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 and Off-Budget State Entities – June 2010

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REPUBLIC OF FIJI

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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 – June 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 1st half of 2010.

Tevita Bolanavanua
Acting Auditor - General

AUDITOR--GENERAL
FIJI

INTRODUCTION

This report covers the results of financial audits of 7 Government Commercial Companies (GCC), 4 Commercial Statutory Authorities and 2 Majority Owned Entities (MOE) completed during the 1st half of 2010. GCC, MOE and Off Budget State Entities (OBSE) operate purely on commercial basis while CSA has both social and commercial function.

Out of the 7 GCC audited 2 entities, Ports Terminal Limited and Fiji Ships and Heavy Industries are subsidiary companies to Fiji Ports Corporation Limited. 6 of the entities audited realized profits during the periods reviewed while 1 incurred losses in its operation. Unqualified audit reports were issued to 6 GCC while 1 was issued a qualified audit report.

The MOE incurred losses in their operations during the periods audited but were both issued unqualified audit reports. 3 CSA audited realized profits while 1 incurred losses due to extensive write off of its fixed assets. All CSA audited were issued with unqualified audit reports.

An unqualified audit report is issued when the financial statements give a true and fair view (or are presented fairly in all material respects) in accordance with the identified reporting framework. A qualified audit report is issued when the overall financial statements are fairly stated but either the financial data indicated a failure to follow applicable accounting standards or there was a significant uncertainty concerning certain financial data.

The following table summarizes the status of audits of GCC, CSA, MOE and Off Budget State Entity (OBSE) to date:

	Government Entity	Audit Completed	Audit Opinion	Remarks
Government Commercial Company (GCC)				
1	Airport Fiji Limited	2009	Unqualified	
2	Fiji Broadcasting Corporation Limited	2007	Unqualified	2008 audit is still incomplete due to non submission of required information by FBCL.
3	Fiji Ships & Heavy Industries Limited	2009	Unqualified	Subsidiary of Fiji Ports Corporation with effect from June 2009.
4	Food Processors Limited	2006	Qualified	2007 account has been received and forwarded to Contract Auditor for audit.
5	Fiji Ports Corporation Limited	2009	Unqualified	Ports Terminal a subsidiary of FPCL has also been audited up to 2009 and was issued an unqualified opinion.
6	Post Fiji Limited	2007	Unqualified	2008 account is being finalized
7	Rewa Rice Limited	2007	Unqualified	2008 accounts with the Ministry of Public Enterprise for restructure issue.
8	Unit Trust of Fiji (Management)	2008	Unqualified	2009 audit is in progress.
9	Viti Corp	2005	Qualified	2006 account is yet to be submitted for audit.
10	Yaqara Pastoral Company	2008	Unqualified	2009 account is yet to be submitted for audit.
11	Fiji Public Trustee Corporation Limited	2007	Unqualified	Audits of 2008 and 2009 accounts are in progress and will be reported

	Government Entity	Audit Completed	Audit Opinion	Remarks
				together.
Commercial Statutory Authority (CSA)				
1	Public Rental Board	2008	Unqualified	2009 audit is in progress
2	Housing Authority	2008	Unqualified	2009 audit is in progress
3	Fiji Electricity Authority	2009	Unqualified	
4	Fiji Meat & Industry Board	2008	Qualified	2009 audit is in progress.
Majority Owned Entities (MOE)				
1	Pacific Fishing Company Limited	2008	Unqualified	2009 audit is in progress.
2	Fiji Hardwood Corporation	2007	Unqualified	2008 account is yet to be submitted for audit.
Off Budget State Entity (OBSE)				
1	Fiji Development Bank	2009	Unqualified	

The above entities are established and governed by their respective legislations and some have specific provisions on dates for the submission of their accounts and are meeting them satisfactorily. Others which have not shown much improvement may have been affected by the lack of capacity in their Accounts Sections.

11 entities have been audited up to 2008/2009 while the audits of 2009 accounts for 5 entities are in progress. The audits of 2007 accounts for another 5 entities have also been completed. Some audits have fallen behind but these will be updated as soon as accounts are submitted to this Office for audit.

The report of each entity has 2 parts. Part A covers the financial information whilst Part B includes control issues identified during our audit. Financial information summarizes the financial statements of each statutory authority and control issues represent our audit findings, recommendations and the management comments.

Readers will note that some audit findings raised in this report had no management comment. This implies that none was received from that respective entity despite repeated requests from this Office.

Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities and Off-Budget State Entities

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1. Airports Fiji Limited
2. Fiji Hardwood Corporation Limited
3. Fiji Ports Corporation Limited
4. Fiji Public Trustee Corporation Limited
5. Fiji Ship & Heavy Industries Limited
6. Ports Terminal Limited
7. Viti Corporation Limited
8. Yaqara Pastoral Corporation Limited
9. Fiji Electricity Authority
10. Housing Authority
11. Public Rental Board
12. Fiji Meat Industry Board
13. Pacific Fishing Company Limited

Section 1: Airports Fiji Limited

Airports Fiji Limited (AFL) is a wholly government owned 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 airstrips.

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)

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PART A – FINANCIAL INFORMATION

1.1 Audit Opinion

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

1.2 Abridged Income Statement

Year Ended 31 December	2009 $	2008 $
Revenue		
Navigation Charges	11,503,991	9,788,059
Airport Security/Development Fee	6,149,973	7,387,239
Concessions	8,107,593	8,041,640
Landing And Parking Fees International	9,889,027	8,970,611
Passenger Service Charge	2,827,869	3,073,966
Rental- Offices And Warehouses	3,460,007	3,093,407
Other Operating Income	4,469,052	3,670,263

Year Ended 31 December	2009 $	2008 $
Total Revenue	46,407,512	44,025,185
Expenditure		
Contract Costs	1,835,481	1,790,664
Depreciation	11,068,443	10,359,201
Salaries & Wages	12,035,379	11,886,690
Utilities	2,934,608	3,090,127
Other Operating Expenses	11,386,227	11,645,015
Total Expenditure	39,260,138	38,771,697
Profit Before Tax	7,147,374	5,253,488
Income Tax For The Year	1,385,513	668,074
Net Profit For The Year	5,761,861	4,585,414

AFL recorded an after tax profit of $5,761,861 in 2009 compared to $4,585,414 in 2008 as a result of increase in total revenue by 5%. Significant increases were noted for:

- Landing and parking fees international increased by $918,416 or 10.2% due to increase in the flight frequency of Pacific Blue and its usage of heavy aircraft which has higher landing charges.
- Navigation charges increased by $1,715,932 or 17.5% due to increases in over flying traffic and increase in terminal navigation charges from $2 per tonne in 2008 to $3.01 on 1 September 2009; and
- Interest on term deposits increased by $554,709 or 223.3% due to increase in the principal term deposit in 2009.

1.3 Abridged Statement of Financial Position

As at 31 December	2009 ($)	2008 ($)
Current assets		
Cash and cash equivalents	19,130,622	17,050,405
Receivables	4,878,001	5,281,768
Other assets	2,054,038	2,531,464
Total current assets	26,062,661	24,863,637
Non current assets		
Deferred tax asset	639,621	2,583,474
Property, plant and equipment	147,633,106	149,307,302
Total non current assets	148,272,727	151,890,776
Total assets	174,335,388	176,754,413
Current liabilities		
Accounts payable	7,371,560	5,852,807
Borrowings	6,133,089	6,384,695
Other current liabilities	2,012,074	1,689,164
Total current liabilities	15,516,723	13,926,666
Non current liabilities		
Borrowings	17,255,852	23,460,237
Deferred tax liability	13,886,231	15,029,823
Other non current liabilities	2,218,579	2,348,838
Total non current liabilities	33,360,662	40,838,898
Total liabilities	48,877,385	54,765,564
Net assets	125,458,003	121,988,849
Shareholders' equity		
Share capital	92,300,180	92,300,180
Retained earnings	33,157,823	29,688,669

As at 31 December	2009 ($)	2008 ($)
Total shareholders' equity	125,458,003	121,988,849

The Company's net assets increased by $3,469,154 or 2.8% in 2009 compared to 2008 mainly due to the following:

- Increase in cash and cash equivalents by $2,080,217 or 12.2% due to an increase in cash at bank and short term deposits;
- Long Term Borrowings decreased by $6,204,385 or 26.4% due to repayment of ANZ bank loan; and
- Decline in deferred tax liability by $1,143,592 or 7.6%.

PART B – CONTROL ISSUES

1.4 Statutory Requirements

Except as provided in this Act, where the salary payable to any person is fixed under this Act, no amount in excess of the salary so fixed shall be paid to any person on account of that salary[1]. Any person who makes any payment in contravention of subsection (3) commits an offence[2].

Audit noted that AFL paid $156,790 to the General Manager Finance as an ex-gratia payment during 2009.

The Company is exposed to penalties for non-compliance with the Higher Salaries Commission Act.

Recommendation

The requirements of the Higher Salaries Commission Act must be full-filled by the Company.

Management comments

The payment for the former GMF of $156,790 was made as ex-gratia payment for successfully negotiating and implementing the revised aeronautical fees and charges with the airlines. The negotiation was not part of the GMF's employment terms and conditions therefore approval from Higher Salaries Commission was not necessary as this does not fall under Higher Salaries Commission Act.

1.5 Fixed Asset Register for Tax Purpose

Audit noted that the opening written down value of fixed assets as per the tax Fixed Asset Register (FAR) did not match the closing written down value as per the FAR used for tax returns purpose.

A variance of $52,039 was noted on comparison of the opening and closing written down value of the assets in the two registers.

The tax purpose fixed asset register provided for the calculation of tax entries may not be correct and thus can result in incorrect tax calculation for the year.

[1] Higher Salaries Commission Act, section 11(3)
[2] Higher Salaries Commission Act, section 11(4)

Recommendation

The differences between the two fixed asset registers should be reconciled.

Management comments

Audit recommendation noted. Both registers had been reconciled.

1.6 VAT on Accrued Income

Audit noted that client does not record VAT when income is accrued. According to the VAT decree, VAT becomes payable at point when sale is recognised.

Since the Company is on accrual basis of accounting, it is violating the law by deferring the payment of VAT on accrued income.

Recommendation

The Company should record VAT when revenue is recognized and the VAT payments not be deferred.

Management comments

This is in relation to concession revenue. The current month's concession revenue is received in the following month and then it is invoiced. During the month, an estimate is taken as an accrual. Note that the VAT decree allows a registered person to account for tax payable on invoice basis.

1.7 Fixed Asset Verification

Perusing through the Fixed Asset Register, it was noted that many assets were old. During the year a physical verification of the Nausori assets were only performed. Property, plant and equipment may be overstated.

Recommendation

The Company should conduct physical verification of all significant assets at Nadi Airport to determine assets recoverable value.

Management comments

Audit recommendation noted. The company has engaged internal auditors to carry out the full asset verification and labelling in the second quarter of 2010.

Section 2: 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 2007 were the business management of forest plantations, timber growers and the sale of trees and timber.

During 2007 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.

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PART A – FINANCIAL INFORMATION

2.1 Audit Opinion

The audit of the financial statements of the Fiji Hardwood Corporation Limited for the year ended 31 December 2007 resulted in the issue of an unqualified audit report. However attention was drawn to the following matters.

- The company has converted its books to be in compliance with International Financial Reporting Standards (IFRS) and prepared financial statements in accordance with IFRS with effect from 1 January 2007. However, the provision for long service leave has not been calculated in accordance with the requirements of International Accounting Standard 19 – Employee Benefit

- The company had not reconciled certain statutory liabilities accounts such as VAT account, PAYE account and WHT account to the relevant statements of tax accounts and records maintained by FIRCA. In the absence of proper documents, records and reconciliations, I was unable to verify the accuracy of the closing balances recorded in the books of the company with regards to the above mentioned statutory liabilities.

- During the year, a plaintiff has filed a case against the company claiming $22m for breach of contract. The company has obtained legal advice and vigorously defending this claim.

  The circumstances of the litigations are such that the ultimate outcome of these cannot presently be determined with an acceptable degree of reliability, and accordingly no provision for any liability that may result has been made in the financial statements. The effect of this claim could have a material impact on the financial results of the company.

2.2 Abridged Income Statement

Year Ended 31 December	2007 $	2006 $
Revenue		
Sales	13,095,600	14,116,675
Other Income	337,191	166,841
Total Revenue	13,432,791	14,283,516
Expenditure		
Cost of sales	5,923,100	11,615,245
Distribution Expense	520,449	622,214
Personnel Expense	1,285,855	1,195,339
Operating Expense	3,374,007	6,600,687
Change in fair value of forest trees	26,435,955	-
Total Expenditure	37,539,366	20,033,485
Profit/(Loss) from operations	(24,106,575)	(5,749,969)
Finance cost	1,753,588	1,041,951
Loss before tax	(25,860,163)	(6,791,920)
Income tax expense	-	-
Loss after tax	(25,860,163)	(6,791,920)

Net loss of the Corporation increased by $19,068,243 or 281% in 2007 compared to 2006 as a result of changes in the fair value of the forest assets by $26,435,955. The changes in the value of the forest were a result of the revaluation exercise carried out in 2007.

2.3 Abridged Statement of Financial Position

As at 31 December	2007 $	2006 $
Current Assets		
Cash and cash equivalents	468,386	809,278
Inventories	3,170,884	2,167,921
Other current assets	1,599,400	1,420,655

As at 31 December	2007 $	2006 $
Total current assets	5,238,670	4,397,854
Non – Current Assets		
Forest Assets	133,170,000	159,605,955
Property, plant and equipment	6,837,589	7,237,018
Total non current assets	140,007,589	166,842,973
Total Assets	145,246,259	171,240,827
Current Liabilities	6,341,555	6,287,367
Non-Current Liabilities	15,621,728	15,810,321
Total Liabilities	21,963,283	22,097,688
Net Assets	123,282,976	149,143,139
Shareholders' Equity		
Share Capital	100,000,000	100,000,000
Accumulated Profits	23,282,976	49,143,139
Total Shareholders' Equity	123,282,976	149,143,139
Total Equity	123,282,976	149,143,139

The Corporation's net assets declined by $25,860,163 or 17% in 2007 compared to 2006. The decline was attributed by a decrease in the value of forest assets by $26,435,955 which was a result of the revaluation exercise carried out in 2007.

PART B – CONTROL ISSUES

2.4 General Ledger Reconciliations and Adjustments

During the course of audit and finalisation of accounts, the following audit adjustments were processed in the audited financial statements for the year ended 31 December 2007:

Operating loss before tax as per management accounts	$	(25,669,594)
Audit Adjustments:		
To record additional allowance for stock obsolescence		(107,306)
To rectify capital grant received from the Government incorrectly taken up as other income		(88,889)
To book bank charges and interest not recorded for FDB loan accounts		(75,442)
To accrue audit fees under accrued by the corporation		(33,589)
To adjust valuation of sawn timber inventory		(24,193)
To record interest expense incorrectly taken up as prepayments		(17,863)
To accrue stumpage fees under accrued by the corporation		(12,312)
To adjust valuation of log stock		14,293
To write back long outstanding trade creditors not considered payable		30,419
To reverse excess accrual for contingencies		124,313

Total operating loss before income tax as per audited financial statements		(25,860,163)

Reclassification entries:		
To reclassify loan obtained from FDB for the purchase of sawmill equipment recorded as customer deposits		380,477
To reclassify capitalised leased motor vehicles included in plant and equipment		171,601
To reclassify motor vehicles included in plant and equipment		261,567
To reclassify accumulated depreciation of capitalised leased motor vehicles and motor vehicles included in accumulated depreciation of motor vehicles		233,485
To reclassify other receivables included in other prepayments		85,158
To reclassify other receivables included in related party receivables		219,641
	$	1,351,929

The above entries primarily related to rectification of accruals, rectification of incorrect posting and entries not taken up in the general ledger. This involved considerable time to identify the differences in order to process entries in the financial statements for the year ended 31 December 2007.

Reconciliations are a key control and should be used to identify and correct anomalies or mis-postings. For this control to work successfully, reconciliations must be prepared on a monthly basis and monitored and/ or reviewed by independent senior personnel and signed as evidence of his review.

Recommendation

The management should review its systems for preparation of monthly and year end reconciliations and further improvements should be made in performing in-depth review of the reconciliations and processing of the adjusting entries.

Management Comments

The Management will review the reconciliations and ensure that all the relevant documents are attached to the reconciliations for future audits.

2.5 Compliance with International Financial Reporting Standards

The corporation adopted International Financial Reporting Standards (IFRS) effective 01 January 2007.

From the review of the books of account and the financial statements of the corporation, audit noted that there is a need for continuous review of accounting policies, practices and methods adopted by the corporation and the group entities, and thereby to continuously improve compliance with IFRS.

For certain IFRS requirements, it appears that the corporation may not have fully complied with all the requirements. Some of the areas requiring particular attention are summarized below:

- **IAS 19 – Employee benefits**

The corporation has not computed the provision for long service leave in accordance with the requirements of IAS 19.

- **IAS 36 – Impairment of assets**

Based on the prevailing political and economic situation, the management of the Corporation should continuously review the current value of all assets, especially plant and equipment ensuring that these assets are not overstated.

In view of the above, impairment of assets test needs to be carried out by the corporation and group entities on a progressive basis, in a structured manner at each reporting date.

- **IAS 38 – Intangible assets**

The audit noted that currently, costs relating to computer software are capitalised as part of property, plant and equipment and are depreciated.

IAS 38 requires costs relating to computer software, where the software is not integral to the operation of the related computer hardware to be classified as intangibles.

It appears that there may be software balances requiring re-classification to intangible assets.

Recommendations

- **The management should ensure full compliance with IFRS on a continuous basis.**
- **The Corporation should continuously monitor, update and enhance the accounting systems, procedures and calculations. The Corporation should ensure that its accounting and reporting systems are robust to meet the IFRS requirements.**

Management Comments

The comments are noted and we will ensure to comply with the IFRS requirements.

2.6 Value Added Tax (VAT) Reconciliations

The review of VAT Returns for the year ended 31 December 2007 noted the following exceptions:

i. Balance as per VAT reconciliation schedule amounts to payable balance of $15,616 as against refundable balance of $280,203 as per the general ledger.

   No audit adjustment could be processed as the corporation was unable to identify and reconcile the difference of $295,819.

ii. The audit noted a difference of $62,026 between Taxable Supplies as per VAT Return and VAT chargeable revenue as per the financial statements.

No explanation and information were provided for the above difference.

Recommendations

- **The corporation should carry out special review of VAT recording and VAT returns preparation procedure with a view to improve the existing system and thereby ensuring that the risk of potential VAT liability and penalties is reduced.**
- **Differences in VAT refund should be fully reconciled and appropriate entries processed in the books.**
- **Difference in VAT chargeable supplies should be fully reconciled and appropriate entries processed, if required.**

- **Monthly reconciliations should be prepared showing the reconciling items between the balances as per VAT returns and the books of account. Any unusual items or other items requiring adjustments to the returns or books of account should be immediately processed or rectified.**

Management Comments

The vat returns are now prepared on a monthly basis and subsequently this account has been reconciled. We have been monitoring the differences and necessary adjustment entries have been passed.

2.7 Delays in Lodgement of VAT Returns

The review of VAT Returns for the year noted that there were delays in lodging VAT Returns with Inland Revenue and payment of VAT liability.

Refer to the table below for details

Month	VAT Payable / (Refund) ($)	Due Date	Comments
January – 2007	(5,957)	28/02/07	Lodged on 21/03/07
February – 2007	10,745	31/03/07	Lodged on 20/04/07
March – 2007	(11,241)	30/04/07	Lodged on 10/05/07
April – 2007	(6,251)	31/05/07	Lodged on 07/06/07
May – 2007	13,002	30/06/07	Lodged on 03/07/07
July – 2007	(20,478)	31/08/07	Lodged on 07/09/07
August – 2007	(18,012)	30/09/07	No date specified
September – 2007	(41,193)	31/10/07	Lodged on 06/11/07
October – 2007	(33,421)	30/11/07	Lodged on 05/12/07
November – 2007	(17,481)	31/12/07	Lodged on 02/01/08

Delay in lodgement of VAT Returns with Inland Revenue and payment of VAT liability attracts penalties and negative image of the company.

Recommendation

The VAT Return for the month should be lodged in the following month and VAT payable remitted on a monthly basis in accordance with the VAT Decree to avoid penalties.

Management Comments

The vat returns are filed on a monthly basis.

2.8 Employment Benefits

Staff members of the corporation receive travel allowances, housing benefits and transportation facilities.

However, audit noted that the value of these employment benefits have not been separately disclosed in the Annual PAYE Summary.

From the review of VAT returns, it was noted that VAT output on the benefits has not been accounted for.

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

By not excluding the above from PAYE deductions and VAT exposes the corporation to additional taxes and penalties.

Recommendations

- **The corporation should disclose the value of employment benefits in the Annual PAYE Summary separately, and also ensure to deduct necessary additional PAYE taxes in respect to all employment benefits.**
- **The corporation should take appropriate corrective measures to account for VAT output on employee benefits.**

Management Comments

Comments noted and will be implemented.
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2.9 Inventories

Review of the inventories of the corporation, audit noted the following:

1) Sawn timber work-in-progress is recorded at lower of cost or net realisable value (NRV) of the final grade of sawn timber that is to be developed after processing is completed.

   However, the corporation could not provide us with an analysis of the percentage of works completed for work in progress

2) Flooring (grade – reject) sawn timber of a timber supply division of the corporation has been valued at net realisable value of $311 per cubic metre.

   However, no details or supporting documents for this was made available for our review.

3) Navutu administration cost of $48 per cubic metre was incorrectly taken up to determine the cost of Waivunu sawn timber.

   However, audit further noted that Waivunu sawn timber is mainly valued at NRV and the difference arising from the incorrect costing is minimal therefore, no adjustment entry was processed.

4) For sawn timber costing, the corporation had incorrectly taken:

   a. Administration cost of Navutu at $48 per m^3 instead of $35 per m^3;
   b. Administration cost of three suppliers $142 per m^3 instead of $160 per m^3; and
   c. Administration cost of a Navua based timber supplier at $167 m^3 per instead of $148 per m^3.

   Consequently, sawn timber inventory had been overstated by $24,193, which was rectified by way of audit adjustment.

5) Audit noted that for the valuation of sawn timber using cost method, various borrowing costs were included for costing and valuation purposes. This is a departure from IAS 23 – Borrowing Costs, as the relevant inventories do not fall under the category of qualifying asset.

Recommendations

- **The corporation maintain complete details of inventory balances. Further, adequate supporting should be kept and made available for audit.**
- **Stock valuation should be verified by a senior person ensuring that proper costing is carried out and stock valuation report updated on a regular basis.**

Management Comments

The Management will adopt the system as specified by the auditors.

2.10 Interest Bearing Borrowings

Review of interest bearing borrowings, audit noted the following:

a) Interest expense as per loan reconciliations of two non-commercial financial entities amounted to $622,045 and interest expense as per trial balance amounted to$627,249. No explanation or details were provided for the difference of $5,204.

No audit adjustment was processed for the above difference, as it was considered immaterial.

b) The maturity date of the loan from an investing entity was November 2007. With the closure of the loans portfolios taken over by the Ministry of Finance, who have permitted FHCL to carry the loan until further notice.

Audit noted that the total interest for 2007 amounted to $75,140 out of which, only $70,578 was paid during the financial year. The difference amounting to $4,562 has not been accrued by the corporation.

Moreover, as per the loan agreement, 10% interest per annum was to be charged on the overdue balance of the loan amount. This has not been paid or accrued by the corporation.

c) The corporation has obtained loans from the two lenders amounting to $7,884,000. However, no confirmation was provided for our review.

Recommendations

The management should:

- **ensure that reconciliations for interest on loans are reviewed each month by an independent senior personnel and differences, if any, are immediately reconciled and adjusted in the books.**
- **ensure that all unpaid interest and penalties on overdue balances should be adequately accrued in the books of account;**
- **accrue for additional charges in relation to the loan from a lender or obtain confirmation from the Ministry of Finance for a waiver of additional charges; and**
- **Obtain confirmations for proper audit trail, and ensuring accurate reporting of balances.**

Management Comments:

The Management will look into the recommendations given by the auditors.

2.11 Segregation of Land and Buildings

From the review of fixed assets schedule, audit noted that the costs of land and buildings were included at composite value without segregation of cost of land from the cost of building. Accordingly, depreciation also has been calculated on costs of the land.

International Accounting Standard 16 on "Property, Plant and Equipment" states that land and buildings are separable assets and are to be accounted for separately, even when they are acquired together. IAS 16 further states that land has unlimited useful life and therefore is not depreciated and buildings have a limited useful life and therefore, are depreciable assets.

Recommendation

The costs of land should be segregated from costs of buildings so as to charge depreciation only on costs of the buildings to ensure compliance with IFRS.

Management Comments

The comments noted.

2.12 Fixed Assets Register

During the review of the corporation's fixed assets, audit noted that the corporation did not maintain a detailed fixed assets register for the manufacturing and sawmill divisions. The current list of fixed assets which were purchased from two lumbering companies shows only totals for different asset categories, instead of detailed listing of individual assets.

Since it is difficult to identify individual assets, it will be more difficult, in future periods to identify additions and disposals and to assign the correct depreciation rates to individual assets. By maintaining a detailed register, and with regular updating, it will be easier to maintain effective control and keep an accurate record of total movements, balances and depreciation.

Recommendation

The corporation should maintain a fixed asset register providing full listing and details of individual assets.

Management Comments

During the transfer of assets from Fenning Group to FHCL there was not listing of the assets individually and we will look into this as to how we can put the assets individually.

2.13 Acquisition of Property, Plant and Equipment

From the review of fixed assets schedule, the audit note that the corporation acquired property, plant and equipment from a timber company in year 2005. No detailed listing was made available for the assets acquired during 2005 and a single line entry in fixed assets schedule has been made to reflect the assets acquired.

In absence of detailed listing, it is not possible to maintain effective control over fixed assets and increases the risk of loss of assets or misappropriation. Furthermore, it will be difficult for the corporation to perform physical verification of the same.

Recommendation

The corporation should recheck its assets acquired in the year 2005 and incorporate all these assets individually in the fixed asset schedule to keep proper controls and provide audit trail of all fixed assets for identification and proper accounting.

Management Comments

During the transfer of assets from Fenning Group to FHCL there was not listing of the assets individually and we will look into this as to how we can put the assets individually.

2.14 Staff Advances

From the review of the staff advance account reconciliations as at 31 December 2007 for forest and manufacturing divisions amounting to $17,563 and $30,386, respectively, audit noted that no systematic recovery procedures appeared to be in place to recover the advance within a reasonable time.

Furthermore, it was noted that subsequent recoveries appeared insufficient or unreasonably low and yet further advances were granted during the year.

Moreover, certain employees included in the listings were no longer employed by the corporation.

Audit understands that all staff advances provided to staff is for short term only and is interest free.

As per the provisions of Income Tax Act and Inland Revenue Guidelines, in case of long term interest free loans and advances, the value of difference between the market interest rate and actual interest paid on advances by the staff members is considered as additional emolument derived by the employee, and accordingly additional PAYE deductions are required to be made. Accordingly, for long term interest free advances, necessary PAYE taxes should also be deducted.

Recommendation

The corporation should review its policy on advances to staffs and immediate action should be taken to recover outstanding advances. In particular, definite repayment plans per staff should be set for repayment terms and these should be strictly implemented and actively monitored.

Management Comments

The policy is already in place and we will look into the old advances and recover from staff concerned.

2.15 Other Assets

From the review of other assets, audit noted that details for the following balances were not made available:

Particulars	Amount ($)
Security deposit – opening balance	13,518
Security deposit – Immigration Department	(1,349)
Security deposit – Pleass Beverages	(146)
FHCL telephone directory	1,565
Dayal's Sawmillers	24,174
Excavator Deposits – Gough and Hamer	46,979
Unallocated withdrawal	2,000
Forest of Fiji – prepayment	10,548
Prepayments – cheque detail unknown	1,000
Bank error in wages payment for week ended 01/08/07	1,000
Accrual for LPO # 31857 for Techno Systems	10,487
Payment made to Wood Mizer NZ Limited	46,790

In the absence of adequate details for security deposit, it would be difficult to recover the refund of deposits.

<u>Recommendation</u>

The Corporation should maintain complete record of all the balances and all balances should be fully reconciled and differences, if any, should be adjusted in the books of account.

<u>Management Comments</u>

Recommendations noted.

2.16 Bank Reconciliations

From the review of the bank reconciliation of the USD account held with ANZ, audit noted that balance as per trial balance amounted to $49,322, however the balance as per the bank reconciliation was $48,868.

Audit further noted that whilst bank reconciliations are prepared, there is no evidence to suggest that these are reviewed by an independent senior officer.

Furthermore, reconciliations did not indicate the date of preparation and the person responsible for the preparation.

<u>Recommendation</u>

The bank reconciliation is an important part of the internal control system. Bank reconciliation should be prepared monthly and should be perused each month by an independent senior person ensuring that all reconciling items are cleared regularly, that stale cheques are written off, that all receipts are banked intact on a daily basis and that the control balances agree to the relevant records.

<u>Management Comments:</u>

This has been done on a daily basis and checked by our Accountant

Section 3: 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 activity of the Corporation is providing and managing the port infrastructure and services within declared ports.

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.

The company has two subsidiaries trading as Ports Terminal Ltd and Fiji Ships & Heavy Industries Ltd. The company took over the operation of Fiji Ships & Heavy Industries Ltd in June 2009.

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PART A – FINANCIAL INFORMATION

3.1 Audit Opinion

The audit of the financial statements of the Fiji Ports Corporation Limited and subsidiary for the year ended 31 December 2009 resulted in the issue of an unqualified audit report.

3.2 Abridged Income Statement

As at 31 December	Group 2009 $' 000	Group 2008 $' 000	Company 2009 $' 000	Company 2008 $' 000
Revenue				
Operating Revenue	38,765	36,000	25,909	23,956
Other Revenue	10,133	1,386	10,946	2,735
Total Income	48,898	37,386	36,855	26,691
Administration Expenses	10,086	5,727	3,318	4,237
Operating Expenses	25,540	26,684	21,182	19,164
Finance Expenses	2,526	2,998	2,425	2,963
Total Expenditure	38,152	35,409	26,925	26,364

As at 31 December	Group		Company	
	2009 $' 000	2008 $' 000	2009 $' 000	2008 $' 000
Operating (loss)/profit before income tax	10,746	1,977	9,930	327
Income tax (expense)/ credit	(885)	(225)	(492)	472
Net (loss)/ Profit for the year after Income Tax	9,861	1,752	9,438	799

The company and subsidiaries incurred a significant operating profit after tax of $9.8 million, an increase of $8.1 million or 476% on the prior year. The significant operating profit was due mainly to the inclusion of additional revenue when the company took over the operation of Fiji Ships and Heavy Industries Ltd in June 2009.

3.3 Abridged Balance Sheet

As at 31 December	Group		Company	
	2009 $	2008 $	2009 $	2008 $
Current Assets				
Cash and cash equivalents	8,445	8,795	6,002	6,682
Trade and other receivables	3,432	2,170	2,221	1,994
Investments	4,000	3,000	4,000	2,750
Other current assets	6,453	2,309	992	655
Total Current Assets	22,330	16,274	13,215	12,081
Non - Current Assets				
Property, plant and equipment	131,075	126,612	119,537	120,996
Intangible asset	225	347	220	347
Investment property	3,493	3,530	3,493	3,530
Loan to subsidiaries	-	-	4,300	-
Investment in FSHIL	-	-	6,660	-
Deferred tax assets	4,632	5,411	4,368	5,348
Total Non–Current Assets	139,425	135,900	138,578	130,221
Total Assets	161,755	152,174	151,794	142,302
Current Liabilities				
Trade Payables and Accruals	4,233	4,423	2,925	3,487
Interest Bearing Borrowings	2,857	1,853	2,587	1,853
Provisions	280	478	280	478
Employee entitlements	485	362	334	240
Income tax liability	(536)	1,201	(681)	815
Total Current Liabilities	7,319	8,317	5,445	6,873
Non-Current Liabilities				
Interest bearing borrowings	62,175	58,635	61,437	58,635
Intangibles	1,643	1,643	0	0
Deferred tax liability	753	1,178	66	510
Total Non-Current Liabilities	64,571	61,456	61,503	59,145
Total Liabilities	71,890	69,773	66,948	66,019
Net Assets	89,865	82,401	84,846	76,284
Share Capital	73,155	73,155	73,155	73,155
Accumulated Profits	16,710	9,246	11,691	3,129
Total Shareholder's Equity	89,865	82,401	84,846	76,284

The net asset positions of the company and subsidiaries improve by $7.4 million in 2009. This resulted mainly from the increase in current assets, specifically, deposits. The reduction in income and deferred tax liabilities also contributed to the increase in net assets. The financial position of the company remained strong in 2009.

PART B – CONTROL ISSUES

3.4 Internal Audit

There was no internal audit performed for the company during the financial year. Internal audit function was outsourced to Price Waterhouse Coopers in 2008 but their contract was not renewed in 2009.

In addition, we noted that no risk assessment was performed by the company to document risks and strategies. High risk areas especially routine transactions should be audited frequently such as procurement, tenders, payments, receipts and banking, payroll and general ledger reconciliations.

The lack of internal auditing during the year increases the risk of errors and fraud.

Recommendation

Management should ensure that the internal audit function is active as it is an important exercise to manage risks to the company.

Management comments

The comments are noted. Liaison is being made with the Board Secretary on the recommendation and the necessary consultation with the Finance and Audit Sub committee.

3.5 Trade Debtors' Statement

There were variances noted in the debtor confirmations received and subsidiary ledger balances. This is due to debtors statement printed after year end (mid January 2010). The ledger included unallocated debit amounts as total debts outstanding as at 31 December 2009 while allocated debits (from subsequently receipts) were offset by a credit in the system. As a result, there was an understatement in the confirmations compared to subsidiary ledger account amount at year end.

The system is currently unable to print debtor report as at a certain date such as 31 December 2009 but is only able to print the current running balance in the debtor's statement.
Some examples are listed below:

Debtor's	GL balance as at 31 December 2009 $	Balance as per Debtor Statement $	Subsequent Receipts $
Debtor 1	160,538.55	76,462.56	84,075.99
Debtor 2	224,855.42	129,733.56	95,121.86
Debtor 3	104,996.71	55,246.17	49,750.54
Debtor 4	276,736.07	121,232.71	155,503.36
Debtor 5	196,303.67	175,242.02	21,061.65

The delay in printing debtor statements increases the risk of fraud and error.

<u>Recommendation</u>

The company should ensure that the system is able to meet its reporting requirements.

<u>Management comments</u>

The practice was for practical purposes where the receipts are allocated before a statement is sent to customers. Major customers often release their cheques within two working days after the month end. These receipts are taken into account in the statement. Debtor statements are sent within 10 working days after month end.

3.6 Fiji Military Forces Long Outstanding Reimbursement Cost

The General Ledger includes an outstanding reimbursement cost of $195,941 to the Fiji Military Forces for the provision of security in 2007.

Management have written twice (15 April and 21 May 2009 respectively) to the Fiji Military Forces regarding the documentation to be supplied to FPCL for the payment to be processed. However, the RFMF has yet to respond to request for documentation.

The lack of information increase the risk that the amount due may be incorrect.

<u>Recommendation</u>

Management should liaise with the Fiji Military Force to resolve the issue.

<u>Management comments</u>

The Port Security Unit charges were charged by the RFMF through FPCL invoices. Management in its attempt to clear the balances has written letters to the Fiji Military Forces requesting help in collecting from their debtors. Further liaison will be done before a decision is made.

3.7 Off-site Data Backup

Data backups are stored in house and not off-site. The current office location near Port Muaiwalu in Walu Bay is vulnerable to tsunami and other natural disasters.

The practice of onsite backup storage increases the risk of data being lost/destroyed in case of fire or other natural disasters.

<u>Recommendation</u>

The company should consider storing data backups off site in a safe and secure location.

<u>Management comments</u>

We note and agree with the comments. The I.T Department has been advised on the above and have confirmed measures are being looked at to rectify the risks.

Section 4: 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

4.1 Audit Opinion

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

4.2 Abridged Income Statement

Year Ended 31 December	2007 $' 000	2006 $' 000
Interest income	766	344
Other revenue	458	310
Total Revenue	1,224	654
Administration expenses	228	189
Marketing expenses	3	4
Other Operating expenses	487	148
Total Expenditure	718	341
Operating profit before Income Tax	506	313
Income tax expense	157	97
Net Operating Profit after Tax	349	216

The Corporation recorded a net operating profit after tax of $349,319 compared to $215,828 in 2006. The increase in net operating profit was mainly due to increase in revenue earned from fees and interest earned from investments.

4.3 Abridged Balance Sheet

As at 31 December	2007 $' 000	2006 $' 000
Current Assets		
Cash and cash equivalents	424	285
Trade and other receivables	1,492	603
Other current assets	23	23
Total Current Assets	1,939	911
Non Current Assets		
Deferred tax asset	16	12
Financial assets	7,865	7,865
Property, plant & Equipment	230	88
Total Non Current assets	8,111	7,965
Total Assets	10,050	8,876
Current Liabilities		
Deferred Revenue	218	264
Trade & other payables	683	251
Provisions	323	150
Total Liabilities	1,224	665
Net Assets	8,826	8,211
Share Capital	2	2
Share Premium reserve	100	100
Capital reserve	8,161	8,161
Retained Earnings	565	565
Total Shareholder's Equity	8,826	8,211

The Corporation's net asset position has improved from the prior year by $615,869. The increase in current assets is the main contributing factor to the improvement in net assets. The Corporation has sufficient capacity to meet its short term obligations.

PART B – CONTROL ISSUES

4.4 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

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

Management Comments

Management notes the comments and will be reviewing the tax rates upon further research and assessing the impact of the change in tax rates. The Board will be advised of any changes and will be recommending the implementation of a depreciation policy for the corporation. We would recommend that the current depreciation rates in the 2007 Accounts be not amended due to lapse in time of the report.

4.5 Individually Held Investments to be Restated to Market Value

The Trust holds a substantial portion of its investments (around $645k) 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 *IFRS/IAS 39 - Recognition and Measurement of Financial Instruments* 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 management must ensure that these investments are marked to market values in the books of the Trust.

Management Comments

Management notes the comments and wish to correct that fair value of trust individual accounts are not affected through a profit & loss but through the subsidiary ledger and the control accounts. However, management will be making recommendations to the Board for a process to record market valuation of individual investments in a systematic approach.

4.6 Non-Cash Assets for the Trust to be Valued

Our review of the Trust's Fixed Asset Register highlighted a number of properties (estates) which were being held by the Corporation and administered on behalf of the beneficiaries. However, these estates were still being taken up at cost in the books of the Trust and had not been revalued for some time.

There is a risk that the book value of these estates in the General Ledger is understated compared to their respective going market prices.

Recommendation

Management should consider conducting market valuations for these properties and restating the book values in the Trust's General Ledger.

Management Comments

Valuation on Estate property are carried out as part of the administration process usually only at the final stages nearing distribution or when a court order is received for the liquidation of the property and distribution of monies to the beneficiaries. Furthermore, the valuation costs of properties are borne by the beneficiaries and are only carried out when it is required in the administration process. Valuations are usually valid for a period of 3 years and usually the properties are distributed within that time. However, management will consider market valuations on properties administered by the corporation.

4.7 Rental Arrears to be properly administered

Our review of non-cash assets held by the Trust 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.

As a result, rent receivable in the General Ledger is potentially understated.

Recommendation

Management should ensure that rental arrears are recorded and accrued for on a monthly basis in the Trust's general ledger

Management Comments

A rental register is maintained by the cashier and is updated upon the receipt of rental income for the Estate. Estate Officers carry out follow ups on arrears and other legal recovery measures to ensure that rental income are updated.

Management will tighten the monitoring of rental payments for its estates through the active involvement of finance staff in the monitoring and reporting of the same.

However, accrual basis reporting will also be considered to be implemented in the TrustSoft system to address the issue and maximize the returns to the beneficiaries.

Section 5: Fiji Ships & Heavy Industries Limited (FSHIL)

FSHIL was registered under the 1983 Companies Act as a Private Company Limited by Shares.

The company commenced operation in May 2001 under the name of Fiji Shipbuilding Corporation Limited. Its incorporation was the result of the government's acquisition of the assets of the former company, Shipbuilding (Fiji) Limited, which has been in receivership since December 1999. With effect from January 2003, the company name changed to Fiji Ships and Heavy Industries Limited. The mandate as stipulated in the Memorandum of Association states the following objectives:

- to develop the shipyard and slipway that was acquired by Government;
- to carry on the business of slipway operators including ship repair and maintenance, heavy and civil engineering construction and the building of new vessels for the local and international markets;
- to provide a viable commercial facility to achieve a minimum 10% annual return on the shareholders' investments over the planning period; and
- to provide maximum employment opportunities in the ship repair/ship building industry and the civil and heavy engineering construction industry.

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PART A – FINANCIAL INFORMATION

5.1 Audit Opinion 2009

The audit of the financial statements of the Fiji Ships and Heavy Industries Limited for the year ended 31 December 2009 resulted in the issue of unqualified audit report.

5.2 Abridged Income Statement

Year Ended 31 December	2009 $'000	2008 $'000
Revenue		
Operating Income	2,636	2,331
Other Operating Income	141	193
Total Revenue	2,777	2,524
Direct Costs	1,177	1,065
Employee Benefits Expenses	318	549
Depreciation and Amortization Expense	391	480
Finance Costs	103	114
Other operating expense	586	703
Total Expenditure	2,575	2,911
Operating profit/(loss) before income tax	202	(387)
Income tax (expense)/ credit	(59)	47
Net (loss)/ Profit for the year after Income Tax	143	(340)

In 2009, the company incurred an operating surplus after tax of $202,247 compared to the deficit of $340,913 generated in 2008. The improvement in the net profit was due mainly to the increase in operating income and the decrease in most major categories of expenses.

5.3 Abridged Balance Sheet

As at 31 December	2009 $'000	2008 $'000
Assets		
Cash and Short Term Deposits	1,104	217
Trade Receivables	755	253
Inventories	119	111
Other Current Assets	146	65
Property, Plant and Equipment	5,826	5,818
Deferred Tax Assets	177	236
Intangible Assets	5	6
Total Assets	8,132	6,706
Liabilities		
Trade Payables and Accruals	524	343
Interest Bearing Debt	2,308	1,175
Provisions	18	49
Total Liabilities	2,850	1,567
Net Assets	5,282	5,139
Share Capital	7,662	7,662
Accumulated Losses	(2,380)	(2,523)
Net Accumulated Fund	5,282	5,139

The company's net asset position slightly improved because the increase in assets outweighed the increase in liabilities. Although cash and short tern deposits significantly increase by 409%, the company short-term financial position remained weak due to significant increase in interest bearing borrowings.

PART B – CONTRL ISSUES 2009

5.4 Fixed Assets

A number of errors were noted in the company's accounting of fixed assets. Net depreciation differed by $4,080 between Fixed Assets Register (FAR) and General Ledger while the purchase of a computer of $792 was expensed during the year.

An electric motor purchased for $17,423 was work-in-progress since 2002 although it is currently being used. Details as to when it should have been transferred out of work-in-progress were not provided during the audit thus it has not been amortized accordingly. In addition, there has been no board of survey in the current year to physically confirm the existence of assets recorded in prior years.

Incorrect accounting of fixed assets will result in incorrect financial reporting.

Recommendations

- **The Fixed Assets Register (FAR) should be updated on a monthly basis. The FAR should be reviewed at each month-end and reconciled to the relevant accounts in the general ledger. The reconciliation should be reviewed and approved by the Finance Manager.**
- **A board of survey must be conducted annually to confirm the existence of assets recorded in the FAR.**

Management comments

Management notes the comment as per DAM report and states that this variances in FAR is rectified and corrected in 2009 end of year audit. They were prior to the takeover by FPCL management. The FPCL management now ensures that assets register is updated on monthly basis and reports are forwarded to GMF. A board of survey will be conducted in 2010 to confirm the existence of the recorded assets in FAR.

PART C – CONTROL ISSUES 2008

5.5 Creditors

The creditors subsidiary ledger balance differed from the general ledger balance by $7,835. No explanation was provided for the variance.

The creditors' subsidiary ledger balance amounted to $201,223. A review of amounts recorded in a sample of suppliers with their statements noted that the subsidiary ledger is incorrect. Some payments have already been made, yet the subsidiary ledger was not updated.

It appears that the company was posting all payments to the Income Statement. This has resulted in the recognition of expenses twice. Not all supplier statements were available to enable us determine the extent of the error.

Due to the above, we have not been able to satisfy ourselves on the accuracy of the trade creditor's balance.

Recommendation

Management should perform a thorough reconciliation of trade creditor's account to ensure this is corrected.

Management comments

The variance between subsidiary and general ledger will be worked on in 2010 and appropriate journals will be passed to correct the variance after thorough reconciliations.

5.6 Value Added Tax (VAT)

A number of errors were noted in the company's accounting for Value Added Tax (VAT).

VAT was adjusted twice to various expenses and other items amounting to $148,568. Audit verified VAT dissected to actual invoices and found that VAT was adjusted twice from expenses posted. The company coded VAT when paying for items where VAT was not applicable. This included Directors' fees and allowances.

Revenue declared on VAT returns could not be properly reconciled to that recorded in the General Ledger. Revenue declared in the VAT Return exceeded that recorded in the General Ledger by $42,071.

A reconciliation of the VAT account and the Statement of Tax Account for VAT issued by FIRCA reveal a difference of $162,147. This was attributed to the variance in the VAT liability for the year ending 2006. Incorrect accounting for VAT and reconciliation of the account increase the risk of incorrect financial reporting and errors in VAT returns lodged with FIRCA.

Recommendation

Management should ensure the VAT account is properly reconciled. Amounts declared in monthly VAT Returns should be reconciled to that recorded in the General Ledger. Any journals adjustment to the VAT account should be properly documented and approved.

Management comments

Management notes the comments and will ensure that all check and balances regarding VAT are in place. For 2009 account finalization, management has performed Vat reconciliation. All VAT journals are properly recorded and are accounted for.

5.7 Fixed Assets

A number of errors were noted in the company's accounting of fixed assets. Net depreciation of $64,119 was not updated correctly in the Fixed Assets Register (FAR) and General Ledger. The General Ledger was not updated to reflect amounts in the FAR.

A purchase of a Dell Computer of $996 was expensed during the year. Direct costs of $8,125 associated with production were expensed as Repairs and Maintenance costs. Incorrect accounting of fixed assets will result in incorrect financial reporting.

Recommendation

The company should ensure that the FAR is updated regularly. The FAR should be reviewed at each month-end and reconciled to the relevant accounts in the General Ledger. The reconciliation should be reviewed and approved by the Finance Manager.

Management comments

Management notes the comment as per DAM report and states that this variances in FAR is rectified and corrected in 2009 year end. Assets register is updated on daily basis and monthly reported are forwarded to GMF.

5.8 Receipting

The company does not always issue a receipt for all cash or deposits made. In some instances, debtors do not ask for receipts. Receipts are posted in the system but the corresponding manual receipts were not issued.

The above practise significantly increases the risk of fraud and error. Manual receipts not used but already entered in the general ledger can be used to receipt cash which may not be posted in the general ledger.

Recommendation

All cash, cheque or direct deposits received should be receipted manually, even if the receipt is not sent. The receipt should be entered into the debtors' module or General Ledger by a different staff quoting the same receipt number.

Management comments

In 2008 there were some manual receipts and some system generated receipts issued. But we have stop writing manual receipts and only system generated receipts are done from 2009 onwards. Receipt trial are done on a monthly basis and verified to check receipt sequence. Also daily deposits are verified with the receipts and these are then verified during bank reconciliations.

Section 6: 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.

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PART A – Financial Information

6.1 Audit Opinion

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

6.2 Abridged Income Statement

As at 31 December	2009 $'000	2008 $
Sales	12,013	13,949
Other Income	67	23
Total Income	12,080	13,972
Administration Expense	975	966
Staff and employee benefits	3,957	4,295
Depreciation and amortization expense	1,080	1,086
Finance costs	4	35
Other operating expense	4,974	5,128
Total Expenditure	10,990	11,510

As at 31 December	2009 $'000	2008 $
Operating (loss)/profit before income tax	1,090	2,462
Income tax expense	334	698
Net (loss)/ Profit for the year after Income Tax	756	1,764

The company recorded a net profit of $756,442 in 2009 compared to $1,764,376 in 2008. The decline in net profit was due mainly to the decrease in sales from cargo handling.

6.3 Abridged Balance Sheet

As at 31 December	2009 $'000	2008 $'000
Assets		
Cash and cash equivalents	1,339	2,113
Trade and other receivables	2,445	2,356
Deposit	4,590	961
Other Current Assets	855	942
Property, plant and equipment	5,712	5,617
Deferred tax asset	86	63
Total Assets	15,027	12,052
Current Liabilities		
Interest bearing borrowings	3,000	398
Trade and other payables	1,581	1,277
Provisions	278	508
Deferred income tax liability	687	668
Total Liabilities	5,546	2,851
Net Assets	9,481	9,201
Share Capital	3,084	3,084
Retained Earnings	6,397	6,117
Net Accumulated Fund	9,481	9,201

There has been a reduction in cash and cash equivalent as a result of decline in cash inflow. Interest bearing borrowings increased during 2009 as a result a loan of $3,000,000 from Fiji Ports Corporation Limited.

PART B – Control Issues

6.4 Manual Adjustment in Cash

The bank reconciliation included manual adjustment of $24,993 in the unpresented cheque listing to reconcile the cash account. According to the company, this adjustment was made by the previous Accountant. The reason for this adjustment is unknown.

The unpresented cheques are understated while cash is overstated by $24,993. Manual adjustments in cash increase the risk of fraud.

Recommendation

The company should ensure that there are no manual adjustments made to cash and that there are proper documentations for any adjustments made.

Management Comment

We note and agree with the comments. Our internal control checks detected the manual adjustment to excel formulas made by the previous accountant in the course of preparing bank reconciliations. Management has taken steps to ensure that there are no manual adjustments to cash at bank account and worksheets are thoroughly checked.

6.5 Creditors

From our review of records, the following were noted:

- We concluded that liabilities were understated by $30,201. Creditor statement for an oil company showed a balance of $75,784, while the General Ledger recorded $45,583. Furthermore, an invoice of $25,952 from a distribution company was not recorded at year end.
- The company recorded a payment of $4,470 from a Shipping agency in the Income Statement as customer claims. This resulted in the recognition of expenses twice. The shipping agency's account is overstated by $4,470 as the payment had already been made.
- Creditors are not cleared on a timely basis. There were balances in the Creditors' Subsidiary Ledger which relates to invoices of more than one year old.
- A transportation company had balances for invoices dating back to 2001 of $4,147. A Container movers balance of $7,873 in creditors included $6,645 relating to invoices dating back to 2004. These creditors should be cleared/written off as it is unlikely that these amounts will be paid. As a result creditors are incorrectly stated at year end.

Recommendations

- **The company should ensure that all liabilities relating to the 2009 financial year are accrued and that payments are correctly posted.**
- **Creditors with long outstanding balances should be reviewed and resolved.**

Management Comment

We note your comments and offer the following responses

- *The understatement of the Oil company invoice is reflective of the recording of our Lautoka invoices as they are paid when received. This has been an historical treatment so Management felt that the provision of an accrual will result in an over statement of expenses in one year. However management notes the point and will look at the best way to implement this.*
- *Management is aware of the balances in Creditors subsidiary ledger and steps are being taken to address this issue in this current financial year.*

6.6 Shareholders

The Companies Act requires that there be a minimum of two shareholders. However, Ports Terminal Ltd has only one shareholder.

The company is not complying with the Companies Act.

Recommendation

The company should comply with the relevant provision of the Companies Act

Management comment

Management notes the comments and will seek the necessary advice.

6.7 VAT Receivable

VAT receivable relates to VAT under assessed and not assessed by FIRCA dating back to year 2000. There is an amount of $106,720 that is doubtful and not recoverable as these amounts relates to prior years.

The VAT receivable balance is overstated.

Recommendation

The company should write off VAT Receivable that is not recoverable from FIRCA.

Management comment

We note the comments and are taking steps to clear this. However it must be noted that some of these amounts relate to periods before Fiji Ports Corporation Ltd (FPCL) took over the administration of PTL's accounts. Management has been actively pursuing the clearance of these balances which may take some time to sort through. No write offs can be made without complete assessments and Board approval.

6.8 Lack of supporting documents

Audit noted that there are no supporting documents for accruals of $17,990. This relates to prior month accruals which have been carried forward.

Accruals cannot be verified with the lack of supporting documents.

Recommendation

The company should ensure that proper supporting documents are maintained for the accrual of expenses.

Management comment

Management notes the comments and will rectify the same in this current financial year.

Section 7: Viti Corporation Company Limited

Viti Corporation Company Limited is an agro based government owned company and was reclassified as a Government Commercial Company in March 2000. The company's business activity includes beef (cattle) and piggery farming, aquaculture and cassava farming. In 2005, the government decided to lease the property in Navua to a private investor (Dairy Farmers Fiji Limited) for development of dairy capital.

The company consist of five main operational units as follows:

a. Pig Unit
b. Aquaculture Unit
c. Dairy and Beef Unit
d. Crop and Vegetable Unit and
e. Maintenance and Administration Unit.

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PART A – FINANCIAL INFORMATION

7.1 Audit Opinion

The audit of the financial statements of Viti Corporation Company Ltd for the year ended 31 December 2005 resulted in the issue of a qualified audit report. The qualifications were as follows:

- Assets and Liabilities for 2005 can not be relied upon due to the qualifications in the 2004 Financial Statements.

- A breakdown to support creditors and other payables of $87,497 written back to Operating Revenue were not provided. As a result the creditors as per the financial statements may be understated.

7.2 Abridged Income Statement

Year ended 31 December	2005 $	2004 $
Revenue	119,659	180,671

Year ended 31 December	2005 $	2004 $
Other Operating Revenue	146,673	-
Total Revenue	266,332	180,671
Expenditure		
Operating and Administration Expense	(261,880)	(306,148)
Direct Expenses	-	(118,785)
Total Expenditure	(261,880)	(424,933)
Gain/(Loss) from operations	4,452	(244,262)
Finance Costs	121,603	158,571
Operating loss before income tax	(117,151)	(402,833)
Income Tax (Expenses)/Benefit	-	-
Net loss for the year	(117,151)	(402,833)

Net loss of the company decreased by $285,682 or 71% in 2005 compared to 2004 as a result of increase in other operating revenue by $146,673 (100%) and decrease in expenses by $163,053 (38%) in 2005 compared to 2004.

Government grant totalling $58,667 was received in 2005 to pay off creditors and $87,497 worth of unaccounted creditors were written back to revenue. There was no direct expense in 2005 as a result of the company closing its agriculture and aquaculture activities.

7.3 Abridged Statement of Financial Position

As at 31 December	2005 $	2004 $
Current Assets		
Cash on hand and at bank	75,826	6,180
Trade & Other Receivables	46,362	14,750
Inventories	-	57,525
Total Current Assets	122,188	78,455
Non-Current Assets	4,651,830	4,992,814
Total Assets	4,774,018	5,071,269
Current Liabilities	525,285	2,167,766
Long term Liabilities	3,576,667	2,114,286
Total Liabilities	4,101,952	4,282,052
Net Assets	672,066	789,217
Shareholders' Equity		
Issued Capital	6,000,000	6,000,000
Share Deposits	400,000	400,000
Accumulated Losses	(5,727,934)	(5,610,783)
Total Equity	672,066	789,217

The Company recorded a decrease in its Net Assets by $117,151 or 15% in 2005 compared to 2004 due to decrease in inventory by $57,525 or 100% and increase in long term liability by $1,462,381 or 69% in 2005 as compared to 2004

The decrease in inventory was due to the closure of the agricultural operation while the increase in long term liability was due the amendments in the loan schedule to a 30 year repayment term at 0.0765% interest which was calculated against $3.7 million principal loan.

PART B – CONTROL ISSUES

7.4 Accounts Payables

Audit noted that creditors and other payables amounting to $87,497 were written back to operating revenue however the company did not provide the breakdown to explain the writing back of creditors and other payables.

Since a material sum of creditors have been written back without proper breakdown of who this creditors relate to, the creditors as per the financials may be understated for this reason.

Recommendation

Ministry of Public Enterprise should confirm this write offs formally to ensure the Creditors as per the financials for year ended 31 December 2005 is not understated.

Management Comments

The management takes note of the above and we could not confirm write offs as majority of the company's documents were destroyed in the 2004 flood. Majority creditors relates to prior years and for the last four years the company has not received any claims on money owed from prior years creditors

7.5 Fixed Asset Register

Audit noted that the Company did not maintain a fixed asset register for the year ended 31 December 2005. As a result there were:

- No control over the recording of the Company Assets;
- Inadequate information on addition and disposals of assets; and
- Inadequate information on capital committed to Assets.

Hence complete information relating to fixed assets was not available for management decision making.

Recommendation

Taking into consideration that the company ceased its agricultural operations and sold its assets (except land) to Dairy Farms Fiji, the Company does not have a fixed assets register. However, if the company plans to buy assets in future, it is recommended to maintain a fixed assets register in order to have full details of the assets it hold.

Management Comments

With the current operation of the company, there is no need to have fixed assets register as company has no future plans to purchase assets. In the event it arises, management will note and establish a proper fixed asset register.

7.6 Compliance

Audit noted that the Company did not lodge its VAT Returns for the following months:

- January –December 2005
- March 2007
- September 2007
- January –October 2009

The Company is in breach of Section 33 of the VAT Decree which 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.

Recommendation

The Company must lodge all pending VAT Returns without further delays to avoid penalties being imposed by Inland Revenue Department.

Management Comments

The management acknowledges and take note of the recommendation, and with the renewal of Board of Directors we will ensure that all pending VAT Returns are lodged immediately.

7.7 Lodgement of Annual Return

Section 127 of the Company's Act, states that every company having share capital should lodge an annual return.

A company search had been conducted with the Registrar of Companies and it is noted that the last annual returns of the company was lodged in year 2001.

The Company is not complying with the statutory requirements as stated in Section 127 of the Company's Act. It is also noted that there had been changes in the companies' directorship but this had not been updated with the Registrar of Companies.

Recommendation

All the pending annual returns should be filed with the Registrar of Companies as soon as possible to reflect true directorship and shareholding of the Company.

Management Comments

The management is currently in the process of updating the changes in directorship with the Register of Companies. The delay has been due to the waiting for the renewal of Board appointments for existing

Section 8: Yaqara Pastoral Company Limited

The Yaqara Pastoral Company Limited (YPCL) is a 100% Government owned commercial company. Since 1999, YPCL has been placed under the portfolio of the Ministry of Public Enterprises and Public Sector Reforms whereby the Ministry responsible appoints the Board.

YPCL is the major producer and supplier of quality beef and currently its market share is around 10% of the annual slaughter amount in Fiji. YPCL also produces quality breeding bulls to be distributed to small holder beef farmers around Fiji. YPCL is the only such breeder in Fiji today.

YPCL business activity has primarily two divisions;
- Livestock Division
- Crops Division

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PART A – FINANCIAL INFORMATION

8.1 Audit Opinion

The audit of the financial statements of the Yaqara Pastoral Company Ltd for the year ended 31 December 2008 resulted in the issue of an unqualified audit report however, the attention was drawn to the followings:

- Leasehold land and buildings were revalued by the Directors based on independent valuation in October 2002. Upon adoption of IFRS (2006), the company elected the option provided under IFRS 1 to apply the cost model (deemed cost) for leasehold land and buildings previously revalued, and accordingly, the cost value of leasehold land and buildings included revaluation increment amounting to $7,588,784.

An independent valuer is currently engaged to perform the valuation however; the company has not created provisions for impairment of the leasehold land and buildings.

- The company has been receiving royalty income from the Natural Waters of Viti Limited since 2000. These receipts have not been declared in the VAT returns and the required VAT amounts paid to FIRCA.

The financial statements were prepared in accordance with the International Financial Reporting Standards as required by the Fiji Institute of Accountants.

8.2 Abridged Income Statement

Year Ended 31 December	2008 $	2007 $
Revenue	732,426	791,814
Cost of sales	(27,324)	47,714
Gross profit on trading	705,102	839,528
Other operating income	2,209,079	2,646,969
Total Income	2,914,181	3,486,497
Administrative expenses	876,845	837,087
Selling and distribution	2,942	2,809
Other operating expenses	142,278	137,373
Total Operating Expenditure	1,022,065	977,269
Operating profit from operations	1,892,116	2,509,228
Finance costs	1,074	1,099
Operating profit before income tax	1,891,042	2,508,129
Income tax expense	647,195	970,496
Profit after income tax	1,243,847	1,537,633

Total profit after tax decreased by $293,786 or 19% in 2008 compared to 2007. This was a result of the decrease in other operating income particularly royalty income from the Natural Waters of Viti Limited. Royalty is paid to the company at a rate of 1.5% on the monthly turnover of Natural Waters of Viti Limited.

8.3 Abridged Balance Sheet

As at 31 December	2008 $	2007 $
Current assets		
Cash on hand and at bank	1,928,877	753,401
Trade receivables	217,684	772,134
Other debtors and prepayments	616,041	271,372
Held-to-maturity investments	1,593,204	1,049,756
Biological assets	2,411,262	2,412,857
Inventories	6,705	8,342
Total current assets	6,773,773	5,267,862
Non-current assets		
Held-to-maturity investments	-	500,000
Property, plant and equipment	6,774,454	6,872,040
Deferred tax assets	51,906	55,845

As at 31 December	2008 $	2007 $
Deferred expenditure	8,419	36,455
Total non-current assets	6,834,779	7,464,340
Total assets	13,608,552	12,732,202
Current liabilities		
Creditors and accruals	241,325	76,770
Provision for annual leave	6,769	13,157
Deferred income – grants	31,889	31,949
Total current liabilities	279,983	121,876
Non-current liabilities		
Deferred tax liabilities	345,525	349,390
Deferred income – grants	84,942	106,681
Total non current liabilities	430,467	456,071
Total liabilities	710,450	577,947
Net assets	12,898,102	12,154,255
Total equity	12,898,102	12,154,255

Net assets increased by $743,847 or 6% in 2008 compared to the previous year as the result of increase in total assets, specifically, cash on hand and at bank and other debtors and prepayments.

PART B – CONTROL ISSUES

8.4 Books of Account and Audit Adjustments

During the course of our audit and finalization of the financial statements, the following adjustments were processed in the trial balance:

Operating profit as per management accounts	$	1,926,975
Audit Adjustment Entries:		
Audit fees for the year 2008 not accrued by the company		(10,000)
Adjust insurance expense and insurance prepaid incorrectly calculated		2,509
Accrual in relation to VISA card expenses erroneously reversed		(7,000)
Prior year interest receivable incorrectly taken as interest income, reversed		(8,621)
Accrue for current year interest income and interest receivable		4,529
Royalty income accrual erroneously reversed		52,988
Adjustment to closing stock overbooked by the company		(30,281)
Write-off cash misappropriated by the company staff		(3,499)
Additional provision for doubtful debts		(36,558)
Net profit before income tax as per audited financial statements	$	1,891,042

The above entries primarily relate to accruals not recorded, under provision of doubtful debts, adjustment to stock balances and incorrect accounting of interest income.

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

<u>Recommendation</u>

The Company should improve its current system for preparation of accounts and of general ledger and subsidiary ledger reconciliations. Thorough review of the reconciling items should be

carried out with the books of account and necessary adjusting entries should be processed only after review and sign off by the higher authorities.

Management Comments

No Comments provided to OAG.

8.5 VAT output on Royalty Income

Review of royalty income received during the year from Natural Waters of Viti Limited (NWVL) revealed that VAT output has not been declared and paid on these royalty income receipts.

This has been the consistent practice followed by the company in relation to accounting of VAT output on the royalty receipts.

From discussion with the management, it was explicit that the company was receiving the royalty income from NWVL from the year 2000 onwards. However, these receipts have not been declared in the VAT returns as taxable supplies and the required VAT amounts have not been paid.

Royalty income receipts are subject to VAT, and accordingly VAT output should be charged to NWVL and accounted for.

Recommendations

- **The management should urgently review the above aspect and implement urgent corrective measures.**
- **The Company should seek advice and clarification from tax specialists thereby ensuring that VAT liabilities (if any) are discharged properly.**
- **The Company should liaise with NWVL and FIRCA for settlement of outstanding VAT.**

Management Comments

No comments provided to OAG.

8.6 Incorrect Tax Return

Scrutiny of the tax return lodged and the notice of assessment for the year ended 31 December 2006 revealed that the amortisation of leasehold land expenses amounting to $247,483 has been added back twice in the return of income.

As a result of this, the Company incurred additional tax expenses of $76,720.

Recommendations

- **The company should lodge amended income tax return for the year ended 31 December 2006 and seek amended assessment from Inland Revenue.**
- **Appropriate due care must be exercised while compiling the return of income so that errors and omissions are avoided and the company does not unnecessarily pay additional income tax or penalties.**

Management Comments

No comments provided to OAG.

8.7 Income Tax Return Not Lodged

Every person liable to taxation under the provisions of this Act shall (subject in the case of a company, to the provisions of section 53, and in the case of a business, to the provision of section 52) on or before 31 March in each year without notice or demand deliver to the Commissioner a return, in such form as may be approved by the Commissioner, of his total income for the immediately preceding year. In such return, there shall be stated an address for service in Fiji to which all assessments, notices and other documents may be posted or served.[1]

Audit noted that the tax return for the year ended 31 December 2007 has not been lodged with Fiji Islands Revenue and Customs Authority till the date of review on 14 August 2009.

Recommendation

The Company should lodge the income tax returns on a timely basis to avoid paying unnecessary tax penalties.

Management Comments

No comments provided to OAG.

8.8 Certificate of Exemption

Audit noted that the lessee has deducted withholding taxes on the royalty payments to Yaqara Pastoral Company Limited (lessor).

Audit is of the view that the Company should obtain a valid Certificate of Exemption from Inland Revenue and advise the lessee not to deduct withholding taxes.

Recommendation

The Company should consider seeking Certificate of Exemption from FIRCA for the royalty receipts from the lessee.

Management Comments

No Comments received

8.9 PAYE Annual Summary

In the exercise of his duties, the Auditor-General may call upon any officer for any explanation and information he may require or may authorize any officer on his behalf to conduct any enquiry, examination or audit.[2]

[1] Fiji Income Tax Act Cap 201 (Revised to 30 May 2007) Section 44
[2] Audit Act 7 (1) (a) & (b)

Despite repeated requests, the PAYE Annual Summary for the year ended 31 December 2008 was not provided for audit purposes.

Recommendation

All information and reconciliations should be kept with management and provided for audit review to perform required audit procedures.

Management Comments

No comments provided to OAG.

8.10 Turnover Payments - Natural Waters of Viti Limited

As per the agreement between the lessee and lessor, the royalty was paid to YPCL at a rate of 1.5% on lessee's turnover per month.

Audit noted that during the year, an adjustment had been made for $106,000 for royalty overpaid to the company as per the agreement.

However, the audited turnover certificate from lessee has not been obtained for the year to confirm the total royalty receivable.

Recommendation

The management should insist on an audit certificate confirming the lessee's turnover as provided in the agreement to confirm the royalty income.

Management Comments

No comments provided to OAG.

8.11 Statutory Registers

Every company should keep a register of its members and enter therein the following particulars:

a) The names and postal addresses of the members, and, in the case of each company having a share capital, statement of the shares held by each member, distinguishing each share by its number so long as the share has a number, and of the amount paid or agreed to be considered as paid on the shares of each member;
b) The date at which each person was entered in the register as a member;
c) The date at which any person ceased to be a member:

Provided that, where the company has converted any of its shares into stock, the register should show the amount of stock held by each member instead of the amount of shares and the particulars relating to shares specified in paragraph (a).[3]

[3] Companies Act Cap 247 Section 114

Audit noted that the company did not maintain the Register of Members required by the Companies Act, 1983.

Recommendation

All statutory registers as required by the Companies Act, 1983 should be maintained by the Company.

Management Comments

No comments provided to OAG.

8.12 Bank Reconciliations

It is necessary to have the cash book balance reconciled with the balance shown in the bank's records. This should be done at least once a month. Any continuing items causing a difference between the two records should be investigated and resolved.

Scrutiny of bank reconciliation statements, revealed that:

a) There was no evidence to suggest that bank reconciliations were reviewed by an independent senior officer.

b) A stale cheque (cheque number 000009 of ANZ account number 8233346) of $500,000 had been deleted from the system and the bank reconciliation was updated resulting in a difference between the balance as per the general ledger and the bank reconciliation.

c) Cheque number 000024 amounting to $5,043 payable to a Hardware company was presented and cleared by the bank. Subsequently, this cheque was erroneously deleted from the system. This resulted in this cheque appearing as a reconciling item in the bank reconciliation for the month of December 2008.

Recommendations

Bank reconciliation is an important part of the internal control system and the company should ensure that:

- **Reconciliations are reviewed and initialed each month by an independent senior personnel ensuring that all reconciling items are cleared regularly, properly reconciled and that the control balances agrees to the relevant records.**
- **All cheques older than six months be cancelled and written back in the general ledger and the payee notified.**
- **Immediate investigations should be carried out for the causes of imbalances in the bank reconciliations so that corrections can be made accordingly.**

Management Comments

No comments provided to OAG.

Section 9: 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.

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PART A – FINANCIAL INFORMATION

9.1 Audit Opinion

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

9.2 Abridged Income Statement

Year Ended 31 December	2009 $'000	2008 $'000
Revenue		
Operating revenue	169,049	159,439
Other operating income	10,556	24,376
Total Revenue	179,605	183,815
Expenditure		
Personnel expenses	17,993	17,310
Fuel costs	77,270	89,250
Lease and Rent expenses	1,721	1,905
Electricity purchases	12,027	12,984
Depreciation	29,362	29,013
Losses due to flooding	1,140	-
Cyclone Mick – Restoration costs	2,157	-
Other operating expenses	24,315	27,303
Total Expenditure	165,985	177,765
Profit from operations	13,620	6,050
Finance costs	13,189	8,037
Share of profit of joint venture	499	717
Operating profit/loss before income tax	930	(1,270)
Income tax benefit	1,515	3,745
Net profit for the year after income tax	2,445	2,475

The Authority recorded an operating profit after tax of $2,445,000 in 2009 compared to $2,475,000 in 2008. The decline in operating profit was largely due to significant decline in other operating income and restoration cost of electricity incurred in 2009 due to natural disasters such as flooding and cyclone Mick.

9.3 Abridged Balance Sheet

As at 31 December	2009 $'000	2008 $'000
Current Assets		
Cash and cash equivalents	36,490	10,028
Held to maturity financial assets	57,859	-
Receivables and prepayments	27,714	30,295
Other current assets	16,117	15,206
Total Current Assets	138,180	55,529

As at 31 December	2009 $'000	2008 $'000
Non Current Assets		
Property, plant and equipment	719,097	658,670
Other non current assets	23,002	23,546
Total Non Current Assets	742,099	682,216
Total Assets	880,279	737,745
Current Liabilities		
Interest bearing borrowings	116,435	40,815
Other current liabilities	25,279	16,189
Total Current Liabilities	141,714	57,004
Non-Current Liabilities		
Interest bearing borrowings	243,232	202,156
Deferred tax liabilities	48,549	50,484
Other non current liabilities	44,744	43,548
Total Non Current Liabilities	336,525	296,188
Total Liabilities	478,239	353,192
Net Assets	402,040	384,553
Total Capital and Reserves	402,040	384,553

Net assets increased by $17,487,000 or 4.5% in 2009 compared to 2008 mainly because of purchase of held to maturity financial assets of $57,859,000 and increase in acquisition of property, plant and equipment by $60,427,000 or 9.2%.

PART B – CONTROL ISSUES

9.4 Income Tax Calculation

Review of income tax computation and workings for the year ended 31 December 2009 and previous year's tax returns and schedules revealed the following:

- The cost of fixed assets as per financial statements (including intangible assets – software costs) differs from the cost for tax purposes and no reconciliation has been provided for the difference as follows:

Particulars	As per Financial Statements ($)	As per Fixed Assets Schedule for Tax Purpose ($)	Difference ($)
Fixed assets – cost	870,656,447	827,253,611	43,402,836

- Provision for sick leave, annual leave and bonus has not been adjusted in the tax computation. The Authority believes that the provisions are of an accrued expense in nature.

  Audit considered that provision for sick leave, annual leave and bonus were of the nature of provision, and accordingly, Fiji Islands and Revenue Customs Authority (FIRCA) is likely to disallow the provisions.

- No adjustment was made in the income tax return in the current year tax computation for non-allowable expenditure. FIRCA may seek to review the deductions claimed and disallow any amounts which do not comply with the provisions for tax deduction.

Recommendations

The Authority should:

- **carry out special review of income tax return preparation and reconciliation procedure with a view to improve tax compliance and thereby ensuring that the risk of potential income tax liability and penalties is reduced;**
- **consider provision for sick leave, annual leave and bonus as non deductible expense and to be considered for deferred tax asset;**
- **make adjustment for all non-deductible expenses;**
- **reconcile the cost of fixed assets as per tax and as per financial statements as far as practicable, and the difference should be explained;**
- **take steps to ensure that correct numbers are used for performing tax effect computations; and**
- **arrange to perform special taxation compliance review ensuring high standard on taxation compliance.**

Management Comment

No comment was received from the Authority.

9.5 Tax Depreciation

Review of tax depreciation schedule of the Authority for the year ended 31 December 2009 revealed the following:

a) Detailed breakdown listing of assets and individual depreciation computation were not provided for audit review.

b) Tax depreciation is being computed on aggregate cost values. This increases the risk of claiming depreciation on fully depreciated assets, thereby resulting in over statement of tax depreciation.

Recommendations

- **The Authority should prepare a detailed fixed asset schedule for tax purposes ensuring the costs of fixed assets as per accounting schedules reconciles to cost as per tax depreciation schedules after excluding revaluation increments.**
- **The Authority should update the tax fixed assets schedule progressively, ensuring that depreciation is calculated accurately.**

Management Comment

No comment was received from the Authority

9.6 Inventory Aging Report

The audit revealed that the Authority does not maintain inventory ageing report.

Recommendation

The Authority should prepare inventory ageing report as it is one of the important management tools in identifying slow moving/obsolete inventory and based on which appropriate write off or provision could be made.

Management Comment

No comment was received from the Authority.

9.7 Deferred Tax Assets

Review of the financial statements revealed that the Authority has recognized around $7.9 million of deferred tax assets relating to tax losses brought forward from prior year and current year tax losses.

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 utilized.

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

- In the current year, tax losses of approximately $5 million have been recouped and utilized by the Authority and were adjusted against taxable income.
- 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.
- The Authority has commenced construction of the Nadarivatu Hydro Power Plant in December 2008 and upon commissioning in 2011, diesel burn and fuel cost to the Authority is expected to reduce significantly.
- Duty concession on diesel and HFO has been approved by the Government.
- In August 2008, the Commerce Commission approved increase in tariffs resulting in an increase in total revenues and a favorable profit outlook is projected.
- The joint venture entity, Sustainable Energy Limited (SEL), has been acquired in the year 2010, thereby resulting in the integration of SEL operations with the Authority.

Based on the above, management believes that the tax benefit on the carried forward losses is expected to be recouped in the next 3-4 years.

Recommendation

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

Management Comment

No comment was received from the Authority.

9.8 Allowance for Bad and Doubtful Debts – Trade Debtors

Audit noted the following:

a) At balance date, the allowance for doubtful debts maintained by the Authority amounted to $278,232.

   Review of the adequacy of this allowance by analyzing the type of account and based on assessment, a further allowance of $43,973 was created by way of an audit adjustment.

b) Review of the movement in allowance for doubtful debts, audit noted that out of the total doubtful debts recovered during the year amounting to $18,179 only $7,130 was recorded in the statement of comprehensive income.

   Furthermore, based on reviewed assessment, an additional allowance of $12,820 was not provided for in the statement of comprehensive income.

   The net impact was an overstatement of the profit by $1,771.

Recommendations

- **Allowance should be continually reviewed for any bad and doubtful debts and adequate allowance should be maintained on a progressive basis.**
- **All recoveries and additional allowance created for doubtful debts should be accurately recorded to ensure proper disclosure of income and expenses.**

Management Comment

No comment was received from the Authority

9.9 Debtors Reconciliation

Review of electricity receivables reconciliation revealed that the receivables listing showed a balance of $14,152,637 as against balance of $14,080,419 in the general ledger.

The Authority has identified certain differences relating to dishonored cheques and direct credits amounting to $20,900 and $61,286, which have been updated in the general ledger, but not in the receivables listing. However, no reconciliation and explanation was provided for the remaining difference of $31,832.

Audit also noted differences over the years in this aspect have been as follows:

31 December 2009	$ 31,832
31 December 2008	$282,784
31 December 2007	$839,720
31 December 2006	$555,198
31 December 2005	$378,048

31 December 2004 $304,664

The difference between the subsidiary and control accounts over the last few years is of concern as it indicates that the two systems are not integrated properly and indicates that reconciliation and internal control procedures are not adequate.

Recommendations

- **The Authority should reconcile the difference immediately and adjustments, if any, should be processed in the respective ledgers.**
- **The Authority should review its system and introduce immediately the necessary corrective measures to improve its internal control and reconciliation processes.**

Management Comment

No comment was received from the Authority.

9.10 Electricity Debtors – Unallocated Debits and Credits

Review of electricity receivables for the year ended 31 December 2009 revealed that the following amounts of unallocated debits and credits are shown separately as part of the electricity receivables.

Particulars	Amount ($)
Unallocated credits	1,541,037
Unallocated debits	520,109

Recommendation

The management should take necessary action to investigate the unallocated balances and assign these amounts to individual debtor account. These balances should be monitored regularly and cleared on a timely basis.

Management Comment

No comment was received from the Authority.

9.11 Long Overdue Receivables

Review of electricity debtors ageing report revealed significant balances as long outstanding receivables as at 31 December 2009. Details are show below.

Particulars	31/12/09 ($)
61-90 days	98,051
90 days and above	561,739

The normal credit period for all electricity debtors is 14 days.

Recommendations

- **The Authority should take appropriate steps to vigorously follow up for recovery of the long outstanding debts.**
- **The Authority should review provision for doubtful debts on a periodical basis and make adequate allowance for the debts that are considered doubtful of recovery.**

Management Comment

No comment received from the Authority.

9.12 Liquidated Damages Receivables

Review of other receivables revealed that the Authority had recorded $807,030 receivable from a non-renewable energy supplier as liquidated damages and claims for non performance of Power Purchase Agreement.

The Authority intends to recover $100,000 per month through deductions from monthly payments for electricity purchases produced by the supplier. This monthly recovery will commence when the company's 9MW plant in Lautoka commences operation from July 2010.

The non-renewable energy supplier has confirmed and agreed for this monthly adjustment of $100,000.

Audit was further advised that the Authority has started the recovery process by deducting $10,000 from the amount paid for electricity purchased in March 2010.

Based on the above, no allowances for doubtful debts have been made in the books of accounts for these receivables.

Recommendations

- **The management should continuously monitor these periodic recoveries and ensure that the amount receivable from a non-renewable energy supplier is recovered in due course.**
- **In the event, these recoveries are not being made, then appropriate allowance for doubtful debts needs to be made in the books of account.**

Management Comment

No comment received from the Authority

9.13 Receivable from Fijians Trust Fund Board

Review of other receivables revealed that the Authority has recorded $96,039 receivable from Fijians Trust Fund Board as reimbursement for the cost of chiller compressors.

Audit further noted that this amount is being carried forward from the prior year.

Audit was advised that the Fijian Trust Fund Board had requested the Authority to submit the consultant's report and design to ensure that the costs being reimbursed are as per the consultant's design.

However, as at 31 December 2009, these documents have not been submitted by the Authority.

Recommendation

The Authority should take appropriate steps to follow up for recovery of the amount receivable from the Fijians Trust Fund Board. If balance is considered to be irrecoverable, appropriate adjustments needs to be made in the books.

Management Comment

No comment received from the Authority.

9.14 Fixed Assets – Tax Written Down Values

Tax asset register in summary format together with the depreciation computations for the year ended 31 December 2009 was provided for audit review.

Audit was also provided with income tax returns lodged with FIRCA for the year ended 31 December 2008, together with the tax asset register used for lodgment of tax returns.

Based on audit review of the above documents and audit procedures, audit noted that tax written down values of fixed assets as per tax effect computation for the year ended 31 December 2009 amounted to $546 million. However, the tax written down values of fixed assets as per tax returns and tax asset register for the year ended 31 December 2009 amounts to $508 million, a difference of $38 million was noted.

The above differences were immediately reported to the executives of the Authority and the matter was referred by FEA to PWC tax consultants and the tax agents.

Subsequently, PWC advised the Authority that the difference of $38million relates to the pre-1996 assets which were missed out from tax asset schedules filed with Inland Revenue. Based on the advice received from PWC, audit understands that tax asset register would be updated after identifying the differences and the tax asset register would be updated accordingly.

Furthermore, PWC has advised the Authority that the tax written down values as used for tax effect accounting is accurate, and hence no adjustment was required for additional deferred tax liabilities on account of the $38 million differences.

Audit understands that additional assets valuing of $38 million will be incorporated in the tax fixed assets schedules and income tax returns for the year ended 31 December 2009.

Recommendations

- **Authority should carry out a special review of income tax return preparation procedures together with compilation of the tax depreciation schedules and other tax related schedules with a view to improve its tax accounting processes.**
- **The Authority should update its tax asset schedules to incorporate assets under various categories of fixed assets which were missed out from tax asset schedules filed with Inland Revenue.**
- **All balances relating to income tax and tax effect accounting schedules should be fully reconciled, and differences should be identified, explained and adjusted, if required.**

Management Comment

No comment received from the Authority.

9.15 Capital Work-In-Progress

Review of capital work and work-in-progress listing, revealed that there was number of projects with no additional costs incurred during the year. Details are provided in the following table.

Job No.	Amount ($)
71750101	270,019.52
C41240401	231,102.62
C41300101	38,569.40
C50053702	20,564.49
C50181304	28,721.78
C50353602	98,973.58
C50353702	124,220.31
JMJP0017	29,329.16
JMJP0019	23,879.17
JCEO0001	59,225.00
JMJP0002	23,063.33
JMJP0007	601,580.92

Recommendation

The management should review the capital work in progress on a periodic basis and capital jobs with no movements from prior years and which have been discontinued should be identified and expensed or capitalized to respective assets category, as appropriate.

Management Comment

No comment received from the Authority.

9.16 Creditors listing

Review of creditors and accruals revealed that for certain general ledger balances, no listing was provided for review. Audit further noted that there had been no movement in the balances from prior year. The following details have been provided.

Description	G/L Code	Amount ($)
Unclaimed credit balances	6753	46,279
Deposits consumer unclaimed	7013	168,293

Recommendations

- **The management should maintain a listing and appropriate details for all general ledger balances and on a periodic basis reconcile all the balances.**
- **Old credit balances should be analyzed and any liability which is considered not payable should be written back to income.**

Management Comment

No comment submitted by the Authority.

9.17 Capital Projects and Borrowing

The audit noted significant increase in interest bearing borrowings during the past two years. Audit also noted significant increase in borrowing costs during past 12 months. Audit recognized 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 borrowings for the purpose of further developments on the projects. Audit also noted that these capital 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 monitoring the increasing level of borrowings, interest costs and repayment commitments, and its impact on the Authority's activities, and ensure that adequate funding is available to meet all its commitments as and when they fall due.

Management Comment

No comment was received from the Authority.

9.18 International Financial Reporting Standards – Compliance

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 and other assets.

Recommendation

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 Comment

No comment received from the Authority.

9.19 Financial Instruments and Risks

International Financial Reporting Standards require all entities to disclose information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed.

The standards require qualitative as well as quantitative disclosures. Such disclosures would cover wide range of risks, including:

- Interest rate risk
- Foreign currency risk
- Credit risk
- Liquidity risk

The best practices require business executives and directors to carryout detailed review of all its operations focusing on financial transactions and balances, identify all financial risks, and formulate policies and procedures to manage such risks.

Risk management is recognized as an integral part of best management practices.

Recommendations

- **The Authority should carryout detailed review of all its operations focusing on financial transactions and balances, identify all financial risks, and formulate policies and procedures to manage such risks.**
- **The Authority should review its current disclosures in the financial statements with the objective of improving further disclosures to provide more information that will enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Authority is exposed.**

Management Comment

No comment received from the Authority.

9.20 Impairment of Assets

The Authority has significant investment in property, plant and equipment. Furthermore, significant capital works are in progress to upgrade the transmission equipment and new hydro power projects are in the process of being constructed with substantial capital costs.

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

Based on the trend in technological development and prevailing economic situation, the Authority should continuously review the carrying value of all assets.

In view of the above, impairment of assets test needs to be carried out by the Authority on a progressive basis, in a structured manner at each reporting date.

Audit noted that no formal impairment testing of its property, plant and equipment was carried out by the Authority for the year ended 31 December 2009.

Recommendations

- **The Authority should review the carrying value and remaining useful life of all assets taking into consideration the prevailing economic and political climate, technological developments and 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.**
- **The Authority should consider engaging independent professionals and specialists in performing the discounted cash flow analysis and assessing the carrying value of property, plant and equipment.**

Management Comment

No comment was received from the Authority.

9.21 Bank Covenants

Audit noted that as at 31 December 2009, the Authority has breached one of the financial covenants as stipulated by ANZ Banking Group, as follows:

Financial Ratio	ANZ Norm	Actual
Maximum gearing ratio	1 : 1	1 : 0

The above matter has also been disclosed in the financial statements.

Breaches in the financial covenants imposed by the bank may affect the Authority's borrowing terms and conditions including interest rates.

Recommendation

The management of the Authority should continuously review the bank covenants and appropriate steps should be taken to ensure that the financial covenants of the bank are not breached.

Management Comment

No comment was received from the Authority.

9.22 Internal Audit

Audit is of the view that the scope and coverage of internal audit function appears to be inadequate in relation to the size of the Authority and nature of its business. More specifically, the internal audit focus and function should be extended to cover high risk areas such as revenue, fixed assets, supply chain division, procurement, payroll and payments.

In view of the increased risk in the area of work place frauds audit is of the view that the internal audit focus should also be extended and should be more focused towards identifying and controlling workplace frauds.

Recommendations

The Authority place more emphasis and commitment in the internal audit functions as this will further strengthen the internal controls and governance environment.

Audit further recommend that internal audit function should:

- **Enhance its scope to include all the accounting and finance areas and more specifically to test the internal controls in relation to revenue and expenditure cycles thereby adding greater potential benefit to the business.**
- **Suggest improvements in the existing systems and internal control procedures and follow up on the recommendations made in the internal audit reports.**

Management Comment

No comment was received from the Authority.

9.23 Accounting Procedures Manual

Audit understands that the Authority does not have accounting procedures manual for the Finance Department. The relevant policies and procedures required for processing and recording transactions are communicated to the staff by "word of mouth". Although, there are usually two or more people who have knowledge of how a job is performed, the loss of staff due to resignation or leave may pose problems for the accurate and efficient functioning of this department if the policies and procedures are not communicated properly to the concerned staff.

Recommendation

Accounting policies and procedures should be documented for the Finance Department.

Management Comment

No comment was received from the Authority.

9.24 Fixed Assets

Review of the fixed asset schedule for the year ended 31 December 2009 revealed the following exceptions:

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

(ii) Complete physical count of the items of fixed asset was not conducted during the year.

(iii) Only one general ledger account (account no. 6052) is maintained for accumulated depreciation for all fixed assets categories.

Recommendations

- **The Authority should maintain computerized fixed asset register which should be 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 Comment

No comment was received from the Authority.

9.25 Land Titles

Review of the fixed assets schedule revealed that the Authority has a number of freehold land and leasehold land. However, certain 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 caveats placed on the land title in respect of the acquisition of land at Kinoya, land title has not yet been legally transferred to the Authority. The above is disclosed appropriately in the financial statements.

Audit has been advised that agreement for Monasavu lease has been prepared and lease titles will be formally executed and issued once the land survey is completed.

Recommendations

- **All freehold or leasehold land owned by the Authority should be included in the fixed assets schedule and should be supported by land title under the name of the Authority.**
- **The Authority should follow up on all the transfer or registration of the land titles on an urgent basis, including land titles for Kinoya and Monasavu lands.**

Management Comment

No comment was received from the Authority.

9.26 Annual PAYE Summary

Audit noted that certain employees are provided with medical benefits. However, this benefit is not disclosed in the Annual PAYE Summary.

Audit further noted that wages and salaries not subject to PAYE as per the payroll report amounting to $682,681 have not been disclosed in the Annual PAYE Summary.

Recommendations

- **The Authority should disclose in the Annual PAYE Summary, all employment benefits provided to employees.**
- **All wages and salaries should be incorporated and disclosed in the Annual PAYE Summary.**

Management Comment

Section 10: 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.

Table of Content

PART A – FINANCIAL INFORMATION

10.1 Audit Opinion

The audit of the financial statements of the Housing Authority for the year ended 31 December 2008 resulted in an issue of an unqualified audit report.

10.2 Abridged Statement of Financial Performance

Year ended 31 December	2008 $'000	2007 $'000
Interest Income	11,167	11,856
Interest Expense	(6,652)	(6,927)
Total Interest Income	4,515	4,929
Other Operating Income	6,324	9,898
Total Operating Income	10,839	14,827
Staff Costs	(4,584)	(5,126)
Bad & Doubtful Debts	(620)	(2,163)
Other Operating Expenses	(4,076)	(6,955)
Total Expenses	(9,280)	(14,244)
Net Profit for the Year	1,559	583

The total net profit in 2008 increased by $976,000 despite the decline in the total operating income by $3,988,000 or 27%. There was also a decline in staff cost by 11% and other operating expenses by 41% compared to 2007. The net profit for the year constituted 9% of total revenue. The Authority needs to pursue new revenue sources and also reduce expenditure to improve its operating result.

10.3 Abridged Statement of Financial Position

As at 31 December	2008 $'000	2007 $'000
Cash	1,755	7,212
Investments	-	6,000
Loans	130,894	130,783
Stock	10,457	11,013
Land held for future development	6,632	6,637
Property, plant & equipment	9,338	7,238
Other	67	138
Total Assets	159,143	169,021
Borrowings	90,222	106,562
Employee Entitlements	858	699
Provisions	800	680
Other	12,217	7,593
Total Liabilities	104,097	115,534
Net Assets	55,046	53,487
Capital and Reserves	55,046	53,487

Total assets declined by $9,878,000 or 6% in 2008 compared to the preceding year as a result of reduction in cash by $5,457,000, or 76%. Financial investments also declined by $6,000,000 or 100%. Inventories also showed marked reductions of $556,000 or 5% due to the increase in the sale of land and houses in 2008.

The decrease in liabilities by $11,437,000 or 10% was due to reduction in borrowings by $16,340,000 or 15%.

PART B - CONTROL ISSUES

10.4 Collective Impairment of Receivables

The Authority has calculated its provision for doubtful debts by making specific provisions against identified doubtful debts and a general provision to cover those that may not have been specifically identified.

The general provision made is calculated at 2% of the loan portfolio. The Authority has not been able to justify the basis of the rate with a trend analysis of previous bad debt losses recorded.

In addition, there was no credit risk rating system to enable the grouping of loans with similar credit characteristics. This would have assisted the Authority in calculating collective impairment of debts.

Though the Authority has subsequently implemented a new loan portfolio management system but the above practise is not in accordance with International Accounting Standards 39 *Financial Instruments: Recognition and Measurement ("IAS 39").*

Recommendations

- **The Authority should ensure that it complies with the requirements of IAS 39.**
- **The Authority should use the new loan portfolio management system to calculate collective (and specific) impairment of loans.**

Authority's Comments

We do not agree with the observations since the trend analysis for past three years was provided during the audit. This was the basis of determining the rate of 2% that was applied and in consideration that Housing Authority provides loans to the middle to low income Groups which is high risk. We agree with auditor's second observation and that was one of the major reasons for changing our Lending IT system from 2009. The specific and general provisioning is based on RBF's policy guideline on Loan Classification and Asset Impairment.

10.5 Value Added Tax

There is a variance between the Statement of VAT Account issued by the Fiji Islands Revenue & Customs Authority (FIRCA) and the net VAT receivable of $118,000 recorded in the general ledger. The variance is attributed to withholding tax (WHT) processed/posted by FIRCA but there were no supporting documents available for review.

The delay in resolving the variance between FIRCA and the Authority's general ledger balance increases the risk of errors.

Recommendation

Management should follow up this matter with FIRCA in order to resolve the matter soon.

Authority's Comments

The Authority was always filing VAT returns on a monthly basis. As noted, the differences on balances was due to provisional tax recorded by FIRCA in their General Ledger which also included VAT whilst Housing Authority created two separate General Ledger Accounts. Management will continue to follow up with FIRCA to clear out the differences in their statement and we will advise them of audit concerns.

10.6 Interest Income

The Authority's loan portfolio decreased to $141.4m in the current year from $144.7m in the prior year. The value of accounts categorised as 'non-performing loans' (NPL) decreased to $18.7m from $21.5m. Consequently, interest in arrears recorded at year-end decreased compared to prior year.

Interest on non-performing loans is suspended until the loan accounts are rehabilitated. Audit further noted that $1.3m of interest previously suspended were realised as income by the end of the year. This implies that the credit standing of these accounts have improved (no longer in arrears).

The review of these accounts noted that some of these loans were still in arrears.

The recognition of income despite non-improvement of loan performance is not a prudent practise and can result in recognition of income which may not be collected. As a result, income may be overstated.

Recommendation

- **Management should review the loan accounts which have been upgraded from the NPL category at each year-end. This is to determine whether the recognition of income on these accounts should continue.**
- **Accounts which continue to be in arrears should have interest income on them suspended.**

Authority's Comments

The recognition of suspended interest income is treated in accordance with HA policy i.e. suspended interest income is realized as and when non performing loans are termed good. Subsequently the account if it goes into arrears, but within 3 months term, income is still realized, however it shall be suspended again if it exceeds 3 months in arrears.

10.7 Credit Risk Grading System

The Authority did not use a Credit Risk Grading system to enable it to systematically calculate and monitor bad and doubtful debts.

The lack of a Credit Risk Grading system increases the risk of bad and doubtful debts not being detected and this could lead to overstatement of loan balances in the financial statements.

Recommendation

The Authority should use a Credit Risk Grading system to categorise loan accounts of the same characteristics and assess recoverability in an objective manner. The use of such a system will ensure that subjectivity especially in the calculation of provision for doubtful debt is minimised or eradicated.

Authority's Comments

The previous AS400 system did not have Credit Risk Facility. Loan applications were assessed based on the probability of defaults and HA's security on the loan. Assessments were based on customer's salaries and source of employment.

Risk Grading is now part of the loan assessment criteria in our new Lendsphere system and also in our Collection System to grade customers account in arrears according to date past due and interest suspended calculation accordingly. It is now based on Reserve Bank of Fiji policy and guidelines.

10.8 Lending Procedures

The audit reviewed the effectiveness of controls in the Lending Department and noted the following weaknesses.

- Preliminary requirements not fully met – Requirements were only partially met. Bank statements were not obtained and reviewed;
- Age of applicant – on one occasion, loan was granted to a principal applicant aged 49 yrs with a loan term that meant it will be settled after the principal applicant is more than 60 yrs old;
- Debt servicing ratio – gross income sometimes not available to enable calculation of the ratio; and
- Statement of Financial Performance and Position – no evidence of assets or income included as part of the financial statements provided.

The practise of not fully implementing internal controls in the Lending Department increases the risk of financial loss to the Authority.

Recommendations

- **Management should ensure its lending/loans policies and procedures is adhered to.**
- **Also the management should ensure that internal controls are implemented as stipulated.**

Authority's Comments

- *Bank Statement is part of the checklist requirements of which applicants should provide upfront. However, there may be instances whereby applicants receive their pay via cash. In such cases applicants may not have bank accounts and/or do not do regular deposit in their account, thus bank statement will not be required. The purpose of requesting bank statements is to verify applicants net salary in the payslip against the amount deposited in the bank, their spending patterns, saving capacity and other financial commitments.*
- *If the loan taken by more than one person, the loan term is calculated based on the average ages of the applicants. This is in accordance with clause 10 of HA Credit Approval Policies and Procedures where we can lend to persons up to sixty five years based on the repayment capacity*
- *We need to view this application where gross income is not provided. All our assessments are based on the applicant's income. Therefore we cannot approve a loan if income details are not available*
- *The assets stated in the financial position are just an indicator of a customer's asset position. We do not measure their ability to service loan from the assets stated in the financial position. However, in the event applicants use their assets as collateral, our Valuers will provide a report to that effect. Further payslips, letters from employers, statutory declarations etc are provided as part of the financial statement.*

10.9 WIP Accruals and WIP Accounts

The audit noted ambiguity for accruals made for Work-in-Progress (WIP) at year-end. The accruals were for the cost of reinstating the state of land lots back to their original state after landslides, erosions or drainage/flooding problems but there was no satisfactory explanation or evidence provided on whether there is a present obligation for its recognition as a liability.

Furthermore, the audit noted that out of the 10 projects in the WIP account, there was no movement recorded for 7 projects which have been 'in progress' for prior years. The lack of further development work could indicate that the assets were impaired because the Nabutu, Tavua and Deuba projects (approximately $156,000) were being considered for write-off due to feasibility reasons.

The recognition of liabilities which do not meet the recognition criteria under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* results in non-compliance with the financial reporting framework of the Authority *(IFRS)*.

The lack of review of work in progress accounts for impairment at year-end increases the risk that assets may be overstated.

Recommendation

Management should ensure its financial statements are prepared in accordance with the approved financial reports framework.

Authority's Comments

Management will review the WIP accruals and take the necessary steps to comply with IAS 37. Adjustments shall be made once an evaluation is carried out to determine the balance of works required to be undertaken.

10.10 Land Sales

The inventory listing included houses/lots which were classified as either sold, sale transaction to be finalised or in archives. Audit noted that those land/house inventory items labelled as 'archives' were no longer the property of the authority.

Such malpractice for not updating inventory listing increases the risk of incorrect financial reporting.

Recommendation

Management should ensure that the movement of inventory is accurately captured in the general ledger. The listing of inventory and value recorded in the general ledger should only reflect those that are still the Authority's property.

Authority's Comments

We agree with your observation. Properties which were incorrectly archived in AS400 system have now been rectified. Going forward, the new automated IT system will eliminate this error.

10.11 Credit Balance Refund

Opening balances of $64,000 and $11,000 were noted in the Credit Balance of the Central and Western accounts respectively without any reconciliation or details available for these balances.

The amount recorded in the general ledger did not match the balances published in the national dailies for unclaimed monies.

The lack of details or reconciliation increases the risk of fraud and error.

Recommendation

Management needs to reconcile the opening balance and obtain the details.

Authority's Comments

The reconciliation has been done till 2007.

We will be reconciling credit balance account that was migrated to Navision system and take appropriate action to refund customer where appropriate.

10.12 ALCO

Audit noted that the Authority does not have an Asset and Liability Committee (ALCO). This committee is integral to any financial institution as it oversees the management of the highest risk to the liquidity risk.

The lack of an ALCO increases the risk that liquidity risk issues may not be dealt with in detail by a committee before submission to the full Board.

Recommendation

The Authority should consider setting up an ALCO. This will oversee the Authority's plan in managing liquidity risk and assist in dealing with these issues in greater detail before deliberation by the full Board.

Authority's Comments

We agree with the comments and management will now prepare a paper for the Board in March, 2010 for its approval and implementation.

10.13 Management Annual Leave

Audit noted that some management staffs have high outstanding leave balances. Refer to the following examples.

Staff Initials	No. Days Balance
AS	48 Days
MR	40 Days
JP	78 Days

The accumulation of high leave balances results in staff being paid leave at higher wage rates when they would have earned some of these at lower rates.

Recommendations

- **Management should encourage staff to take leave on an annual basis.**
- **Also management should consider setting a maximum leave level to be carried forward to the following year.**

Authority's Comments

All management staff with excessive leave (including the three above) has taken leave from November, 2009. The same applies to non-management staff as well as part of our strategy to reduce outstanding leave and liability to Housing Authority.

10.14 General Ledger Reconciliations

The reconciliation of general ledger accounts was not performed in a timely manner. Even some of the accounts reconciliations were not prepared at all.

Most of the reconciliations do not appear to have been thoroughly reviewed and a number of variances which should have been resolved or adjusted are still being carried forward.

For instance, the bank reconciliation at year-end showed an un-reconciled variance of $10,000.

The lack of a proper reconciliation process increases the risk of fraud and error.

Recommendations

- **The management should ensure that reconciliation of general ledger balances are completed in a timely manner.**
- **Also management should consider implementing a timetable for each end of the month process.**
- **All reconciliations should be reviewed by senior personnel and approved.**

Authority's Comments

Audit comments noted. Management has implemented changes and staffs are carrying out reconciliations on a monthly basis. Progress is monitored in weekly department meetings by the Manager Finance and Acting Financial Accountant.

Section 11: 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.

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PART A – FINANCIAL INFORMATION

11.1 Audit Opinion

The audit of the financial statements of the Public Rental Board for the year ended 31 December 2008 resulted in an issue of an unqualified independent audit report, however Board's attention was drawn to the following issues:

- There was an unexplained difference of $29,273 between the depreciation charge in the Income Statement and that in Note 16 to the Accounts

- The Fixed Assets Register included an amount of $81,866 which the Board can not assign or trace to any specific asset. This unsubstantiated amount has been carried forward from prior years.

11.2 Abridged Statement of Financial Performance

Year ended 31 December	2008 $	2007 $
Rental Revenue	2,357,782	2,398,,461
Operating Income	2,495,134	1,805,617
Total Operating Income	4,852,916	4,204,078
Depreciation	357,084	361,545
Staff Costs	749,298	730,967
Other Operating Expenses	1,572,464	538,493
Net Financing Costs	323,560	600,806
Total Expenses	3,002,406	2,231,811
Net Profit for the Year	1,850,510	1,972,267

Net profit declined by $121,757 (6%) in 2008 compared to 2007 due increases in other operating expenses by $1,033,971 (192%) in operating expenses. This was due to the cost of $314,479 incurred in the demolition of the Raiwaqa 4 storey flats and the relocation costs for their tenants amounting to $372,995. Major repairs and maintenance works totalling $241,240 were also carried out at the Naodamu and Levuka estates.

The operating income of the Board include government grant totalling $2,322,141.

11.3 Abridged Statement of Financial Position

As at 31 December	2008 $	2007 $
Assets		
Cash	664,878	1,943,095
Investments	3,071,000	571,000
Other Assets	193,429	576,352
Property, Plant & Equipment	6,861,740	7,213,398
Total Assets	10,791,047	10,303,845
Liabilities		
Creditors	1,816,367	1,772,195
Deferred Revenue	1,151,443	765,592
Borrowings	7,511,786	9,276,562
Employee Entitlement	104,409	132,964
Total Liabilities	10,584,005	11,947,313
Net Assets	207,042	(1,643,468)
Total Equity	207,042	(1,643,468)

There has been significant improvement in the Board's financial position. This is due to the increase in revenue collected by the Board and the reduction in finance cost. Savings from this areas and surplus cash held at the bank are now invested in short-term deposits by the Board.

PART B – CONTROL ISSUES

11.4 Arrears Management and Collection

The Board's 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.

An examination of the tenants' files revealed the lack of effective action by the Board to recover the long outstanding arrears.

If the problem remains unchecked, the consequence is that an increasing number of accounts could be ultimately classified as bad debts and needs to be written off by 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 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 the 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 un-recoverable.*

11.5 Increase in Tenants Credit Balances

The tenant accounts with credit balances have been increasing over the years. The balance from the past three financial years is provided in the table below.

Descriptions	2008 $	2007 $	2006 $
Credit balance	713,438	547,140	468,207

Audit established that a credit balance arises could generally arise due to the following reasons:

- Overpayments of rentals by tenants
- Allocation of rental subsidies to tenants who were paying higher than the minimum required amount of rent.
- Wrong postings

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

In the absence of proper reconciliations, the Board will not be in a position to determine the portion relating to rental subsidy and the amount due to advance rental payment. 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 done on a regular basis and necessary adjustments/actions taken where justified.

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 a result of rental subsidy or through genuine credit by tenants. Audit team was 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 off-set with increase in rental.*
- *Efforts are made with MIS team to formulate an "Age Credit Balance" report.*

11.6 Fixed Assets Register

The fixed assets register (FAR) presented for audit had the following irregularities:

a) The depreciation amount, WDV, etc for Land & Building and Furniture & Fittings did not match with their respective amounts in the Financial Statements. However, the total WDV, depreciation etc. in the FAR agreed to the amount in the financials.
b) Some assets appearing under the category of Land & Buildings are showing $0 in the FAR
c) It was difficult to identify the location and file of certain land & buildings as no lease numbers were quoted in the FAR.

Recommendations

- **The Board should reconcile the FAR with the Financial Statements**
- **Fixed Assets with zero acquisition costs and WDV should be removed from the FAR**
- **Proper identifications like lease/title numbers should be made in the FAR especially for land & buildings.**

Management's Comment

- *This anomaly arose during implementation of IFRS where a lump sum amount was provided without details of particular fixed assets. Our system is such that we need to process all the details of the assets in the Fixed Assets module so that it also appears in our GL and by making direct entry into the GL, the Fixed Assets Register (FAR) won't be updated.*
- *Assets with zero balances will be written off in 2010 audit.*
- *Management will provide these details in the FAR however one wills till have to vouch the lease documents in order to ascertain its physical location*

11.7 Reconciling amount of $81,000 in Fixed Assets Register

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

Recommendation

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The Board should conduct a fixed asset survey 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's Comment

Management advises that the current FAR is up to date however going back over the years we may not be able to reconcile with the general ledger given that this issue has been with PRB since its existence. However Management will carry out a survey of all FAR and provide a paper to the Board for write off in 2010.

11.8 Valuation of properties

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 have 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.

11.9 Repayment of FNPF Bond

Audit noted that the Board has not made any repayments towards the FNPF Bond of $1.1million payable to the Government of Fiji and they have not made any commitment to make any repayments towards this liability in the future.

This issue was highlighted in the 2007 management letter where management responded by saying that cash flow constraints had restricted them from making any repayments.

There are unclear clauses in relation to this debt and the danger is that if the Government demands interest on this debt, the Board could incur potential losses in future.

Recommendation

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

Management's Comment

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

Section 12: Fiji Meat Industry Board

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

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PART A – FINANCIAL INFORMATION

12.1 Audit opinion

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

12.2 Abridged Statement of Financial Performance

Year Ended 31 December	2008 $	2007 $
Revenue		
Abattoir	3,452,578	3,317,444
Other Income	35,211	79,674
Total Revenue	3,487,789	3,397,118
Expenditure		
Staff Costs	1,000,063	979,838

Year Ended 31 December	2008 $	2007 $
Change In Inventories – Finished Goods	1,097,706	1,117,724
Raw Materials And Consumables Used	197,246	139,187
Other Operating Expenses	1,166,801	1,031,105
Total Expenditure	3,461,816	3,267,854
Profit/(Loss) From Operations	25,973	129,264
Finance Cost	(165,791)	(121,390)
Profit/(Loss) Before Tax	(139,818)	7,874
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	(1,739,381)	7,874

The Board recorded a loss of $1,739,381 in 2008 compared to a profit of $7,874 in 2007. This was due to the loss from the write off of all assets (excluding motor vehicle) relating to the Tannery operation and Work in Progress in 2008 as per board resolution.

Total expenditures also increased by $193,962 (6%) in 2008 due to increase in staff costs, purchase of raw materials and other operating expenses compared to 2007.

12.3 Abridged Statement of Financial Position

As at 31 December	2008 $	2007 $
Current Assets		
Cash And Cash Equivalents	526,591	452,996
Other Current Assets	394,434	753,541
Total Current Assets	921,025	1,206,537
Non – Current Assets	1,386,472	4,229,421
Total Assets	2,307,497	5,435,958
Current liabilities		
Current Liabilities	432,246	334,922
Non-Current Liabilities	1,455,013	2,941,417
Total Liabilities	1,887,259	3,276,339
Net Assets	420,238	2,159,619
Total Equity	420,238	2,159,619

The Board's net assets decreased by $1,739,381 or 80.5% in 2008 compared to 2007 due to the write-off of all assets (excluding motor vehicle) relating to tannery operation and work in progress in 2008.

PART B – CONTROL ISSUES

12.4 Electricity Charges Due

The Fiji Meat Industry Board has a sum of $56,216 due and payable for electricity charges as of 31 December 2008. As per our discussion with the accountant, this is disputed and being negotiated since Fiji Electricity Authority has over-billed by overestimation. However, audit subsequently noted that these charges were not reduced by FEA and Fiji Meat Industry Board is now trying to clear of the sum due.

This implies poorly on the financial management by Fiji Meat Industry Board and it may not be having proper internal control procedures to track incorrect billings by FEA, for example, conducting meter reading every month and comparing it to estimates of FEA for the month.

Recommendation

We recommend that frequent electricity meter readings be made on the site to ensure that FEA billings are not materially overstated.

Board's Comments

The low FEA bills was queried by the then Manager Finance. The meter readers were reading the meter incorrectly and this led to accumulated bills in 2008. FMIB has started monitoring its billings and does its own meter reading since this problem arose.

12.5 Town Rates

As of 31 December 2008 FMIB has accumulated town rates liability of $97,990.

This implies that the FMIB is in breach of its financial obligations with the Town Council in not paying all its town rates on time. This again reflects poor financial management by FMIB.

Recommendation

The Board must make arrangements with the Town Council to settle the outstanding rates.

Board's Comments

FMIB owns 78 acres of land in Nakasi of which approximately five acres is for Industrial purpose and the rest is for grazing. The Town Council has been charging industrial rate for the whole 78 acres without providing any services. Management had sought approval since August 2009 from the Director of Lands to have the abattoir land rezoned so that it can then reduce the area classified as industrial lease and have the balance as agricultural lease. Despite several reminders and personal visits to the Director of Lands there is still no approval given and the matter is still being pursued.

12.6 Hire of Consultant

The Board hired an Accounts Consultant to provide accounting consultancy services. As per the Accounting Consultancy Service Memorandum of Agreement, the job description also included the preparation of year end financial reports.

Audit noted that the consultant did not prepare the financial reports of the Board when he left the Board. However he was paid full amount for his consultancy payment of $31,500.

Audit further noted that the Board subsequently hired another consultant, who was paid additional $7,744 to complete the year end financial reports for the year ending 31/12/08. As a result the year end accounts and audit for 31 December 2008 was delayed.

This indicates laxity of the Board's management in ensuring that first consultant fully completed his assigned task before making full payment to him. This had resulted in added cost to the FMIB since they had to hire the second consultant to complete the task.

Recommendations

- **The Board must take appropriate action to recover additional cost incurred in preparing the financial reports for the year ending 31/12/08 from the first consultant.**
- **The Board must also consider taking appropriate disciplinary action against officers responsible for paying the full amount when the first consultant did not fully complete his task.**

Board's Comments

The second consultant's payment was for preparation of 2009 Corporate Plan and finalisation of 2008 accounts. Management has noted the above and appropriate measures will be taken so that the above is not repeated.

Section 13: 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 a non-executive 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

13.1 Audit Opinion

The audit of the financial statements of the Pacific Fishing Company Limited for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

13.2 Abridged Income Statement

As at 31 December	2008 $'000	2007 $'000
Income		
Sales	20,752	21,112
Other Income	920	638
Total Income	21,672	21,750
Expenditure		
Raw materials and consumables used	5,120	5,608
Distribution costs	358	343
Staff and employee benefits	5,360	5,346
Depreciation and amortization expense	2,098	2,025
Finance costs	395	421
Other operating expense	8,356	7,485
Total Expenditure	21,687	21,228
Operating (loss)/profit before income tax	(15)	522
Income tax (expense)/ credit	(190)	(174)

As at 31 December	2008 $'000	2007 $'000
Net (loss)/ Profit for the year after Income Tax	(205)	348

The company recorded a net loss of $204,707 compared to a profit of $347,672 incurred in 2007. The operating loss was due mainly to the decrease in sales and increase in the cost of raw materials and other operating expenses of the company, specifically, the overhead costs in the processing of fish products.

13.3 Abridged Balance Sheet

As at 31 December	2008 $'000	2007 $'000
Current Assets		
Cash at bank and on hand	101	51
Trade receivables	2,891	4,527
Inventories	4,946	2,409
Other receivables	1,437	1,088
Total Current Assets	9,375	8,075
Non Current Assets		
Property, plant and equipment	21,898	22,025
Deferred tax asset	883	1,073
Total Non Current Assets	22,781	23,098
Total Assets	32,156	31,173
Current Liabilities		
Interest bearing borrowings	5,759	4,427
Trade and other payables	2,692	1,624
Provisions	86	236
Total Current Liabilities	8,537	6,287
Non-Current Liabilities		
Interest bearing borrowings	130	935
Deferred income	6,169	6,426
Total Non Current Liabilities	6,299	7,361
Total Liabilities	14,836	13,648
Net Assets	17,320	17,525
Share Capital	14,800	14,800
Retained Profits	2,520	2,725
Net Accumulated Fund	17,320	17,525

The company's net asset position weakened slightly by $204,707 or 1% in 2008 compared to 2007 which was caused by an increase in short term interest bearing borrowings and trade payables. This has also contributed to the weakening short term financial position of the company.

PART B – CONTROL ISSUES

13.4 Going Concern

The financial statements for the year ending 31 December 2008 have been prepared on an going concern basis, which contemplates the realisation of assets and satisfaction of liabilities in the normal course of the company's business. This is disclosed in the financial statements.

Audit noted that the following going concern indicators exist at the balance sheet date:

Operating losses

The company incurred loss before tax amounting to $14,847. Apart from other factors, decrease in sales revenue and increase in operating expenses were contributing factors to losses.

Excessive reliance on short term borrowing

The company used more of short term borrowing to facilitate operations. This resulted in increase interest on short term borrowings.

Inability to settle loans installments as they fall due

The company was not able to meet the loan repayments until January 2009, due to cash flow problems.

Exceeding of overdraft facility

In comparison to prior year, the overdraft limit has been extended from $3.3m to $4.5m in 2008. During the financial year, overdraft facility was exceeded during the month of August.

The continuation of the company as a going concern is dependent, amongst other things, upon its ability to continue to generate sufficient cash flows from operations to meet its obligations on a timely basis as and when they fall due.

<u>Recommendation</u>

The Management and Directors should continue to closely monitor the operations of the company to achieve profitable operations, positive cash flow and reduce its operating costs thereby reducing overall debts. It must be appreciated that the going concern basis of preparing accounts may become invalid as a result of which an allowance would have to be made for any possible loss on realisation of the company's assets.

<u>Management Comment</u>

Your recommendations are well noted and the company will continue to monitor its operations to achieve profitable operations with positive cash flow. The year 2008 was difficult year whereby all overseas purchase had to be done on advance payment basis. The operating loss for the year also had impact on the cash flow. The company's overdraft facility is at $3.5million with a $1million facility for bonds and guarantees making a total facility of $4.5million. The company has operated within these limits and sometimes utilising it to its maximum. These have been since taken care of with better trading results for 2009.

13.5 Employment Benefits and VAT

Where a registered person provides employee benefits which are also liable to income tax, there is a deemed taxable supply of the employment 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.

From the review of the PAYE annual summary, audit noted that employment benefits provided to employees such as motor vehicles were included in the PAYE annual summary, the benefit value was not included in the VAT Returns and VAT output was not paid during the year.

Recommendation

It is recommended that appropriate corrective measures should be taken to account for VAT output on employment benefits such as motor vehicles, free or partial free utilities, and other benefits subject to VAT.

Management Comment

Your recommendation is noted and appropriate corrective measures will be taken to address the discrepancy issue.