 to \$800 a spot, Fiji TV on a good day sells that for \$70 as spot. Why would they do that? You have to ask yourself the question and the reason for that is very simple, because we have provided such competition that they have been forced to go into the market and cut their rates to sell. Personally and from a business perspective, we at FBC think that this is a wrong way of doing business because what is happening is, the whole industry is being bastardised and what it means is that, there is a value for the services that is being provided, not only by Fiji TV but by us as well.

If you undercut that value, the business houses will obviously have a big smile and think all the Christmases have come at once, but what happens to the industry and I can assure you, at those rates, something is going to give sooner or later. You cannot survive in an industry where the capital cost is so high and sell at rates that are so low, so we have actually had a couple of meetings with Fiji Television and I have asked them not to do that. We have told them to keep the rates reasonable and have asked them to compete with us on a level where it is the norm to compete and that is on programmes and schedules and the speed of business so they have said "yes" but I do not think anything is being done about it, and to answer your question, the same has been happening in the radio front as well.

After we did a refurbishment on radio, of course, CFL were the leaders in radio when we started but the latest survey shows us that *Bula FM* is the number one radio station in the country now and the reason being is of course we have invested a lot of money, we have a better reach, we have a better sound of radio, it is full FM stereo and we have invested a lot in training, so our radio programmes sounds better. Again for that aspect as well, what we used to sell at, prior to the upgrade has been surpassed. When I first joined, we were selling spots to Courts at \$1.50. It is unheard of, you never do that. It is like, at that time, I think, buying a packet of ten cigarettes, which was selling for about \$1.50 a packet in 2008 but that is how terrible the situation is and that is the reason why FBC never made any money.

We are now selling the same spot for anywhere between \$20 to \$30 a spot on radio and we have it on good authority that CFL now sells spots at anywhere between \$3 to \$10 a spot,

so the tables have been turned, the shoes on the other foot, whatever analogy you want to use, the fact is that everyone at FBC has worked extremely hard, under very trying circumstances. You asked us about a loan, et cetera, I just want to make a point, we never had the intention to go into television.

When I first joined in 2008, after I did the feasibility when I first started, I had to find out what was happening in the business, I gave an ultimatum to the Board and I said, we either close down or the Board finds money to invest in this and wake it up. Of course, we are owned by the Government of Fiji and the Board contracted the Ministry and believe me, I was an extremely worried man and I was extremely afraid when the word that got back to us, "You guys have to go out and do this, not only do you have to do this, but you have to go and look for a loan yourself, we won't give you any money and you have to start television as well." I almost cracked myself, I thought I was going to resign and go back to New Zealand but I did not, I hung on and the only institution that was willing to give us a loan at that time was the Fiji Development Bank and their condition was that they would give to us at an interest rate of 12 percent. Despite the fact that we were not making any money or hardly any money, we have never defaulted on our loan. We have always paid up on time and in fact, we have negotiated so hard over the years and used lots of tricks that I can tell you about in private one day, that the interest rate is now sitting at 5.5 percent, believe me, 12 percent was a huge chunk of money and we are now in the process of getting the loan refinanced, not because we do not like FDB, but because we think we can do better for the business by getting a low interest rate.

MR. DEPUTY CHAIRPERSON.- Thank you Mr. Sayed-Khaiyum for enlightening us with the issues raised and more about FBC and Mr. Sagar for addressing the audit issues as were raised in our report. I believe Unit Trust is there? Any final comments before we close off the session?

MR. R. SAYED-KHAIYUM.- I just like to say thank you very much for inviting us because we saw this is an opportunity to tell you about FBC because a lot of people did not know what goes on. I could sit and talk to you guys here all day about the stuff that we do. One of the most expensive things that the television station does is to procure programmes. All these programmes that you enjoy like the Olympics, Seven's Rugby, Flash, Super Girl that your kids enjoy and all the rest of it, it costs a whole heap of money. Procurement this year, we are looking at about \$3 million or little over \$3 million just to buy programmes. The Olympics costs us about \$700,000 and that is after we shared the cost with Fiji Television. In fact we paid more than Fiji Television. The Seven's Rugby on a yearly basis that people demand for and say that we have to play it at the right time, play it at this time and repeat it, et cetera costs us around about \$900,000. Every episode of any show that we play, if it is an hour long, I think Super Girl is on for an hour or Flash and all that kind of stuff that people enjoy, that is approximately just a little under FJD \$2,000 per episode. Honourable Radrodro, you know economics, do the Maths for the whole year, how many hours do we have in prime time television? That is the sort of cost that we are looking at. Unfortunately, we live in a world now where technology is changing so fast that there is a lot of spend in technology as well moreso than ever before.

In the past, going back about 20 years, you bought equipment and that lasted you for the next 30 years really. Now, we are looking at software changes and equipment changes anywhere between one to three years all the time. We are also just in case some of you may not know this, in order to have a better service for people who miss out on our programmes, especially during times of natural disaster, we have been negotiating very hard and trying to

convince the Japanese Government for the last seven years to assist us with our AM Transmission. That work started a month ago, they finally agreed to it. It is a \$15 million project and its taking place at our site in Naulu, just outside Suva and that should be completed in August next year. Once that happens it means that we will be transmitting on 10 kilowatts of power for AM and I know for Lau the signal has been a bit intermittent in the last few years that is because the equipment is about 40 years old and is finally going through a rehaul. Another point to note, once the Japanese have built the AM that does not mean that it is free of cost. Just the maintenance cost is round about \$450,000 a year, which will be borne by FBC. These are the sorts of cost that we are looking at under the Public Service Broadcasting Agreement. I hope that make sense.

HON. S.B. VUNIVALU.- You mentioned about Nakobalevu. This is like news to everyone. Those who did not receive any television broadcast you have mentioned that their antenna....

MR. R. SAYED-KHAIYUM.- Do you know where Nakobalevu is?

HON. S.B. VUNIVALU.- I know. Other people around the country...

MR. R. SAYED-KHAIYUM.- When we started television, we had an extensive promotion on this. What sort of antennas to buy, where to point your antennas, what sort of cables to buy and we had it for months and months. I think the best way to do it is to talk to your neighbours. But on the other hand, I would encourage everyone in this room, if you want a really good signal and you live in Suva then buy a *Walesi* box. The *Walesi* box, I do not know how much they are selling it for now but if you buy the box that means you will be able to get a digital service and the picture quality is like watching HD movies. It is very, very good and that is already started for Suva. We were told by *Walesi* that all of Fiji should be completed by end of next year.

All the programmes that we put on is available on *Walesi* in Suva.

MR. DEPUTY CHAIRPERSON.- Mr. Sagar do you have it in written form whatever the issues that were raised?

MR. V. SAGAR.- Yes.

MR. DEPUTY CHAIRPERSON.- If we could have copies of that. Thank you gentlemen for your rather comprehensive presentation and clarification. Mr. Sayed-Khaiyum, thank you for enlightening us.

MR. R. SAYED-KHAIYUM.- Not a problem, thank you, invite us again, will come back.

MR. DEPUTY CHAIRPERSON.- Have a blessed day.

The Committee adjourned at 12.06 p.m.

The Committee resumed at 12.08 p.m.

**Submittee: Unit Trust of Fiji (Management) Limited
Office of the Auditor-General
Ministry of Public Enterprise**

In Attendance:

1. Mr. Vilash Chand - CEO, Unit Trust
2. Mr. Sakiusa Bolaira - Manager & Company Secretary
3. Ms. Reema Chand - Senior Accountant

4. Mr. Dineshwar Prasad - Acting Audit Director, OAG
5. Mr. Esala Nuibalavu - Audit Manager

6. Ms. Laisa Bolalevu - Director Monitoring, MPE

MR. DEPUTY CHAIRPERSON.- Honourable Members, once again I welcome you all to yet another session as per our agenda of the Public Accounts Committee Meeting dated 29th August, 2016 and before we start with the discussions, let me introduce myself. I am Honourable Mohammed Dean, the Deputy Chair for the Public Accounts Committee, our Honourable Chair is at the moment busy with the submissions in Vanua Levu, I believe.

On my right are the Government MPs, Honourable O'Connor and Honourable Vunivalu. We have our Secretariat staff on the right and Madam from the Ministry of Public Enterprise to assist us.

On my left is Mr. Robert from UNDP, he is here to monitor and give us assistance as well. We have the Opposition MPs, Honourable Aseri Radrodoro and Honourable Ratu Nanovo and finally we have the staff from the Office of Auditor-General.

I welcome the team from the Unit Trust of Fiji. I believe you have received questions and issues and it is good to see that you have availed yourselves though on short notice. Do you have any written submissions?

(Submission circulated to the Committee Members)

Without further ado, I would just like to proceed with the issues. There were two major issues that were highlighted as we were going through the audit reports and please, for the benefit of information, there will be supplementary questions as well if the Honourable Members would wish to ask and the onus will lie on you whether you want to answer or not. But if you believe or feel you want to answer them, you are most welcome to do so, if not you can always send us an e-mail if you believe that you need to do more homework and have more time because you were not prepared for that.

The first issue that was raised was on Audit Report 30 of 2016.

HON. A.M. RADRODRO.- Mr. Deputy Chairman, 3.2 on the abridged financial statements for 2008 and 2009. What were the operating expenditures which increased from \$638,811 in 2008 to \$1.2 million in 2009?

MR. V. CHAND.- Mr. Deputy Chair, I would like to thank the Honourable Members for inviting us to clarify issues pertaining to 2008 until 2013 issues. Just going straight to Item 3.2, just by way of background, I have given a written submission as well, Unit Trust of Fiji (Management) Limited carried a feasibility study related to water project and then we were incurring expenses related to that project. Until 2009, we decided to write it off which I will explain further. In 2009, you will notice that expenses increased substantially compared to 2008.

One of the contributing factors was the expense related to the Naseyani Water Project and secondly at that point in time, we also had a Momi Bay Stage II investments with us. Basically, at that point in time under the guidance of CMDA then which is now handled by Reserve Bank of Fiji, they asked us to engage G. Lal, a chartered accounting firm to be our consultant and advisor in terms of investments and in overall operations of the fund. Thirdly, at that point in time when the new Board was established, the Board decided then that we needed to open our HR matters, we needed to get a proper performance management system in place and we also needed to look at the overall structures and that was the time when the Board appointed Maxumise Consultancy firm to carry out that task. So individually the expense related to water was around \$448,000 which we had to write-off under IFRS. We were not able to carry that to the next financial year.

The second item which was around \$180,000 was linked to two items, the consultant expenses related to HR and the second one was G. Lal for the consultancy and advisory role they played for at least 12 months.

The third item was in regards to inter-company transactions. In 2008 until 2009, there was a period when we did not have trustees. There was absent of trustees because our former trustee (Ernst & Young) retired and then we had to look for a new set of trustees. So basically the inter-company transaction did not take place for quite some time. When I say inter-company transaction, just way of background again, there are two entities involved.

MR. DEPUTY CHAIRMAN.- I am sorry to interrupt you, when you say “some time”, what is that time span you are talking about – one year, two years or six months?

MR. V. CHAND.- It was actually up to 12 months. In terms of the inter-company transaction, most were related to bank charges. By virtue of our structures there are two entities involved, one is Unit Trust of Fiji (Management) Limited which we are representing today and there is another entity called “Unit Trust of Fiji Trustee Company Limited”. So there were a lot of transactions in the past which used to happen between these two companies. Those were the structural changes which we did in 2010 until 2011 and which I will explain in the following questions. To avoid these inter-company transactions and to avoid the receivables and payable situations, we had streamlined our business in 2010 and thereafter we did not have these receivables and payables situations as we have covered in other areas in this response.

One of the last items which I would like to discuss under Sundry Expenses, miscellaneous expenses was related to a fraud case. There was an employee employed by our company, Unit Trust Fiji (Management) Limited, who basically committed fraud. We managed to identify the situation and we reported the matter to the Police. However, we had to compensate the loss incurred so it is the responsibility of the management company to bear that cost, so we bore the cost and took necessary action thereafter.

HON. A.M. RADRODRO.- Supplementary question to the CEO. Thank you very much for the clarification and the explanation given. The first one on the \$448,000 for Fiji Wai Limited. Why is it that the company is engaging in this activity? Why is it not being reimbursed? So who initiated this whole process of feasibility study?

MR. DEPUTY CHAIRPERSON.- Before you answer that, is it Fiji Wai or Viti Wai?

MR. V. CHAND.- Fiji Wai.

MR. DEPUTY CHAIRPERSON.- So Viti Wai is a different one? Is that company still in existence?

MR. V. CHAND.- It was established by Hari Punja.

Basically Honourable Member you are correct by saying that Unit Trust of Fiji's mandate does not allow in greenfield, this happened before us, it was done by the previous board and management. They decided to get into this venture because they wanted to have at least 5 percent of the portfolio in venture capital. This project started way back in 2003 when the company decided to explore the possibility of getting into the water project.

This particular project is just situated beside Fiji Water, there is a village called Naseyani. In fact we have spent around \$2.2 million overall. In terms of getting the due diligence, putting the reports together, getting the EIA and so forth, so the project is as of now, we are trying to rehabilitate, it is off balance sheet item, we are not incurring any further cost but we need to recover those funds. So we have been exploring a lot of potential investors. As off today, we been talking to a few, even through our embassy in China who are keen to look for a partner for this particular project. So the idea right now is that we want to offload the project to someone and recover the funds, but in terms of the mandate I agree that it is not part of our mandate to get into greenfield.

MR. DEPUTY CHAIRPERSON.- I did not get it. You want to sell off the project completely or go into partnership?

MR. V. CHAND.- There are a couple of options we are now considering.

MR. DEPUTY CHAIRPERSON.- So which option do you think you will take?

MR. V. CHAND.- Our first option is to sell it outright.

HON. A.M. RADRODRO.- Just a follow-on question to that, when the company was engaging in this exercise, was it doing it alone or was it doing it with partnership companies?

MR. V. CHAND.- At that time the company was doing it alone, but there were a lot of interest shown by operators in Fiji including Fiji Water, but it did not materialise so the project remained at our company level.

MR. DEPUTY CHAIRPERSON.- Item 3.3?

HON. A.M. RADRODRO.- Sir, just another question on the second one - professional fee. Can you advise us what advisory roles were G. Lal Company and also Maxumise engaged in?

MR. V. CHAND.- In terms of Maxumise, they purely provided the service of HR matters. The organisation has been around for the last 35 years, but we did not have a structured performance system in place, our roles were not structured and there were no proper bands and salaries determined, so the Board decided to have that particular work done so that is why we incurred a cost in terms of Maxumise.

In terms of G. Lal, it was to some extent beyond us. At that point in time, we had the Momi Bay Investments sitting in our books. The exposure was around \$12 million and as you know that Momi at one stage was not performing so CMDA, as a regulator came in and after the audit, they basically advised the Ministry of Public Enterprise and the Ministry of Finance as well as our Board that they have to get someone independent to oversee for a certain period until we get this recovery process completed, so CMDA then decided to appoint G. Lal at a mutually agreed fee.

MR. DEPUTY CHAIRPERSON.- Item 3.3?

HON. A.M. RADRODRO.- Just another explanation on sundry expenses, it is quite a big amount in terms of fraud, from \$23,000 to \$54,000 in 2009.

My question is, what framework has been put in place by management to address the re-occurring of such acts by employees?

MR. V. CHAND.- In terms of fraud, yes it happened due to some, I would say “human element” involved. Systems were in place so what we have done further than this, in order to mitigate the risk, we have strengthened our controls, systems and procedures to ensure that it does not happen in the future. But we have taken a hard line, we never let this whole process just go off the window like that. We took the matter to FICAC, we even reported the matter to Police.

The person who was involved was charged and the Court has directed the particular former employee to reimburse Unit Trust which never happened so we are now actually taking the matter back to Court. The only issue which we had was that the Court ruling was clear, unfortunately the Court did not give a particular time frame, so this particular employee has got that leeway so we are now going back to Court and asking if this particular ruling could be reconsidered and a particular time could be given.

MR. DEPUTY CHAIRPERSON.- Item 3.3?

HON. A.M. RADRODRO.- Just a clarification from the Auditor-General, is that response from management in terms of policies and process in-house, can that be verified whether it is happening or there is still some room for improvement?

MR. D. PRASAD.- Going forward, the recent audit that was carried out on the accounts of Unit Trust of Fiji (Management) Limited, the necessary internal control framework is now in place, as the officer from Unit Trust has said that there was human element involved, so basically sometimes it is not easy for the internal control that is already in place to counter the

perpetrator. The internal controls are there to safeguard the entity from foreign activities, it does not give a 100 percent protection against fraud but the necessary internal controls are already in place.

MR. DEPUTY CHAIRPERSON.- Madam Director of Public Enterprise, in cases of fraud in public enterprise entities, where does your Ministry stand on that stance?

MS. L. BOLALEVU.- For our SOEs, in cases of fraud, that would be handled by the Management and the Board and we would be advised and of course, checks like if they were policies in place or if there were policies and it was not taken into account or not followed, we would be asking those questions also but really it is handled by the Board and the Management.

HON. A.M. RADRODRO.- The entity would have its in-house internal audit team to ensure that these things are not repeated. On the next question, 3.3 on the abridged financial position, I will just read it out for record: “Why was there a decrease in receivables from \$3.8 million in 2008 to \$774,000 in 2009?”

MR. V. CHAND.- Honourable Chair and Honourable Member, if you allow me just to go back to an earlier question, in term of the improvements we have made to the organisation, in addition to our external audit, we have also appointed an external accounting firm as our internal auditor to strengthen and have a better reporting to the Board.

Just going back to Item 3.3, like I said that the structure which we have adopted since 1979 was more inter-company transaction between the management company and trustee, so because of the nature of transactions, there will be a receivable and payable situation in both companies and in particular here, the transaction was delayed because of the low balance which was at Income Account.

The Income Account is being controlled by the Trustee Company so if the Trustee Company does not have that income stream coming in, there will be a substantial delay in terms of getting the money towards the management company, so that is why we had a significant accounts receivables in 2008. So when the funds were received by the Trustee Company then they paid off our receivables hence there was a decline in receivables in 2009.

HON. A.M. RADRODRO.- I will probably come back with some supplementary questions after this. Question No. 3.4 – on the bank reconciliation, has management investigated the long outstanding items in the Bank Reconciliation as highlighted by the audit?

MR. V. CHAND.- Yes. Basically these items were all related to lodgement not yet accredited and unrepresented cheques which happened due to inter-company transactions again, so I can confirm to the Committee here that all those matters have been addressed and cleared.

HON. A.M. RADRODRO.- Can we get the opinion of the Auditor-General, please?

MR. D. PRASAD.- Confirmed.

HON. A.M. RADRODRO.- Item 3.5 regarding fixed assets register not updated, has the fixed assets register been reconciled as per the management comments?

MR. V. CHAND.- I would say “Yes”. What we have done is, in the past, we used to have a manual approach in terms of getting the fixed assets register updated. Since 2012, we have updated a system-based fixed assets register, so all fixed assets have now been controlled systematically - computerised.

MR. DEPUTY CHAIRPERSON.- Any supplementary question on that?

Honourable Members, you can always come back later with supplementary questions. The next issue that was raised is as per Parliamentary Paper No. 35 of 2016 – Item 9.3.

HON. RATU S.V. NANOVO.- I would like to first of all thank the team for presenting themselves here today. Audit Issue – 9.3 Abridged Statement of Financial Position, Cash at Bank and on Hand increased from \$32,800 in 2008 to \$270,477 in 2009. Can we be given some explanation as to how these increases came about?

MR. V. CHAND.- Honourable Member, we have made some slight amendments to that question. That question was linked to years 2009 and 2010 but we noticed that the question provided to us was 2008 and 2009. In fact it should be 2009 and 2010. We have corrected that in our response. One of the primary reason for that was change of financial year. In 2010, we had changed our financial year from financial year ending 30th September to 31st December. In 2010, we had a 15 months reporting. Hence one of the reason for the increase in Cash at Bank, the other point in response to that was in 2009 like I explained earlier on, we had expenses related to Fiji *Wai* Project, so there was a lot of cash outflow in terms of that project. That was why we had a lower balance in 2009.

MR. DEPUTY CHAIRPERSON.- This Fiji *Wai* Project who did the feasibility study, any specific company?

MR. V. CHAND.- It was primarily controlled by CEO then, GM and the Board but they had appointed external firms, for example in terms of the water testing it was done in the United States of America. It was under the guidance of the USP laboratory. In terms of EIA, it was done by a consultant called Maleli. In terms of Geo-hydrological Report, it was done by a firm, I cannot recall the name of the firm but a firm from New Zealand. So, there were different parties involved for different aspects of the project but the overall control was by the GM and the Board.

MR. DEPUTY CHAIRPERSON.- Who was the GM that time?

MR. V. CHAND.- Doctor Peter Mario.

MR. DEPUTY CHAIRPERSON.- In cases where you have a failed project like this, because from what I believe the role and responsibility of Unit Trust of Fiji is, to provide that investor confidence to the people who invest their money. Generally this is the public we are talking about. In cases like this where you have a failed project by a certain official in power, in this case the CEO and the management, what has been done regarding that in terms of addressing this issue on management level, has there been any changes because of this failure or they have been retained?

MR. V. CHAND.- Basically at that point in time, Doctor Peter Mario retired and that is when I took the role. From 2008 I have been in the acting capacity until late 2009 when I

took the role. Basically our strategy towards this project is to recover the money. We have made it very clear when we came into the management team, one thing we decided to do was to put a proper policy and guideline. One of the guidelines we have in our existing policy is that we will not go into greenfield project. Right now our role as a management here is to recover the money which we have spent. The project is in demand, I would say, right now as we speak, it is being looked after by a couple of operators in Fiji and abroad as well. The whole idea is to recover the money but in terms of past decisions, I would not be in a position to comment.

MR. DEPUTY CHAIRPERSON.- Yes, I was just talking about whether there was any structural changes in management level or not.

MR. V. CHAND.- The entire board changed.

MR. DEPUTY CHAIRPERSON.- Okay, that was the answer I was looking for.

HON. A.M. RADRODRO.- Supplementary question. You also mentioned about Momi, but I did not see anything on Momi. I guess that Momi is a successful project that was undertaken by the company?

MR. V. CHAND.- Maybe I can be elaborate on it, if you allow me in a few minutes.

MR. DEPUTY CHAIRPERSON.- Yes.

MR. V. CHAND.- The company entered into this particular investment called Muanirewa Resource Limited. This was Momi Bay Stage Two. Initially the company was pouring Momi Bay Stage I in a consortium and where FNPF and FDB were involved as well. So at that point in time, the company decided to pull out from that consortium and then FNPF and FDB went in. They went to the construction phase of the project at Momi Bay. Subsequently to that, the developers approached Unit Trust and said that if we could come into Stage Two where it involves freehold land. That was where the residential lots were supposed to be built. So the Unit Trust Board and management then decided to invest up to FJD \$12 million into Stage Two and have a first charge over this freehold land which was valued around \$100 million then. After all, we all know that the project did not go through, it failed but the good thing was that we had a first charge over those properties so we decided to take mortgagee sale. Within that process and that is one of the reasons why Item 9.4 I have explained that further, after exploring we sold it to FNPF at a face value. We lost some money, I would say, I would not say that we have not lost any money. We lost our money in terms of accrued interest, if you did not realise and also we had lost around \$300,000 overall principal value because there were some developments at the site and FNPF was not willing to reimburse us that. So we have recovered our principal sum from FNPF.

MR. DEPUTY CHAIRPERSON.- That is right.

HON. RATU. S.V. NANOVO.- Still on the abridge statement of financial position, I have got two issues in there. Firstly, the receivables in 2009 is \$774,665 while in 2010 it has almost 50 percent - \$319,969, the other issue is the increase in income tax refund from \$19,599 to \$49,180 on that same financial position. Could we be advised what has those two changes brought about?

MR. V. CHAND.- Basically as a company, we are obliged to pay advance taxes. In 2009, we paid advance taxes as and when due but because of the expense related to water project which we need to write off, the company incurred a loss of \$278,000 in the same year. Whatever advance we paid out was offset against the following year's income tax payable so that is why there was a decrease in tax paid in 2010 which led to increase in income tax refund in 2010 as well.

HON. RATU. S.V. NANOVO.- The last question, Mr. Deputy Chair, arises out of Audit Issue 9.4 - discrepancies in annual leave entitlements. Management has been provided with a solution to this. My question is, has this been resolved until now and no longer a recurring issue within your company?

MR. V. CHAND.- I will give a bit of background then I will conclude my response. When we came on board in 2008 and 2009, we had an issue before us. We had a portfolio of around \$20 million non-performing which was made up of \$12 million in Momi, we had a water project on our hand, we had Royal *Davui* and we had some partial investments here and there. The first task given to us was to rehabilitate, recover, restructure whatever possible to recover our funds. One of the things Mr. Bolaira, our Manager Finance and I decided to take was to spend all our time in recovering these funds. In that process we had to compromise in terms of us going on leave. To recover a particular investment, for example Momi Bay, it took us nothing less than 18 months in terms of the process. We had to go to court, followed the process, advertised and so forth. We were in a situation where we could not afford to go on leave, so that was why all our annual leaves, (at management level we have 20 days per person) accumulated over a period of time but we had no choice.

At that time we went to the Board and said, "we have an accumulation of leave which we do not want to be reimbursed, we will be using it at a later stage but that would be against our own policy" because we do not have a choice – recovering the funds versus going on leave. Anyway, we have now taken the matter to the Board and the Board has given us time till 2017 to ensure that we finish all our annual leaves and start fresh. As we speak, we are taking our leave, Sakiusa has come back from leave, I have come back from leave and my Manager Finance is currently on leave. We are utilising it and we also need to ensure that we do not compromise our current performance. I would say that by 2017 we will surely address this issue.

HON. A. M. RADRODRO.- Just a supplementary question on the overall Unit Trust operation. You mentioned that there is Trustee and the Management Board, can you just advise the Committee on the makeup of the trustee and the Board?

MR. V. CHAND.- By virtue of the structure, there are three particular entities involved. One is the fund which is known as Unit Trust of Fiji, so basically that is where the funds are kept. There has to be a manager, basically a day-to-day operations of the fund which is Unit Trust of Fiji (Management) Limited which is 100 percent owned by the Fijian Government and we come under the Ministry of Public Enterprise. The Chair for that is Ms. Shaenaz Voss at this point in time and the Director is Mr. Maciu Lumelume. They were appointed in 2008 and 2009. The other company which is called Unit Trust of Fiji Trustee Company Limited, their primary role is as custodian of the fund. They basically play the oversight role and the current Directors of the trustee company is Mr. Ioane Naveli and Mr. Anil Tikaram. The trustee plays a critical role here, whatever decision is made by the Board is referred back to trustees and then they have to deliberate and make a final decision. If they see that the decision taken by

management is not in the best interest of the stakeholders, they can decline. That is the structure which we have. The trustee company is 49 percent owned by Ministry of Finance and 51 percent is held in trust by the Directors of the trustee company.

MR. DEPUTY CHAIRPERSON.- Thank you Sir for enlightening us with the roles and responsibilities of Unit Trust of Fiji and also addressing the issues and the questions we had. Apart from that you have discussed more on certain pertaining issues that were not mentioned there, but you did give us good information in general about how your entity and organisation works.

Honourable Members, for the benefit of the officials here, this brings us to the end of the session. We will be break for lunch and all of you are most welcome to join us for lunch. Sir, do you have any final comments for the Committee?

MR. V. CHAND.- I have got two actually, I would like to assure the Auditor-General and our shareholders, as well as the Committee that we have taken necessary actions and measures to streamline the business. I am happy to share some of the performance of our company for the last seven to 10 years and that will be the reflection of the changes we have brought about. Some of the things we acknowledge and weaknesses we had, but I can assure you that we have taken serious steps in terms of addressing those issues.

Secondly on behalf of the Board of Unit Trust, I would like to thank the Honourable Members for giving us the opportunity to come and present ourselves and clarify issues. Thank you and *vinaka vakalevu*.

The Committee adjourned at 12.45 p.m.

The Committee resumed at 2.33 p.m.

**Submittee: Post Fiji Limited
Office of the Auditor-General
Ministry of Public Enterprise**

In Attendance:

1. Mr. William Wong - Actg CEO, Post Fiji
2. Mr. Dineshwar Prasad - Acting Audit Director, OAG
3. Mr. Esala Nuibalavu - Audit Manager
4. Ms. Laisa Bolalevu - Director Monitoring, MPE

MR. DEPUTY CHAIRPERSON.- Good afternoon Honourable Members and officials. Without further ado, I welcome you all once again to this afternoon's session of Public Accounts Committee meeting for today. Before us we have the representative from Post Fiji Limited. I welcome you Mr. Wong to the meeting of our Committee. There were some issues we considered important for deliberation and we seek to have some clarifications from you.

(The Deputy Chairperson introduced the Committee Members)

Thank you once again Mr. Wong for your presence. I believe there are a lot of issues that we need to discuss with you. This is moreso like a positive discussion session where we need to know more about the operations of the entity especially in terms of audit and finance. So I hope you would not mind the number of questions that we have. We have to adhere to a very strict schedule so we once again apologise and hope that you are ready for the issues that the Committee has for you.

Before we do so, we will begin with the session proper. Mr. Wong, I would just like you to give us a brief introduction about yourself and your organisation henceforth.

MR. W. WONG.- *Bula.* Mr. Chair and Member of the Committee, it is a great opportunity for Post Fiji to be present here today to give an update of how we are doing, how we have come across in the last few years and where we are today.

From a global point of view, we have been on a decline for many many years. That is an accepted fact and it is a question of what are we going to do about that, so that is how we have taken our business in terms of strategy, in terms of working out ways to make Post Fiji sustainable financially and also operating-wise in a long term. We have a commitment, we are a 100 percent-owned Government entity which means that we have a responsibility to the whole of Fiji in presenting our operations and services to them.

We currently operate out of 58 outlets in Fiji and Rotuma Islands. As you all know, there are over 330 islands in Fiji, we are located in 58 centres, all our main centres, rural areas and maritime areas. The business is a very highly competitive one. All facets of our business, if you look at our revenue streams, postal globally is quite severely affected, will continue to do so but like the saying goes that IT Technology is mail's worst enemy but parcels and packages best friend. We are currently working on our e-commerce website to bring ourselves up-to-date with what is happening in the market and we also have got plans in place for other

diversification of our business and we have also commenced our changes, if you like, reforms. Over the last few years we have been making losses but that turnaround in 2012, we made a small profit of just over \$230,000 after tax but that change in direction was very positive.

The second year of profitability in 2013, we were able to increase the profitability more than four times and then the profitability has continued after those years. We have been profitable over the last few years since 2012, more strict measures and disciplinary measures brought in, and at the same time, we are very confident and positive about our growth and performance as we go into the future.

We have also undertaken many changes in the organisation. Previously our financial system which was about 18 years old, we have now changed that to Microsoft Navision. At that time, we were producing accounts about four to five weeks after month end, we are now able to get out a set of accounts within seven days after the month end.

The point of sale system was one of our drawbacks. I joined the organisation in late-2011 and found that the point of sale system was not able to capture pricing for more than one price, for example, price control items. The normal price that are sold and prices in the outer islands, the system does not accept those second price, one of the drawbacks. Also the information from management was not easily obtained so we took a bold decision to replace the point of sale with the new system called post-global. That has worked very well for us. It is a system that takes us into the future – a very positive system. It has also got the capability of handling e-commerce which is work in progress right now.

The payroll system was also a difficult one. I had an experience with it when I went to the bank for a loan and the bank asked me for a payslip. What I got in terms of payslip was an A4 Paper that says “This is William Wong, and his gross pay is x-dollars”, so that has changed now. We were very ambitious. We undertook three major changes to our major systems and all are successfully integrated today.

In terms of going forward, of course, we have a lot of issues which you quite rightfully have highlighted to us in your letter last week, but in terms of going forward, we have made a lot of improvements to where we were a few years ago, so I just thought of giving a brief introduction of where we are up today.

MR. DEPUTY CHAIRPERSON.- Thank you, Mr. Wong. I do agree with you on the technologized system of mail services. A lot of exchanges are now happening through e-mails, et cetera and I can see the position as to where Post Fiji lies, but nonetheless it is good that we have you here. We will go issue by issue and the first one is on the audit query raised as per Parliamentary Paper No. 34 of 2016, and I think these issues were raised by Honourable Nanovo.

HON. RATU S.V. NANOVO.- Honourable Chair, I take this opportunity to thank Mr. Wong for availing himself to be here this afternoon to answer the audit queries that have been raised and I hope that at the end of the presentation, he will also be able to give us a reply to all these questions.

The first audit query is on 6.1 - Audit Opinion 2010. The balance sheet figures are worked out on first in last out formula which is contrary to its accounting policy and international accounting standards, hence the qualified annual report. Has this issue been addressed or has it become a recurring issue so far?

MR. W. WONG.- Back in 2010 when the accounts were qualified, yes, we agree that the stock costing method was in contrary to standard accounting principles. That was rectified in 2011 and I think the Auditor-General's Office can confirm that we had a clean set of accounts in 2011. It was subsequently corrected, and your point of non-compliance with standard accounting practices is correct.

HON. RATU S.V. NANOVO.- Another issue on 6.5 – Fraud in the Money Order Account. How effective has the implementation of corrective measures by the management has worked out so far?

MR. W. WONG.- Sir, that is a very important issue for Post Fiji. As per the audit recommendations, corrective measures have been taken by Post Fiji and put in place. All forms now have paid stamps in place and monthly reconciliations are being done to rectify any anomalies especially in money orders.

There is a daily money order voucher verification process set up in separate departments and are carried out by the Money Order team for all the online stations. As we speak today, early this year, about 29 of our 58 locations are online, so during the year, we have now increased it to 70 percent. So we have about 40 locations online today. All money orders are verified on a daily basis and for the offline ones, the figures are received by our offline team on a daily basis and these are verified against the actual vouchers when they are submitted to Head Office for the preparation of accounts.

HON. RATU S.V. NANOVO.- On 6.6 under Inventory Control

HON. A.M. RADRODRO.- Mr. Deputy Chair, can I just ask a supplementary question on this particular money order issue?

MR. DEPUTY CHAIRPERSON.- Mr. Wong since supplementary questions are hands on and were not given to you prior so you have the choice whether you want to answer it or not.

MR. W. WONG.- Yes, that will be fine Mr. Deputy Chair.

HON. A.M. RADRODRO.- Just on this particular issue, I think this is a very critical activity for Post Fiji in terms of telegram to Post Offices and Postal Agencies. As you highlighted, there are only 40 online and the rest are offline.

MR. W. WONG.- Correct.

HON. A.M. RADRODRO.- But there is still very high chances of this re-occurring, especially those offline.

MR. W. WONG.- Yes.

HON. A.M. RADRODRO.- How do you ensure that this is being kept at a minimum or eliminated especially for postal agencies which are off line?

MR. W. WONG.- The offline stations like I said earlier, they are being submitted on a daily basis and they are verified against the actual vouchers; and we have an internal audit team in Post Fiji and they go out to conduct audits in rural and maritime areas as well.

We particularly focus more on the offline stations because of the vulnerability of timeliness of records and the risk being higher than other locations, and for the online ones, there is a separate team called a TMO Department and they go through all of the online transactions on a daily basis. In terms of offline which has a higher risk that you have correctly highlighted, those are manually checked and also when audit goes out, all cash and stocks are fully counted.

MR. DEPUTY CHAIRPERSON.- Thank you, Sir.

HON. A.M. RADRODRO.- Do you still operate using the Western Union Money Transfer arrangement?

MR. W. WONG.- Only for international transactions because for the domestic sector it competes with our TMO business.

MR. DEPUTY CHAIRPERSON.- Honourable Nanovo you can continue.

HON. RATU S.V. NANOVO.- On Audit Query 6.6 under the heading, Inventory Control. Inadequate control of inventory at Post Shops increases the risk of misappropriation of assets by staff. Management should ensure that proper stocktakes are carried out when due in order to cut out the losses. Has this been maintained or has been improved?

MR. W. WONG.- I recall when I joined in 2011, there was pilferage happening and I think some of the employees were brought to justice before the court system. Ever since we have been conducting by-yearly stock takes and stock clearances are investigated and reported to management, and at the same time internal audit perform their stock counts more regularly. Also we have now got plans in place to introduce security cameras at all of our major locations at strategic positions. In terms of the controls and measures, we believe that with the new security cameras in place very shortly, we should be able to minimise any of those misappropriations.

MR. DEPUTY CHAIRPERSON.- Mr. Wong, do you have extra copies of your responses with you?

MR. W. WONG.- Yes I do.

MR. DEPUTY CHAIRPERSON.- Honourable Nanovo you can continue.

HON. RATU. S.V. NANOVO.- Thank you Mr. Deputy Chair. On 6.7 Audit Issue - Profit Margin. The issue of working out the current method of sales, has this issue been adequately addressed by the management now to avoid the miscalculation of the current profit margin?

MR. W. WONG.- Thank you Honourable Member. In terms of the profit margins, we now have a process in place. All products at category levels have a recommended profit margin and a monthly analysis is also carried out to ensure that the recommended profit margins are achieved. This also ensures that our costing and cost of sales are correctly captured. Just to give an example, our stationery margin is 40 percent, Vodafone recharge cards - 12 percent, Telecards - 10 percent and for Digicel Recharge Card - 8 percent.

MR. DEPUTY CHAIRPERSON.- Just a supplementary question on that Mr. Wong. The stationery market, is Post Fiji an exclusive distributor of certain stationery brands or there are other companies as well? I mean just like we have for Coca Cola and all that.

MR. W.WONG.- In the past few years the bulk of our purchases for back to school stationery have been purchased of a company called “Janty” and apparently most of the stationery items for school children, they are the major suppliers in Fiji.

In terms of Post Fiji’s position, we are moving out of that position in terms of reliance on local retailers to purchase of them. We are now spreading our procurement process offshore as well. We are buying from Malaysia on a big scale. There is a new supplier called Champ out of Malaysia just recently and just today we signed an LPO for purchase from China. We found that the prices of this purchase of China are very, very low compared to what we have been previously buying from our local retailers.

The intention over the longer period is to move away from buying locally. Another example is school bags. Whilst in a meeting in Singapore to discuss some issues there, we took a short trip over to Malaysia and visited our suppliers and increased the range of products that we have to bring in more new products. At the same time too we are able to scout for school bags and there is a lovely school bag just coming out, it will reach us by around October or November which should be of high quality. At this point in time we are talking through the assistance of our High Commission in India to try and source our own shoes because like in Fiji the market is too dependent on shoes like, for example, CEBO - \$129 and out of India. There is no way we pay \$129 or even \$50 for a shoe out of India for those who have been to India.

MR. DEPUTY CHAIRPERSON.- Exactly.

MR. W. WONG.- So, we are trying to work on that market to bring in our own shoes from here on. The intention is to move away from dependency on local suppliers and get our own from overseas and also become a distributor hopefully in the later years.

MR. DEPUTY CHAIRPERSON.- Thank you, Sir.

HON. A.D. O’CONNOR.- Just a supplementary question. Just talking about footwear, is this the footwear for children?

MR. W. WONG.- School children - boys and girls.

HON. A.M. RADRODRO.- What about our local producer here, I think it is *Lako Tu*. How do you find the pricing formula from them and quality?

MR. W. WONG.- We have checked the market out quite properly because we have a tender process that we follow for school shoes and stationeries. The tenders that we have been receiving over the last few years have basically been from these major suppliers. What we have found is that the pricing is quite high and in terms of quality, most of these shoes go for about four or five months because our children love to run a lot during the day.

HON. MEMBER.- (Inaudible)

MR. W. WONG.- Currently the range of the shoes, CEBO has the longest life at the moment. I think the supplier knows that and that is why we are paying \$129, but hopefully we get a good pair of shoes in that can be much lower than that, will be very helpful for our children.

MR. DEPUTY CHAIRPERSON,- Honourable Nanovo, you can continue.

HON. RATU. S.V. NANOVO.- We thank Mr. Wong for the answers given so far. For Audit Query 6.8 - Tender Irregularities. Management should ensure that tender process and documentation requirements are closely adhered to avoid risk of loss and fraud. Has this issue been adequately addressed by management to avoid risk of loss and fraud?

MR. W. WONG.- In terms of what we are doing today, every item of capital nature that is over \$10,000 in value, we have a policy which requires us to advertise in the media for tender and we have a tender process. There is a committee made up of ExCo members and also middle management. For example, if it is an IT equipment tender, the ExCo plus the ICT Manager, also in attendance is the Secretary for the Tender Committee. There is a tender register that records all the submissions and details and is signed off by the penal and Committee, and at the same time too we conduct a thorough analysis of the tenders that we have received. We usually short list them in orders of preferred one, two, three and then it is submitted to the Board for consideration and approval before we actually commit ourselves to that purchase.

HON. A. M. RADRODRO.- Supplementary question to the tender issue. The auditors also highlighted the tender regarding motor cycle fleet sale. Is that line of business still been operated by Post Fiji?

MR. W. WONG.- We have been quite discouraged by the experience our postmen have encountered using motor cycles. When they motorcycle in suburb areas, when the dogs hear the machine coming, our postmen often end up getting bitten and when they drop the mail, they cannot leave it parked there and walk another 20-30 metres to get to the house. So practically it is not very conducive for our post people.

MR. DEPUTY CHAIRPERSON.- Is there any other humorous supplementary question? Honourable Nanovo you still have the floor.

HON. RATU S.V. NANOVO.- Mr. Deputy Chair, on 6.9 – Debtors Control, management should:

1. Ensure that records are corrected at all times;
2. Continuously review its credit policy to ensure that only credit worthy customers are given credit;
3. Credit limit should be given to all its customers to avoid excessive credit.

Have these three corrective measures been closely observed by management in the past years to ensure efficiency in its operations?

MR. W. WONG.- Yes, we agree with the audit recommendation that the controls and measures for debtors were not quite up to the standard that is required for business practise. I recall when I joined, we had a full team that was working on consignment notes for our courier business, location of those notes was an issue, and record keeping, et cetera, but we have

improved and brought ourselves up to par with standard practises. Any new credit account, a new form has to be filled with all the relevant details, references, bank referees et cetera, it gets scrutinised before any credit is offered to the new debtor.

Number two, we have a system in place where the debtors team now scrutinises debtors for debt collection and they also have regular meetings and they also go out to customers to handle accounts that are not very easy to collect. Also our new point of sales system has a lot of features and one of the features in the system is that when credit is carried out for a sales transaction, the point of sale system shows a credit limit of the account to ensure that it has not exceeded. Previously in the WRE point of sale system, that feature was not there. We also have other record keeping whereby we ensure that communication is regular with our customers and payments are brought up to par.

MR. DEPUTY CHAIRPERSON.- I have a supplementary question. I am just surprised with the debtors especially with Post Fiji. If you do not mind me asking Sir, who are these debtors, can you give us a few examples?

MR. W. WONG.- Our business is in different segments, for example, the smart mail business, we print statements for our corporate customers. We print and pack statements so there is a set of customers who are smart mail debtors. Over the recent years, we offer back to school credit sales to people or organisations, not the public at large, but our sales people approach organisations where the employees, it can be private organisations, entities whereby we offer sales on credit terms to help people acquire stationery for their children and pay over a period of about six fortnightly pays. We allow a limit of around \$300 to \$500 depending on the net income of the employee. This also is helpful for a lot of people because those with two to four children, their back to school shopping could reach \$2,000. A primary school child's stationery could reach \$200 to \$300 worth of back to school shopping, which is excluding the shoes and the bag.

HON. A. M. RADRODRO.- Is that programme still continuing now - back to school promotion with organisations?

MR. W. WONG.- Yes we do.

HON. RATU S.V. NANOVO.- On Credit Issue 6.10 titled Data Backups. There was a lack of data backup which resulted in recoverable loss to the company. Has this issue been taken care off by the management after it was detected or is it still recurring?

MR. W. WONG.- The new systems that we have today, the Navision and the Post Global Systems, they are fully integrated and the daily data backups are automated. Also just only last month we built a new DR site in Ba to safeguard our custody of information in case there is a fire in GPO or something, so we have got an alternative site built in Ba with a server and a secured area.

MR. DEPUTY CHAIRPERSON.- Any supplementary questions?

HON. RATU S.V. NANOVO.- On 6.11 – No Asset Tag. Management should tag each asset with a unique ID number. Has this issue been taken care off by management after it was detected? If not, why?

MR. W. WONG.- The asset taking was carried out in 2013 for all of the major locations and centres. The ones that are in the far away rural and maritime areas, the assets are quite minor and not many. So those are the only ones that were not carried out because of the distance and the time it took to get out there but most of the assets have been tagged in 2013.

HON. A. M. RADRODRO.- Supplementary question. Can the representative from the Office of the Auditor-General verify and confirm whether that exercise has been undertaken by Post Fiji?

MR. D. PRASAD.- The comments provided by Post Fiji CFO, I confirm that, but like he has said that this is not complete due to some remote locations, so during our audit of 2015 we have found that there were anomalies but when we assessed the risk in terms of material mis-statement, we were comfortable with that since the remote locations do not carry a lot of assets. But I think management has said that they are going to work on it to ensure that all the assets are being tagged in remote locations.

HON. RATU S.V. NANOVO.- Audit Issue 6.12 – under Debtor’s Account not updated for dishonoured cheques. Management should ensure that the individual debtor accounts are updated accordingly for dishonoured cheques. Has this recommendation been honoured throughout the years? If not why?

MR. W. WONG.- The management records, dishonoured cheques in a separate GL account and the account is now continuously reconciled and all our outstanding dishonoured cheques are pursued from the owner of the cheque and gets cleared. For cheques that are dishonoured from the agency payments, those are not the Post Fiji customers, those cheques that are dishonoured, the amount is reduced from our payment to those agencies so that we do not carry that loss, so GL reconciliations are performed and cheques are being pursued and where the cheque belongs to an agency, we deduct that from our payment.

HON. RATU S. NANOVO.- I will now proceed onto Audit Issue 6.13 – Trust Account. Trust Account Funds should not be deposited into the company’s main operating account as per the Trust Act. Management should open up a separate Trust Account to cater for this in compliance with the Act. Has this been implemented, if not, why?

MR. W. WONG.- Post Fiji’s core business is postal and we also do not hold Trust Funds for other entities. We are also a commercial entity so the nature of services that we provide and the revenue that we collect from those business transactions is totally operational for Post Fiji, hence we keep a normal bank account like all business entities whereby the operating account would have usual deposits and withdrawals. So we do daily banking, perform monthly bank reconciliations and also check that all bank receipts are intact.

In terms of payments, all cheques are debited to our accounts. Any bank reconciliation that is performed picks up the payments that are issued out and so the deposits that are provided by Bill Pay customers are security deposits for undertaking transactions on their behalf and these are operational in nature, so the bank account is fully operational in nature and all business transactions are accounted for in the bank account and fully reconciled and reviewed on a regular basis.

MR. DEPUTY CHAIRPERSON.- Any supplementary questions to that before I give the opportunity to Honourable Radrodro to carry on?

HON. RATU S.V. NANOVO.- I would like to draw your attention, Mr. Wong to Parliamentary Paper No. 35 of 2016 under Audit Query No. 8.1, Audit Opinion 2009. Why was the problem detected in 2009 still recurring in 2010? A qualified audit report was issued because the balance sheet includes inventory with the value of over \$5 million.

MR. W. WONG.- The costing method as mentioned earlier on was incorrect, LIFO , it should have been FIFO and was subsequently corrected in the 2011 financial year. The Auditor-General's Office can confirm that our accounts for 2011 has been a clean set of accounts.

HON. RATU S.V. NANOVO.- Is that true, OAG?

MR. D. PRASAD.- Yes, Sir.

HON. RATU S.V. NANOVO.- (Inaudible)

MR. W. WONG.- The WRE system, the previous point of sale system as mentioned earlier, we have replaced that with a more dynamic and integrated point of sale system called post-global with far superior features and capabilities. Currently, today, we are using awaited average costs for our stocks which is the more appropriate cost and preferable to FIFO.

HON. RATU S.V. NANOVO.- On Item 8.5 – Misappropriation of Cash - Management promised to put everything in order to stop this exercise once and for all by January 2011. Has this promise been implemented as discussed, if not, why?

MR. W. WONG.- With the change in system from WRE to Post-Global now, there are adequate checks and balances within the system to detect fraud and errors. Currently, the new system can pick individual transactions by dates, time and by a CSO officer. Any misappropriations, we know exactly what time and which office.

HON. RATU S.V. NANOVO.- That brings me to my last query this afternoon, Honourable Chair. Under 8.6 – Poor Implementation of IMAS and WRE systems. Management must ensure that IT related problems with the two systems are rectified. In future, changes to the new system should run parallel until all associated problems are identified and rectified. Has this suggestion been taken care of as suggested? If not, why?

MR. W. WONG.- The audit report is correct in highlighting that during that financial period and as I have mentioned earlier that we have new systems in place now. The new systems of Post-Global and Navision, the changeover, we introduced Post-Global first and also Navision and then we ran a parallel transition over two months before we went live. Live was after we tested and were able to integrate the two new systems together and that is one reason why our monthly set of accounts is ready within seven working days because of the integration process within the two systems.

HON. RATU S.V. NANOVO.- Just to finalise from my side, Honourable Chair, I take this time to thank the Post Fiji for all the answers that have been provided which shows us that they have almost rectified all the issues that were raised in Parliamentary Paper No. 35 of 2016. Thank you so much, Mr. Wong.

MR. DEPUTY CHAIRPERSON.- Thank you, Honourable Nanovo. I now would like to give the opportunity to Honourable O'Connor to ask and raise issues in regards to Parliamentary Paper No. 39 of 2016.

HON. A.D. O'CONNOR.- Thank you, Mr. Chair. Mr. Wong, reference was made to 8.4 – Cash in Stock Shortages, what is being done to resolve the significant losses?

MR. W. WONG.- With the assistance of our internal audit team, frequent visits are made to all locations for supplies, cash and stock verifications and recently the finance team has offered its assistance to also conduct surprise cash counts at various locations. All audit inspections or audit visits encompass a full check on all cash and all stocks and any anomalies are detected then reports are forwarded to management and we then forward the matter to police for further investigation and for charges to be laid.

We also have a disciplinary committee in place that listens to all offences. We follow due process where the employee is given every right to answer to the allegations and given the “x” number of working days after which we then assess the responses with the report that we have from the investigation and we then go towards the disciplinary committee for hearing.

HON. A.D. O'CONNOR.- Item 8.5 – Creditors Aged Payables Adjusted: is Post Fiji still acquiring the services of their consultant, IMAS and has proper reconciliation for creditors been undertaken?

MR. W. WONG.- The system that was referred to earlier on in the audit report is the MIS system and was approximately 18 years old. In that system, there were issues that required expert assistance in order to generate a set of accounts and with the new Navision system in place, those problems no longer exist today. The Microsoft Navision system has been very efficient and all the agings for creditors are in order.

HON. A.D. O'CONNOR.- Item 8.6 - Creditor's Variances in Balances. Is Post Fiji reconciling Creditor's Accounts monthly and variances adjusted accordingly?

MR. W. WONG.- Yes, Post Fiji is now reconciling all credit accounts on a monthly basis and any differences between statements and ledger is corrected in a timely manner and the cash flow of Post Fiji has improved quite significantly over these last few years. We have now cleared a lot of outstanding creditor accounts and payments are being conducted in a more timely manner. The cash flow of Post Fiji has improved quite significantly over these last few years. We have now cleared a lot of outstanding creditor accounts and payments are being conducted in the more timely manner.

HON. A.D. O'CONNOR.- In 8.7 - Cash, you have briefly explained that in an earlier one of 8.4 insofar as Spot Cheques, so I will dwell on that one. The next one is 8.8. - Debtors over 90 days. The risk of debtors remaining in 90 days for a long period is possible right-offs. What is the accounting head doing about this and adhering to the 30 days collection time frame?

MR. W. WONG.- The Audit Report was correct in highlighting the long period it was taking to collect those outstanding debts. Today as we speak the debt collection team has completely changed. We have a new team in place and the controls and necessary actions are in motion at all times. We consider that the work that we are doing for debt collection is very

much on par with what needs to be done for debt collection, and also with the help of our financial system and point of sale system, it also brings in more efficiency to our work.

HON. A.D. O'CONNOR.- Mr. Deputy Chairman, again 8.9 makes reference to Cash Account Reconciliations as you have already alluded to in 8.4 and 8.7, so I will not dwell on 8.9 but I will go to 8.10 - Outdated Corporate Governance Manual. Why has this procedure not being carried out, if it has not already been?

MR. W. WONG.- We accept that the Corporate Governance Manual are outdated. The SPUs have now been tasked with the responsibility through their respective heads to conduct a review of their respective areas and put together a compilation of information that would enable a draft to be prepared and meetings should take place to review the draft so that we ensure that the business activities and operations of Post Fiji will be adequately covered in the Corporate Governance Manual at the same time reflect the processes and the changes that have taken place in Post Fiji.

The work is on-going and particularly so when Post Fiji has a vast diversification of business activities for those organisations which has one core function, one activity is not too difficult to put together a Corporate Manual, but our business is very diversified and there is a lot of activities that go with it, so work has already started but the task has been assigned to all our relevant heads, work is ongoing and we will continue to build on this review until we have a draft ready. Ultimately, it will then go to the board for final discussion and approval before it is implemented.

MR. DEPUTY CHAIRPERSON.- Thank you, Mr. Wong. I just have two supplementary questions. If I could make reference to 8.7, a response you have. There is one response that really caught my eye where you mentioned - surprise check verification. What is that process like?

MR. W. WONG.- The surprise check verification is that we come to the Post Office unannounced.

MR. DEPUTY CHAIRPERSON.- Unannounced, that is alright.

MR. W. WONG.- We then walk straight in and stop the activity there and count the cash and balance it with the books. It is like a spot check to make sure that....

MR. DEPUTY CHAIRPERSON.- Spot check for accounts?

MR. W. WONG.- For the cash.

MR. DEPUTY CHAIRPERSON.- For the cash account.

MR. W. WONG.- To ensure that the balance that is supposed to be in the till is in the till.

MR. DEPUTY CHAIRPERSON.- The reason why I asked you that because this might be out of line but this is what I have noticed. I just went to Nadi Post Office on Friday and there was no one in the stationery department, it is a big area. I was asking the staff, the cash register and everyone there but there was no one to attend to. They said, "it's okay, you can

just take whatever stationery from there and pay it at the counter where they provide postal services.” I was thinking, someone can just grab an item because stationeries are small. I am glad that you have this surprise check because in reality this is what we are seeing as customers. The other one is, you said that a draft review is under formulation and finalisation. For the benefit of the Committee, can you give us a rough idea as to how long it might take to finalise this whole process of reviewing?

MR. W. WONG.- Currently, in terms of needing to be done, we have the Corporate Plan that is due in another four weeks and we have the budgets also to go with the Corporate Plan. We have the e-Commerce platform that Post Fiji wants to build to increase its revenue opportunities and bring ourselves into a competitive market. That does not mean to say we have to put it aside.

During the course of work over the period where we encounter some of the items or issues in the manual is outdated and needs to be upgraded. So, what our managers have done has taken notes of those relevant sections and that is why I say it is ongoing. Eventually, we will put a draft together. So hopefully around the third or fourth quarter of next year.

MR. DEPUTY CHAIRPERSON.- I thank you Mr. Wong for your rather well presented response. You might have noticed there were lot of issues and questions raised and we are very thankful to see that in almost all the issues that we raised, rectifications has been happening, improvements has been ongoing, for some cases improvements have happened and there are plans as well to further improve things. We are very much assured that this entity is having a very positive direction especially in terms of the management of funds.

Honourable Members, before we excuse Mr. Wong is there any final supplementary question anyone needs to ask him?

HON. A.M. RADRODRO.- In relation to Corporate Governance, you mentioned that you are improving in terms of your performance. Can you just inform us who the current board members are?

MR. W. WONG.- Our Chairman is Mr. Lawrence Tikaram and our Board Member is Mr. Niko Bulai, there are only two members on the Board.

HON. RATU. S.V. NANOVO.- (Inaudible)

HON. A.M. RADRODRO.- What is the statutory requirement for Board Membership.

MR. W. WONG. – I think there might be about

(Inaudible)

MS. L. BOLALEVU.- Honourable Member, I will be able to confirm the quorum and the Board Member for Post Fiji probably later. We note the concerns from Post Fiji about the limitations on Board Directors and we continue to work towards trying to coordinate with the Minister on the appointment of additional Board Members.

MR. DEPUTY CHAIRPERSON.- Madam, this request is also coming from the Committee, the entities that we have seen today, we would like to request if we can get a feedback on the Board of Directors that they have.

MS. L. BOLALEVU.- Noted.

MR. DEPUTY CHAIRPERSON.- Thank you.

HON. A.M. RADRODRO.- Secondly, Mr. Deputy Chair, just on the performance of Post Fiji. The latest records that we have here you made a loss but now you are stating that you are making improvements in terms of financial performances. In terms of making returns to shareholders, is that a long term plan or short term plan that Post Fiji is now geared towards?

MR. W. WONG.- Post Fiji profitability turned towards positive direction in the 2012 financial year where we made \$233,000 after tax, 2013 we made \$1.16 million after tax, 2014 we made \$1.11 million and last year we made \$1.6 million. We have already declared 50 percent dividends to Government, we made a payment in December 2015 for the years 2012, 2013 and 2014. We paid about \$1.4 million for the three years.

HON. RATU S.V. NANOVO.- Just a question to Ministry of Public Enterprise, is the standard rate of return required by the Ministry levied to all the GCCs and CSAs, what is the percentage rate of return?

MS. L. BOLALEVU.- Rate of return should be 10 percent of return on equity on shareholders but dividend is 50 percent of net profit.

MR. DEPUTY CHAIRPERSON.- I thank the Honourable Members for their questions and most importantly I thank you Mr. Wong for taking out time on such a short notice and addressing all the issues that we wanted to know. With those words, on behalf of the Committee I thank you and before I give you the opportunity to bid us farewell for the session today, we surely await for the sandals and bags to come from India.

MR. W. WONG.- Thank you Mr. Chair and Members of the Committee. Post Fiji has always taken audit comments very positively. We acknowledge the comments that have been made for the years 2009 to 2013 and I am very pleased to be able to action those items. In going forward, we will continue to do our best to further improve the business and also ensure that our shareholders are getting their return each year and we are performing to the expectations and that Post Fiji is an SOE that is up-to-date with its systems and competing in the open market in a strong way. I would like to thank everyone for the positive comments.

The Committee adjourned at 3.28 p.m.