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, Off-Budget State Entities – December 2010

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REPUBLIC OF FIJI

OFFICE OF THE AUDITOR GENERAL

8th Floor, Ratu Sukuna House,
MacArthur Street,
P. O. Box 2214,
Government Buildings,
Suva, Fiji Islands.

Telephone: (679) 330 9032
Fax: (679) 330 3812
Email: info@auditorgeneral.gov.fj
Website: http://www.oag.gov.fj

File: 102

1st December 2010

Commodore Josaia V. Bainimarama
Prime Minister and Minister for Finance
Office of the Prime Minister
Government Buildings
SUVA

Dear Sir

REPORT OF THE AUDITOR GENERAL

Audit of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities and Off-Budget State Entities– December 2010

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 2010

Tevita Bolanavanua
Auditor - General

AUDITOR--GENERAL
FIJI

Government Commercial Companies, Commercial Statutory Authorities & Off Budget State Entities

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1. Capital Markets Development Authority
2. Fiji Public Trustee Corporation Limited
3. Unit Trust of Fiji (Management) Limited
4. Pacific Fishing Company Limited
5. Public Rental Board
6. Fiji Meat Industry Board

SECTION 1: CAPITAL MARKETS DEVELOPMENT AUTHORITY

The Capital Market Development Authority (CMDA) was established in accordance with the provisions of the CMDA Act 1996 and became fully operational in January 1998. The CMDA is an Off Budget State Entity. In carrying out its statutory function, CMDA undertakes the following responsibilities:

- to facilitate the supply of good marketable debt and equity securities;
- to undertake appropriate educational and public awareness campaigns to broaden the public ownership of debt and equity securities;
- to facilitate the development of appropriate institutional infrastructure and human resource capabilities required of active capital markets;
- to licence market participants as specified within the CMDA Act and Regulations;
- to protect investors by ensuring the maintenance of fair and honest markets through the adequate supervision of market participants and enforcement of the legislation where appropriate;
- to promote enhanced disclosure requirements;
- to collect statistics to monitor and analyse the prevailing conditions in the capital markets, within the context of the whole financial system;
- to formulate policy and advise Government on capital markets development and regulation; and
- to ensure that CMDA has appropriately qualified staff and other resources to enable it to fulfil its objectives in a timely and cost effective manner, whilst maintaining high standards.

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PART A – FINANCIAL INFORMATION

1.1 Audit Opinion - 2009

The audit of the financial statements of the Capital Markets Development Authority for the period 1 January 2009 to 13 August 2009 resulted in the issue of an unqualified audit report.

1.2 Abridged Income Statement

Items	2009 13 August $	2008 31 December $
Income		
Amount transferred from deferred income	592,935	611,461
License fees	4,746	11,444
Workshop/seminar and other income	12,953	33,693

Items	2009 13 August $	2008 31 December $
Total Income	**610,634**	**656,598**
Expenses		
Advertising	66	6,379
Audit and accounting fees	789	4,500
Bank charges	593	1,296
Depreciation	9,840	18,962
Electricity	4,279	6,235
FNPF and TPAF	25,947	30,200
Insurance	13,278	13,033
Legal / consultancy fees	28,262	3,601
Library	1,016	645
Members fees	9,092	10,745
Members expenses	1,987	1,105
Motor vehicle	826	2,266
Printing of Annual Report	11,604	9,813
Stationery	5,071	4,133
Postage and courier	---	1,011
Public awareness program	70,987	28,097
Workshops	42,388	15,371
Rent	27,418	41,126
Repair and maintenance	662	492
Salaries and wages	295,546	375,394
Sundry	6,530	13,789
Telephone and fax	3,694	6,312
Training	47,246	62,093
Uniform	3,513	---
Total Expenses	**610,634**	**656,598**
Result for the year from Ordinary Activities	**---**	**---**

The Authority's income and expenditure covered the period 1 January to 13 August 2009 as the Reserve Bank of Fiji has now taken over this activity.

1.3 Abridged Balance Sheet

Items	2009 13 August $	2008 31 December $
Current Assets		
Cash on hand and at bank	424,367	465,932
Cash at bank held in Trust	795	3,254
Deposits and prepayments	14,996	24,457
Accrued levies	948	2,530
Other receivables	10,227	18,734

Items	2009 13 August $	2008 31 December $
Financial assets	211,625	159,114
Total current assets	**662,958**	**674,021**
Non-Current Assets		
Plant and equipment	88,923	95,379
Total Non – Current Assets	**88,923**	**95,379**
Total Assets	**751,881**	**769,400**
Current Liabilities		
Creditors and accruals	260,649	235,441
Income in advance	---	167
Provision	23,794	12,395
Deferred income	421,643	474,312
Total current liabilities	**706,086**	**722,315**
Non – Current Liabilities		
Deferred income	45,795	45,795
Other Long Term Liabilities	---	1,290
Total Non – Current Liabilities	**45,795**	**47,085**
Total Liabilities	**751,881**	**769,400**
Net Assets	**---**	**---**

The total assets and total liabilities decline in 2009 when compared to 2008 due to the change in the reporting period in 2009 of only until 13 August 2009. The operation of CDMA has now been taken over by the Reserve bank of Fiji.

SECTION 2: FIJI PUBLIC TRUSTEE CORPORATION LIMITED

The Fiji Public Trustee Corporation Limited was established through the Fiji Public Trustee Corporation Act 2006. The principal activity of the corporation is to act as a custodian and provide administrative services to estates of those persons who are deceased, of unsound mind or persons incapable of conducting their own affairs.

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PART A – FINANCIAL INFORMATION

2.1 Audit Opinion - 2009

The audit of the financial statements of the Fiji Public Trustee Corporation Ltd for the years ended 31 December 2009 resulted in the issue of unqualified audit report.

2.2 Abridged Income Statement

Year Ended 31 December	2009 $' 000	2008 $' 000
Revenue		
Fees	785	548
Interest Income	768	619
Other Revenue	39	50
Total Revenue	**1,592**	**1,217**
Expenditure		
General and Administration Expenses	260	360
Staff and Employee Expenses	478	474
Other Expenses	5	5
Total Expenditure	**743**	**839**
Operating profit Before Income Tax	**849**	**378**
Income Tax Expense	(246)	(115)
Net Operating Profit After Tax	**603**	**263**

The Corporation recorded a net operating profit after tax of $602,763, which is a significant increase of $339,220 or 129% from the net profit recorded in 2008. The high profit earned in 2009 was mainly due to increase in revenue from fees and interest and the decrease in general and administration expenses.

2.3 Abridged Balance Sheet

As at 31 December	2009 $' 000	2008 $' 000
Current Assets		
Cash and cash equivalents	148	55
Trade and other receivables	2,292	2,416
Other current assets	51	32
Total Current Assets	**2,491**	**2,503**
Non Current Assets		
Financial assets	8,115	7,865
Property, plant & Equipment	135	154
Other non-current assets	90	114
Total Non Current assets	**8,340**	**8,133**
Total Assets	**10,831**	**10,636**
Current Liabilities		
Deferred Revenue	140	173
Trade & other payables	698	919
Provisions	295	453
Total Liabilities	**1,133**	**1,545**
Net Assets	**9,698**	**9,091**
Total Shareholder's Equity	**9,698**	**9,091**

The Corporation's net assets position was strengthened by $607,142 or 7% in 2009 compared to 2008. The increase in net assets was due to an increase in cash and financial investments in 2009.

2.4 Audit Opinion - 2008

The audit of the financial statements of the Fiji Public Trustee Corporation Ltd for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

2.5 Abridged Income Statement

Year Ended 31 December	2008 $' 000	2007 $' 000
Revenue		
Fees	548	399
Interest Income	619	766
Other Revenue	50	58
Total Revenue	**1,217**	**1,223**
Expenditure		
General and Administration Expenses	365	231

Year Ended 31 December	2008 $' 000	2007 $' 000
Staff and Employee Expenses	474	486
Total Expenditure	**839**	**717**
Operating profit Before Income Tax	**378**	**506**
Income Tax Expense	115	157
Net Operating Profit After Tax	**263**	**349**

The Corporation recorded a net operating profit after tax of $263,543, which is a decrease of $85,776 or 25% from the profit earned in 2007. The decrease in net operating profit was mainly due to increase in administrative expenses.

2.6 Abridged Balance Sheet

As at 31 December	2008 $' 000	2007 $' 000
Current Assets		
Cash and cash equivalents	55	424
Trade and other receivables	2,416	1,492
Other current assets	32	23
Total Current Assets	**2,503**	**1,939**
Non Current Assets		
Financial assets	7,865	7,865
Property, plant & Equipment	155	230
Other non-current assets	114	16
Total Non Current assets	**8,134**	**8,111**
Total Assets	**10,637**	**10,050**
Current Liabilities		
Deferred Revenue	173	218
Trade & other payables	919	683
Provisions	453	323
Total Current Liabilities	**1,545**	**1,224**
Net Assets	**9,092**	**8,826**
Total Shareholder's Equity	**9,092**	**8,826**

The Corporation's net asset position slightly improved by 3% or $264,992 in 2008 compared to 2007. The increase in net assets was due to an increase in trade and other receivables and intangible assets.

PART B – CONTROL ISSUES

2.7 Accounting Depreciation Rates to be Reviewed

Our review of the Corporation's accounting depreciation schedule highlighted that rates used to depreciate assets over their economic useful life are currently the same as the tax depreciation rates. Consequently there is no timing difference being recognized between the accounting base and the tax base of fixed assets.

There is a risk that the tax rates do not accurately reflect the wear and tear of the Corporation's fixed assets over their economic useful lives.

Recommendation

The Corporation should review the depreciation rates currently used to ensure they are appropriate.

Management Comments

No comments received.

2.8 Individually Held Investments to be Restated to Market Value

The Trust holds a substantial portion of its investments amounting to $328,000 in individual funds such as Unit Trust of Fiji, Fijian Holdings Unit Trust, ANZ and Colonial National Bank. These funds have been classified at fair value through profit and loss for the purposes of the financial statements.

However, from our review of confirmations received for the respective investments, it was noted that the investments were still being recorded at cost in the Trust's general ledger.

The measurement of individually held investments is not in accordance with the prescribed treatment under IAS 39 – Financial Instruments: Recognition and Measurement which requires financial assets classified as fair value through profit and loss to be recorded in the books of an entity at market value on balance date. As such, the balance in the Trust's general ledger may be misstated.

Recommendation

Going forward, the Corporation must ensure that these investments are marked to market values in the books of the Trust.

Management Comments

No comments received.

2.9 Non-Cash Assets for the Trust

Our review of the Trust's Fixed Asset Register highlighted a number of properties (estates) valued at $3,991,694 as at 31 December 2009 as held by the Corporation and administered on behalf of beneficiaries.

The audit noted that the estates were recorded at cost in the books of the Trust and have not been revalued for some time.

There is a risk that the book values of these estates have been understated in the general ledger compared to their respective going market prices.

In addition, it was also noted that rent received from these estates is administered primarily on a cash basis. As such there is no record of rental arrears owing by defaulting tenants. Rent receivable in the general ledger is potentially understated.

Recommendations

- **The Corporation should consider conducting market valuations for the properties and restating the book values in the Trust's general ledger.**
- **The Corporation should ensure that rental arrears are recorded and accrued for on a monthly basis in the Trust's general ledger**

Management Comments

No comments received.

2.10 Investment Policy

An investment policy provides guidelines on the investment activities the Corporation should be undertaking to ensure that robust and prudent investment decisions are made in the interest of the Corporation.

The audit noted that the Corporation does not have a documented investment policy.

In consideration of the significant level of investments held by the Corporation and the Trust, it is critical to have a formalized investment policy. Without a proper investment policy, poor investment decisions could be made by the Corporation that may result in losses to the Corporation.

Recommendation

The Corporation should consider developing and implementing an effective and prudent investment policy to regulate its investment activities.

Management Comments

No comments received.

2.11 Internal Audit and Enterprise Risk Management (ERM) Function

The Corporation does not have an internal audit and Enterprise Risk Management function in place.

Internal audit is an effective tool designed to improve the operations of the Corporation. It assists an organization accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Furthermore, Enterprise Risk Management (ERM) involves the identification, measurement and control of the key risks that impact the financial affairs and operations of the Corporation.

Without an internal audit function, non compliance with the Corporation's policies may not be brought to the attention of management on a timely basis. In addition, areas where effectiveness and efficiency in business, operational and financial processes could be improved may not be highlighted.

Furthermore, not having an ERM platform could result in management not being fully aware of all risks impacting the Corporation financially and on its operation.

Recommendation

The Corporation should consider establishing an internal audit function and formulate policies to regulate risk management.

Management Comments

No comments received.

2.12 Review and Maintenance of Accounting Records

The journal voucher is a fundamental and important accounting record that ensures a proper audit trail. It is vital to have appropriate documents supporting the journal vouchers.

From our review of journal vouchers, we noted that the journals were not supported by appropriate documentation. Without proper supporting documents, errors from journal entries processed in the general ledger may not be detected.

It was also noted that bank reconciliations prepared on a monthly basis were not reviewed. There were no evidences to indicate that bank reconciliations were checked by a senior officer.

Without proper review of the bank reconciliations, errors, anomalies and irregular activities occurring may not be detected.

Recommendations

- **Journals should be supported with appropriate documents and checked by a senior officer before processing the journals in the general ledger.**
- **The Corporation should ensure the bank reconciliations are reviewed and signed off on a monthly basis by a senior officer. Reconciling items should be investigated and cleared on a timely basis.**

Management Comments

No comments received.

SECTION 3: 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.

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PART A – FINANCIAL INFORMATION

3.1 Audit Opinion - 2009

The audit of the financial statements of the Unit Trust of Fiji (Management) Limited for the year ended 30 September 2009 resulted in the issue of an unqualified audit report.

3.2 Abridged Statement of Financial Performance

Year Ended 30 September	2009 $	2008 $
Revenue		
Operating Revenue	1,452,844	1,538,312
Other Operating Income	11,208	7,665
Total Operating Revenue	**1,464,052**	**1,545,977**
Expenditures		
Personnel Expenses	426,821	465,858
Other Operating Expenses	1,237,470	634,811
Depreciation	78,099	76,032

Year Ended 30 September	2009 $	2008 $
Total Operating Expenditure	**1,742,390**	**1,176,701**
Profit before Income Tax	(278,338)	369,276
Income tax expenses	(1,815)	132,898
Net profit (loss)for the year	**(280,153)**	**236,378**

The UTOF recorded a net loss of $280,153 in 2009 compared to a net profit of $236,378 in 2008. This was the result of increase in operating expenditure by $565,689. Operating revenue also declined by $81,925.

3.3 Abridged Statement of Financial Position

As at 31 December	2009 ($)	2008 ($)
Current assets		
Cash at bank and on hand	32,800	5,479
Investment – held to maturity	51,105	49,073
Receivables	774,665	3,879,057
Income tax refundable	19,599	
Total current assets	**878,169**	**3,933,609**
Noncurrent assets		
Plant and equipment	241,301	273,055
Total noncurrent assets	**241,301**	**273,055**
Total assets	**1,119,470**	**4,206,664**
Current liabilities		
Bank overdraft	33,405	1,378,771
Creditors and accruals	351,118	1,615,150
Provision for income tax	-	83,317
Total current liabilities	**384,523**	**3,077,238**
Non current liabilities		
Deferred income tax liability	8,762	8,261
Total non current liabilities	**8,762**	**8,261**
Total liabilities	**393,285**	**3,085,499**
Net assets	**726,185**	**1,121,165**
Shareholders' equity		
Share capital	50,000	50,000
Retained earnings	676,185	1,071,165
Total shareholders' equity	**726,185**	**1,121,165**

The decrease in net assets by $394,480 or 35% in 2009 compared to 2008 was attributed mainly to decreases in current assets by 77%.

PART B – CONTROL ISSUES

3.4 Bank Reconciliation

The accounts staff shall ensure that bank reconciliation is prepared at the end of each month, details of unpresented cheques and other reconciling items should be attached to the reconciliation statement. Once the bank reconciliation is prepared, it should be signed and dated by the supervisor and submitted to the Financial Controller who must check the accuracy of the balances in the bank reconciliation before certifying it.

Audit noted that the process and procedures surrounding bank reconciliation are considered weak and open to irregularities. The following irregularities were noted during the audit:

- Reconciling items had not been cleared on a timely basis. Some of these reconciling items are dated back to 2005.
- Unpresented cheque totalling $34,340 had not been recorded in the bank reconciliation as at balance date.
- Lodgements not credited had been incorrectly classified as unpresented cheques. We note that this amount was not material.
- There was no evidence of sign off on the bank report indicating daily banking.

Absence of a proper reconciliation function could result in errors and irregularities remaining undetected.

Furthermore, reconciling items may relate to errors in the bank reconciliations which may remain undetected if not cleared on a timely basis.

Recommendations

- **Management should ensure that proper reconciliations are prepared and reviewed on a timely basis.**
- **Furthermore, management should actively investigate and clear long outstanding items.**

Management Comments

- *The unpresented cheques totalling to $34,340 were recorded as stale cheques in error by the then officer in charge. The error was identified by the Management Accountant and the entry was reversed to creditors to correctly reflect the unpresented cheques.*

- *It was also noted by management that the officer in charge preparing the bank reconciliation statements was not fully versed with the preparation of the bank reconciliation statements. As a result, the Management Accountant took over the task of preparation of the bank reconciliation statements from the beginning of this year and the Graduate Accountant has now also been trained to prepare bank reconciliation statements and this task will progressively shift to the Graduate Accountant. This will allow the Management Account to oversee the preparation of the bank reconciliation statements which will be further checked by the Senior Accountant before being certified by the Financial Controller.*

- *In the past the practice has been that banking reports were signed off on a daily basis, however, this was not being followed in some instances. There have been some changes in the reporting structure and banking* *report is checked and approved by the Senior Accountant and the Financial Controller respectively at the end of each day. Any delays in banking are well documented and signed off on the banking report itself and all sales monies kept in the vault overnight and deposited the next morning.*

- *The reconciling items mostly relate to operating receipts which are not material amounts, however, we agree that some of these have not been cleared in a timely manner and as a result it becomes difficult to reconcile these items later. The accounts team is reconciling these old reconciling items and these will be cleared off the books in the current financial year. As a way forward, the accounts team ensures that any such reconciling items are cleared latest by the end of every fortnightly reporting period so that we do not carry these reconciling items over to the bank reconciliation statement for the next fortnight.*

3.5 Fixed Asset Register Not Updated

The accounts staff shall be responsible for maintaining the fixed assets register and ensure that it is kept updated.

Audit of the Fixed Asset Register (FAR) noted the following variances in the opening cost of assets between the FAR and the signed accounts:

Asset	As per FAR $	As per Audit $	Variance $
Furniture & fittings	220,995	223,035	(2,040)
Motor vehicle	130,645	180,545	(49,900)
Total	351,640	403,580	(51,940)

The variances were due to the FAR not being updated accurately and on a timely basis.

The lack of proper update of the FAR could result in assets not being correctly reflected in the financial statements. Furthermore, the lack of proper records on fixed assets could lead to the assets being subject to theft and misuse.

Recommendation

Management should ensure that the Fixed Asset Register is thoroughly and properly reviewed to ensure that it is complete and accurate in all aspects.

Management Comments

- *It is acknowledged that the fixed assets register is not updated in a timely manner which can lead to inaccurate reporting of the property plant and equipment. However, we are currently in the process of reconciling the fixed assets register and updating it since there has been a lot of movement of property plant and equipment following relocation of the customer service office and closure of the Lautoka office during the current financial year.*

- *The accounts team is currently updating and reconciling the fixed assets register the task should be complete by December 2010. Once the fixed asset register is updated and reconciled, the accounts team will have to ensure that every movement in the fixed assets is recorded on the fixed asset register immediately so as to avoid any discrepancies and/or variances.*

- *Going forward, the Risk & Compliance Officer will also conduct 6 monthly audits on the fixed assets register to ensure its accuracy and completeness. There will also be surprise spot checks from time to time to ensure that fixed assets register has been updated in a timely manner.*

SECTION 4: PACIFIC FISHING COMPANY LIMITED

Pacific Fishing Company Limited (PAFCO) 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 owning the remaining 2%. The company is controlled by board of directors appointed by the Government.

The principal activity of the company is processing and canning fish for local and overseas markets.

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PART A – FINANCIAL INFORMATION

4.1 Audit Opinion - 2009

The audit of the financial statements of the Pacific Fishing Company Limited for the year ended 31 December 2009 resulted in the issue of an unqualified audit report.

4.2 Abridged Income Statement

Items	2009 $'000	2008 $'000
Sales	29,531	20,752
Other Income	1,120	920
Total Revenue	**30,651**	**21,672**
Cost of Production	26,564	20,462
Finance costs	314	395
Administration expense	1,070	830
Total Expenditure	**27,948**	**21,687**
Operating (loss)/profit before income tax	**2,703**	**(15)**
Income tax benefit/(expense)	418	(190)
Net (loss)/ Profit for the year after Income Tax	**3,121**	**(205)**

The company recorded a net profit of $3,121,873, which is a significant increase of $3,326,580 from the loss incurred in 2008. Total revenue increased by 41% which contributed to the increase in profit of the Company.

4.3 Abridged Balance Sheet

As at 31 December	2009 $'000	2008 $'000
Current Assets		
Cash at bank and on hand	10	101
Trade receivables	3,592	2,891
Inventories	3,549	4,946
Other receivables	2,095	1,437
Total Current Assets	**9,246**	**9,375**
Non Current Assets		
Property, plant and equipment	21,950	21,898
Deferred tax asset	1,318	883
Total Non Current Assets	**23,268**	**22,781**
Total Assets	**32,514**	**32,156**
Current Liabilities		
Interest bearing borrowings	3,906	5,759
Trade and other payables	2,609	2,692
Provisions	74	86
Total Current Liabilities	**6,589**	**8,537**
Non-Current Liabilities		
Interest bearing borrowings	-	129
Deferred income	5,912	6,169
Deferred tax liability	16	-
Total Non Currents Liabilities	**5,928**	**6,298**
Total Liabilities	**12,517**	**14,835**
Net Assets	**19,997**	**17,321**
Total Shareholder's Equity		
Share Capital	14,800	14,800
Retained earnings	5,197	2,521
	19,997	**17,321**

The company's net asset position was strengthened by $2,676,873 or 15% in 2009 compared to 2008. The increase in net assets was caused by the decrease in interest bearing loans and borrowings.

SECTION 5: PUBLIC RENTAL BOARD

The Public Rental Board (PRB) was established under the Housing (Amendment) Decree No 12 in 1989 to take-over and manages 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.

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PART A – FINANCIAL INFORMATION

5.1 Audit Opinion -2009

The audit of the financial statements of the Public Rental Board for the year ended 31 December 2009 resulted in an issue of an unqualified independent audit report.

5.2 Abridged Statement of Financial Performance

Year ended 31 December	2009 $	2008 $
Rental Revenue	2,316,585	2,357,782
Operating Income	2,271,218	2,495,134
Total Operating Income	**4,587,803**	**4,852,916**

Year ended 31 December	2009 $	2008 $
Depreciation	391,074	357,084
Staff Costs	1,003,703	749,298
Other Operating Expenses	1,627,961	1,572,464
Net Financing Costs	269,958	323,560
Total Expenses	**3,292,696**	**3,002,406**
Net Profit for the Year	**1,295,107**	**1,850,510**

Net profit declined by $555,403 (30%) in 2009 compared to 2008 due to decrease in operating income by $265,113 (5.4%) and an increase in expenditures by $290,290 (9.6%). Expenses also increased by $290,290 in 2009 compared to 2008.

5.3 Abridged Statement of Financial Position

As at 31 December	2009 $	2008 $
Assets		
Cash	435,722	664,878
Investments	1,571,000	3,071,000
Other Assets	181,173	193,429
Property, Plant & Equipment	7,288,806	6,861,740
Total Assets	**9,476,701**	**10,791,047**
Liabilities		
Creditors	1,745,138	1,816,367
Deferred Revenue	630,792	1,151,443
Borrowings	5,377,981	7,511,786
Employee Entitlement	220,641	104,409
Total Liabilities	**7,974,552**	**10,584,005**
Net Assets	**1,502,149**	**207,042**
Total Equity	**1,502,149**	**207,042**

There has been a significant improvement in the Board's financial position. This is due to the significant reduction by 25% in the Board's liabilities in 2009 compared to 2008. There were declines in creditors and deferred revenue by 4% and 45% respectively.

Also the term loans owing to Housing Authority but ultimately to the Fiji National Provident Fund (FNPF guaranteed by the Government under the Public Rental Board loan Guarantee decree No. 9 (1990 has significantly reduced by $2,133,805 (28%) in 2009 compared to 2008.

PART B – CONTROL ISSUES

5.4 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 where the arrears have been carried forward for over a number of years.

Our review of certain tenant files revealed the lack of action taken by the Board to effectively recover the long outstanding arrears.

With the increasing arrears balance on a number of tenant accounts, this could result in increase bad debts write-offs and losses to the Board. In addition, non collection of debts has an adverse impact on the cash flow position of the organisation.

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 also consider allocating more resources to strengthen the management and collection of arrears.**

Management Comments

- *All efforts are in place to reduce these arrears through monitoring, follow up and payment arrangements*
- *Management has implemented an arrears recovery action plan which has controlled the arrears as yet and will be enforced in future.*
- *Follow up on every account in arrears is done on monthly basis in all divisions*
- *Write offs are only done on vacated tenants for whom PRB has exhausted all the process of recovery and still remain unrecoverable*
- *More staff personnel have been deployed in areas of tenancy management, customer applications scrutiny, capacity building and recovery process.*
- *If there are specific accounts not followed up please let us know*

5.5 Increases in Tenants Credit Balances

The tenant accounts with credit balances continue to increase over the years. The balance over the past three financial years is as follows:

Descriptions	2007 $	2008 $	2009 $
Tenants in credit balance	**468,207**	**547,140**	**612,936**

We understand that this mainly comprises of overpayments of rentals by tenants and/or allocation of rental subsidies to tenants who were paying higher than the minimum required amount of rent.

There is no proper reconciliation maintained to identify the amount that relates to rental subsidy and the amount relating to genuine refunds owing to tenants. Tenant accounts are only reconciled when a tenant either vacates or the property is sold off.

The increase in the credit balances of tenants' account increases the liability of the Board to tenants. This could have a significant impact on the Board's cash flow if tenants were to make a run for their refunds.

Recommendations

- **The reconciliation of tenant accounts with credit balances should be done on a regular basis and necessary adjustments/actions taken where justified.**
- **The reconciliation for the tenants in credit balance should be properly carried out for each tenant in this category to identify the genuine refunds and portion relating to Government subsidy.**
- **A formal policy should be developed to address the tenants balance in credit on a timely basis**.

Management's Comment

- *There is also a Board policy to have at least one month's rent in advance for all tenants*
- *Tenant credit balances are clearly specified in reconciliations whether it is as a result of rental subsidy or through genuine credit by tenants. Audit team were made aware of this fact.*
- *Reconciliations are done when tenants vacate or when they request for a refund.*
- *The Board has approved new subsidy allocation criteria and tenants will be required to pay only their percentage contribution balance being paid via subsidy grant. This is expected to reduce the credit balances and off set with increase in rental.*
- *An "Aged Credit Balance" report was developed in June 2010 following the same comments made in 2008 audit.*

5.6 Working Capital Deficiency

We noted that there is a working capital deficiency of $3,290,710 as at 31 December 2009.

This is largely attributed to the significant level of borrowings amounting to $3,421,320 and trade payables and accruals of $1,745,138. This implies that the current assets expected to be liquidated within twelve months cannot meet the debts due within the same period.

Having a negative working capital position poses cash flow risk to the Board as it may not have sufficient funds to finance its short term commitments.

Recommendations

- **A review of the Board's operations should be undertaken to ascertain the level of support required by Government and to develop a strategy for reducing its borrowings**

- **The Board should also consider strengthening its policy over cash flow management and this should be monitored on a regular basis**.

Management's Comment

Comments are accepted. It is to be noted that PRB had paid off $1 million promissory notes in August 2010. However, numerous attempts have been made with the Government (past and present) to write off the inherited debts. The current portion of these debts is reported in working capital as current liabilities hence distorting the working capital efficiency. Efforts are made in order to manage the cash flow and Management feels that it is managed well thus far despite the short comings from Government subsidies.

5.7 Amortisation of Deferred Income

The balance of the deferred revenue as at 31 December 2009 amounted to $630,792. This relates to grants received from the Government for the construction of various rental properties located at Kaukimoce, Newtown Stage 2 & 3, Kia Street flats and Raiwaqa in 1997, community hall at Vakatora in 2005, Vunimoli and Natokowaqa in 2008 and Kalabu in 2009.

It is a requirement under the International Accounting Standard, IAS 20 on *"Accounting for Government Grants and Disclosure of Government Assistance"* that government grants shall be recognised as income over the periods necessary to match them with the related cost of the properties.

However, the Board does not maintain a proper reconciliation of the properties to ensure that the amount recognised as income accurately matches to their related costs.

We note that the Board has been amortising $43,000 annually from prior years from the deferred revenue account. However, we were not able to verify whether the same amount has been recognised as depreciation expense.

With the lack of proper reconciliation, there is a risk that the amortisation of deferred income does not accurately match the related costs recognised in the Statement of Financial Performance for 2009. This also indicates that the Board may not be complying with the requirements of IAS 20.

Recommendation

The Board should prepare a detailed schedule of each assets funded by the government grants that forms part of deferred income. This will allow the Board to accurately match the amortisation of deferred income with their related costs transferred to the Statement of Financial Performance

Management's Comment

- *Comments are accepted.*
- *The Board will prepare detailed schedule of all asset funded via Government grant reported in deferred income account.*
- *The Board will change any accounting policy where appropriate to report the income over the periods necessary to match with the related cost (depreciation expense)*

5.8 Access rights over the payroll system to be restricted

We note that the General Manager, the Department Managers and Supervisors all have access to view and modify data on the payroll system.

This raises a risk of unauthorised or illegitimate amendments being made to the data on the payroll system. This access rights allows management to override the key IT controls over the payroll system.

This is a very dangerous practice as errors/omissions or tampering could occur and if they are not detected on time, it could ultimately result in financial losses to the Board.

Recommendation

The Board should consider restricting the access rights on the payroll system to minimise the risk of unauthorised amendments of payroll data.

Management's Comment

The Board will further improve and restrict access rights as recommended.

5.9 Employee benefits not in accordance with IFRS

We note that the recognition of the liability for long service leave is not in accordance with the requirements of IAS 19 which forms part of the International Financial Reporting Standards ("IFRS").

IFRS requires that liability for long service leave be calculated and accrued for in respect of all applicable employees**.** The expected future payments for long service leave should be discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The Board is not compliant with the IFRS requirements in relation to the recognition and disclosure of liability for long service leave.

The liability for long service leave could also be understated at financial year end.

Recommendation

Management should ensure that liability for long service calculations are performed in accordance with the requirements of IFRS. The calculations should be performed on a regular basis with the appropriate adjustments effected in the general ledger.

Management's Comment

- *The Board feels that requirements as per IAS 19 is being practised during recognition and disclosure.*
- *Improvement in specific areas of the calculations would be much appreciated.*

SECTION 6: 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.

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PART A - FINANCIAL INFORMATION

6.1 Audit Opinion - 2009

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2009 resulted in the issue of an unqualified audit report.

Without qualifying the opinion expressed above, the Board's attention was drawn to the following matters:

- We did not observe the counting of the Board's physical inventories as of 31 December 2009. The Board recorded a closing stock of $160,390 in its balance sheet. We were not able to verify and validate the closing stock at the year end by other audit procedures.

- The Board's working capital deficiencies, negative cash flows from operating activities, adverse key financial ratios and uneconomic long term commitment disclosed in Note 16 of the financial statement indicate the existence of a material uncertainty which may cast significant doubt on the Board's ability to continue as a going concern.

6.2 Abridged Consolidated Income Statement

Year Ended 31 December	2009 $	2008 $
Revenue		
Abattoir	3,303,959	3,452,578
Other Income	58,336	35,211
Total Revenue	**3,362,295**	**3,487,789**
Expenditure		
Staff Costs	901,776	1,000,063
Change In Inventories – Finished Goods	1,107,158	1,097,706
Raw Materials And Consumables Used	198,862	197,246
Other Operating Expenses	929,899	1,166,801
Total Expenditure	**3,137,695**	**3,461,816**
Profit From Operations	224,600	25,973
Finance Cost	(155,773)	(165,791)
Profit/(Loss) Before Tax	**68,827**	**(139,818)**
Extra-Ordinary Gains & Losses		
Grants Realisation	-	1,431,465
Tannery Loss Write Off	-	(2,289,098)
FA – WIP Write Off	-	(741,930)
Income Tax Expense	-	-
Profit/(Loss) After Tax	**68,827**	**(1,739,381)**

The Board's income is derived mostly from abattoir charges. In 2009 it recorded a profit of $68,827 compared to a loss of $1,739,381 in 2008. This was due to the write off of tannery assets and work in progress in 2008 and decreases in staff costs and other operating expenses by 9.8% and 20.3% respectively.

6.3 Abridged Consolidated Statement of Financial Position

As at 31 December	2009 $	2008 $
Current Assets		
Cash And Cash Equivalents	113,651	226,591
Other Current Assets	603,398	394,434
Total Current Assets	**717,049**	**621,025**
Non – Current Assets	**1,580,076**	**1,686,472**

As at 31 December	2009 $	2008 $
Total Assets	**2,297,125**	**2,307,497**
Current Liabilities	749,416	732,246
Non-Current Liabilities	1,058,644	1,155,013
Total Liabilities	**1,808,060**	**1,887,259**
Net Assets	**489,065**	**420,238**
Total Equity	**489,065**	**420,238**

The Board's net assets increased by $68,827or 16.4% in 2009 compared to 2008 due to decline in total liabilities by $79,199 or 4.2%. The decline in total liabilities was attributed to the repayment of loan in 2009.

PART B - CONTROL ISSUES

6.4 Substantial Doubt to Remain Going Concern

There is substantial doubt about the ability of the FMIB to remain a going concern as it is facing number of going concern problems. These include:

- Working capital deficiency – the Board's total current assets and current liabilities as at 31/12/09 were $717,049 and $749,416 respectively. The Board had negative working capital of $32,367 as at 31/12/09. Hence the total current liability was more than current assets indicating that the Board is not in a position to meet its short term obligation.

- Negative cash flows from operating activities – the Board's cash flows from operating activities for the year ended 31/12/09 was ($4,988). This indicates that the Board's operating expenses were more than operating revenues collected during the year.

- Uneconomic long term commitment – the Board obtained loan of $1,590,000 from Fiji Development Bank in 2004 to upgrade and buy new machines for the tannery. The tannery is not in operation since 2001 however, the Board is making loan repayment of $25,000 per month.

- Outdate facilities – these include ternary which is not in operation since 2001.

- Adverse key ratios – the Board's working capital ratio for 2009 and 2008 were 0.95:1 and 0.85:1 respectively. The Board's liquidity ratio for 2009 and 2008 were 0.74:1 and 0.62:1 respectively. Both the ratios were unfavourable. Refer to the table below for details.

Ratio	2009	2008	Comments
Working Capital: Current Assets Current Liabilities	0.95:1	0.85:1	The Board in 2009 only had $0.95 of currents assets for every $1 of its current liability.
Liquidity:			In 2009, the Board had on a short term basis $0.74

Ratio	2009	2008	Comments
Current Assets - Inventory / Current Liabilities- Bank Overdraft	0.74:1	0.62:1	of currents assets (excluding inventory) for every $1 of debt.

The audit also noted that the Board did not investigate the conditions causing the going concern doubt and evaluate the significance of these conditions until the issue was highlighted by the audit.

Recommendations

- **The Board should investigate the conditions causing the going concern doubt and evaluate the significance of these conditions.**
- **The Board should plan to overcome these problem by identifying some mitigation factors such as selling off non essential assets, restructure existing debts, delay unnecessary expense etc.**

Board's Comments

No comment received from the Board.

6.5 Inventory – Stock Count

The audit did not observe the counting of the Board's physical inventories at 31 December 2009. A closing stock of $160,390 was recorded in its balance sheet. We were not able to verify and validate the closing stock at the year end by other audit procedures.

As a result the balance of closing inventory amounting to $160,390 cannot be relied upon in the financial statements.

Recommendations

- **A detailed stock listing should be prepared at the end of every month to ensure accurate figures are incorporated in the monthly financial statements and annual stock count is attended by the auditors to verify the cost.**
- **Year end stock-take should be signed off by the Board Members to confirm that the physical counting of Inventory had been conducted and variances recorded accordingly and the directors confirm that the Inventory Balance recorded as per the Balance Sheet is not overstated or understated.**

Board's Comment

No comment received from the Board.

6.6 Fixed Assets Register

The Board does not maintain a fixed asset register. As a result the movements in the fixed assets may not be recorded and this could result in distortion of financial results produced for business strategy and decision making.

For proper control and to safeguard the Board's fixed assets and to keep and maintain records of sales and purchase of the assets, a register is essential. Due to the absence of a Fixed Asset Register there is:

- Inadequate control over the recording of the company assets.
- Inadequate information on renewals and disposals.
- Inadequate information on capital committed to assets.

Recommendations

- **A written procedure statement should be prepared that would require:**
  - **A detailed property record for each fixed asset.**
  - **A property identification number to be assigned and affixed to each asset.**
  - **A capitalisation policy under which disbursements below a specified dollar amount would be charged to operations.**
- **At a minimum, the detailed property records should include the following information:**
  - **Description, asset number, and location.**
  - **Historical cost and date of acquisition.**
  - **Assigned life and method of depreciation.**
  - **Depreciation taken on an annual basis with accumulation thereof.**

Board's Comments

No comment received from the Board.

6.7 VAT Penalties and Returns Not Lodged On Time

Section 33 of the VAT Decree states that all the VAT returns are to be lodged on or before the last day of the month following the last day of every taxable period.

Section 60 (c) of the VAT Decree states that 10% penalty will be charge on late lodgements of VAT returns and 2.5% thereafter for every month the return is not lodged. From the Statement of VAT Assessment it can be noted that the company incurred penalties amounting to $7,259.25 due to late lodgement of VAT Returns.

The Board is in breach of Section 33 of the VAT Decree. Late lodgement of VAT will lead to heavy penalties as stated above.

Recommendation

The Board should prepare VAT returns and lodge it on or before the last day of the subsequent month of the taxable period to avoid penalties being charged to them.

Board's Comments

No comment received from the Board.

6.8 Outstanding Town Rate

As of 31 December 2009 the Board has town rates payable of $114,921.45

The board is in breach of Town Council requirements. This could lead to legal action being taken by the Town Council to recover its dues.

Recommendation

Arrangements should be made to settle the amount outstanding and efforts be made not to allow this breach to occur again.

Board's Comments

No comment received from the Board.

6.9 Tannery Write off

The audit noted that tannery operations of FMIB ceased in 2006 and tannery assets were subsequently written off in 2008. FMIB is seeking to sell off or lease these assets and no reasonable price has been ascertained for the sale of tannery assets.

No benefits are being derived from idle tannery assets that are continually deteriorating. The board may not be able to get a desirable price for these assets if this matter is not hastened.

Recommendation

The Board should expedite the process of sale or lease of tannery assets to derive benefit from these assets.

Board's Comments

No comment received from the Board.

6.10 Finance Manual

A manual of accounting policies and procedures has not been finalized by FMIB. This manual is necessary to define management and staff responsibilities and to identify critical internal controls in each major accounting area. Currently, all policies are communicated verbally and through memos.

This may lead to the inconsistent performance of critical duties such as bank reconciliations, cash counts and payment processes thereby resulting in erroneous and inconsistent financial reporting.

Recommendation

The Board should ensure that a manual of accounting policies and procedures is formalized. Such a manual should specify details such as the chart of accounts, payment and receipting procedures. The manual serves as a valuable reference and training tool as it ensures consistency

in accounting operations. It is an invaluable record and resource that guides management in maintaining or re-establishing the company operations.

Board's Comments

No comment received from the Board.