ACCOUNTABILITY IN THE PUBLIC SECTOR
THROUGH QUALITY AUDIT SERVICES

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities – February 2009

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REPUBLIC OF FIJI

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1st February 2009

Commodore Josaia V. Bainimarama
Prime Minister and Minister for Finance
PO Box 2353
Government Buildings
SUVA

Dear Sir

REPORT OF THE AUDITOR GENERAL

Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities

In accordance with section 7(7) of the State Services Decree 2009, I am pleased to transmit to you my report on the audits of accounts of the above mentioned entities that were completed during the 2nd half of 2008.

Tevita Bolanavanua
Acting Auditor - General

AUDITOR-GENERAL
FIJI

Introduction

The Financial Management Act 2004 provides for the submission of the accounts of all government entities and the audit of these accounts by the Auditor General. The entities include government ministries and departments, government commercial companies, commercial statutory authorities, off-budget state entities and statutory authorities.

The Auditor General is empowered by the Local Government Act to audit municipal councils and by the Fijian Affairs (Provincial Councils) Regulations to audit provincial councils. The government projects where the executing agencies are government ministries or departments are also audited by the Auditor General.

This report contains the 2008 audits of government commercial companies (GCCs) and commercial statutory authorities (CSAs), and two majority-owned companies.[1]

For the purpose of this report, a GCC is a company where the government holds 100% shares and a CSA is a statutory authority that operates along commercial lines. The establishment of the principal objectives, the regulation of the structure and relationship with the government and the the reporting and accountability of GCCs and CSAs are provided in the Public Enterprises Act.

A summary of the 2008 audits of GCCs, CSAs and majority-owned companies is as follows:

(i) the audits that were completed within the year include 5 GCCs (and a subsidiary) and all 4 CSAs, whose 2007 accounts conform to the new International Financial Reporting Standards (IFRS);

(ii) as at December 2008, the audits of the 2007 accounts of 2 GCCs were still in progress and 3 had yet to submit their accounts, one of which relate to 2006 accounts;

(iii) the audit of the 2006 accounts of a GCC incorporated recently is in progress; and

(iv) the Directors of a majority owned company have yet to sign the 2006 audited accounts.

The details of these audits are provided in Table A below.

The audits of the 2007 accounts were delayed as most entities had taken time to prepare their financial statements under the new International Financial Reporting Standards (IFRS). The entities that are required to adopt IFRS include public entities as defined in the Companies Act, government majority owned entities, entities established under statutes, and entities with annual group turnover of at least F$20 million or with assets exceeding F$20 million.

The IFRS framework states that the objective of the financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions, and to provide the current financial status of the entity to its shareholders and the public in general.

[1] The majority-owned companies are not directly under the mandate of the Auditor General but have been audited in the last 2 years.

TABLE A: Audit Status of CSA, GCC and Majority Owned Companies as at December 2008*

	Client	Last Account Certified	Audit in progress	Present Position
	Government Commercial Companies (GCC)			
1	Airports Fiji Ltd	2007		2008 accounts should be received in Jan/Feb 2009
2	Fiji Broadcasting Corporation Ltd	2007		2008 accounts should be received in Jan/Feb 2009
3	Fiji Ports Corporation Ltd [FPCL]	2007		2008 accounts should be received in Jan/Feb 2009
4	Fiji Public Trustee Corporation Ltd	-	2006	2006 accounts is the first produced for audit
5	Fiji Ships & Heavy Industries Ltd	2006	2007	2007 audit is being finalized.
6	Food Processors (Fiji) Ltd	2006	-	2007accounts yet to be received from client
7	Post Fiji Ltd	2007		2008 accounts should be received in Jan/Feb 2009
8	Rewa Rice Ltd	2006	-	2007 audit delayed as IFRS accounts are yet to be submitted
9	Unit Trust of Fiji (Mgt) Limited	2007		The Trust financial year is from October 06 to September 07
10	Viti Corp Limited	2004	-	2005 accounts yet to be received from client
11	Yaqara Pastoral Company Ltd	2006	2007	2007 audit is being finalized
	Ports Terminal Ltd [sub. of FPCL]	2007		2008 accounts should be received in Jan/Feb 2009
	Commercial Statutory Authorities (CSA)			
1	Fiji Electricity Authority	2007		2008 accounts should be received in Jan/Feb 2009
2	Fiji Meat Industry Board	2007		2008 accounts should be received in Jan/Feb 2009
3	Housing Authority	2007		2008 accounts should be received in Jan/Feb 2009
4	Public Rental Board	2007		2008 accounts should be received in Jan/Feb 2009
	Majority-Owned Companies			
1	Fiji Hardwood Corporation Ltd	2005	2006	2006 audited accounts yet to be signed by the client
2	Pacific Fishing Company Ltd	2007		2008 accounts should be received in Jan/Feb 2009

*** The table lists all GCCs, CSAs and majority-owned companies whereas the report only includes entities whose audits were completed in 2008.**

TABLE OF CONTENTS

GOVERNMENT COMMERCIAL COMPANIES

SECTION 1: AIRPORTS FIJI LIMITED

Airports Fiji Limited (AFL) is a wholly government owned government commercial company. It was established on 12 April 1999 as a result of the re-organisation of Civil Aviation Authority of Fiji (CAAF) into separate commercial and regulatory authorities under the Public Enterprises Act, 1996.

AFL operates 15 public airports in the Fiji Islands. These include two international airports – Nadi and Nausori, and 13 outer island airports.

AFL also provides air traffic management (ATM) in the Nadi Flight Information Region (FIR). The Nadi FIR includes the air spaces of Fiji, Tuvalu, New Caledonia, Kiribati, and Vanuatu covering an area of 6.1 million square kilometres. The ATM operation is currently contracted to a private company, Strategic Air Services Limited (SASL)

1.1 AUDIT OPINION

The audit of the financial statements of the Airports Fiji Limited for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

1.2 FINANCIAL INFORMATION

Table 1.1: Abridged Statement of Financial Performance – Income Statement

Year Ended 31 December	2007 $	2006 $
Revenue		
Air navigation charges	9,148,423	9,607,594
Airport security/development fee	5,851,265	5,239,397
Concessions	7,531,828	5,915,531
Landing and parking fees international	7,899,056	8,443,209
Passenger service charge	2,932,151	5,239,397
Rental- offices and warehouses	3,045,753	3,131,105
Other operating income	3,990,733	3,571,296
Total Revenue	**40,399,209**	**41,147,529**
Expenditure		
Contract costs	1,756,035	4,573,051
Depreciation	10,438,324	9,136,812
Salaries & Wages	10,679,076	9,404,983
Utilities	3,177,373	3,075,622
Other operating expenses	13,564,833	13,445,797

Year Ended 31 December	2007 $	2006 $
Total Expenditure	**39,615,641**	**39,636,265**
Profit from operations	**783,568**	**1,511,264**

AFL recorded a profit from operations of $783,568 in 2007 compared to $1,511,264 in 2006 as a result of a decline in total revenue by 1.8%. Significant decreases were noted for:

- passenger service charges decreased by $2,307,246 or 44% due to the government's decision to reduce the service charges $10 to $5 per international passenger;

- landing and parking fees decreased by $544,153 or 6.4% as freighter aircrafts such as Freedom Air cancelled their flights to Nadi;

- navigation charges decreased by $459,171 or 4.8% due to the introduction of flex route fee which took into account the shorter distance flown by flex tracking aircrafts in the Nadi Flight Information Region (FIR), and the loss of Tonga and Samoa airspaces from the Nadi FIR; and

- rental – offices and warehouses decreased by $85,352 or 2.7% due to decline in Muse rental paid by airline companies.

Salaries and wages increased by $1,274,093 or 13.5% due to the implementation of the arbitration award to settle the cost of living adjustment.

Table 1.2: Abridged Statement of Financial Position – Balance Sheet

As at 31 December	2007 ($)	2006 ($)
Current assets		
Cash and cash equivalents	15,696,216	1,817,686
Financial assets	-	5,610,560
Receivables	5,404,472	6,143,612
Other assets	2,177,392	3,127,733
Total current assets	**23,278,080**	**16,699,591**
Non current assets		
Future income tax benefit	5,138,004	4,912,957
Property, plant and equipment	150,781,296	156,923,626
Total non current assets	**155,919,300**	**161,836,583**
Total assets	**179,197,380**	**178,536,174**
Current liabilities		
Accounts payable	14,516,836	12,351,083
Borrowings	4,938,629	3,788,778
Other current liabilities	2,089,707	1,163,711
Total current liabilities	**21,545,172**	**17,303,572**
Non current liabilities		
Borrowings	31,306,619	35,574,011
Deferred tax liability	16,916,280	16,618,409
Other non current liabilities	1,476,146	1,481,983

As at 31 December	2007 ($)	2006 ($)
Total non current liabilities	**49,699,045**	**53,674,403**
Total liabilities	**71,244,217**	**70,977,975**
Net assets	**107,953,163**	**107,558,199**
Shareholders' equity		
Share capital	81,849,908	81,849,908
Retained earnings	26,103,255	25,708,291
Total shareholders' equity	**107,953,163**	**107,558,199**

The company's net assets increased by $394,964 or 0.4% in 2007 compared to 2006 mainly due to an increase in cash and cash equivalents by $13,878,530 or 763.5%. The increase in cash balance was because of an increase in call deposits.

The company elected to measure property, plant and equipment on transition to IFRS at fair value as the deemed cost at 31/12/07. The effect of the revaluation to fair value previously held in the carrying value at $25,096,731 at 1 January 2006. The asset revaluation reserve associated with these items was transferred to retained earnings on transition to IFRS.

1.3 REVENUE

Receivables comprised of concessions, airport security and development fees and Passenger service charges.

Concession revenue was generally based on percentage of sales achieved by the tenants.

However, the sales based on which the concessions are received is not being verified regularly by the company and in a systematic manner. The concessions revenue is accepted and accounted on receipt of money from various concession outlets.

Airport security and development fees and passenger service charges are collected by the airline companies on behalf of Airports Fiji Limited. These charges are based on the number of passengers travelling.

At the end of every quarter, the airline companies forward the charges collected to AFL after deducting a 2% commission. Our review and verification revealed that this revenue was not verified against the number of passengers travelling.

Recommendation

The management should formulate a system and procedure for independent verification of the revenues generated from various sources.

Management Comment

AFL during the year carried a systematic internal audit on all its revenue collection and recognition processes. This included the following

• Collection of departure taxes and airport charges by airlines

• Concessions audit on Duty Free traders and WDCL .
• Audit on the internal air navigation billing system

The issues highlighted during each of these audits are been addressed continuously under the guidance of the audit subcommittee of the board. Further AFL successfully negotiated with the National carrier to reduce the transaction fee related to collection of charges from 2% ($ 1 per ticket) to 20 cents fixed per ticket. The changes were adopted in April 2008. Negotiations are under way to implement the same with the other of the airlines.

1.4 FIXED ASSETS

In relation to fixed assets, audit noted the following:

Fixed Assets Register was not maintained by the company. Whilst the fixed assets schedules are maintained, the schedules does not specify the exact location of the assets and the specific identification numbers assigned to individual assets.

No physical verifications of assets were carried out during the year.

From our review of the depreciation expenses, the airstrips sub-base layer INF-AFC-007, Formation Earthworks INF – AFC-008 are not being depreciated. Audit was advised that this is not being depreciated as the life of the lower layers was expected to be very long.

However, the accounting standards and the best accounting practices require all assets should be depreciated over their useful lives.

Recommendation

Management and directors should implement necessary corrective measures to address the above issues and provide for more effective record keeping and internal controls.

Management Comment

AFL has implemented a fully integrated fixed assets module (Norming Fixed assets, all assets are capitalised automatically at the point of issue from the inventory management system. Assets are classified under following categories.
1. Major category – The Strategic Business unit to which the asset is allocated. E.g. Air Field, Air Navigation, Terminal, Car parks and Commercial and concessions.
2. Minor category – Asset class – Plant and Equipment, Infrastructure, Building and Motor vehicles
3. Equipment category
4. Asset identification number

The location of the asset is included at the time of capitalisation and is not reflected in the asset code. The inter transfer of assets between locations will not allow for the location to be built in to the asset number/Code. The Sub base layer of the air strip includes mostly the compacted surface and is identical to land in nature and characteristics which is the primary reason for non depreciation.

SECTION 2: FIJI BROADCASTING CORPORATION LIMITED

The Fiji Broadcasting Corporation Ltd. (FBCL) is a government commercial company corporatised in 1998 under the government's public sector reform programme.

The FBCL is responsible for providing commercial and public broadcasting services nation wide and operates six radio stations in the three major languages of Fijian, Hindustani and English.

2.1 AUDIT OPINION

The audit of the financial statements of the Fiji Broadcasting Corporation Ltd for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

2.2 FINANCIAL INFORMATION

The company adopts the International Financial Reporting Standard (IFRS) with effect from 1 January 2007 in accordance with the requirements of the Fiji Institute of Accountants.

Table 2.1: Abridged Statement of Financial Performance

Year Ended 31 December	2007 $'000	2006 $'000
Revenue		
Income from Advertising, Programs and Special Events	2,653	2,754
Government Grant - Public Service Broadcast	987	986
Other Operating Revenue	226	244
Total Revenue	**3,866**	**3,984**
Expenditure		
Administration and Operating Expenses	3,104	3,447
Marketing Expenses	570	402
Finance Costs	53	58
Total Expenditure	**3,727**	**3,907**
Profit before Income Tax	139	77
Income Tax	(46)	15
Result for the year from Ordinary Activities	**93**	**92**

The FBCL operations in 2007 resulted in the increase in profit before tax by 45% when compared to the previous year. Although revenue decreased, profit increased as a result of decline in administration and operating expenses as a result of freeze on recruitments and overtime payment, and reduction in local travel and motor vehicles expenses.

Table 2.2: Abridged Statement of Financial Position

As at 31 December	2007 $'000	2006 $'000
Cash and Bank Balance	112	257
Trade & Other Receivables	1,044	940
Other Current Assets	74	71
Property, Plant & Equipment	2,150	2,391
Future Income Tax Benefit	47	47
Total Assets	**3,427**	**3,706**
Trade and Other Payables	450	588
Other Current Liabilities	86	109
Interest Bearing Borrowings	482	630
Other Non Current Liabilities	138	161
Total Liabilities	**1,156**	**1,488**
Net Assets	**2,271**	**2,218**
Total Shareholders' Equity	**2,271**	**2,218**

Net assets increased by $53,721 or 2% in 2007 when compared to 2006 as a result of substantial decrease in the total interest bearing borrowings and trade and other payables.

2.3 BOARD OF SURVEY

There is inadequate monitoring of fixed assets by the company. The board of survey to verify all fixed assets has not been carried out over the past years.

The lack of control and monitoring of fixed assets may result in undetected misuse of assets or errors in the Fixed Asset Register and general ledger.

Recommendation

A board of survey of all the company's fixed assets should be carried every three to five years.

FBCL's Comments

Management will consider the above recommendation and perform an audit of all its fixed assets.

2.4 DEFERRED TAX ASSET

Deferred Tax Asset of $47,120 has been carried forward from prior years although significant losses have not been recouped. Due to lack of proper record keeping, audit could not determine how this deferred tax asset arose and how long it has been carried forward.

As no details are available, the deferred tax asset may not be realized against future tax losses.

Recommendation

Management should ascertain the correct details regarding this deferred tax asset and if such information cannot be obtained, the asset may need to be written off.

FBCL's Comments

Management will talk to the former auditors and clarify this issue.

SECTION 3: POST FIJI LIMITED

The Department of Posts and Telecommunications was established through the first Postal Act passed by the first Legislative Assembly of the Fiji Government in 1871. The status of the company has changed over the years from a Government Department to a Government Commercial Company.

On 1 July 1996, Post Fiji Ltd began operation as a Government Commercial Company and is registered and incorporated under the Companies Act as a private company with the shares wholly owned by the Government. The company is managed by a Board of Directors, appointed by the Government.

The core activities of the company include message communication in letters and distributing courier and parcel items. It also provides stamps, financial transactions, telegram services, data processing and mail production services. Over the years, the company has also diversified its revenue earning activities to include Post Shops and agency services.

3.1 AUDIT OPINION

The audit of the financial statements of the Post Fiji Ltd for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

3.2 FINANCIAL INFORMATION

Table 3.1: Abridged Statement of Financial Performance

Year Ended 31 December	2007 $'000	2006 $'000
Revenue		
Sales	16,387	18,200
Other Operating Revenue	16,832	17,543
Total Revenue	**33,219**	**35,743**
Expenditure		
Cost of Sales	14,602	16,937
Administration and Operating Expenses	15,975	19,868
Selling, Marketing and Distribution Expenses	876	1,152
Other Operating Expenses	77	123
Finance Costs	544	338
Total Expenditure	**32,074**	**38,418**
Profit/(Loss) before Income Tax	1,145	(2,675)
Income Tax Benefit/Expense	(401)	951
Net Operating profit after Income Tax	**744**	**(1,724)**

The company's operation in 2007 resulted in a net profit after income tax of $743,844 compared to a net loss of $1,723,610 in 2006. The company paid $3,012,491 in redundancy packages in 2006. Although revenue declined by $2.5 million, the decrease in administration, marketing and selling expenditures by $4.2 million resulted in the net profit in 2007.

Table 3.2: Abridged Statement of Financial Position

As at 31 December	2007 $'000	2006 $'000
Cash and Cash Equivalent	4,698	3,450
Trade and Other Receivables	5,775	6,067
Inventories	3,906	4,441
Other Current Assets	554	597
Property, Plant & Equipment	12,507	13,276
Other Non-Current Assets	2,008	2,481
Total Assets	**29,448**	**30,312**
Trade & Other Payable	9,782	9,412
Interest Bearing Borrowings	5,566	7,495
Employee Entitlements	880	834
Other Non-Current Liabilities	768	862
Total Liabilities	**16,996**	**18,603**
Net Assets	**12,452**	**11,709**
Total Shareholders' Equity	**12,452**	**11,709**

Net assets increased by $743,844 or 6% in 2007 compared to the previous year. The increase in net assets is attributed mainly to the decrease in total liabilities, specifically, interest bearing borrowings, which reduced by $1,929,890 compared to the previous year.

3.3 LIMITATION OF SCOPE

The payment vouchers for the months of January to March 2007 were not available for review as the documents were held by the Fiji Independent Commission Against Corruption (FICAC). In addition, FICAC also had some tender documents in their possession which audit was not able to review.

Requests to gain access to the documents were unsuccessful.

Recommendation

To enable the successful completion of the audit, all relevant documents should be made available for audit.

Management Comments

We fully agree that all relevant documents should be made available for audit review; however, this was beyond management's control. The Fiji Independent Commission Against Corruption (FICAC) had taken certain payment vouchers and tender documents under their possession. Efforts were made to allow auditors to access the information, which was denied by FICAC.

3.4 DEFERRED INCOME

According to *IAS 20 – Accounting for Government Grant and Disclosure of Government Assistance*, government grant related to assets, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants from government were used to construct rural Post Offices. A review of the deferred income balance noted that deferred income was understated by $208,674.

The company has been using a basis other than depreciation of the respective Post Offices to amortise the deferred income. As a result, the written down values of the assets were more than the balance in deferred income.

Recommendation

The company should revise the method employed to amortise the deferred income balance to ensure that the written down value of the relevant assets agree to the deferred income balance at balance date.

Management Comments

While we do agree with your recommendation, we are still trying to liaise with E & Y to establish the correctness of the deferred income as there are certain issues that needs to be addressed.

SECTION 4: FIJI PORTS CORPORATION LIMITED

The Fiji Ports Corporations Limited was incorporated in 2004 to take over the operations of the Maritime Ports Authority of Fiji. The principal activities of the company in the course of the financial year were provision of ports services and facilities. The company conducts its business within the legal framework of the Companies Act, VAT Decree, Income Tax Act, Sea Ports Management Act and the Public Enterprises Act.

4.1 AUDIT OPINION

The audit of the financial statements of the Fiji Ports Corporation Limited for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

Table 4.1: Abridged Statement of Financial Position

As at 31 December	2007 $	2006 $
Current Assets	10,501,700	8,892,457
Non - Current Assets	139,713,508	140,628,697
Total Assets	**150,215,208**	**149,521,154**
Current Liabilities	9,148,303	6,856,428
Non-Current Liabilities	58,396,990	62,026,143
Total Liabilities	**67,545,293**	**68,882,571**
Net Assets	**82,669,915**	**80,638,583**

Net assets increased by $2,031,332 or 2.5% in 2007 compared to 2006 which is attributed mostly to the increase in cash and cash equivalents and reduction in the loan from ADB.

There was no material effect of the transition to International Financial Reporting Standards on the financial statement, except the reclassification of investment properties from property, plant and equipment.

Table 4.2: Abridged Statement of Financial Performance

As at 31 December	2007 $	2006 $
Operating Revenue	34,517,125	32,317,221
Other Operating Revenue	2,852,447	2,395,821
	37,369,572	**34,713,042**
Expenditure	(28,704,302)	(26,149,699)
Total Expenditure	(28,704,302)	**(26,149,699)**

As at 31 December	2007 $	2006 $
Net Surplus/(Deficit) for the year	**8,665,270**	**8,563,343**

The increase in surplus in 2007 by $101,927 or 1% compared to 2006 was attributed to an increase in income received from marine services and, handling and stevedoring services.

4.2 VAT REFUND

Section 50(1) of the Vat Decree states that:

"Any registered person dissatisfied with an assessment may, personally or by his agent, within twenty eight days of the date upon which the notice of assessment has been served upon him or his agent or, where such notice has been posted, the date of posting, lodge with the Commissioner an objection in writing to the assessment in the form set out in Form 2 in the Third Schedule to this Decree stating fully and in detail the grounds on which he objects."

Audit noted that VAT Refund in the financial statement is overstated by $84,350 due to a difference in the refund claimed by FPCL and assessed by the Fiji Islands Revenue and Customs Authority.

Table 4.3: Overstated Vat Refund

Date	Amount Claimed	Amount Assessed	Variance
January 2007	87,415.63	62,108.67	25,306.96
February 2007	52,712.69	47,812.80	4,899.89
Previous Years			54,143.15
Total			$84,350

The company has not lodged any objections to date.

Recommendation

The necessary adjustments should be processed in order to reflect the correct amount of VAT refund.

FPCL Comment

We note the above comments and will look into the above matter further. We are currently liaising with FIRCA with respect to the outstanding refund balances

4.3 WORK IN PROGRESS

Work in progress (WIP) is defined as the balance of partly finished work remaining in a manufacturing operation or a long-term contract at a particular time.

There were numerous *work in progress* which have been carried forward from the books of Maritime Ports Authority of the Fiji Islands from 2005. Audit could not establish if there are clear timelines for completion of these projects.

Refer below for examples:

Rokobili Environment Impact Assessment -	$1,003,216
Lautoka Slipway -	$192,128
Queens Wharf – Reclamation -	$363,920
Vanua Levu Port -	$53,603

These amounts were transferred to FPCL from Maritime Ports Authority of Fiji books in July 2005, when FPCL was established.

There was no progressive review of the projects to ensure that they are completed efficiently. Audit could not establish the dates when these expenditures were incurred.

Recommendation

- **Progressive review of the work in progress should be carried out regularly.**
- **All work in progress which has been discontinued should be identified and expensed.**

FPCL Comments

The Work in Progress mentioned above when completed will generate cash flows for the company and depreciated over its useful life. At year end, they were not in the condition necessary to be capable of operating in the manner intended by management.

With the exception of Vanua Levu Port, above notes on the commencement date of its project and its status.

PROJECT	*WIP #*	*DATE CONTRACT AWARDED*	*STATUS*
Rokobili EIA	*WIP 003*	*20th April 2005*	*Ongoing*
Lautoka Slipway	*WIP 005*	*23rd Aug 2005*	*Capitalised*
Queens Wharf Reclamation	*WIP 006*	*4th July 2005*	*Capitalised*
Vanua Levu Port	*WIP009*		*Ongoing*

We are retrieving MPAF files to obtain information on the Vanua Levu Port. Failing this, this will be expensed by December 2008. We point out that the Vanua Levu Port is an immaterial amount for financial statement pruposes thus was left as is at year end until enough relevant information was gathered.

The Rokobili project ia part of the bigger project which when completed will result in additional berthing facilities. This is an ongoing project.

The Lautoka Slipway and Queens Wharf reclamation works that was done to increase the capacity of our storage space while at the same offer leasing opportunities for wharf users. This was capiatlised in 2008.

SECTION 4A: PORTS TERMINAL LIMITED

The Ports Terminal Limited (PTL) started operating as a government commercial company in 1998 and was entrusted with the provision of the pilotage within ports and all coastal areas; stevedoring and cargo handling; warehousing and the operations of part of the local wharf in Suva and Lautoka.

The Fiji Government being a shareholder of the company endorsed the re – organization charter of the Maritime and Ports Authority of Fiji (MPAF) and PTL. In 2004 the Fiji Ports Corporation Limited took over the operations of PTL and MPAF with key provisions for PTL to become 100% subsidiary of FPCL.

The company conducts its business within the legal framework of the Companies Act, VAT Decree, Income Tax Act, Sea Port Management Act 2005, Public Enterprise Act, Accounting Standards and FIMSA Act.

4A.1 AUDIT OPINION

The audit of the financial statements of the Ports Terminal Limited for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

4A.2 FINANCIAL INFORMATION

Table 4A.1: Abridged Statement of Financial Performance

As at 31 December	2007 $	2006 $
Revenue		
Handling	11,888,951	10,597,494
Pilotage	360,645	446,916
Other service income	488,174	555,886
Other Operating Income	6,221	2,458
Total Revenue	**12,743,991**	**11,602,754**
Expenditure		
Administration Expenses	1,973,323	2,034,503
Selling, Marketing and Distribution Expenses	8,361,416	6,923,918
Total Expenditure	**10,334,739**	**8,958,421**
Profit from operations	**2,409,252**	**2,644,333**
Finance Income	4,585	10,422
Finance Cost	(57,825)	(100,235)
Operating profit before income tax	**2,356,012**	**2,554,520**
Income tax (expense)/ credit	(733,792)	(790,848)
Net Profit for the year after Income Tax	**1,622,220**	**1,763,672**

The company's net profit after income tax declined by $141,452 or 8% in 2007 compared to 2006. This is attributed to the relative increase in operating expenses compared to the increase in revenue of the company for the period. Total expenditures increased by $1,376,318 or 15% compared to an increase in the company's total revenue by $1,141,237 or 10%. Higher expenditures recorded were attributed to increase in salaries and wages and hire of pilot boats and cranes.

Table 4A.2: Abridged Statement of Financial Position

As at 31 December	2007 $	2006 $
Current Assets		
Cash and cash equivalents	1,883,354	1,060,744
Trade and other receivables	2,755,371	3,048,838
Other current assets	950,338	485,053
Total Current Assets	**5,589,063**	**4,594,635**
Non - Current Assets		
Property, plant and equipment	5,606,723	6,454,179
Future income tax benefit	45,362	83,746
Total Non Current Assets	**5,652,085**	**6,537,925**
Total Assets	**11,241,148**	**11,132,560**
Current Liabilities		
Trade and other payables	969,211	1,094,134
Interest bearing borrowings	633,269	857,429
Provision	0	109,473
Employee Entitlement	98,984	90,542
Other current liabilities	255,625	(89,899)
Total Current Liabilities	**1,957,089**	**2,061,679**
Non-Current Liabilities		
Interest bearing borrowings	398,154	1,055,243
Deferred tax	637,452	507,568
Total Non Current Liabilities	**1,035,606**	**1,562,811**
Total Liabilities	**2,992,695**	**3,624,490**
Net Assets	**8,248,453**	**7,508,070**
Shareholders' Equity	**8,248,453**	**7,508,070**

Net assets increased by $740,383 or 10% in 2007 compared to 2006 which is attributed mostly to increase in cash and cash equivalents by $822,610 or 78% in 2007.

4A.3 TRADE DEBTORS CREDIT LIMIT EXCEEDED

During the audit we noted that some of the Trade Debtors were allowed to exceed their credit limit. Below are examples of the debtors who were allowed to exceed their limits:

Table 4A.3: Credit limit Exceeded

Trade Debtor	Debtors Balance ($)	Credit Limit ($)	Excess ($)
Debtor 1	78,703.45	10,000.00	68,703.45
Debtor 2	20,233.49	10,000.00	10,233.49
Debtor 3	54,101.46	50,000.00	4,101.46
Debtor 4	292,800.57	100,000.00	192,800.57
Debtor 5	340,243.46	100,000.00	240,243.46
	$ 786,082.43	**$ 270,000.00**	**$ 516,082.43**

Recommendation

The controls in place should be followed stringently and credit limits should be reviewed when necessary.

Management Comments

Our system is such that invoices are done by the Port IT system and by the time it reaches our EDP clerk the invoice has been dispatched and thus the credit limit in our financial system becomes redundant. Management is currently working on integrating the Port IT system to our Sun Systems. Meanwhile management will revisit all credit limit for Debtors, since all business have grown (in terms of their turn over) from the time when current credit limits were set.

SECTION 5: UNIT TRUST OF FIJI (MANAGEMENT) LIMITED

The Unit Trust of Fiji (UTOF) was established in 1976, and launched on April 25, 1978. It was based on an idea floated by the Fijian Affairs Board (FAB) and the Native Land Trust Board (NLTB) for an investment vehicle for 'the man on the street', particularly Fijian people. Since then it has grown from strength to strength to what it is today.

Since its establishment in 1978, UTOF has offered an attractive investment opportunity for individuals, companies and other types of investors. It continues to invest in the shares of profitable companies, bonds and other securities to provide the returns required by unit holders.

In addition to returns on their investments through cash dividends, unit holders also benefit from the capital growth of the Trust Investment portfolio. Unit holders can only realise this growth when they sell their units.

The UTOF gives small investors in Fiji an opportunity to own shares and other investments while at the same time spreading their risks and leaving the management of their investments in the hands of experts. It also assists the Government's policy of promoting wider participation by residents in the future development of Fiji.

5.1 AUDIT OPINION

The audit of the financial statements of the Unit Trust of Fiji [Management Limited] for the year ended 30 September 2007 resulted in the issue of an unqualified audit report.

5.2 FINANCIAL INFORMATION

Table 5.1: Abridged Statement of Financial Performance

Year Ended 30 September	2007 $	2006 $
Revenue		
Operating Revenue	1,567,703	1,330,857
Other Operating Income	3,410	67,455
Total Operating Revenue	**1,571,113**	**1,398,312**
Expenditures		
Personnel Expenses	529,879	527,307
Other Operating Expenses	708,381	653,809
Total Operating Expenditure	**1,238,260**	**1,181,116**
Profit before Income Tax	332,853	217,196
Income tax expenses	103,199	77,497
Net profit for the year	**229,654**	**139,699**

The increase in operating income was more than the increase in total expenditures resulting in an increase in net profit in 2007 compared to 2006.

Table 5.2: Abridged Statement of Financial Position

As at 30 September	2007 $	2006 $
Cash at Bank and on Hand	1,205,531	403,121
Other current assets	2,326,691	967,023
Plant and equipment	289,659	303,417
Other non-current assets	2,938	7,345
Total Assets	**3,824,819**	**1,680,906**
Current Liabilities	2,932,359	941,028
Non-current Liabilities	7,673	14,945
Total Liabilities	**2,940,032**	**955,973**
Net Assets	884,787	724,933
Total Shareholders' Equity	**884,787**	**724,933**

The increase in net assets by $159,854 or 22% in 2007 compared to 2006 was attributed to an increase in total assets by $2,143,913 or 128% relative to an increase of $1,984,059 or 208% in total liabilities. The increase in assets was caused by a significant rise in current assets totalling $2,162,079, mainly due to re-investment of units.

5.3 DELAY IN NOTIFYING TRUST COMPANY FOR REIMBURSEMENT

The Unit Trust of Fiji (Trustee Company) Limited operates to ensure that Manager acts in the best interests of unit holders and also holds the Trust's investments on their behalf.[2]

The Management Company delayed in getting the reimbursement from the Trustee Company for making the following payment on its behalf.

Table 5.3: Delayed in Reimbursement

Date of Expense	Details	Amount $	Date Notified Trust Company	Date Received
23 August 2006	Reimbursement of expenses related to printing of Prospectus.	14,500	20 November 2007	22 November 2007

[2] Unit Trust of Fiji – Prospectus (8/11/04 – 7/11/07), Page 3

Recommendation

The UTOF Management company should notify the Trust company on a timely manner so as to free up any cash flow held up in amounts receivable from the Trust Company.

Management Comment

Comments not provided by the Company

5.4 INTERNAL CONTROL PROCEDURES

The responsible authority for an off – budget state entity is responsible for the maintenance of an effective system of internal control for money and property.[3]

There is no documented Accounting Procedural Manual for the Management Company.

The lack of formal documented accounting procedures can result in transactions not being properly authorised or reflected in the company's books. Informal control procedures do not facilitate adequate monitoring as there is lack of evidence of effective operating controls.

Recommendation

Management should prepare and adopt a comprehensive procedural and internal control manual, ensuring that all staff including new employees are aware of the correct procedures to be followed.

Management comments

Comments not provided by the Company

5.5 REIMBURSEMENT POLICY

The responsible authority for an off – budget state entity is responsible for the following:

(a) the effective, efficient and economical management of the entity;
(b) the maintenance of an effective system of internal control for money and property[4].

A significant amount of expenses are incurred by staff initially which are then submitted for reimbursement. In the absence of any Accounting Procedures Manual which details the type, amount and procedures for reimbursement, the current informal process may be subject to abuse.

Recommendation

Management should formalise a reimbursement policy as part of its Accounting Procedures Manual. The policy should cover the following:

[3] Section 37 (b) - Finance Management Act 2004 – Part 6 – Off – Budget State Entities.
[4] Section 37 (a) & (b) - Finance Management Act 2004 – Part 6 – Off – Budget State Entities.

- **types of expenses that staff can incur;**
- **maximum amount;**
- **documentation required to support a claim.**

Management Comments

Comments not provided by the Company

5.6 RECOVERABILITY OF AGENCY SALES

The manager of any unit trusts shall pay into a separate bank account all money received by that manager in respect of purchases of or subscriptions for interests in that unit trust.[5]

The manager of any unit trust shall, within such period not exceeding seven days as the trust deed provides, pay to the trustee or its nominated company all money received by that manager or any agent of that manager in respect of purchases of or subscriptions for interests in that unit trust, except so much thereof as the manager is entitled to deduct or retain in accordance with the trust deed.[6]

The company uses agents to sell UTOF units on its behalf. The timely collection of these sale proceeds is the responsibility of the management company as the units "sold" by such agents are created by the Unit Trust of Fiji.

Review of the receivables from these agents revealed that certain amounts are still outstanding prior to 2006.

Untimely collections from agents or short collections become an expense of the management company. This may result in the need to provide for any potential non recovery.

Recommendation

Management should follow up to ensure that agency sales money is receipted promptly in view of the creation of the related units. Also amounts outstanding from agents should be assessed for recoverability, and if necessary, a provision created.

Management Comments

Comments not provided by the Company

5.7 INAPPROPRIATE PHYSICAL LOCATION AND ENVIRONMENT FOR SERVER

The responsible authority for an off – budget state entity is responsible for the following:

(a) the effective, efficient and economical management of the entity;
(b) the maintenance of an effective system of internal control for money and property.[7]

[5] Section 15 (1) – Unit Trust Act – Chapter 228.
[6] Section 15 (2) – Unit Trust Act – Chapter 228.
[7] Section 37 (a) & (b) - Finance Management Act 2004 – Part 6 – Off – Budget State Entities.

We noted that the heart of the company's computerized applications, the server, is not securely located. Its current location near the kitchen is visible and accessible to all staff. This exposes it to deliberate or accidental damage which may cause unnecessary interruption to business operations.

Recommendation

The Management should relocate the server to a secured location.

Management comments

Comments not provided by the Company

5.8 FIXED ASSETS VERIFICATION PROCESS

In general practice, a stocktake shall be undertaken each year to verify the existence and condition of assets recorded on the asset register.

No fixed asset verification has been carried out in recent years to periodically count assets and confirm their existence. Such a plan is necessary in order to ensure fixed asset existence, limit the opportunities for misappropriation and ensure assets are stated at their fair value.

Recommendation

Fixed assets should be verified to ensure existence and that they are in good working condition, thereby confirming the depreciation rates adopted. This will ensure that only assets in good condition and in use are recorded in the Fixed Assets Register and the General Ledger.

Management Comments

Comments not provided by the Company

5.9 AGENCY SALE ARRANGEMENT

For prudence purposes, goods, services and works required by agencies should be procured by executing a contract or an agreement.

It was noted that there is no formal agreement between agents for the agency sales.

There has been an instance where the unit holder had purchased units through an agent however the units had not been created by Unit Trust of Fiji (Management) Limited until it was queried by the unitholder. The agent had not forwarded the details to UTOF (Management) Limited for the Management Company to create the unit.

UTOF (Management) Limited only creates units upon receipt of lists from agents which provide details of unit holder and the amount that paid.

Recommendation

There should be formal agreements signed by the agents which states the terms and conditions of the sale. Also the unit holders should be informed about agency sales and how it will operate by including it as part of UTOF's prospectus.

Management Comments

Comments not provided by the Company

5.10 ACCRUALS

The Fiji Institute of Accountants adopted the International Financial Reporting Standards (IFRS) effective 1 January 2006 but subsequently delayed implementation until 1 January 2007. The IFRS suite of standards include IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Under paragraph 14 of IAS 37, a provision shall be recognised when all the following conditions have been met:

- an entity has a present legal obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Contrary to the above, the company continues to accrue for expenses which have been budgeted for.

Recommendation

No accruals should be made unless all three conditions have been met.

Management comments

Comments not provided by the Company

5.11 STAFF BONUSES

Staffs are rewarded on performance benchmarks agreed to by the Board. One of the benchmarks is growth in the portfolio, a reflection of the activities undertaken by the staff in promoting the Trust's product, thereby increasing the amount of funds available for investment.

It was noted that the bonuses currently accrued is based on 0.1% of the portfolio, rather than 0.1% of an increase in the value of the portfolio. This indicates that the bonus provisioned for each year covers the portfolio which has already been subject to a bonus in prior years.

Recommendation

The Board should clarify whether the bonus scheme for staff should be based on 0.1% of the portfolio, or only on the increase to the portfolio.

Management comments

Comments not provided by the Company

5.12 NON DEDUCTION OF PROVISIONAL TAXES.

Unless a Certificate of Exemption (COE) is produced by a contractor, or satisfactory evidence is produced by the contractor that he/she holds such certificate, provisional tax of the rate of 15% must be deducted from the gross amount at the time of actual payment of the contractual sum.[8]

During the year, payments to contractors were not deducted provisional taxes, in the absence of a valid COE.

Recommendation

All contractors provide their COE's to support non deduction of the 15% provisional tax.

Management comments

Comments not provided by the Company

[8] Legal Notice No. 70 – Income Tax (Collection of Provisional Tax) Regulations, 1976.

COMMERCIAL STATUTORY AUTHORITIES

SECTION 6: FIJI ELECTRICITY AUTHORITY

The Fiji Electricity Authority (FEA) is established, incorporated and constituted under the provisions of the Electricity Act of 1966 and began operations from 1 August that year.

The Authority is governed under the Public Enterprise Act 1996.

The principal activity of the FEA is to provide and maintain a power supply that is viable, economically sound and consistent with the required standards of safety, security and quality of power supply.

The Authority aims to provide clean and affordable energy solutions to Fiji and the Pacific and to provide all energy through renewable resources by 2011.

The FEA is entrusted with enforcing the Electricity Act and regulations, setting standards, examining and registering electricians, and is empowered to approve and license suppliers to serve certain areas.

6.1 AUDIT OPINION

The audit of the financial statements of the Fiji Electricity Authority for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

6.2 FINANCIAL INFORMATION

Table 6.1: Abridged Statement of Financial Performance

Year Ended 31 December	2007 $'000	2006 $'000
Revenue		
Operating Revenue	147,768	149,973
Other operating income	20,258	15,371
Total Revenue	**168,026**	**165,344**
Expenditure		
Personnel expenses	15,550	15,751
Fuel costs	60,016	98,556
Lease and Rent Expenses	2,662	1,971
Electricity purchases	9,969	11,948
Depreciation	27,400	24,837
Other operating expenses	30,850	25,159
Total Expenditure	**146,447**	**178,222**
(Loss)/profit from operations	**21,579**	**(12,878)**

Year Ended 31 December	2007 $'000	2006 $'000
Finance Costs	(7,275)	(3,607)
Share of profit of joint venture	352	434
Operating profit before income tax	**14,656**	**(16,051)**
Income tax (expense)/ credit	(4,078)	6,538
Net Profit for the year after Income Tax	**10,578**	**(9,513)**

The Authority recorded an operating profit after tax of $10,578,000 in 2007 compared to an after tax loss of $9,513,000 in 2006. This was caused largely by the reduction in fuel cost in 2007 by a substantial $38,540,000 or 39%, compared to 2006.

Table 6.2: Abridged Statement of Financial Position

As at 31 December	2007 $'000	2006 $'000
Current Assets		
Cash and cash equivalents	41,721	1,003
Receivables and prepayments	25,005	37,367
Other current assets	14,891	13,583
Total Current Assets	**81,617**	**51,953**
Non Current Assets		
Property, plant and equipment	563,729	525,169
Other non current assets	23,747	20,052
Total Non Current Assets	**587,476**	**545,221**
Total Assets	**669,093**	**597,174**
Current Liabilities		
Interest bearing borowings	46,231	13,891
Other current liabilities	17,186	13,151
Total Current Liabilities	**63,417**	**27,042**
Non-Current Liabilities		
Interest bearing borrowings	139,807	127,288
Deferred tax liabilities	54,528	46,971
Other non current liabilities	33,672	32,195
Total Non Current Liabilities	**228,007**	**206,454**
Total Liabilities	**291,424**	**233,496**
Net Assets	**377,669**	**363,678**
Total Capital and Reserves	**377,669**	**363,678**

Net assets increased by $13,991,000 or 4% in 2007 compared to 2006 as the result of increase in cash and cash equivalents and property, plant and equipment. Compared to 2006, the Authority's cash and cash equivalents increased significantly by $40,718,000 whilst property, plant and equipment rose by $38,560,000 in 2007.

Cash and cash equivalents increased in 2007 due to investments in short term deposits and the existence of an overdraft facility of $10 million which was not used during 2007. On the other hand, property, plant and equipment increased due to increase in Work in Progress including the Nadarivatu Hydro Project.

6.3 CAPITAL PROJECTS AND BORROWINGS

Significant increase in interest bearing borrowings were noted during the past two years and in borrowing costs during past 12 months.

Audit recognised that these borrowings were for capital projects and, in particular, renewable power sector development projects.

Certain recent project undertakings, such as, the Nadarivatu Hydro Power Project would require further borrowing for further developments on the project. These projects are currently not generating any income.

The increased borrowings will lead to higher interest cost and repayment commitments.

Furthermore, in accordance with provisions of the Income Tax Act, interest cost relating to long term capital projects is generally not deductible for tax purposes until the project starts generating income.

Recommendation

The Authority should continue to monitor the increasing level of borrowing, interest costs and repayment commitments, and their impact on the Authority's activities, and ensure that adequate funding is available to meet all commitments as and when they fall due.

Management Comments

FEA has noted the above recommendation. However, it is not an audit issue. FEA's power development plan has been approved by FEA's Board of Directors and it also keeps the Fiji Government fully informed. The current debt level of FEA is low compared to international benchmarks. It has well-prepared plan for funding its investment projects without exceeding certain gearing levels approved by the Board.

6.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS – COMPLIANCE

The Authority has adopted International Financial Reporting Standards (IFRS) effective from 1 January 2007.

IFRS requires significant additional accounting related assessments, estimates and calculations including impairment assessments. Furthermore, IFRS requires significant additional disclosures.

Accordingly, the Authority is required to continuously monitor, update and enhance the accounting systems, procedures and calculations, and specifically covering the following:

- Provision for doubtful debts should be made on a specific basis
- Provisions for long service leave taking into account standard requirements for employee entitlements
- Provision for retirement benefits, redundancy, maternity leave, etc. taking into account standard requirements for employee entitlements
- Impairment assessments for fixed assets.

Recommendations

- **The Authority should continuously monitor, update and enhance the accounting systems, procedures and calculations.**

- **The Authority should ensure that its accounting and reporting systems are robust to meet the IFRS requirements.**

Management Comments

Recommendation is noted. The audited account for 31 December 2007 has been prepared in full compliance to IFRS and has also included additional disclosures required under IFRS. Because FEA has now implemented IFRS, all future reporting will be governed by the International Financial Reporting Standards and appropriate accounting and reporting systems have been put in place.

6.5 IMPAIRMENT OF ASSETS

The Authority has significant investment in properties, plant and equipment. There are plans to upgrade certain transmission equipment in the near future. In view of this, impairment of assets test needs to be considered by the Authority.

International Financial Reporting Standards and best accounting and reporting practices require that adequate provision for impairment to the assets be maintained as soon as impairment in value is identified.

Based on the trend in technological development and prevailing economic situation, the Authority should continuously review the current value of all assets and in particular, transmission equipment ensuring that these assets are not over stated.

Recommendations

- **The management should review the carrying value and remaining useful life of all assets ensuring that the carrying values do not exceed the recoverable amount.**

- **The Authority should assess at each balance date whether there is any indication that an asset has been impaired. Where a risk of impairment exits, the Authority should re-assess the asset's carrying value and process appropriate necessary adjustments.**

Management Comments

Recommendations are noted. FEA as part of the 31 December 2007 audit has provided to the auditors a comprehensive assessment of the impact of the impairment on all its cash generating assets, namely renewable energy assets and thermal power plant assets. Because it is now mandatory under IFRS, Management will continue to ensure that the impairment tests on these assets are reviewed consistently every year.

6.6 CAPITAL PROJECT WRITE-OFFS

For the year ended 31 December 2007, the Authority incurred a loss of $1.5 million arising from the write-off of 3 capital projects.

Audit provides the following details:

Particulars		Loss from Asset Write-off ($)
Wailo Hydro Power Project		319,015
Savusavu Biomass		496,487
BPL Project		713,052
Total		**1,528,554**

A review of the Capital Work in Progress account as at 31 December 2007, audit noted certain projects which were carried forward from previous years have not been completed during the year, and with minimal development works carried out during the year.

Recommendations

- **Management should ensure that due care and diligence is exercised in the evaluation and selection of capital projects. During post implementation, more emphasis should be placed on progressive review and management of the projects to ensure that these are completed within the stipulated time and budgets. Returns generated by a project and the costs incurred on the project should be continuously monitored to identify projects whose benefits are not being derived by the Authority as initially projected so that necessary remedial actions can be undertaken to minimize further losses.**

- **Management should ensure that capital jobs which have been discontinued should be identified and expensed.**

Management Comments

Recommendation is noted. That is exactly the reason why FEA chose to write-off the above three capital projects to P&L. Due to change in Fiji's environment, international development banks pulled out of their funding proposals and hence FEA was compelled to re-prioritise its projects, and defer the above projects indefinitely. FEA has sound financial policies on expenditure covering processes for project approvals, monitoring, closure, post project and project progress reviews, expense vs capital categorization, capitalization of interest and write-offs. Board approvals are essential as part of the processes.

6.7 EMPLOYMENT RELATIONS PROMULGATION BILL

The Employment Relations Promulgation has been introduced by the Interim Government in an effort to achieve more harmonious and productive relationship between the employers and employees in Fiji.

The promulgation is likely to have an impact on the Authority with additional obligations and commitments.

The Authority will be required to provide additional leave including full paid maternity leave.

Increased employment cost, commitments, obligations are likely to result from this new legislation and the Authority will be required to make an assessment and maintain additional provisions.

Recommendations

- **The Authority should carry out special review of the promulgation and take appropriate actions and measures to comply with its requirements.**

- **The Authority should also make an assessment of provisions for future obligations, and maintain additional provisions.**

Management Comment

Recommendation is noted and FEA has already factored the impacts of the Promulgation in the 2007 accounts. The Employment Relation Bill is now adopted as one of the FEA's corporate strategies.

6.8 INTERNAL AUDITIS

From a review of the Authority's internal audit system, audit noted that comprehensive reports are being presented by the Internal Audit Unit/Internal Audit Contractor.

However, observations made in the internal audit reports generally are repetitive in nature, and it appears that effective steps and initiatives have not been taken to ensure that all the control and operational weaknesses identified by the internal auditors are addressed and rectified.

Recommendation

The Authority should place more emphasis and commitment in the internal audit functions as this will strengthen management.

Management Comments

Recommendation is noted. Emphasis of FEA's internal auditors is to review and enhance the controls and ensure that effective measures are put in place to address audit issues arising out of the audits. The Risk & Audit Department in FEA also submits an internal audit plan every year which eventually is approved by the Audit & Finance Sub Committee. FEA will appreciate if the auditor could provide to FEA any known specific instances where there appear to have been weaknesses in the control system.

6.9 DEFERRED TAX ASSETS

The Authority has recognised approximately $9.7 million of deferred tax assets relating to tax losses brought forward from prior year.

International Accounting Standard (IAS) – 12 on *Accounting for Income Tax* requires that deferred tax assets shall be recognized for tax losses carried forward only to the extent that it is probable that the entity will be able to generate sufficient taxable profits in the future against which the benefits will be utilised.

Based on the following factors, audit have been advised that in the opinion of the management, the realization of the deferred tax assets is probable:

- Strategic measures have been undertaken by the management and directors to control operating expenses such as the use of hydro and other cheaper energy sources.
- Fuel surcharge relating to the electricity generated from diesel power stations has been approved by the Commerce Commission to be effective from October 2006.
- FEA has continually achieved increases in total revenues and a favourable profit outlook is projected.
- Significant accumulated tax losses have resulted principally to higher tax depreciation on dams in prior years. This has now been rectified.
- In 2007, the Authority has utilized tax losses amounting to $5,769,801 carried forward from prior years.

Based on the above, management believes that the tax benefit on the carried forward losses would most likely be recouped in the next 2-3 years.

Recommendation

The Authority should take due care in ensuring realising the deferred tax assets relating to tax losses and in case of any uncertainties, the recognized deferred tax asset should be reversed.

Management Comment

Recommendation is noted and the Management is confident that it can recoup the carry forward losses after recording a $14.6m pre-tax profit in 2007 which is based on FEA's initiatives to push for renewable energy generation to replace the existing high diesel genetaion cost and continuing the implementation of the approved fuel surcharge framework. In 2008, FEA is expected to reap the full benefit of the Butoni wind mill commissioned in 2007 and also realize huge savings from converting two diesel gen sets in August 2007 to HFO at significantly reduced price. It is expected that once the Nadarivatu Hydro Project is commissioned in mid 2011, it will provide substantial savings in diesel cost estimated at around $44m annually to FEA.

6.10 ALLOWANCE FOR BAD AND DOUBTFUL DEBTS – TRADE DEBTORS

Bad debts do occur and similarly adequate allowance to meet possible bad debts is also necessary. At balance date, the allowance for doubtful debts maintained by the Authority amounted to $400,000.

Audit reviewed the adequacy of this allowance by analysing the type of account and considering specific allowance as appropriate. Audit has also reviewed the history of bad debts write-offs and the allowance carried at each year end. Audit noted that the allowance historically have been considered adequate in view of subsequent lower write-offs than the allowance created.

It must be appreciated that the ultimate recovery of many of these accounts is dependent on credit management and controls.

Recommendations

- **Whilst the allowance are considered adequate in view of subsequent lower write-offs than the allowance, audit nevertheless recommend that allowance be continually reviewed for any latent bad and doubtful debts taking into account status of the accounts.**

- **Furthermore, as required by the International Financial Reprinting Standards, allowance should be made on a specific identified basis either on individual debtor balances or on a portfolio of debtors balances based on the profile of these debtors.**

Management Comments

Recommendation is noted. FEA is aware of the requirement under IFRS for impairment and all the associated provisions and will continue to monitor and review the trade debtors listings.

6.11 DEBTORS RECONCILIATION

The receivables listing showed a balance of $12,636,295 against a balance of $11,796,575 in the general ledger.

Differences over the years have been increasing as follows:

31 December 2007	$839,720
31 December 2006	$555,198
31 December 2005	$378,048
31 December 2004	$304,664
31 December 2003	$180,000.

The increasing difference between the subsidiary and control accounts over the years is of concern as it indicates that the two systems are not integrated properly and there is possible breakdown of internal controls.

Recommendation

The differences should be immediately reconciled and adjusted.

Management Comments

Recommendation is noted. Shown below is a re-formatted reconciliation showing the year-end adjustment made to the debtors balance at year-end. This adjustment reflects the receipts from customers received in the bank but unallocated as at the balance date. This adjustment will reverse in January when proper allocation is made to customers' accounts in Gentrack.

	Debtor-balance	*Variance*	*Year End Adj.*	*Closing Bal*
31 December 2007	*$304,412*	*$9,820*	*$525,488*	*$839,720*
31 December 2006	*$395,620*		*$159,578*	*$555,198*
31 December 2005	*$378,048*			
31 December 2004	*$304,664*			
31 December 2003	*$180,000*			

The above table shows that the debtors balance as at end of 2007 has reduced by $91,208 from the 2006 balance, which is a substantial improvement over previous years. This is because the management continues to monitor the debtor balances right through the year and reconcile every month. The net difference from January to December is only $9,820 which was the difference incurred in November. Considerable efforts are being made to reconcile figures in both the two systems on a daily basis.

6.12 LONG OUTSTANDING LIABILITIES

There were certain long outstanding balances carried in the listing. Refer to the following details:

Account #	Amount ($)
86300	954
86326	22,497
86370	15,368

Audit noted that progress payments received in advance pertained to projects in progress carried forward from 2006 but on which work has been discontinued during the year.

Recommendation

The Authority should review all old outstanding creditors' balances and take appropriate steps to settle the balances. If these balances are not paid, they should be written back.

Management Comment

Recommendation is noted. FEA keeps a full reconciliation of all the unclaimed wages/salaries that make up the $22,497 and has maintained this reconciliation every year which was shown to the auditors again during the 2007 year-end audit. This reconciliation is made up of money owed to the FEA employees for outstanding cola and merit pay out. Most of these employees have either resigned or migrated during the year but are still eligible under the employees log of claim for cola and merit awarded during that year. This account is reconciled monthly and employees who visit Fiji on holidays do come around to enquire and get their reimbursement at the same time. FEA can write this back to income if the employee does not file a claim after the normal statutory 7 years has lapsed.

The progress payment of $15,368 relate to a contract job for Fairdeal Ltd that was put on hold because the customer is required to pay additional amount for proposed changes to the initial design as approved by the FEA Engineers . This work has not started and is still on hold pending receipt of the additional amount. However, FEA will refund this amount if nothing is forthcoming from the customer.

6.13 BANK RECONCILIATIONS

From the review of bank reconciliations for the month of December 2007, audit noted the following:

Delays in the clearance of outstanding lodgment due to receipts not banked on the next working day. Audit provides the following instances for Account number 2414942:

Lodgment Date	Amount ($)	Date Banked
31/12/07	5,574.95	04/01/08
31/12/07	346.91	14/01/08
31/12/07	418,249.85	09/01/08
31/12/07	512,341.23	04/01/08
31/12/07	61,549.99	07/01/08
31/12/07	28,902.51	10/01/08
31/12/07	17,144.91	09/01/08

Long outstanding short banking by agencies that remain uncleared at the date of review on 19/02/08. Audit provides the following instances:

Description as per Reconciliation	Date	Amount ($)	Date Banked
ANZ A/c # 2414942			
Agency 1	01/01/07	1,205.52	Not banked
Agency 2	01/01/07	1,868.88	Not banked
Agency 3	01/01/07	905.88	Not banked
Agency 4	01/01/07	40.00	Not banked
Agency 5	01/01/07	477.62	Not banked
Agency 6	01/01/07	1,504.44	Not banked
Agency 7	31/01/07	70.86	Not banked
Agency 8	14/06/07	30.00	Not banked
Agency 9	Pre Dec '07	2,491.79	Not banked
Agency 10	31/12/07	4,527.70	Not banked

Direct deposits made in the ANZ main A/c # 2414942 amounting to $4,493.17 were not processed in the books of the Authority. These were shown as reconciling item in the bank reconciliation for the month of December 2007.

Audit noted that the current practice for preparation of bank reconciliation requires significant administrative work due to the difficulty in allocating lodgements to different agencies, which collect revenue on behalf of FEA.

The Authority maintains only one account, namely ANZ main A/c # 2414942 which is used for all purposes such as cashier receipts, agency receipts and daily payments, etc. Audit trail could not be established as a result of this practice.

<u>Recommendations</u>

- **Bank reconciliation is an important internal control system and the person reviewing these reconciliations must ensure that long outstanding items are cleared regularly and appropriate adjustments processed, if required.**

- **Receipts should be banked intact on the following working day.**

- **All the reconciling items in the bank reconciliations should be cleared regularly and in particular, long outstanding lodgments should be vigorously followed up with the banks for clearance of bank deposits in the normal time of 3 working days from the dates of lodgement.**

- **A separate bank account should be opened for agency accounts while the A/C # 2414942 should be used for in house cashier receipts and day to day payments.**

Management Comments

Recommendations are noted. A thorough investigation has started and steps will be put in place to eliminate this problem of delayed banking. Consideration will be given to opening another account specifically for agencies only. Bank reconciliation process, which is manual and labour-intensive in Mozaic, will be made much easier when Navision is fully implemented. Parallel running of Navision and Mozaic is currently taking place.

The late banking highlighted for the commercial debtors is not really a late banking in the practical sense given by the Auditors. These cheques even though dated 31/12/07 were all received in the first and second week of January after prior arrangement with this customers to back date the cheques so that FEA can have a clean debtors balance at year-end.

6.14 FIXED ASSETS

From the review of the fixed asset schedule for the year ended 31 December 2007, audit noted the following exceptions.

- Although the Authority maintains a fixed asset schedule, it does not reflect identification numbers and location of the items of fixed assets. Audit also noted that the fixed assets schedule in a few cases does not show year of purchase, property title numbers, etc.

- Complete physical count of the items of fixed asset was not conducted during the year.

- Only one general ledger account (Account #2080) is maintained for accumulated depreciation for all fixed assets categories.

Recommendations

- **To maintain effective control over the Authority's fixed assets, a computerized fixed asset register should be maintained and regularly updated for all fixed assets showing for each asset name, the cost, date of purchase, identification number, and other relevant details.**

- **Regular physical stock take of fixed assets coupled with a reconciliation of the fixed assets register to the general ledger should be carried out to assist management in exercising proper physical control over fixed assets.**

- **Accumulated depreciation in the general ledger should be split into separate account heads for each class of fixed assets.**

Management Comments

Recommendations are noted and we will be grateful if the auditors can also provide a list of these assets so that this can be corrected in the Fixed Asset register. The existing Financial System (Mosaic) holds the field for location as mandatory including the cost centre and we can't see how an asset can be registered in Mosaic without a cost centre/ location. The location and cost centre field enable the Fixed Asset register to be run and calculate monthly depreciation. Also all assets should have a year of purchase to enable depreciation to be calculated as this is also a mandatory field in Mosaic and depreciation is calculated straight line in months based on the acquisition date of the asset.

Because bulk of the assets in the fixed asset register are hydro assets, vehicles, transmission assets, diesel generator assets and power station assets, these assets are physically verified every day. During the 2005 asset valuation these assets were part of the valuation exercise where it was physically verified. This exercise will be carried out again in 2008 when the insurance valuation takes place.

6.15 LAND TITLE

From the review of the fixed assets schedule, audit noted that the Authority has a number of freehold land and leasehold land. However, land titles could not be matched to the fixed assets schedule as no land title numbers are disclosed in the fixed assets schedule.

Furthermore, audit noted that due to claims arising out of legal action in respect of the Authority's acquisition of land at Kinoya, land title has not yet been legally transferred to the Authority.

The above has been disclosed appropriately in the audited financial statements.

Recommendations

All land owned by the Authority either freehold or leasehold should be included in the fixed assets schedule and should be supported by land titles under the name of the Authority.

Management Comments

Recommendations are noted. The Authority has most of the land titles kept with our Lands department with the exception of the Kinoya land which is now being processed. In 2007, after the 2006 audit, Finance in consultation with our Land's Department undertook a project to link all lands (Freehold and Leasehold) into the Fixed Asset Register to the title numbers that relate to this asset (where available). This information was subsequently updated in the Financial Management Information System (Mosaic). We would be grateful if the OAG can provide us a listing of lands (freehold and leasehold) that did not comply.

SECTION 7: FIJI MEAT INDUSTRY BOARD

The Fiji Meat Industry Board was established in 1976 by the Meat Industry Act of 1970 to regulate and control the slaughtering of livestock. The functions of the Board include the following:

- to construct and operate public slaughtering facilities as approved by the Minister;
- to take all steps, with the approval of the Minister, deem desirable for purposes connected with the protection, preservation and expansion of the meat industry in Fiji;
- with the approval of the Minister, to borrow such capital monies as may be required; and
- when directed by the Minister, to purchase trade or deal in livestock or meat.

The functions of the Board are largely servicing and regulatory.

The Fiji Meat Industry Board became a restructured Commercial Statutory Authority from 2006.

7.1 AUDIT OPINION

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2007 resulted in the issue of a qualified audit report. The qualifications are as follows:

- During September 2006, the Board's tannery operations ceased due to continuing losses. There have been no prospective buyers to the tannery assets and this indicates a possible impairment. Accordingly, it is not possible to express an opinion as to the value of these assets. If the Board were to record the impairment the effect would be a reduction in net profit by $2,297,264. The reduction is a result of a write down of property, plant and equipment and inventory by $2,042,899 and $254,285 respectively.

- Work in progress has been classified under Property, Plant and Equipment from 2001 and an opinion can not be expressed whether there are future economic benefits embodied within those assets. If the Board were to write off these assets, the effect would be a reduction in net profit by $555,568 and reduction in property, plant and equipment by the same amount.

7.2 FINANCIAL INFORMATION

Table 7.1: Abridged Statement of Financial Performance

Year Ended 31 December	2007 $	2006 $
Revenue		
Abattoir	3,317,444	3,901,464
Other Income	79,674	78,828
Total Revenue	**3,397,118**	**3,980,292**
Expenditure		
Staff Costs	979,838	1,020,225

Year Ended 31 December	2007 $	2006 $
Change In Inventories – Finished Goods	1,117,724	1,523,438
Raw Materials And Consumables Used	139,187	416,128
Other Operating Expenses	1,031,105	1,439,490
Total Expenditure	**3,267,854**	**4,399,281**
Profit/(Loss) From Operations	129,264	(418,989)
Finance Cost	(121,390)	(120,180)
Profit/(Loss) Before Tax	**7,874**	**(539,169)**
Income Tax Expense	-	-
Profit/(Loss) After Tax	**7,874**	**(539,169)**

The Board's income is derived mostly from abattoir charges. Total income had decreased by $583,174 or 15% in 2007 compared to 2006. Despite the decrease, the Board still recorded a profit of $7,874 in 2007 compared to a loss of $539,169 in 2006. Total expenditures decreased by $1,131,427 or 26% in 2007 compared to 2006.

Table 7.2 Abridged Statement of Financial Position

As at 31 December	2007 $	2006 $
Current Assets		
Cash And Cash Equivalents	452,996	226,144
Other Current Assets	753,541	947,638
Total Current Assets	**1,206,537**	**1,173,782**
Non – Current Assets	**4,229,421**	**4,318,906**
Total Assets	**5,435,958**	**5,492,688**
Current Liabilities	334,922	440,290
Non-Current Liabilities	2,941,417	2,900,653
Total Liabilities	**3,276,339**	**3,340,943**
Net Assets	**2,159,619**	**2,151,745**
Total Equity	**2,159,619**	**2,151,745**

The Board's net assets had increased by $7,874 or 0.3% in 2007 compared to 2006.

7.3 VALUATION OF FIXED ASSETS

Some items of property, plant and equipment are valued at cost while others are valued at fair value. FAS 16 states that an entity may choose to value assets either at cost or fair value and which ever method chosen it must be applied consistently to all categories of property, plant and equipment.

Items valued at fair value were last re-valued in late 1970's. Fiji Accounting Standard 16 *Property, plant and equipment* states that when the fair value of an asset differs materially from its carrying amount, a further revaluation is necessary. Since more than two decades has passed over which the carrying amount of these assets have differed materially from their carrying amounts and further revaluation is necessary.

In addition, the Board has valued some of its assets at cost instead of applying a consistent measurement basis for all items of property, plant and equipment.

Recommendation

The Board should determine the measurement basis for the valuation of the property, plant and equipment and apply it consistently. Also, if fair value is used a re-valuation is required for all items of property, plant and equipment.

Management Comments

7.4 TANNERY STOCK AND FIXED ASSETS

The Fiji Tannery closed its operations during September 2006. It had at that time accumulated fixed assets totalling $2.1 million, and substantial obsolete stock. The management of the company has confirmed that it is trying to find potential buyers for the stock.

The accounts has not considered a provision for stock obsolescence against the tannery stock and this has resulted in the overstatement of stock as at year end.

In addition, the fixed assets are impaired and cannot be recorded at its cost price.

Recommendation

- **A provision should be created in the 2007 accounts for the tannery obsolete stock.**
- **Fixed assets should be re-valued at net realisable value and the unrealised loss be shown in the profit and loss statement in 2007.**

Management Comments

7.5 WORK IN PROGRESS

Work in progress (WIP) could be defined as the balance of partly finished work remaining in a manufacturing operation or a long-term contract at a particular time.

FMIB had planned to upgrade the Suva Abattoir to international standards with the upgrading works that began in early 1998. However, FMIB ran out of funds and failed to obtain grants from New

Zealand and Fiji Government, thus bringing the upgrading work to a halt. A balance of $555,568 worth of assets classified as work in progress was recorded in the books.

There is a risk that depreciation expense may be understated for assets that have been completed and used but have yet to be transferred from the work in progress account. There is also a risk that the work in progress may not be completed and be considered for writte off instead as the upgrading works ceased in 2001.

Recommendations

- **Management should ensure that assets are transferred to their respective asset category as soon as they are completed.**
- **Management should review the work in progress list on a regular basis and transfer out completed assets/projects.**
- **Work in progress not completed should be written off in 2007**.

Management Comments

7.6 AUDIT OPINION - 2006

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2006 resulted in the issue of an unqualified audit report with an emphasis of matter.

An emphasis of matter has been raised in relation to Property, Plant & Equipment which as at 31 December 2006 includes Tannery assets of $1,415,494 which were impaired. If an impairment adjustment was recorded, the net deficit would increase by $1,415,494 together with a decrease in net assets by the same amount.

7.7 FINANCIAL INFORMATION

Table 7.3: Abridged Statement of Financial Performance

Year Ended 31 December	2006 $	2005 $
Operating Revenue	3,901,464	3,550,155
Other Income	78,828	63,128
Total Income	**3,980,292**	**3,613,283**
Expenditure		
Payroll	1,020,225	1,025,507
Changes In Inventories	1,523,438	1,294,295
Raw Materials	416,128	522,719
Other Operating Costs	1,439,490	1,646,150
Total Expenditure	**4,399,281**	**4,488,671**

Year Ended 31 December	2006 $	2005 $
Loss from Operations	**(418,989)**	**(875,388)**
Finance Cost	(120,180)	(113,460)
Loss Before Tax	**(539,169)**	**(988,848)**
Income Tax Expense	-	-
Loss After Tax	**(539,169)**	**(988,848)**

The Board's income is derived mostly from abattoir charges. Total income increased by $367,009 or 10% whilst total expenditure declined by $89,390 or 2%, in 2006 compared to 2005. Hence, the Board recorded a loss after tax of $539,169 in 2006 compared to $988,848 in 2005.

Table 7.4: Abridged Statement of Financial Position

As at 31 December	2006 $	2005 $
Current Assets		
Cash And Cash Equivalent	226,144	330,704
Other Current Assets	947,638	1,145,038
Total Current Assets	**1,173,782**	**1,475,742**
Non – Current Assets	4,318,906	4,629,929
Total Assets	**5,492,688**	**6,105,671**
Current Liabilities	440,290	638,979
Non-Current Liabilities	2,900,653	2,775,778
Total Liabilities	**3,340,943**	**3,414,757**
Net Assets	**2,151,745**	**2,690,914**
Total Equity	**2,151,745**	**2,690,914**

Current assets declined by $301,960 or 20% in 2006 compared to 2005 due to reduction in cash and cash equivalents, receivables and inventories. Non-current assets also declined by $311,023 or 7% in 2006 compared to 2005 due to the annual depreciation on the Board's property, plant and equipment. This caused a reduction in total assets of the Board by $612,983 or 10% in 2006 compared to 2005.

Total liabilities declined by $73,814 or 2% in 2006 compared to 2005 as a result of reduction in payables. However, the Board still recorded a lower net asset in 2006 of $2,151,745 compared to $2,690,914 in 2005, a decline of $539,169 or 20%.

7.8 AUDIT OPINION - 2005

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2005 resulted in the issue of an unqualified audit report.

7.9 FINANCIAL INFORMATION

Table 7.5: Abridged Statement of Financial Performance

Year Ended 31 December	2005 $	2004 $
Operating Revenue	3,550,155	3,546,609
Other Income	63,128	142,412
Total Income	**3,613,283**	**3,689,021**
Expenditure		
Payroll	1,025,507	974,829
Changes In Inventories	1,294,295	1,533,356
Raw Materials	522,719	313,350
Other Operating Expenditure	1,646,150	1,687,207
Total Expenditure	**4,488,671**	**4,508,742**
Loss From Operations	**(875,388)**	**(819,721)**
Finance Cost	(113,460)	(92,536)
Loss before Tax	**(988,848)**	**(912,257)**
Income Tax Expense	-	-
Loss after Tax	**(988,848)**	**(912,257)**

The Board's income is derived mostly from abattoir charges. Total income declined by $75,738 or 2% in 2005 compared to 2004. This recorded an operating loss of $988,848 in 2005 compared to $912,257 in 2004.

Table 7.6: Abridged Statement of Financial Position

As at 31 December	2005 $	2004 $
Current Assets		
Cash and Cash Equivalents	330,704	803,356
Other Current Assets	1,145,038	1,197,718
Total Current Assets	**1,475,742**	**2,001,074**
Non – Current Assets	4,629,929	4,781,889
Total Assets	**6,105,671**	**6,782,963**
Current Liabilities	638,979	623,237
Non-Current Liabilities	2,775,778	2,479,964
Total Liabilities	**3,414,757**	**3,103,201**
Net Assets	**2,690,914**	**3,679,762**
Total Equity	**2,690,914**	**3,679,762**

The Board's total assets declined by $677,292 or 10% in 2005 compared to 2004 due to decline in cash and cash equivalents. This contributed to the decline of fixed assets in 2005 by $988,848 or 27% compared to 2004.

7.10 AUDIT OPINION - 2004

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2004 resulted in the issue of a qualified audit report.

The qualifications are as follows:

- due to the inadequacies in the Board's records and procedures relating to the recording of sales and cash receipts, it was not practicable to extend the audit on sales and receipts beyond the recording of the amounts shown in the Board's books;
- records to substantiate $95,927 included in trade receivables totalling $514,311 in note 4 were lacking;
- provision for obsolescence for inventories at 31 December 2004 has not been disclosed in accordance with FAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.*

7.11 FINANCIAL INFORMATION

Table 7.7: Abridged Statement of Financial Performance

Year Ended 31 December	2004 $	2003 $
Operating revenue	3,546,609	2,668,687
Other Income	142,412	163,782
Total Income	**3,689,021**	**2,832,469**
Expenditure		
Payroll	974,829	798,648
Changes in Inventories	1,533,356	1,051,092
Raw Materials	313,350	204,436
Other Operating Costs	1,687,207	1,082,908
Total Expenditure	**4,508,742**	**3,137,084**
Loss from operations	**(819,721)**	**(304,615)**
Finance cost	(92,536)	(20,549)
Loss before Tax	**(912,257)**	**(325,164)**
Income Tax Expense	**-**	**-**
Loss after Tax	**(912,257)**	**(325,164)**

Total income had increased by $856,552 or 30% in 2004 compared to 2003. The relative increase in total expenditure is higher than the increase in total income which increased by a significant $1,371,658 or 44% in 2004 compared to 2003.

Hence, the Board recorded a loss in 2004 of $912,257 compared to $325,164 in 2003. Higher cost of production and operating expenses led to increase total expenditures in 2004.

Table 7.8: Abridged Statement of Financial Position

As at 31 December	2004 $	2003 $
Current Assets		
Cash and Cash Equivalents	803,356	1,312,517
Other Current Assets	1,197,718	1,198,201
Total Current Assets	**2,001,074**	**2,510,718**
Non – Current Assets	4,781,889	4,233,706
Total Assets	**6,782,963**	**6,744,424**
Current Liabilities	623,237	389,893
Non-Current Liabilities	2,479,964	1,762,512
Total Liabilities	**3,103,201**	**2,152,405**
Net Assets	**3,679,762**	**4,592,019**
Total Equity	**3,679,762**	**4,592,019**

There was a significant increase of $950,796 or 44% in total liabilities in 2004 compared to 2003 as a result of additional term loan.

7.12 UN-BANKED RECEIPTS

Unbanked receipts for the year amounted to $56,581.19. There was a difference of $274.97 which was noted in the year end bank reconciliation. There were also instances of delayed banking. Due to the absence of supporting records, audit was not able to confirm whether these receipts have been subsequently banked.

Non-banking or late banking of receipts increases the risk of fraud and error.

Recommendations

- **Management should ensure that all cash and cheques received are receipted and banked.**
- **Management should ensure that reconciliations of receipts are made.**

Management Comments

The amount of $56,581.19 as receipts noted as un-banked for the year ended 31 December 2004 relates to misappropriation of funds that took place in the year 2004 and which a team was called in from your office to investigate and a report was done in this regard to reflect the total amount misappropriated and which also highlighted the lack of controls and procedures.

Following investigation all the people implicated in this fraud were terminated of their service and proper controls and procedures were implemented and applied to avoid a similar situation in future. The total of the receipts un-baked were written off from the books as this could not be recovered and this matter was handed to

Police. Most of the supporting documents like receipt books, bank deposit summary are in police custody as to date.

Non-banking or late banking of receipts have been a issue for the past and as mentioned above all receipts are now serially banked intact without any delays and daily reconciliation of total cash received and amount banked are performed to avoid the risk of fraud and error.

The difference of $274.97 in the bank reconciliation to the bank balance in the general ledger is due to the fact that this balance remained after the write off above, which otherwise should have been written off to balance the records.

As all the receipts were properly accounted for write off, management feels that this was an error from the past and which adjusted in November 2004 and by the time the year ended on 31st December 2004, management was of certain that controls and procedures were in place and no receipts remained unaccounted.

7.13 DISCLOSURE OF ASSET REVALUATION

Fiji Accounting Standard (FAS) 16(64) states that when items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- the basis used to revalue the assets;
- the effective date of revaluation;
- whether an independent valuer was involved.

The Board's property, plant and equipment were not recorded at cost and revaluation amount. As a result, the asset revaluation reserve amount could not be traced to the respective property, plant and equipment. In addition, audit was not able to ascertain the date of revaluation.

Audit also noted that some assets were fully depreciated but were still being used by the Board.

These indicate that independent revaluation may not have been carried out in accordance with FAS 16 (64).

Recommendation

Revaluation should be conducted independently in accordance with FAS 16 (64) and the asset revaluation reserve which could not be traced should be written off with accumulated losses.

Management Comments

This revaluation was done in August 1976 when the Abattoir was established. This related to assets, which were gifted by the New Zealand government. The only evidence is the journal entry recorded in the general journal book of the year 1976.

The journal was recorded as follows:

Dr	*Land Yards & Roadways*	*58,640.00*	
	Buildings	*82,460.00*	
	Plant	*74,220.00*	
	Electrical	*22,235.00*	
	Motor Vehicles	*6,335.00*	
Cr	*Revaluation Reserve*		*243,890*

(Being revaluation of assets gifted by the NZ Government at NZ$ plus 20% less devaluation of 12%)

FAS 16 (64) will be applied in any future revalued amounts of the boards fixed assets. The management feels looking at the historical nature of data and available records in hand it does not warrant a qualified opinion on the accounts of the Board.

7.14 APPOINTMENT OF TECHNICIAN AND CONSULTANT

Section 5 of the Fiji Meat Industry Act states that the board may appoint officers it considers necessary to carry out of the functions of the Board. Subject to the provisions of the Higher Salaries Commission Act, other officers and servants of the Board shall be paid salaries determined by the Board from time to time.

The Board approved the appointment of a technician for one year from 15 April 2004 to 14 April 2005 to assist in training in the new Fiji Tannery. The total cost of hiring the technician was US $60,000. The technician's remuneration includes US$3,500/month or US$42,000 annually and US $18,000 for traveling, work permit application fee, transport and housing allowance.

Audit was not able to ascertain whether the appointment was made transparently in the interest of within the Board.

Recommendation

Clear policy should be developed and approved by the Board to provide guidelines on recruitment process of consulting services as a form of good governance.

Management Comments

The third party to whom we were processing leathers for a fee in the year 2004 recommended the appointment of the Tannery Technician. The technician was recruited for the finishing part of our process where the processed hides belonged to BPL, which was exported to overseas market by them. Most operation related to processing charges to BPL in the year 2004.

The services of a Technician was not available locally therefore a Korean technician was recommended by BPL to whom we were doing business at that time, getting a Technician from Australia or New Zealand would have been very expensive as a result, a Korean technician was as BPL had their contacts in Korea where they were also doing Leather business.

7.15 STOCK AGEING REPORT

Stock is vulnerable to technological advances and obsolescence. The current stock system in the Tannery does not have the capability to provide a stock ageing report. A total of $103,654.50 was assessed as obsolete stock.

The absence of an inventory ageing report increases the risk of not identifying stock obsolescence and not managing stock efficiently.

Recommendation

The board should explore the feasibility of upgrading its software to better manage inventory and the risk of obsolescence.

Management Comments

The major stock in Tannery relates to semi to fully processed leather processing chemicals used in production.

The processed leather does not easily deteriorate or become obsolete due to technological advances and can be kept for a number of years and sold later. The same applies to chemical, which hardly becomes obsolete and can be used into production even after number of years of storage.

Monthly stock take is always done to identify any damaged stock as far as leather is concerned and brought to management for action and chemical stock take is also done monthly to identify usage and actual closing balance.

SECTION 8: HOUSING AUTHORITY

The Housing Authority was established by an Act of Parliament in 1955. The Authority became an operating entity in 1958. It began operations with the development of rental flats and progressed into the development of lots and the designing and building of homes.

The rental function of the Authority was separated from its core operations in 1989 and the Public Rental Board was created.

In 1996, the Authority was declared a Commercial Statutory Authority and is now required to provide returns to Government. The Authority moved away from the designing and building of homes to concentrate on the production of land lots and the provision of financing in 1997.

With the initial vision to provide affordable housing for low income earners in urban centres who would otherwise be unable to secure a permanent residence for themselves, the Authority has in recent years expanded its services to include mortgage financing for middle to high income earners.

8.1 AUDIT OPINION

The audit of the financial statements of the Housing Authority for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

8.2 FINANCIAL INFORMATION

Table 8.1: Abridged Statement of Financial Performance

Year ended 31 December	2007 $'000	2006 $'000
Interest Income	11,856	11,767
Interest Expense	(6,927)	(5,606)
Total Interest Income	**4,929**	**6,161**
Other Operating Income	9,898	9,053
Total Operating Income	**14,827**	**15,214**
Staff Costs	(5,126)	(4,231)
Bad & Doubtful Debts	(2,163)	(2,665)
Other Operating Expenses	(6,955)	(6,037)
Total Expenses	**(14,244)**	**(12,933)**
Net Profit for the Year	**583**	**2,281**

The net revenue was decreased in 2007 from $2.281million in 2006 to $583,000 in 2007 due to the increase in the borrowing costs (new loans raised at a higher cost and low cost loans repaid at on maturity), personal expenses and depreciation (new additional computers bought for the new IT system).

Table 8.2: Abridged Statement of Financial Position

As at 31 December	2007 $'000	2006 $'000
Cash	7,212	1,282
Investments	6,000	25,063
Loans	130,783	129,161
Stock	11,013	12,714
Land held for future development	6,637	7,367
Property, plant & equipment	7,238	7,102
Other	138	763
Total Assets	**169,021**	**183,452**
Borrowings	106,562	120,317
Provisions	1,379	1,210
Other	7,593	9,021
Total Liabilities	**115,534**	**130,548**
Net Assets	**53,487**	**52,904**
Capital and Reserves	**53,487**	**52,904**

There has been a positive impact of $502,000 in provision for doubtful debts since it decreased from $2.665m in 2006 to 2.163m in 2007, due to close monitoring by the Authority.

8.3 QUALITY OF THE LOAN PORTFOLIO TO BE IMPROVED

The Authority's 2007 loan portfolio highlighted significant deterioration when compared to 2006. The non performing portfolio amounted to $26 million in 2007 (comprising 18% of the loan portfolio) compared to $21million (14.6%) in 2006.

The mortgage types with significant increases were MT7 (Awaiting Eviction MPI Doubtful/Bad debts of $2.8million) and MT17 (Non-performing accounts of $7.3 million). The mortgage type details are shown in the table below.

Table 8.3: Mortgage Type Details

Loan type	Mortgage Type	2006 $	2007 $	Number of account 2007	Number of account 2006
Awaiting Eviction	7	241,581	3,027,872	9	15
Non performing accounts	17	9,593,002	16,936,900	844	494

Audit noted that the increase in non performing loans could be attributed to the subdued economic conditions in 2007. Also, the credit management and recovery function was weak resulting in the significant movement of accounts from performing to non-performing status.

Additionally, audit noted that the level of arrears has increased over the last four years as provided in the table.

Table 8.4: Details of Arrears

Details	2004 $	2005 $	2006 $	2007 $
Arrears balance	4,974,172	5,059,353	5,281,763	6,456,245
Total mortgage portfolio	146,665,569	145,550,465	143,893,848	146,315,982
Percentage of arrears over portfolio	3.4%	3.5%	3.8%	4.4%

It indicates that the process of managing, reviewing and rehabilitating the accounts that fall into arrears is not performed vigorously and in a timely manner.

The deterioration of the loan portfolio could result in increases in bad debt losses. In addition, this increases the costs of accounts administration.

Recommendation

The Authority should review and strengthen its lending policies and practices to minimise the level of non-performing loans and the level of arrears. Regular reports should be generated to monitor the quality of loans and staff should be effectively managed to ensure that they closely monitor the performance of loan accounts. This is important in light of the economic climate of the country, which could have a detrimental effect on the loan portfolio.

Management comments

Your comments are being noted.

Housing Authority undertook a massive cleansing exercise in February 2007 in order to check out the health of its lending portfolio. This was done in line with the proposed Reserve Bank of Fiji risk grading guidelines and also in preparation for the proposed IT system which is now being implemented and this was a major cause of the non-performing portfolio increase. Approximately $4m of performing portfolio was detected and transferred to non performing category.

Repayments were also protracted due to economic downturn, high unemployment and loss of jobs or reduced pay. Housing Authority's main customer base are those of low to middle income earners who were most affected by the economic downturn.

However, we have tried our best and some of the initiatives implemented were:
1. *Successful negotiation with FNPF to waive its policy in order to assist customers who genuinely face hardships.*
2. *Restructure of accounts and term of loan extended.*
3. *Interest payment only option.*
4. *Others*

8.4 REGULAR REVIEW AND MONITORING OF ACCOUNTS

The regular monitoring and review of loan accounts is pivotal for an entity such as Housing Authority whose financial standing relies considerably on loan repayments.

Audit review of the process surrounding the monitoring and reviewing of loan accounts that fall into arrears revealed a number of weaknesses:

□ There is no credit risk grading system to enable the Authority to group loans with similar credit characteristics. The criteria for classifying loans include a number of factors such as the level of arrears, security coverage and repayment consistency. Risk grading is an effective tool to monitor performance of loans at an individual level and at a portfolio level. Audit noted that the Authority's current loan monitoring process is mainly based on level of arrears.

□ The Authority does not have a formalised and structured process of carrying out loan review on a regular basis. Timely review of loans enables prompt identification of any issues relating to loan accounts. The Authority is able to take corrective actions to rehabilitate loans with current or future risk of default.

□ The procedures for monitoring arrears are not adequately followed by the Lending department. There were instances noted where the arrears notice and demand notices were not filed in the customer's loan file. It was difficult to assess whether these notices were actually sent to customers in a timely manner.

□ Audit was unable to assess whether the daily arrears report are reviewed by staff and also reviewed by a senior officer. There was no evidence of review noted in the arrears report. This could also account for the deterioration in the arrears level.

The weaknesses highlighted in the credit management function could indicate that the Authority is not effectively monitoring and rehabilitating accounts that have some indications of impairment or are falling into arrears. This could result in increases in bad debt losses.

Recommendations

The credit management function should be strengthened by implementing the following measures:

- **The Authority should consider implementing a credit risk grading system. The individual loan accounts should have a loan grade based on the criteria set by the Authority, which should be reviewed on a regular basis. The Authority should develop appropriate credit risk grading policies and procedures which should be properly adhered to by staff.**

- **The Authority should consider developing a policy to review loan accounts on a more regular basis. The policy should clearly state the process of carrying out the reviews and a standard template should be designed to ensure that reviews are consistently performed. The review should be approved by a senior officer.**

- **Staff should ensure that the Authority's policies and procedures relating to following up on loan arrears with appropriate documentation are adhered to. The officer that reviews the arrears report should sign the report as evidence of the process has been undertaken. The Authority should also ensure that the arrears report is signed by a senior office as evidence of his review.**

Management comments

Your comments are noted.

Risk grading has been incorporated within the proposed IT project whereby arrears are based on Days Past Due and defaulting accounts will be monitored closely.

Defaulting accounts will be reviewed and appropriate actions will be taken in accordance with our policies and procedures.

The IT system is designed to refer accounts to the next level, that is, Supervisor/ Credit Management Managers/ General Manager Lending if arrears actions are not undertaken within the specified time frame.

8.5 SPECIFIC ALLOWANCE METHODOLOGY

The Authority currently provides for loans based on a "portfolio based, blanket specific allowancing" approach. The formula used by the Authority is, loan balance less 80% market value less total suspended interest.

The approach mainly assesses the level of allowance for local lessees based on the level of arrears and value of security on each loan account without considering other information pertaining to the account such as transaction history.

Audit noted a number of accounts where the specific allowance was not accurately assessed. Refer examples to table provided.

Table 8.5: Details of Accounts not accurately accessed

Account Name	Account Number	Balance $	Provisions $	Comments
Korotu Housing Scheme	V0000012	1,160,836	1,160,836	The security charge on the mortgage was valued at $664K. This was not taken into account in the assessment of specific allowance. The revised provision was $630K.
Vatuwaqa Methodist Community	DP4952	454,119	454,119	The land was subdivided into lots and sold subsequent to balance date reducing the balance to nil. This revised provision was nil.

The assessment for the specific allowance for doubtful debts is not thoroughly carried out to ensure that impairment is accurately assessed. The allowance for impairment on loans could be significantly misstated at balance date.

<u>Recommendation</u>

The specific provisions for loan losses should be reviewed to incorporate the review of individual customer credit worthiness. The loan accounts should be assessed at least annually.

<u>Management comments</u>

Your comments are noted.

Risk grading has been incorporated within the proposed IT project whereby arrears are based on Days past Due and defaulting accounts will be monitored closely.

Defaulting accounts will be reviewed and appropriate actions will be taken in accordance with our policies and procedures.

The IT system is designed to refer accounts to the next level, that is, Supervisor/ Credit Management Managers/ General Manager Lending if arrears actions are not undertaken within the specified time frame.

SECTION 9: PUBLIC RENTAL BOARD

The Public Rental Board (PRB) was established under the Housing (Amendment) Decree No 12 in 1989 to take-over and manage the rental section of the Housing Board on an economic basis. The Housing (Amendment) Decree is the subsidiary legislation of the Housing Act of 1955.

Under section 34 of the Housing (Amendment) Decree No 12 of 1989, the Board is primarily to operate on a non-commercial basis by inviting Government to make good the shortfall by way of subsidy, where the assessed rental applicable to a tenancy represents a disproportionate percentage of earnings.

The main activities of the Board are as follows:

- management of all rental estates inherited from the Housing Board including the repairs and maintenance of buildings, grounds and other common facilities;
- rental of units to low income earning families;
- assessment and collection of rent from its tenants; and
- extension of the rental estate via building projects.

9.1 AUDIT OPINION

The audit of the financial statements of the Public Rental Board for the year ended 31 December 2007 resulted in an issue of an unqualified independent audit report.

9.2 FINANCIAL INFORMATION

Table 9.1: Abridged Statement of Financial Performance

Year ended 31 December	2007 $	2006 $
Rental Revenue	2,410,851	2,267,046
Operating Income	1,805,617	1,883,319
Total Operating Income	**4,216,468**	**4,150,365**
Depreciation	361,545	427,217
Staff Costs	730,967	663,402
Other Operating Expenses	538,493	803,051
Net Financing Costs	666,878	599,206
Total Expenses	**2,297,883**	**2,492,876**
Net Profit for the Year	**1,918,585**	**1,657,489**

The total net profit in 2007 increased by $261,096 or 16% compared to 2006 due mostly to an increase of $143,805 or 6% rental income and the reduction in operating expenses by 264,558 or 33%.

The increase in the rental income was attributed to the new flats at Kia Street which were available to tenants from August 2006. Hence, income from Kia Street represent 5 months in 2006 year whereas in 2007 income was realized for the full 12 months.

The reduction in the operational expenses was attributed by the decrease in depreciation and amortisation by $66,000. Also, during 2007 there was no general maintenance carried out at any estate of Board.

Table 9.2: Abridged Statement of Financial Position

As at 31 December	2007 $	2006 $
Cash	1,943,095	317,732
Investments	571,000	1,571,000
Other Assets	588,742	95,613
Property, Plant & Equipment	7,213,398	7,346,903
Total Assets	**10,316,235**	**9,331,248**
Creditors	1,838,267	1,871,013
Deferred Revenue	765,592	748,278
Borrowings	9,276,562	10,455,729
Provisions	-	700,000
Employee Entitlement	132,964	173,952
Total Liabilities	**12,013,385**	**13,948,972**
Net Assets	**(1,697,150)**	**(4,617,724)**
Deficiency in Capital and Reserves	**(1,697,150)**	**(4,617,724)**

The increase in the total assets by $984,987 or 11% in 2007 as compared to the preceding year was mainly due to increase in cash by $1,625,363 and other current assets by $493,129.

9.3 ARREARS MANAGEMENT AND COLLECTION

The Board policy states that tenant accounts in excess of four weeks in arrears should be closely monitored and reminder notices, warning letters and final notices should be issued on a timely basis. The arrears report highlighted numerous tenants whose arrears have been carried forward for a number of years.
Audit review of these tenant files revealed the lack of effective action by the Board to recover the long outstanding arrears. With the increasing arrears balance on a number of tenant accounts, this could result in increases in bad debts and losses to the Board.

Recommendations

- **The Board should develop an effective and robust strategy for the recovery of arrears. Accounts that fall into arrears should be closely monitored and recovery actions taken in a timely manner.**
- **The Board should consider allocating more resources to strengthening the management and collection of arrears.**

Management Comments

No Comments.

9.4 CREDIT BALANCES

The tenant accounts with credit balances have been increasing over the years. The balances from the last three financial years are provided in the table.

Table 9.3: Credit Balances

Descriptions	2005	2006 $	2007 $
Tenants in credit balance	362,004	467,257	468,207

Audit noted that this mainly comprises overpayments of rentals by tenants and/or allocation of rental subsidies to tenants.

There is no proper reconciliation maintained to identify the amount that relates to rental subsidy and the amount relating to overpayments that need to be refunded to tenants. Tenant accounts are only reconciled when a tenant vacates a flat or a property is sold off.

In the absence of a proper reconciliation accounts with credit balances, the Board will not be in a position to determine the portion relating to rental subsidies and advance payments. In addition there could be errors and anomalies in the accounts with credit balance that may not be detected on a timely basis.

Recommendation

The reconciliation of tenant accounts with credit balances should be prepared on a regular basis to ascertain the amounts due to Government or tenants. The Board should refund tenants who have overpaid their accounts.

Management Comments

No Comments.

9.5 TENANT FILES

Audit review of certain tenant files revealed that the tenant files were not up to date with relevant documents such as follow-up documents. In other instances, the tenant files could not be located. Refer to the table provided.

Table 9.4: Missing Tenant Files

Tenant ID	Deficiency
524C/4001	Tenant file could not be located
524C/4301	Tenant file could not be located
574E/0401	No follow up documents during the financial year
574G/0101	No follow up documents during the financial year

In cases where tenant files are not properly maintained, pertinent information are not available for reference. This affects the effectiveness of arrears management and follow up process.

Recommendation

All tenant files should be updated on a timely basis to minimise the risk of documents being misplaced.

Management Comments

Accounts 524C/ are Lautoka accounts for which arrears follow up and other file comments are being undertaken and filed by the division, accounts 574E&G are Grantham road cases for sale of properties whereby rent arrears is added on to the sale price on offer

9.6 SALE OF FLATS AT GRANTHAM ROAD

The Board had targeted to complete the sale of Grantham road flats by 30 June 2006. However audit noted that certain delays were encountered and 19 flats were still available for sale at the end of 2006. In 2007, only two flats were sold.

The slow sale of the flats at Grantham road has an effect on the cash flow position of the Board and indicates that the Board in not vigorous in pursuing the sale of these flats.

Recommendation

The Board should develop appropriate strategies to quicken the process of selling the Grantham Road flats.

Management Comments

No Comments.

9.7 Fixed Assets Register

The Fixed Assets Register (FAR) was not updated on a monthly basis for the movements to fixed assets and as such errors were identified at balance date. Our review of the FAR revealed that assets disposed during the year were not updated on the register.

Audit noted that there was no regular reconciliation prepared between the FAR and the balance of fixed assets in the general ledger.

The lack of a regular reconciliation between the FAR and the general ledger may lead to fixed assets being misstated at balance date.

Furthermore, the FAR includes an amount of $81,886, which appears to be a reconciling item to allow the Fiji Assets Register to balance with the general ledger. The Board could not provide the details of this amount.

There is a risk of errors in this balance in the absence of a proper reconciliation.

Recommendations

- **The Board should consider reconciling the FAR to the general ledger on a regular basis. Any variances identified should be reconciled and resolved on a timely basis.**
- **In addition, the Board should consider conducting a physical stock take of its assets to ensure that all assets included the FAR physically exists.**
- **The Board should conduct a fixed asset count to ensure that all assets listed on the FAR exist and are accurately stated. The variance of $81,886 should be reconciled and adjustments, if any, should be made to the FAR and the general ledger.**

Management Comments

No Comments.

9.8 AMORTISATION OF DEFERRED REVENUE

The Board has been amortising $40,127 annually from prior years from the deferred income account. The balance of the deferred revenue is $765,592 as at 31 December 2007.

Audit noted that this relates to a grant received from the Government for construction of rental properties namely Kaukimoce, Newtown Stage 2 & 3, Kia Street flats and Raiwaqa 1997 project.. However, the Board does not detail breakdown by cost and is unable to identify these assets in the FAR.

With the lack of proper reconciliation, there is a risk that the amortisation of deferred income is not accurate. The amount amortised might not be in accordance with the requirements of the Fiji Accounting Standards (FAS 20) which states that the amount recognised in income should be consistent with the depreciation expense on these assets.

Recommendation

The Board should properly reconcile deferred income and identify all estates that were funded from the grants. This will ensure that the amortisation of deferred income is accurately calculated.

Management Comments

No Comments.

9.9 VALUATION OF PROPERTIES

The Board engaged an independent valuer, to carry out a valuation of its properties in October 2006 and the valuation report states that the current market value of the properties was approximately $35 million. This is significantly different to an independent valuation carried out in 2005 which showed a valuation of only $16 million. The written down value (WDV) of these assets in the books as at 31/12/07 was $7.2 million.

The Fiji Accounting Standard (FAS 16 (32)) states that if the market value differs materially from its carrying amount, a further revaluation is necessary. The valuation in 2006 differs materially from the carrying amount and the 2005 valuation. The Board has not taken up this adjustment in its books.

This issue was highlighted in the 2006 audit report. If the Board elects to recognise the market valuation in its books, it will significantly increase the value of its assets as well as the equity balance, which stood at negative $1.7million as at 31 December 2007.

Recommendation

The Board need to record its properties in accordance with FAS 16.

Management Comments

No Comments

9.10 REPAYMENT OF FNPF BOND

PRB had a $1.1 million convertible bond with FNPF which was guaranteed by the Government. Upon maturity, PRB defaulted payment and as a result the Government had to assume the payment of the bond to FNPF. The government demanded payment from PRB, however at the date of the audit, PRB has not made any payments to the Government. PRB still shows this liability in its books.

The issue was highlighted in the 2006 management letter.

Recommendation

The Board should prepare loan documents with the Government of Fiji and agree on a repayment schedule so that this debt can be settled.

Management Comments

The Board is not financially healthy to meet this repayment. Management had written and is liaising with the Government on how to deal with this issue.

MAJORITY OWNED COMPANIES

SECTION 10: FIJI HARDWOOD CORPORATION LIMITED

The Fiji Hardwood Corporation was established to administer the Government's hardwood plantations, located on Viti Levu and Vanua Levu, on commercial basis.

The principal activities of the company during the year ended 31 December 2005 were the business management of forest plantations, timber growers and the sale of trees and timber.

During 2005 financial year the company was also engaged in processing of logs into sawn timber. Apart from the above there were no significant changes in the nature of activities of the company during the year.

10.1 AUDIT OPINION

The audit of the financial statements of the Fiji Hardwood Corporation Limited for the year ended 31 December 2005 resulted in the issue of a qualified audit report. The qualifications are as follows.

- During the audit conduct, different versions of trial balance and financial statements were provided from time to time. Audit of these trial balances and financial statements resulted in processing of a number of adjustments.

- Therefore audit was unable to ascertain the accuracy and reliability of the books of account maintained for the year ended 31 December 2005.

- There were inappropriate entries made to Retained Earnings account and other accounts in the General Ledger for which there were no adequate supporting documents. Accuracy of the entries processed could not be ascertained.

- Certain creditor and accrued expenses balances were brought forward from the previous year for which full details, supporting documents and reconciliations were not available for review. During the year, certain entries were processed to clear balances brought forward from prior years and particularly adjustments under accruals for "landowner stumpage payable" and "land lease premium accrued".

Audit was therefore unable to ascertain the accuracy of the entries processed.

10.2 FINANCIAL INFORMATION

Table 10.1: Abridged Statement of Financial Performance

Year Ended 31 December	2005 $	2004 $
Revenue		
Sales	14,255,212	5,610,779
Other Income	149,670	406,265
Total Revenue	**14,404,882**	**6,,017,044**
Expenditure		
Cost of sales	8,546,840	2,449,475
Depreciation	521,319	107,460
Personnel Expense	1,697,993	1,199,828
Operating Expense	5,147,905	4,377,930
Total Expenditure	**15,914,057**	**8,134,693**
Profit/(Loss) from operations	(1,509,175)	(2,117,649)
Finance cost	555,558	(236,721)
Loss before tax	**(2,064,733)**	**(2,354,370)**
Income tax expense	-	-
Loss after tax	**(2,064,733)**	**(2,354,370)**

The Corporation's income is derived mostly from sale of trees and timber. Total income had increased by $8,387,838 or 139% in 2005 compared to 2004. Despite the increase, the corporation still recorded a loss of $2,064,733 in 2005 compared to a loss of $2,354,370 in 2004, arising mainly from the increases in cost of sales, depreciation and operating expenses.

Table 10.2: Abridged Statement of Financial Position

As at 31 December	2005 $	2004 $
Current Assets		
Cash and cash equivalents	139,118	35,824
Other current assets	5,189,600	3,782,397
Total current assets	**5,328,718**	**3,818,221**
Non – Current Assets	**167,009,488**	**162,090,988**
Total Assets	**172,338,206**	**165,909,209**
Current Liabilities	4,921,538	2,772,844
Non-Current Liabilities	11,481,609	5,136,573
Total Liabilities	**16,403,147**	**7,909,417**
Net Assets	155,935,059	157,999,792

As at 31 December	2005 $	2004 $
Total Equity	**155,935,059**	**157,999,792**

The Corporation's net assets had declined by $2,064,733 or 1% in 2005 compared to 2004. This was due to increase in liabilities by 107% in 2005 compared to 2004.

10.3 BOOKS OF ACCOUNT AND AUDIT ADJUSTMENTS

The following significant adjustments were proposed and processed in the trial balance:

Loss as per management accounts	$	**(1,435,751)**
Adjustment Entries:		
Adjustment for profit included in inventories for inter division transfers.		(253,630)
Net decrease in depreciation expense in Financial Statements		252,173
Repair and maintenance expenses wrongly capitalized in fixed assets		(13,532)
Sales not accounted due to a single bank account not considered in books		1,415
Bank charges now accounted for the missing bank account in the books		(60)
To account provision for doubtful debts for long outstanding debtors		(227,815)
Increase in amortization expense due to calculation error in the management accounts.		(438,950)
New replanting cost which was previously being expensed off now capitalized		129,795
Interest expense overbooked		57,371
Net Impact		(493,233)
Operating loss before tax after processed audit adjustments.	$	**(1,928,984)**

The above adjustments indicate that adequate year end reporting procedures were not performed, and there is a need for improvement in financial reporting processes.

Recommendation

Management should review its systems and processes for preparation of monthly and annual financial statements and implement the necessary corrective measures.

Management Comments

As the main corrective measure, a high level Chief Financial Officer was recruited at the end of 2006. Since the beginning of year 2007, the monthly financial statements are being prepared and controlled in a systematic manner. The financial statements and the details therein are reconciled, analysed and reviewed by the Management and the Board, on a monthly basis.

At the start of year 2005, the Finance Department had to undergo a number of changes within a span of two months; namely,
Absorbing new finance staff from the Fenning Pacific Group.
Changing the financial systems from the 'JADE' package to 'Excel' to the 'MYOB' package.
Splitting the Company's financials into Two Divisions.

This resulted in a few areas in the financial statements requiring further clarification during the audit stage.

These problems are not envisaged from the year 2007.

10.4 ACCOUNTING AND REPORTING SYSTEMS AND PROCEDURES

All requirements relating to the annual audit were not made available at the time of commencement of audit. Furthermore, the required information, details, explanations and clarifications were not readily available.

In particular, the provisioning assessments were not performed adequately, and there is a need to improve this area significantly.

Audit considered this to be very important in view of the problems faced during the current year's audit, and also considering the size and nature of the company's operations.

Furthermore, there is an urgent need to improve book keeping, reconciliation processes, accounting and finance functions and financial reporting.

Recommendation

The company should review its current accounting and reporting systems and procedures and implement necessary corrective measures to ensure accurate and timely finalization of annual financial statements for audit.

Management Comments

As the main corrective measure, a high level Chief Financial Officer was recruited at the end of 2006. Since the beginning of year 2007, the monthly financial statements are being prepared and controlled in a systematic manner. The financial statements and the details therein are reconciled, analysed and reviewed by the Management and the Board, on a monthly basis.

Since adequate reconciliations were not done in the past, it was difficult to obtain breakdown of the opening balances. The check list required by the auditors was complied with. However additional requirements were requested during the course of the audit, which had to be prepared and submitted at that time.

10.5 COMPLIANCE WITH FIJI ACCOUNTING STANDARD

All Fiji Accounting Standard (FAS) requirements were not fully complied with. Some examples of the standard requirements which have not been fully complied with are as follows.

FAS 24 – Related Party Transaction

As required by FAS 24 if there have been transactions between related parties, the reporting enterprise should disclose the nature of related party relationships as well as the types of transactions and elements of the transactions necessary for an understanding of financial statements.

FAS 17– Leases

For finance leases, future finance charges and future minimum lease payments are required to be disclosed.

In the course of audit, a number of additional disclosures were made to comply with the standard requirements.

Recommendation

Fiji Hardwood Corporation Limited should place more emphasis in complying with all the relevant standards applicable to the company.

Management Comments

FAS 24 was adequately complied with. The remarks above are incorrect. FAS 17 disclosure was inadequate, but was complied with thereafter.

10.6 LITIGATIONS CLAIMS

The following litigation cases are currently being pursued against the company:

Table 10.3: Litigation Cases

Case No.	Potential Losses
303/2002	Loss of mahogany Plantation on Vugalei plantation lease
271/2003	Loss of lease over NLC Lot 15.
552/2005	Loss of profits derived from logging on Koronovo leased land.

Whilst disclosures have been made as contingent liability, no provision has been made for the potential liability that may arise out of the above claims.

The standard practice requires assessment of each case by the management and directors together with historical trend on litigation settlements, and based on this, provision should be made for potential liabilities.

Recommendation

Progress of all litigation cases should be reviewed periodically and adequate provisions should be made by management.

Management Comments

Progress on litigation cases are reviewed monthly. Further, in the Management and Directors assessment, a provision for each case is not required, as it is unlikely that a liability will arise. Therefore, the above assessment by the auditors is incorrect, in this context.

10.7 FIXED ASSETS REGISTER

The company did not maintain a detailed fixed assets register for the manufacturing division. The current list of fixed assets which were purchased from Fenning Pacific shows totals for different asset categories.

Since it is difficult to identify individual asset, it will be more difficult in future to identify additions and disposals and to assign the correct depreciation rates to individual assets. By maintaining a detailed register, and updated regularly, it will be easier to keep an accurate record of total movements, balances and depreciation.

Recommendation

The company should create a fixed asset register providing individual asset with details.

Management Comments

The Company does have a detail Fixed Asset Register for all assets, except for those purchased from the Fenning Pacific Group.

The details for the assets purchased from the Fenning Pacific Group is yet unavailable with the Company. Over the years several attempts have been made to obtain the details, without success. This will continue to be pursued.

Other than the above, all fixed asset details and depreciation are updated on a monthly basis.

10.8 SALES RECONCILIATION

The following reconciling items were noted from a review of the sales reconciliations with VAT returns:

Table 10.4: Reconciling Items

Particulars	Amount ($)
Sundry sales	4,706
December sales invoices accounted in January 06 V/Return	63,000
Sales - AUD and USD account not considered in books	134,033
Firewood sales	8,245

These were included in the books of account but not disclosed in the VAT returns. Further, the Sales – AUD and USD account had not been accounted in the books by the management.

These were subsequently accounted while preparing the annual financial statements. Sales in the VAT returns were also overstated as shown below:

Table 10.5: Details of Overstated

Particulars	Amount ($)
Sales taken up twice in the VAT returns	5,765
Internal Sales of January taken into VAT Return	286,480
Other Sales not invoiced but taken to VAT return	9,152
Sales amount wrongly taken to VAT returns	42,641

In view of the above, the VAT payable was overstated.

Recommendations

- **Management must ensure that sales for each month are correctly recorded in the books of account and in the VAT returns.**

- **Management should have a system and control mechanism to ensure that all sales are recorded in the books of account accurately and on a timely basis.**

Management Comments

Currently, there are adequate controls on the recording of sales and the VAT is checked and reconciled against the general ledger, and signed off by Manager-General Accounts before lodgement is made.

10.9 VAT PAYABLE

Adjustment entry titled "prior year adjustments" relating to VAT on sales of $698,871 has been processed as prior year adjustments affecting "accumulated losses" with corresponding entry to VAT input account. Adequate documentation and details supporting this entry have not been made available to audit.

Further, creditors and accruals include adjustment relating to prior year VAT and penalties payable balance of $549,016. Full reconciliation and details relating to this have not been provided to audit.

Recommendations

- **VAT payable account should be scrutinized in detail and appropriate entries should be processed to ensure that the VAT payable balance is accurately stated in the company books of account.**

- **Further, the VAT payable balance as per the books of account should be fully reconciled with full details.**

Management Comments

A detail listing is now attached to the monthly VAT returns submitted to the FIRCA.

The above were relating to one off transactions and are not expected to be repeated.

10.10 FRINGE BENEFITS

Audit understands that the staff members of the company receive travel allowances and transportation facilities.

However, the value of this employee fringe benefits have not been considered for PAYE deductions. From a review of VAT returns, audit noted that VAT output on the benefits has not been accounted for.

As per the provisions of the Income Tax Act and Inland Revenue Guidelines, allowances given to employees are considered as additional emolument derived by the employee, and accordingly additional PAYE deductions are required to be made.

Also, where a registered person provides employee benefits, which are also liable to income tax there is a deemed taxable supply of the fringe benefit, and VAT output tax is payable. The taxable amount for income tax purposes, less any benefits provided which are zero-rated or exempt supplies for VAT purposes, is the deemed supply for VAT purposes

Audit advises that exclusion of the above from PAYE deductions and VAT exposes the company to additional taxes and penalties.

Recommendations

- **The company should comply with the provisions of the Income Tax Act and make additional PAYE deductions pertaining to all fringe benefits.**

- **The company should take appropriate corrective measures to account for VAT output on employee benefits such as motor vehicles.**

Management Comments

We have requested PriceWaterhouseCoopers to review the Payroll System and the benefits being processed therein, and forward their recommendations.

10.11 STOCK TAKE PROCEDURES

Detailed stock take instructions were not issued to the supervisors' in-charge of respective departments prior to commencement of physical counting of stocks.

Inadequate procedures:

- are likely to result in errors and inaccurate stock counting;
- may not provide management with useful information about the status of stock on hand, for example obsolescence and;
- are likely to be inefficient.

Further, no tags or marks were put on inventory items which had been counted. In addition, the stock sheets were not pre-numbered and the blank lines were not crossed off during the stock take. The potential consequence of this could lead to double counting or omission of inventory items.

Recommendations

- **Comprehensive stock take instructions should be issued for each stock take. These instructions should detail:**
  - **i count procedures, including a second count or check of all counts by an independent person**
  - **ii responsibilities**
  - **iii cut off details**
  - **iv time frame**

v recording of counts

- **Counted stock should be distinguished from uncounted stock by placing a sticker or marker. The stock sheets should be pre-numbered and blank lines crossed off.**

Management Comments

The Company has in place a comprehensive stock take procedure, which incorporates more than that suggested above. The pre-numbering of stock sheets will be implemented, as well.

10.12 CREDIT CONTROL PROCEDURES

Audit review of the year-end debtors balances revealed that a large percentage of year end debtors were long overdue. Credit control procedures in relation to recovery of overdue balances are not being adhered to by the company.

Poor collection of debtor balances contributes to cash flow difficulties and gives rise to high levels of working capital. Additional interest expense will be incurred as further borrowing become necessary to support the day to day cash flow requirements of the company. The absence of timely and effective credit control procedures increases the likelihood that the debtor balance will prove uncollectible.

Recommendations

- **Management should implement strict credit control procedures with a view to minimise the outstanding debtors balance at any point in time. The ageing and collection statistics should be included as part of monthly management reporting.**

- **Customers whose accounts are in excess of the agreed credit terms and are overdue should be reviewed periodically and necessary corrective action should be taken to ensure that money is collected as per the credit terms.**

Management Comments

From 2007, stringent credit control procedures are in place, which are closely monitored by Management and the Board of Directors.

All old debts are adequately provided for in the accounts since 2006, and the recovery of old debts is high on the agenda at the Board meetings.

10.13 DEBTORS CONFIRMATION

The following balances were disputed and were not verifiable since details and supporting documents were not made available by the company:

Table 10.6: Disputed Balances

Particulars	Amount ($)
Fiji Forest Industries Limited	13,098.51
Lumber Processors	19,747.79

Recommendations

The management keep adequate supporting documents for the balances in the books of accounts. This would ensure that in case of dispute, the company has adequate details and documents to support the claim.

Management Comments

Clearing of Trade Debtors is high on the list of priorities, and all disputes relating to transactions of previous years are being investigated in detail.

At present there are no disputes regarding current debtors and all details are available.

10.14 OTHER ASSETS

The following opening balances details were not made available:

Table 10.7: Opening Balances

Particulars	Amount ($)
Other Prepayments	72,717.89
Rent Prepaid	3,066.67
Security Deposit	21,955.42

The prepayments and rent prepaid were not reversed during the financial year. Further, in the absence of adequate detail, it would be difficult to obtain the refund of security deposits.

Recommendation

The company maintain complete record of all the balances. Further, the above should be reconciled and necessary adjustments processed in the books of accounts.

Management Comments

These are relating to opening balances brought forward from 2004. The reconciliations are being done and the details are being looked for, to clear these wherever possible.

10.15 PAYE CALCULATION

Audit observed that personnel files were not being updated with all updates on a regular basis.

Further, while calculating the taxable income of management staff, benefits provided to the staff members were not considered for PAYE tax calculations.

Recommendations

- **Payroll calculations should be checked by independent personnel. The management should ensure that all benefits are considered while calculating the taxable income and PAYE tax of the employees.**

- **The changes in the rates of pay, etc. should be properly authorised and adequately documented. A copy of all such updates should be kept in the personnel files.**

Management Comments

We have requested PriceWaterhouseCoopers to review the Payroll System and the benefits being processed therein, and forward their recommendations. We also have a HR Officer who is now responsible for updating the personnel files of all employees.

10.16 SALARIES, FNPF AND TPAF RECONCILIATION

From a review to salaries, FNPF and TPAF balances and related reconciliation, the following differences were noted:

Table 10.8: Details of Differences

Description	Differences ($)
Wages and salaries (between accounts and PAYE Annual Summary)	267,643.01
FNPF	40,445.89
TPAF	2,804.26

The above differences have not been reconciled by the management.

Recommendations

- **The management should reconcile wages and salaries as per books of accounts with PAYE**
- **Annual Summary and adjustments should be processed, if required.**

Management Comments

Currently the Payroll system is being studied and better controls are being, and will be, put in place during the year 2007.

10.17 RECONCILIATION OF ACCUMULATED LOSSES

From our review of accumulated losses, audit noted that the opening balance of accumulated losses as at 1 January 2005 as per the books of account did not agree to the closing accumulated losses as per the audited financial statements for the year ended 31 December 2004. There is an unexplained difference of $212,699. No reconciliation was provided for audit review.

Further, various adjustment entries as "prior year adjustments" have been processed during the year affecting accumulated losses with corresponding entries to various accounts such as creditors and accruals, VAT inputs, etc. These entries have been processed without adequate supporting documents and explanations.

The routine transactions such as reversal of unpresented cheques have been adjusted through the "accumulated losses" instead of specific affected accounts.

Recommendations

- **Proper roll forward procedures should be followed to ensure that correct balances are carried forward to the subsequent accounting period.**
- **Adjustments relating to prior year should be incorporated and disclosed in the Income Statement in accordance with FAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies".**
- **All adjustment entries should be processed with adequate supporting documents and explanations and after due authorization.**

Management Comments

At the start of year 2005, the Finance Department had to undergo a number of changes within a span of two months; namely,
Absorbing new finance staff from the Fenning Pacific Group.
Changing the financial systems from the 'JADE' package to 'Excel' to the 'MYOB' package.
Splitting the Company's financials into Two Divisions.

This resulted in a few areas in the financial statements, retained earnings in particular, requiring further clarification during the audit stage. The details for the $212,695 were given to the auditors at that time.

However, further checking and reconciliation is being done in an attempt to identify how the difference arose, whether the analysis is correct and the corrective action to be taken. In other words the retained earnings account is being re-looked from a different perspective. The Auditor General will be informed of the results, shortly, irrespective of whether the Company is able to clear the reconciliation or not.

All adjustment entries passed into the Retained Earnings Account, which is not of a fundamental nature, will be transferred to the Profit and Loss account for the year 2005. As a result the profit and loss account for the year of 2005 will change to take into account the transfers from the retained earnings account.

There will be only one adjustment entry relating to prior years, which has already been disclosed in the Income Statement in accordance with FAS 8, as per the draft Financial Statements submitted to Auditors.

SECTION 11: PACIFIC FISHING COMPANY LIMITED

Pacific Fishing Company Limited has been trading since 1987 and is owned principally by the Government of Fiji. The company is 98% owned by the government of the Fiji Islands with local investors owing the remaining 2%. The company is controlled by a non-executive board of directors headed by a non-executive chairman, all of them government appointees.

The Pacific Fishing Company Limited's core functions include thawing, butchery, racking, pre-cooking, side spraying, chilling, skinning, cleaning, plate freezing and canning of fish.

11.1 AUDIT OPINION

The audit of the financial statements of the Pacific Fishing Company Limited for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

11.2 FINANCIAL INFORMATION

Table 11.1: Abridged Statement of Financial Performance

Year Ended 31 December	2007 $	2006 $
Sales	21,750,241	26,435,625
Total Sales	**21,750,241**	**26,435,625**
Operating expenses		
Raw materials and consumables used	5,607,879	7,980,103
Distribution costs	342,760	490,248
Staff and employee benefits	5,346,334	5,858,270
Depreciation and amortization expense	2,024,769	2,362,373
Other operating expense	7,485,447	8,307,927
Total Expenditure	**20,807,189**	**24,998,921**
Profit from operations	**943,052**	**1,436,704**
Finance Costs	(420,953)	(435,426)
Operating profit before income tax	**522,099**	**1,001,278**
Income tax (expense)/ credit	(174,427)	(134,556)
Net Profit for the year after Income Tax	**347,672**	**866,722**

The company's net profit after income tax had declined significantly by $519,050 or 60% in 2007 compared to 2006. This is attributed to the decrease in sales of the company compared to 2006 by $4,685,384 or 18%, arising mainly from the decline in fish production and lost of canning contracts.

Table 11.2: Abridged Statement of Financial Position

As at 31 December	2007 $	2006 $
Current Assets		
Cash at bank and on hand	51,105	972,305
Receivables	4,527,443	4,840,161
Inventories	2,408,730	2,312,380
Other receivables	1,087,881	1,144,542
Total Current Assets	**8,075,159**	**9,269,388**
Non Current Assets		
Property, plant and equipment	22,025,485	22,603,746
Future income tax benefit	1,072,919	1,247,346
Total Non Current Assets	**23,098,404**	**23,851,092**
Total Assets	**31,173,563**	**33,120,480**
Current Liabilities		
Interest bearing borrowings	4,426,932	4,851,320
Other current liabilities	1,860,077	1,909,655
Total Current Liabilities	**6,287,009**	**6,760,975**
Non-Current Liabilities		
Interest bearing borrowings	934,871	2,203,136
Deferred income	6,426,492	6,683,850
Total Non Currents Liabilities	**7,361,363**	**8,886,986**
Total Liabilities	**13,648,372**	**15,647,961**
Net Assets	**17,525,191**	**17,472,519**
Share Capital	14,800,000	14,800,000
Retained Profits	2,725,191	2,672,519
Net Accumulated Fund	**17,525,191**	**17,472,519**

The company's net assets increased slightly by $52,672 or 0.3% in 2007 compared to 2006.

11.3 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The company obtained an independent valuation of its land, buildings, and plant and machinery in 2007. The independent valuation was conducted by a prominent independent valuer.

On comparison of the valuation report of the land and buildings with the written down values as at 31 December 2006, the valuation resulted in a de-valuation in the value of land and buildings amounting to $6,963,147. Audit further noted that the valuation of plant and machinery resulted in an increment in the value of plant and machinery amounting to $5,193,777.

On convergence to International Financial Reporting Standards (IFRS), the company has adopted deemed cost method of accounting for property, plant and equipment and accordingly the valuation amounts were not brought into the books of accounts.

However, the company then carried out an impairment assessment of the fixed assets based on audit initial observations and communications to the management in regards to the differences between the carrying value of fixed assets and values as per the valuation report. Audit understands that the company then engaged a consultant to determine the value of fixed assets based on "value in use" by applying discounted cash flow analysis. This analysis supported the carrying value of fixed assets. Based on the discounted cash flow analysis, no impairment losses have been booked by the company.

Recommendation

The company should continuously review its property, plant and equipment for indicators of impairment. Any impairment or potential impairment losses identified should be brought into the books of accounts. This will enable the company to be in compliance with IAS 16 – "Property, Plant and Equipment" and IAS 36 "Impairment of Assets".

Management Comment

Your comments are well noted and the company will continuously review its property, plant and equipment in compliance with IAS 16 – " Property, Plant and Equipment." And IAS 36 " Impairment of Assets." The company's submission of discounted cashflow and information showed that there were no impairment loss as at the balance date.

11.4 EMPLOYMENT BENEFITS AND VAT

From the review of the Annual PAYE Summary, audit noted that although fringe benefits provided to employees such as motor vehicles were included in the Annual PAYE Summary, the benefit value was not included in the VAT returns and no VAT liability was paid during the year.

Where a registered person provides employee benefits which are also liable to income tax, there is a deemed taxable supply of the fringe benefit and output tax is payable. The taxable amount for income tax purposes, less any benefits provided which are zero-rated or exempt supplies for VAT purposes, is the deemed supply for VAT purposes.

Recommendation

Appropriate corrective measures should be taken to account for VAT output on employees' benefits such as motor vehicles, free or partial free utilities, and other vatable benefits.

Management Comment

Your recommendation is noted and appropriate corrective measures have been taken to address the issue.

11.5 INTERNAL AUDIT

From the review of the internal audit reports provided for review, audit noted that the area covered during the year were as follows:

Table 11.3: Details of Areas Covered

Area	Period Covered
Payroll Process	1st & 3rd quarter 2007
Payments/ Information Technology process	1st quarter 2007
Local and international payments/ Petty cash	3rd quarter 2007
Reconciliation of gate sales and movement in inventory	3rd quarter 2007
Production process/ Inventory process	3rd quarter 2007
General ledger reconciliations/ Recruitment process	3rd quarter 2007
Visit 1 internal audit issues follow-up	3rd quarter 2007

From the review of internal audit reports for the financial year 2007, audit noted the following.

The periods covered for the internal audit was only for two quarters; 1 January 2007 to 31 March 2007 and 1 July 2007 to 30 September 2007.

Consideration should be given to extend the scope and coverage of internal audit function taking into consideration the activities of the company and nature of its business. More specifically, the internal audit function should ideally cover certain critical areas, such as revenue, fixed assets, value added tax, cash and cash at bank and other operational areas.

Recommendations

Audit considers the internal audit function as one of the important aspects of internal control mechanism for the senior management of the company. The internal audit function maybe useful in key operational and financial risk areas.

The internal audit function will strengthen the control mechanism for senior management to:

- **ensure adequate internal control;**
- **review the reliability of records;**
- **prevent and detect fraud;**
- **fulfil statutory duties where they exist;**
- **monitor the reporting procedures;**
- **enforce management decisions; and**
- **undertake value-for-money appraisal exercises.**

Audit further recommends that internal audit function should:

- **Enhance its scope to include all the accounting and finance areas more specifically to test the internal controls in relation to revenue and expenditure cycles thereby adding greater benefit to the business.**

- **Suggest improvements in the existing systems and internal control procedures and follow up on the recommendations made in the external audit reports.**

Management Comment

The recommendations are fully noted and the company has its own internal audit controls and functions in house and to ensure further compliance and controls we have outsourced internal auditors to do periodic audits for the adequacy and reliability of the controls set in place and further enhancement as well.

11.6 LAND TITLES

Audit understands that in relation to the Crown leasehold land, the development lease agreement entered by the company and Director for Lands and Survey General has expired. The development lease agreement was not renewed during the year. In the absence of the renewal, it is difficult to precisely ascertain the legal rights and obligations of the company with respect to the lease.

Due to this the company may not be able to commence any development work on the leasehold land or exercise its rights.

Recommendation

Steps should be taken immediately to obtain the renewal of the lease.

Management Comment

Your recommendation is noted and it has also been a concern for the company. The application for the renewal of leases has already been lodged with the Lands Department awaiting approval and issue of new leases. The delay in the Lands Department in renewing the leases has also impacted on the land valuation.