EXCELLENCE IN PUBLIC SECTOR AUDITING

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

Audits of Government Commercial Companies, Commercial Statutory Authorities, Off Budget State Entities and Majority Owned Entities - June 2012

Rerevaka na Kalou ka doka na Tui

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31 July 2012

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, OFF BUDGET STATE ENTITIES, AND MAJORITY OWNED ENTITIES
JUNE 2012

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 2012.

The report should be presented to Cabinet within 30 days of receipt as required under section 7 (8) of the State Services Decree 2009.

Tevita Bolanavanua
Auditor - General

AUDITOR--GENERAL
FIJI

FOREWARD

This report discusses the results of financial audits undertaken for 11 Government Commercial Companies (GCC), Commercial Statutory Authorities (CSA), Off Budget State Entities (OBSE) and Majority Owned Entities (MOE).

9 entities audited under this category of state entities were issued unqualified audit opinions which indicate that their financial statements all give true and fair view (or are presented fairly in all material respects) in accordance with the identified reporting framework. 2 entities were issued qualified audit opinions which showed that while their financial statements are fairly stated the financial data indicated a failure to follow applicable accounting standards or there were significant uncertainties concerning certain financial data.

Out of the 11 entities reported, only 1 entity, Post Fiji Limited recorded deficit in its operation while the other 10 entities recorded operating profits. The following table summarizes the status of audits of all GCC, CSA, OBSE and MOE to date:

	Government Entity	Audit Completed	Audit Opinion	Remarks
	Government Commercial Company (GCC)			
1	Airport Fiji Limited	2011	Unqualified	The entity registered a surplus during its 2011 operation.
2	Fiji Broadcasting Corporation Limited	2008	Unqualified	2009 audit is in progress by PWC.
3	Fiji Ships & Heavy Industries Limited	2011	Unqualified	The entity registered a surplus during its 2011 operation.
4	Food Processors Limited	2007	Qualified	The entity registered a surplus during its 2007 operation. 2008 account has not been submitted for audit.
5	Fiji Ports Corporation Limited	2011	Unqualified	The entity registered a surplus during its 2011 operation.
6	Post Fiji Limited	2011	Unqualified	The entity registered a loss during the 2011 operation.
7	Rewa Rice Limited	2007	Unqualified	2008 audit has been completed and file is being reviewed by Director
8	Unit Trust of Fiji (Management)	2011	Unqualified	The entity registered a surplus during its 2011 operation.
9	Viti Corp	2006	Qualified	Audit of accounts from 2007-2011 is in progress.
10	Yaqara Pastoral Company	2010	Unqualified	Audit of 2011 account will comment in July.
11	Fiji Public Trustee Corporation Limited	2011	Unqualified	The entity registered a profit during its 2011 operation.
12	Ports Terminal	2011	Unqualified	The entity registered a surplus during its 2011 operation.
	Commercial Statutory Authority (CSA)			
1	Public Rental Board	2010	Unqualified	2011 account has not been submitted for audit. The entity registered a surplus during its 2010 operation.
2	Housing Authority	2010	Unqualified	Audit of 2011 account is in progress.

Government Commercial Companies and Commercial Statutory Authorities

1. Airports Fiji Limited
2. Unit Trust of Fiji (Management) Limited
3. Fiji Ports Corporation Limited
4. Fiji Electricity Authority
5. Fiji Ships & Heavy Industries Limited
6. Food Processor Fiji Limited
7. Ports Terminal Limited
8. Post Fiji Limited
9. Public Rental Board
10. Fiji Public Trustee Corporation Limited
11. Viti Corporation Limited

SECTION 1: AIRPORTS FIJI LIMITED

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

AFL operates 15 public airports in the Fiji Islands. These include two international airports – Nadi and Nausori, and 13 outer island 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 2011 resulted in the issue of an unqualified audit report.

1.2 Abridged Income Statement

Year Ended 31 December	2011 ($)	2010 ($)
Revenue		
Navigation Charges	13,667,461	13,338,411
Airport Security/Development Fee	6,936,256	6,621,164

Year Ended 31 December	2011 ($)	2010 ($)
Concessions	12,277,078	11,100,777
Landing And Parking Fees International	11,504,894	12,092,685
Passenger Service Charge	4,563,412	2,803,780
Rental- Offices And Warehouses	4,784,206	3,813,205
Other Operating Income	6,489,846	5,840,842
Total Revenue	**60,223,153**	**55,610,864**
Expenditure		
Contract Costs	3,237,358	2,692,618
Depreciation	11,712,656	11,896,898
Salaries & Wages	13,608,577	12,545,386
Utilities	5,927,208	3,930,030
Other Operating Expenses	13,495,659	12,921,483
Total Expenditure	**47,981,458**	**43,986,415**
Profit Before Tax	**12,241,695**	**11,624,449**
Income (Tax)/ benefit for the Year	**236,431**	**2,865,343**
Net Profit for the Year	**12,478,126**	**8,759,106**

AFL recorded an after tax profit of $12,478,126 in 2011 compared to $8,759,106 in 2010 as a result of increase in total revenue by 8.3%.Significant increases were noted for:

- Concessions increased by $1,176,301 or 10.6% due to higher sales by concessionaires as fees is based on gross revenue for all shops located in the AFL premises;
- Rental charges increased by $971,001 or 25.5% due to increases in housing state rental, land lease rental and commercial lease rental which was transferred from CAAF in June 2010. In 2010, the estate rental was only for 6 months while in 2011 it includes the full 12 months revenue; and
- Passenger service charge increased by $1,759,632 or 62.8% due to the increase in the number of passengers departing the country.

1.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current assets		
Cash and cash equivalents	20,715,916	24,736,759
Receivables	11,516,044	7,512,841
Other current assets	2,327,453	1,599,155
Total current assets	**34,559,413**	**33,848,755**
Non current assets		
Deferred tax asset	564,732	672,287
Property, plant and equipment	158,218,367	160,457,724
Total non current assets	**158,783,099**	**161,130,011**
Total assets	**193,342,512**	**194,978,766**
Current liabilities		
Accounts payable	5,784,041	10,483,531
Borrowings	6,879,457	6,223,494
Other current liabilities	5,586,248	4,643,640
Total current liabilities	**18,249,746**	**21,350,665**
Non current liabilities		
Borrowings	7,085,558	10,961,684

As at 31 December	2011 ($)	2010 ($)
Deferred tax liability	8,735,765	13,153,168
Other non current liabilities	17,681,114	19,401,046
Total non current liabilities	**33,502,437**	**43,515,898**
Total liabilities	**51,752,183**	**64,866,563**
Net assets	**141,590,329**	**130,112,203**
Shareholders' equity		
Share capital	92,300,180	92,300,180
Retained earnings	49,290,149	37,812,023
Total shareholders' equity	**141,590,329**	**130,112,203**

The Company's net assets increased by $11,478,126 or 8.8% in 2011 compared to 2010 as the result of the following:

- Significant decrease in trade and other payables due by $4,699,490 or 44.8% since Fiji Revenue Customs Authority is collecting departure tax from January 2011 which AFL used to collect previously on behalf of Civil Aviation Authority of Fiji and Government.
- Decrease in loans and borrowings by $3,220,163 or 18.7% due to repayment of a bank loan;
- Decrease in deferred tax liability by $4,417,403 or 33.6% due to the effect of changes in tax rate from 28% to 20%.

PART B – CONTROL ISSUES

1.4 Executives Remuneration

On 9 June 2010, the Higher Salaries Commission after deliberation on the proposal by Airports Fiji Limited (AFL) on the remuneration of expatriate General Managers, advised the AFL Chairman to:

- fully disclose to the Commission justification why local expertise is no longer relevant and the merits behind the threefold increase in packages that was last approved by the Commission, given that the roles were satisfactorily performed by locals.

- carry out a fresh job evaluation for all executive positions in AFL and a report to be submitted to the Commission as this is the only tool that can capture the changes in roles overtime and measure the current value of a position in order to determine the current market remuneration.

However, there was no evidence that the above requirements were carried out as AFL went ahead and appointed four executives with remuneration package not approved by the Higher Salaries Commission. The only exception was the Chief Executive Officer whose remuneration package was approved by the Minister for Public Enterprise.

Refer to Table 1.1 below for details of remuneration for executives.

Table 1.1 Executive's Remuneration

Residency	Position	Base Salary ($)	Vehicle Benefit	Housing Benefit ($)	Medical Insurance ($)	Term Life Policy ($)
Expatriate	CEO	440,000	✓	✓	✓	✓
Expatriate	GM Engineering & Infrastructure	230,000	✓	30,000	2,850	3,638
Expatriate	GM Airports	180,000	✓	30,000	2,850	3,638
Local	GM Finance & IT	140,000	✓	30,000	2,850	3,638
Local	A/GM Air Traffic	97,000	✓	30,000	✓	✓

The contract terms for the above executives are as follows:

Contract Date	Contract Terms
14/11/2011	3years
19/10/2010	3 years
14/09/2010	3 years
03/02/2011	3 years
Acting appointment	

Furthermore, the Higher Salaries Commission (Revocation) Decree 2011 came into effect on 17 June 2011. The Decree revoked the functions performed by the Commission with respect to considering and determining salaries of any person employed in any corporation, body or office specified in the schedules specified to the Act.

The salaries of executives are now determined by the board of directors following the approval of the Minister for Public Enterprise and the Prime Minister.[1]The board of directors shall ensure that before seeking any salary approval, an independent assessment of the review of salary is conducted. The independent assessment must be approved and carried out in a manner determined, and by a person or body authorised by the Minister for Public Enterprise.[2]

As at the date of audit, no independent assessment was carried out for the review of salary for executives at AFL.

Without the approval of the higher salaries commission and the absence of an independent assessment of the review of salaries, the salaries of executive officers of AFL cannot be justified.

Recommendation

A job evaluation exercise should be carried out for all executive positions to determine the correct market remuneration.

Management Comments

A job evaluation exercise commenced in 2010 and a report was presented by a consultant company to Board in June 2011. All new executives' remuneration is based on the consulting company recommendation and taking into consideration the qualification and experience of the individual.

[1] Higher Salaries Commission (Revocation) Decree 2011 3 (1) (a)
[2] Higher Salaries Commission (Revocation) Decree 2011 3 (2) & 3 (3)

1.5 Rotuma Airport upgrade

On 03/07/07, Cabinet approved the upgrading of Rotuma Airstrip to improve flight schedules to the island[3]. Subsequently on 08/03/08, Cabinet declared Rotuma as an international ports of entry thus endorsing Airport Fiji Limited (AFL) to upgrade the airport to meet the International Civil Aviation Organisation and the Minimum Requirement Document Standards[4].

The estimated cost for the Rotuma Airport project was $19.5m.

Audit investigations into the project revealed a number of anomalies.

1.5.1 Diversion of Funds

In 2009, the government through the Department of Civil Aviation released a total of $2.2m to AFL for the upgrading of the airport in Rotuma.

Audit noted that the funds were diverted to other projects without proper authority. Refer to Table 1.2 for the details of diversion of funds.

Table 1.2: Details of diversion of funds

Date	Details	Amount ($)
21/10/09	Gau Airport Drainage	7,680
31/08/09	Labasa & other airports repairs	102,220
TOTAL		**109,900**

Diversion of funds without approval could be a catalyst for abuse of office.

<u>Recommendation</u>

AFL should sought proper approval before diverting funds to other projects.

<u>Management Comments</u>

Initially in 2007, Government has provided $415,000 for the first phase of Rotuma reinstatement project. On completion of the project, the full acquittal was send to government showing an expenditure of $679,184.58. Government then further allocated $500,000 in addition to the $415k for Rotuma. Since there was a remaining balance of $235,815.42, and there were no immediate woks at Rotuma, $199,551.26 was diverted to Labasa and Gau to carry out urgent compliance issues. The $2.2 million was given later.

As per the records gathered there is some correspondence from AFL informing government of the diversion. Unfortunately, person liaising with the government on the outer station project is no longer with the company and if there had been any e-mail correspondence regarding approval for diversion this cannot be located. AFL has taken heed of the issues raised and in future will ensure that proper approvals are obtained.

AFL has also started submitting reports on quarterly basis from 2012. This will further ensure that the funds are utilised as per the government directives.

[3] Cabinet Decision No. 294 of 03/03/2007
[4] Cabinet Decision No. 135 of 08/03/2008

1.5.2 Progress of Rotuma Airport Upgrade

As a result of Cabinet's decision in 2008, significant government funds were released to AFL for the upgrade of the airport in Rotuma to international standard.

Review of the Government Grant reconciliation revealed that of the $3.1m that was disbursed to AFL from 2008 for the upgrade of the airport in Rotuma, a total of $1.2m has been utilised, leaving a balance of $1.9m. Majority of the expenses were incurred in consultancy fees, compensation to landowners, and charter of airplanes and vessels all relating to the commitment made by government.

However, as to date no progress of work has been done to the upgrade of airport in Rotuma, and there have been discussions that the project may not continue due to its non viability. It was also revealed that the balance of $1.9m may be transferred to the upgrade of Nausori Airport.

Considering the significant commitment that has been made into the project, to discontinue will result in wastage of funds, thus questioning the real motive of making such an investment.

Recommendation

AFL should explore options on how best to continue with the project considering the commitment already been made.

Management Comments

As per the reconciliation of $3.1m, $679,184 was utilised for the first phase of Rotuma runway reinstatement project. The acquittal was provided to the government after the completion of the first phase of the project. Thereafter, there was a balance of $235,815.42 of which $199,551.26 was used for Labasa and Gau as explained in item 4.8.1.

Due to the Cabinet directive to make Rotuma a port of call, a team comprising of AFL officials and Government was formed and tenders were called out for project proper to start. For any projects for the preliminary costs to be incurred before the Project proper can begin as this was to be a major project.

The letter is self explanatory.

1.5.3 Charter of Navy Ship

For transactions of value of above $25,000, board approval needs to be obtained.[5]

On 2nd July 2009, a payment of $68,555.28 was made out to Commander Fiji Navy for the charter of patrol boat to and from Rotuma. The purpose of the charter was to ferry 14 officials from government, AFL, and consultants to physically inspect the Rotuma Airport, and collate information that would assist in planning the developments earmarked by government.

Audit noted that the payment was made without the Board approval.

Payments without proper approval are an indication of abuse of office.

[5] Section 2.1 of AFL's Financial Policy & Procedure Manual

Recommendation

Officers responsible in the above payment should be held accountable and face appropriate disciplinary actions.

Management Comments

The approval limit for the CEO for the period concerned was $50,000 as per the Finance Policy.

It is noted from the project performance report provided by the Ministry of Foreign Cooperation & Civil Aviation, the Cabinet had approved Rotuma to be a port of call by air and the design aircraft for Rotuma to be ATR42. One of the major problems faced in terms of getting the Rotuma Project started was the logistics due to non availability of air services. By reviewing the project updates Board papers provided to the Board between April to June 2009, AFL was trying to charter an aircraft so that the team could visit the site and evaluation works could begin. Unfortunately this was not possible due to issues faced with the Pacific Sun aircraft even after confirmations of the travel was done. Eventually AFL managed to hire the Navy Boat and due to the urgent requirement from Government, CEO authorised this expenditure. In the July Projects Update Board paper the Board was informed of the hire of the navy vessel to take the team down to Rotuma to do a site evaluation.

Since the CEO is no longer here any further correspondence he may have had on this is not available but through Project updates Board was duly informed of the hire of navy boat. Refer attached letter appended as A***ppendix 5*** *"Project Performance Report Jan – June 2009".*

1.6 Savusavu Airport upgrade

Board paper 152/09, the board approved the award of the contract for design and build of Savusavu Airport Terminal to a Construction Company at a total cost of $751,967.50. The project was to be funded from government grant.

Audit investigations into the project revealed a number of anomalies.

1.6.1 Incomplete Project

The design and build of the Savusavu Terminal shall be eight (8) months comprising one (1) month for mobilisation, one (1) month for earthworks and foundation and six (6) months for construction. As at date of audit[6], a total of $212,338.02 has been paid, however, no work has been carried out at the Savusavu Terminal and AFL has gone further to terminate the contract due to non performance of the contractor. Refer to Table 1.3 for details of payment.

Table 1.2: Payments made to Construction Company

Date	Cert No.	Invoice No.	Amount ($)	Remarks
10/03/10	1	19485	112,691.25	15% advanced payment as per agreement
11/05/10	2	19496	9,150.00	Payment for materials – 1500 Blocks
07/06/10	3	19524	75,094.09	
01/09/10		19565	15,402.69	Reimbursement of duty & Vat cost for phizon panel
Total			**212,338.02**	

[6] Date of audit – 22/03/12

The termination of the contract at the initial stages of the project and considering the amount of funds already been committed shows the lack of monitoring by AFL and also questions the integrity of the selection of the contractor.

Recommendation

Officers responsible in the above payment should be held accountable and face appropriate disciplinary actions.

Management Comments

The contractor has instigated a legal action against AFL for wrongful termination of contract. However, AFL has counter claiming over $300,000 for all the payments made and short supply of materials and not completing the project as per the contract.

1.6.2 Short Supply of Materials

The Senior Supplies Controllers responsibility is checking, recording, and storage of goods.[7]

On 07/06/2010, a payment of $75,094.09 was made out to Supplier A for materials purchased from overseas supplier in China. Refer to Table 1.4 for details of the materials, quoted in US currency.

Table 1.4 Details of materials

Description	Qty	Unit	Price (USD)	Extn (USD)
2.8 x 600mm x 50mm sandwich external panel	550	sqm	19.56	10,758.00
2.4 x 600mm x 50mm sandwich internal panel	676	Sqm	19.56	13,222.56
Meshing	1000	Sqm	.74	735
Meshing roll	3000	M	.74	132
Screw	5000	Piece	.05	258
Screw with waterproof	2000 0	Piece	.08	1,600
Roof panel	24	Piece	0	0
Cost of freight				2,910
FOB fee				915
TOTAL (USD)				**30,531.56**

Our inspection at the stores revealed that only 107 panels were in stock. Audit could not substantiate the movement of the above items as there were neither delivery dockets nor ledger cards maintained.

The General Manager Engineering and Infrastructure confirmed that the materials were short supplied, and surprised in the manner the payment was made.

The above anomaly indicates that procurement procedures have been breached, and laxity of responsible officers in ensuring proper controls.

[7] Section 19.5.5 of AFL's Financial Policy and Procedure Manual

Recommendation

- **Officers responsible in the above payment should be held accountable and face appropriate disciplinary actions.**

- **Further investigation to be carried out and follow up should be made with the amount of materials short supplied.**

Management Comments

The above items were purchased by the contractor for the Savusavu terminal building project. Due to the problem of transportation to the project site, these items were temporarily kept in stores for safe keeping.

The goods were received and checked by the project manager to confirm the items to be as per the contract. The Senior Supplies Officer did not play any role in ordering this good and receiving the same.

Action has been taken against the project manager by not renewing his contract of employment and AFL is proceeding with legal action against the supplier.

SECTION 2: UNIT TRUST OF FIJI (MANAGEMENT) LIMITED

The Unit Trust of Fiji (Management) Limited is a wholly Government owned entity that manages the Unit Trust of Fiji (UTOF) – a fund management company established and governed under the Unit Trust Act.

The Unit Trust of Fiji (Management) Ltd is a Government Commercial Company and operates under the umbrella of the Ministry of Public Enterprises & Public Sector Reforms and the Ministry of Finance.

The main responsibility of the Unit Trust of Fiji (Management) is to manage the Trust in a proper and efficient manner. In doing so, it must comply with all of its obligations set out in the Trust Deed and the relevant laws of Fiji.

The management company buys and sells units to and from the public and decides where to invest the UTOFs assets for the benefit of the unit holders.

The Minister responsible for the Ministry of Public Enterprises & Public Sector Reform appoints the Directors of the company for a three (3) year term.

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PART A – FINANCIAL INFORMATION

2.1 Audit Opinion - 2011

The audit of the financial statements of Unit Trust of Fiji (Management) Limited (UTOF) for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

2.2 Abridged Statement of Financial Performance

Year Ended 31 December	2011 ($)	2010 ($)
Revenue		
Operating Revenue	1,158,281	1,508,084
Other Operating Income	93,047	130,138
Total Operating Revenue	**1,251,328**	**1,638,222**
Expenditures		
Personnel Expenses	418,285	517,275
Other Operating Expenses	598,779	932,317

Year Ended 31 December	2011 ($)	2010 ($)
Depreciation	86,484	84,530
Total Operating Expenditure	**1,103,548**	**1,534,122**
Profit before Income Tax	147,780	104,100
Income tax benefit	772	11,020
Net profit (loss)for the year	**148,552**	**115,120**

UTOF recorded a net profit of $148,552 in 2011, an increase of $33,432 or 29.0% compared to year 2010. This was a result of tight control placed over expenditure during 2011.

2.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current assets		
Cash at bank and on hand	513,787	270,477
Investment – held to maturity	51,105	51,105
Receivables	73,261	319,969
Income tax refundable	48,267	49,180
Total current assets	**686,420**	**690,731**
Non current assets		
Plant and equipment	404,952	315,941
Total non-current assets	**404,952**	**315,941**
Total assets	**1,091,372**	**1,006,672**
Current liabilities		
Creditors and accruals	213,779	333,507
Total current liabilities	**213,779**	**333,507**
Non-current liabilities		
Deferred income tax liability	5,924	7,609
Total non-current liabilities	**5,924**	**7,609**
Total liabilities	**219,703**	**341,116**
Net assets	**871,669**	**666,556**
Shareholders' equity		
Share capital	50,000	50,000
Retained earnings	821,669	615,556
Total shareholders' equity	**871,669**	**665,556**

Net assets increased by $206,113 or 31% in 2011 compared to 2010 as the result of increases in cash at bank by $243,310 (90%) and plant and equipment by $89,011 (28%).

This resulted in the increase in Shareholders' equity to $871,669 during 2011 compared to $665,556 in year 2010.

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 2011 resulted in the issue of an unqualified audit report.

3.2 Abridged Statement of Financial Performance

As at 31 December	Group		Company	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Income				
Marine Services	9,477,314	9,398,137	9,477,314	9,398,137
Dockage	5,881,153	5,507,507	5,881,153	5,507,507
Wharfage	5,429,349	5,536,979	5,429,349	5,536,979
Storage	3,833,716	3,890,995	3,833,716	3,890,995
Other Operating Revenue	21,218,229	17,184,380	5,540,757	4,594,766
Other Revenue	2,366,908	3,552,018	3,052,219	4,582,842
Total Income	**48,206,669**	**45,070,016**	**33,214,508**	**33,511,226**
Expenditure				
Operating Expenses	8,456,930	9,393,018	2,913,998	3,295,282

As at 31 December	Group		Company	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Salaries and Benefits	9,387,339	7,755,718	4,370,514	4,268,572
Property	3,958,207	3,207,669	3,958,207	3,207,669
Depreciation	10,453,034	9,726,372	8,145,309	7,674,436
Marine Service Charge	6,212,202	5,784,744	6,212,202	5,784,744
Finance Expenses	1,792,069	2,219,474	1,726,366	2,135,230
Total Expenditure	**40,259,781**	**38,086,995**	**27,326,596**	**26,365,933**
Operating (loss)/profit before income tax	**7,946,888**	**6,983,021**	**5,887,912**	**7,145,293**
Income tax (expense)/ credit	(2,304,685)	(1,699,736)	(2,143,017)	(1,644,248)
Net (loss)/ Profit for the year after Income Tax	**5,642,203**	**5,283,285**	**3,744,895**	**5,501,045**

The company and subsidiaries recorded net profit after tax of $5,642,203, compared to a profit of $5,283,285 in 2010. The increase was due to increase in revenue collection from $45,070,016 in 2010 to $48,206,669 in 2011.

3.3 Abridged Statement of Financial Position

As at 31 December	Group		Company	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Current Assets				
Cash and cash equivalents	20,085,938	7,833,856	13,863,558	5,227,941
Trade and other receivables	3,501,779	2,883,759	2,294,112	2,538,970
Investments	6,000,000	5,000,000	5,750,000	4,750,000
Inventories	349,132	376,987	100,738	
Other current assets	935,140	1,583,035	622,798	886,248
Loan to Subsidiaries	-	-	413,998	73,104
Total Current Assets	**30,871,989**	**17,677,637**	**23,045,204**	**13,476,263**
Non – Current Assets				
Property, plant and equipment	122,721,554	131,188,195	107,288,536	113,920,907
Financial Assets	1,058,330	3,000,000	1,000,000	3,000,000
Intangible asset	161,133	176,460	151,029	165,022
Investment property	3,337,283	3,366,122	3,337,283	3,366,122
Loan to subsidiaries	-	-	5,128,009	5,644,375
Investment in FSHIL	-	-	6,660,000	6,660,000
Deferred tax assets	923,468	63,169	1,398,591	132,404
Total Non–Current Assets	**128,201,768**	**137,793,946**	**124,963,448**	**132,888,830**
Total Assets	**159,073,757**	**155,471,583**	**148,008,652**	**146,365,093**
Current Liabilities				
Trade Payables and Accruals	4,979,776	4,050,526	3,079,424	2,719,587
Interest Bearing Borrowings	2,647,045	2,547,081	2,473,303	2,338,309
Provisions	905,154	882,770	736,009	768,134
Income tax liability	2,615,565	70,313	2,615,565	88,771
Total Current Liabilities	**11,147,540**	**7,550,690**	**8,904,301**	**5,914,801**
Non-Current Liabilities				
Interest bearing borrowings	52,836,665	55,419,227	52,356,601	54,805,794
Deferred tax liability	-	412,674	-	-

As at 31 December	Group		Company	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Total Non-Current Liabilities	**52,836,665**	**55,831,901**	**52,356,601**	**54,805,794**
Total Liabilities	**63,984,205**	**63,382,591**	**61,260,902**	**60,720,595**
Net Assets	**95,089,552**	**92,088,992**	**86,747,750**	**85,644,498**
Shareholder's Equity				
Share Capital	73,154,852	73,154,852	73,154,852	73,154,852
Accumulated Profits	21,934,700	18,934,140	13,592,898	12,489,646
Total Shareholder's Equity	**95,089,552**	**92,088,992**	**86,747,750**	**85,644,498**

The net asset positions of the company and subsidiaries improve by $3,000,560 (3%) in 2011 compared to 2010. This resulted mainly from the increase in cash and cash equivalents by $12,252,082 and reduction in interest bearing borrowings by $2,582,562.

PART B – CONTROL ISSUES

3.4 Work In Progress (WIP)

An agency is responsible for the safekeeping and proper maintenance of all accounting records or documents.

Our audit noted that significant proportion of work in progress balances have been carried forward from previous years and have not been capitalized.

In addition, it was noted that some of the work in progress projects are on hold. Refer to Table 3.1 below for details:

Table 3.1: WIP Projects on Hold

Year	Project	Particulars	Amount ($)
2005/2006	WIP007 - FPCL headquarters	Since the purchase of the Neptune building, the project for the FPCL headquarters was stopped, part of the land for this project has been used for vendor stalls.	1,112,277
2009	WIP023 - Lautoka industrial subdivision	For WIP0023 as per discussions with management the land for the industrial subdivision has been leased to Amex Resources, and there are no longer plans for the Lautoka industrial subdivision.	858,389
2009	WIP029 - Lautoka Wharf Slab Thickening	WIP029 is on hold.	102,350
Total			**2,073,016**

Periodic review of the work in progress status is vital to ensure prompt capitalisation of the cost.

Recommendation

The Management should consider reviewing the balances in work in progress and consider either capitalising appropriate costs such as land reclamation costs and writing off amounts which does not add any value to fixed assets for projects that will not be continued.

Company's Comments

Management acknowledges the comments. WIP023 – Lautoka Industrial Subdivision has already been capitalised. WIP007 – FPCL Headquarters is now proposed for another project whilst WIP029-Lautoka Wharf Slab Thickening is currently on hold. Management will ensure that in future delays in capitalization of WIP items are avoided.

3.5 Fiji Military Forces Long Outstanding Reimbursement Cost

Agencies must ensure that all commitments and invoices are promptly and accurately recorded in the accounting system to meet management and external reporting needs.

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

Management on various occasions have written to the Fiji Military Forces regarding the documentation to be supplied to FPCL for the payment to be processed. No response has been received from the Fiji Military Forces to date.

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

Recommendation

The Management should liaise with the Fiji Military Force to resolve the issue. In case RFMF is not in a position to substantiate its claims and if agreed the amount should be written off.

Company's Comments

Management whilst being aware of this issue and its implications has done all it could to clear off this long outstanding item. Various correspondences have been made with Fiji Military Forces but the issue remains unsolved. This has also been escalated to the Fiji Ports Board to follow up with the Fiji Military Forces.

3.6 Hedges

Cash flow hedges are normally used to hedge exposures relating to the company's borrowings and ongoing business activities, where the company has highly probable purchase or settlement commitments in foreign currencies.

The Company has significant exposure to foreign currency risk due to its loan of USD $14,224,590 from a bank.

To reduce the impact of foreign currency risk, the Company should consider entering into forward foreign currency contracts with their banks to hedge its foreign currency risks arising from spot rate changes.

The practice of not hedging could result in a financial loss attributing to the fluctuations in a global exchange rate.

Recommendation

The Management should consider cash flow hedging to reduce its exposure to foreign currency fluctuations.

Company's Comments

Management notes the comments that the US Dollar ABD Loan exposes the company to foreign currency risk. However, hedging has not been used as use of hedging entails risks of its own that management is not comfortable with. Management's strategy of dealing with the foreign currency risk was to consider refinance of the ABD onshore. Tenders for these were called and the Board will now determine whether to refinance based on a Cost versus Benefit analysis.

SECTION 4: 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. 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

4.1 Audit Opinion

The audit of the financial statements of the Fiji Electricity Authority for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

4.2 Abridged Income Statement

Year Ended 31 December	2011 ($000)	2010 ($000)
Revenue		
Operating revenue	288,778	226,945
Other operating income	16,766	4,654
Total Revenue	**305,544**	**231,599**
Expenditure		
Personnel expenses	17,941	17,447
Fuel costs	137,881	126,756
Lease and Rent expenses	1,830	1,688

Year Ended 31 December	2011 ($000)	2010 ($000)
Electricity purchases	14,401	12,611
Depreciation	29,914	29,655
Amortisation of Intangible assets	524	528
Cyclone Mick – Restoration costs	-	1,445
Other operating expenses	39,584	24,652
Total Expenditure	**242,075**	**214,782**
Profit from operations	**63,469**	**16,817**
Finance costs	11,042	12,998
Share of profit of joint venture	-	192
Operating profit/loss before income tax	**52,427**	**13,190**
Income tax expense	517	(4,786)
Net profit for the year after income tax	**51,910**	**8,404**

The Authority recorded an increase in net profit after tax of $43,506,000 or 518% in 2011 compared to 2010. The increase in profit was due to a significant increase in electricity sales as a result of increase in demand, increase in consumption and increase in tariffs for electricity.

4.3 Abridged Balance Sheet

As at 31 December	2011 ($000)	2010 ($000)
Current Assets		
Cash and cash equivalents	3,640	-
Held to maturity financial assets	23,409	55,837
Receivables and prepayments	42,888	32,617
Other current assets	18,072	16,470
Total Current Assets	**88,009**	**104,924**
Non Current Assets		
Property, plant and equipment	892,984	811,583
Other non current assets	2,016	9,067
Total Non Current Assets	**895,000**	**820,650**
Total Assets	**983,009**	**925,574**
Current Liabilities		
Interest bearing borrowings	36,661	71,628
Other current liabilities	54,526	51,612
Total Current Liabilities	**91,187**	**123,240**
Non-Current Liabilities		
Interest bearing borrowings	322,624	280,181
Deferred tax liabilities	36,762	51,173
Other non current liabilities	60,385	56,280
Total Non Current Liabilities	**419,771**	**387,634**
Total Liabilities	**510,958**	**510,874**
Net Assets	**472,052**	**414,700**
Total Capital and Reserves	**472,052**	**414,700**

Net assets increased by $57,352,000 or 14% in 2011 compared to 2010 mainly due to an increase in property, plant and equipment in 2011. There was an increase in Work in Progress which includes the Network Augmentation Project, Nadarivatu Hydro Project and commissioning of various sub stations.

PART B – CONTROL ISSUES

4.4 Deficiency in Working Capital

The audit noted that the authority recorded a deficiency in working capital of $3.2 million in 2011 compared to $18.3 million in 2010.

Furthermore, a loan with a commercial bank is due to be repaid in 2012 and there are ongoing capital expenditure commitments with the Nadarivatu Hydro Project apart from other capital expenditure projects for which the Authority would require further capital to finance the projects.

Recommendation

The Authority should continue monitoring its borrowing, 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 comments

Comment is noted. The working capital of negative $3.2 million is a significant reduction compared to the negative $18.3 million recorded in 2010. The current liabilities for 2011 of $91.19 million includes the Retirement Benefit and Long Service Leave of $4.48 million which has been reclassified to current liabilities from non-current liabilities after FEA implemented the Essential National Employment Industries Decree from 7th November 2011. If this Decree was not implemented in 2011, then the working capital for 2011 would have been a positive $1.28 million. In addition to this, FEA has an overdraft facility of FJD$10 million with ANZ which it did not utilize in 2011 and indicates that there is no real threat of a working capital deficiency. If the FJD$10 million is included as part of the working capital calculation than this will result in a positive $11.28 million.

FEA has obtained the necessary funding essential to ensure the completion of the Nadarivatu Hydro Power Project in 2012. As at 31 December 2011 the balance of the Sinohydro offshore contract is USD$10.07 million including the project retention of USD$6.6 million and FEA's USD account balance with ANZ Bank as at 31 December 2011 was USD$12.85 million.

Furthermore, FEA had prepared a funding plan Board Paper (Board Paper 5987 dated 26 January 2012) and this was submitted to the OAG's office showing the plans in terms of matured bonds and loan it has prioritized that will be repaid in 2012. This is tabulated below:

Months	*Financial Institution*	*Amount Due in 2012 $*	*Amount Paid to date*
January - April 2012	*ANZ*	*4.9 million*	*Paid $970,000 in March 2012*
20th March 2012	*CDB*	*5.3 million*	*Paid $5.3 million in March 2012*
20th September 2012	*CDB*	*6.3 million*	*Due on 20 September 2012*
20th September 2012	*BSP Bank*	*4 million*	*Due on 20 September 2012*
5th October 2012	*Bonds*	*17 million*	*Due before 15 October 2012*
1st December 2012	*Bonds*	*5 million*	*Due before 1 December 2012*
Total		***42.5 million***	

FEA has repaid $5.3 million of the CDB Loan and around $1 million of the ANZ loan from its own cash flows in March 2012 and shows that there is no working capital deficiency.

The above plan has taken into account the current FEA business model with an average tariff of 39.4 cents/unit, Nadarivatu Hydro Power Project coming on line in July 2012 (which will result in substantial diesel saving to repay matured bonds and loan when they fall due) and FEA taking advantage of the 2x6MW diesel sets being converted into cheaper heavy fuel oil at Vuda Power Station which is expected to result in further fuel savings to FEA. This project will also be commissioned in June 2012. It is envisaged that the above business model will enable FEA to repay some $42.5 million of the matured bonds and loans that are due in 2012 in addition to funding FEA's capex programme for 2012 and meeting its day to day operations.

As part of the above plan, the 2 x $20 million ANZ loan that will expire in2012 will be refinancing by FEA either through issue of bonds or raising of new loan from Commercial Banks at competitive biding process.

Therefore, FEA is confident that it will continue to meet future financial obligations using the above business model and also for the financial sustainability of the organisations.

4.5 Capital contribution – long outstanding accounts

Refundable capital contributions are held for 8 years (previously 5 years) before an assessment is made as to whether customers are consuming electricity at the rate agreed with the authority at the time of installation and connection to the electricity grid (when the refundable contributions were made).

The audit noted that some refundable deposits have been outstanding for more than 5 years (various accounts amounting to $3,068,082). No evidence of a review by the authority has been noted.

<u>Recommendation</u>

The Authority should review the status of these accounts on a regular manner and appropriate action taken on accounts which have not reached the promised consumption rate by the due date. Any extension on the contribution agreed with the customers should be documented.

<u>Management comments</u>

Recommendation is noted. Management will continue reviewing all schemes that are more than 5 years old and assessment of electricity consumption will be carried out to determine whether any refunds are due to the customer. Furthermore, the net balance of $3,068.082 outstanding for more than 5 years up to end of 2005 has further reduced to $2,733,069.84 as at end of December 2010 and to $2,367,157.50 as at end of December 2011. Therefore FEA has made a total refund of $700,924.60 out of which $365,912.34 were refunds processed in 2011. The full reconciliation of the movement of the net balance from $3,068,082 as at 2005 to $2,367,157.50 as at 31 December 2011 is given below:

CAPITAL CONTRIBUTION REFUNDABLE DEPOSITS

Particulars	*2003 and prior years*	*2004*	*2005*	*Running balance $*
Total Refundable Deposits received for the year	***2,647,491.74***			***2,647,491.74***
Total deposits received in 2004		*459,662.13*		*459,662.13*

Particulars	***2003 and prior years***	***2004***	***2005***	***Running balance $***
Refunds processed in 2004	*(390,680.09)*			*(390,680.09)*
Net Refundable Deposits Balance as at 31/12/04	*2,256,811.65*	*459,662.13*		*2,716,473.78*
Total deposits received in 2005			*450,207.33*	*450,207.33*
Refunds processed in 2005			*(26,902.00)*	*(98,599.01)*
Net Refundable Deposits Balance as at 31/12/05	*2,208,986.65*	*435,790.12*	*423,305.33*	*3,068,082.10*
Refunds processed from 2006 – 2010	*(204,694.02)*	*(32,748.00)*	*(97,570.24)*	*(335,012.26)*
Net Refundable Deposits Balance as at 31/12/10	*2,004,292.63*	*403,042.12*	*325,735.09*	*2,733,069.84*
Refunds processed from 2011	*(287,913.00)*	*(42,110.00)*	*(35,889.34)*	*(365,912.34)*
Net Refundable Deposits Balance as at 31/12/11	***1,716,379.63***	***360,932.12***	***289,845.75***	***2,367,157.50***

4.6 Deferred income

The authority has not maintained any reconciliation for the Deferred Income received a number of years ago from the European Economic Community and the Fiji Government for rural electrification.

Due to the lack of a proper reconciliation, the authority has amortized a consistent amount each year. The lack of a proper reconciliation increases the risk that the amounts reported may be incorrect.

Recommendation

The Authority needs to ensure a proper reconciliation is maintained for any future grant or aid that is to be accounted for over more than one accounting period.

Management comment

Recommendation is noted. The deferred income relates to capital grants received from EEC and Fiji Government foe certain rural electrifications projects. These projects have been commissioned some years now and cannot be individually identified. However, the accounting treatment to amortize these grants as income is in accordance with the accounting standards. The $856,453 amortized annually is equivalent to 4% depreciation charge for the reticulation assets. FEA will ensure that future grants received will have proper reconciliation and are traceable to the Fixed Asset Register.

SECTION 5: FIJI SHIPS & HEAVY INDUSTRIES LIMITED

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 has been 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
- 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

The audit of the financial statements of the Fiji Ships and Heavy Industries Limited for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

5.2 Abridged Statement of Financial Performance

Year Ended 31 December	2011 ($)	2010 ($)
Income		
Operating Income	4,388,866	3,064,294
Other Operating Income	231,755	180,797
Total Income	**4,620,621**	**3,245,091**
Expenditure		
Direct Costs	1,128,801	810,841

Year Ended 31 December	2011 ($)	2010 ($)
Employee Benefits Expenses	1,174,632	900,520
Depreciation and Amortization Expense	425,868	400,912
Finance Costs	112,998	104,506
Other operating expense	995,607	699,918
Total Expenditure	**3,837,906**	**2,916,697**
Operating (loss)/profit before income tax	**782,715**	**328,394**
Income tax (expense)/ credit	(32,096)	(69,968)
Net (loss)/ Profit for the year after Income Tax	**750,619**	**258,426**

The company recorded a net profit of $750,619 in 2011 compared to a net profit of $258,426 in 2010. The increase in net profit was largely due to increases in income received from slipway and shipyard by $1,324,572 (43%) compared to income received from the same in 2010.

5.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash and Cash Equivalent	2,336,940	1,376,529
Trade Receivables	492,599	616,650
Inventories	73,488	115,092
Prepayments and other assets	108,467	72,984
Total Current Assets	**3,011,494**	**2,181,255**
Non - Current Assets		
Property, Plant and Equipment	6,083,865	6,247,399
Deferred Tax Assets	75,267	107,363
Intangible Assets	10,104	11,438
Held to Maturity Financial Assets	58,330	55,278
Total Non –Current Assets	**6,227,566**	**6,421,478**
Total Assets	**9,239,060**	**8,602,733**
Current Liabilities		
Trade Payables and Accruals	588,096	372,242
Interest Bearing Debt	268,319	281,511
Provisions	58,640	12,248
Total Current Liabilities	**915,055**	**666,001**
Non-Current Liabilities		
Interest Bearing Debt	2,233,798	2,467,931
Total Non-Current Liabilities	**2,233,798**	**2,467,931**
Total Liabilities	**3,148,853**	**3,133,932**
Net Assets	**6,090,207**	**5,468,801**
Equity		
Share Capital	7,662,228	7,662,228
Accumulated Losses	(1,572,021)	(2,193,427)
Total Equity	**6,090,207**	**5,468,801**

Net assets increased by $621,406 (11%) in 2011 compared to 2010. This was due to increase in cash and cash equivalents by $960,411 (70%) compared to 2010.

PART B – CONTROL ISSUES

5.4 Stock Write Off Policy

Agency is responsible for the safekeeping and proper maintenance of all accounting records or documents.

The audit noted that the FSHIL failed to prepare its stock aging report and also made no provision for obsolete stock in its books.

In addition, a stock take conducted by the Management in August 2010 determined that some of the stock purchased in the 1990's for the construction of the "Reef Endeavour" was slow moving and could be impaired.

The total value of these items ascertained by the Management at balance date was $65,349. This has been adjusted in the financial statements as provision for stock obsolescence.

Furthermore, audit noted that FSHIL does not have a formal policy on inventory write-offs.

Failure to write-off the obsolete stock could result in inventory being overstated.

Recommendations

- **The Management should finalise a formal policy for inventory write-offs.**
- **The Management should liaise with programmers to upgrade the inventory system to allow it to generate on point stock aging report.**

Company's Comments

Management takes note of the recommendation for a formal policy on inventory write-off. Since our current finance and accounting policy is under review, we will consider the recommendations and incorporate a formal policy regarding inventory write off.

Management has included in the 2012 budget CAPEX for the purchase of new accounting software and will ensure that the new accounting package incorporates the stock aging report generation.

5.5 Annual Return

Every company having a share capital, once at least in every year makes a return.[1] Every company not having a share capital shall, once at least in every calendar year, make a return.[2] The annual return shall be completed within 42 days after the annual general meeting for the year, whether or not that meeting is the first or only ordinary general meeting, or the first or only general meeting, of the company in the year, and the company shall, within such period, deliver to the registrar a copy signed

[1] Companies Act [Cap 247] – Section 127 (1)
[2] Companies Act [Cap 247] – Section 128 (1)

both by a director and by a secretary of the company.[3] If a company fails to comply with this section, the company and every officer of the company who is in default shall be liable to a default fine.[4]

For registering any document out of time pursuant to subsection (2) of section 392 of the Act; for the first month or part thereof during which the default continues (exclusive of the periods mentioned in regulation 5) fees of $5.00 would be levied. For each and every subsequent month (up to a maximum of $40) fees of $2.00 would be levied.[5]

The audit noted that the last annual return lodged by FSHIL was on 12 May 2005 for the period ending 2004.

Non-compliance with the statutory provisions of the Fiji Companies Act could result in unwarranted fines and penalties being imposed.

Recommendation

The Management should ensure all outstanding annual returns are lodged at the earliest possible date. In addition, all future annual returns are to be lodged annually.

Company's Comments

Management takes note of the DAM report comments.

However, as confirmed by the company secretary, FSHIL Annual Returns with the companies' office has been lodged on a regular basis.

[3] Companies Act [Cap 247] – Section 129 (1)
[4] Companies Act [Cap 247] – Section 129 (2a)
[5] Companies Act (Cap 247) Second Schedule – Part V Additional Fees

SECTION 6: FOOD PROCESSOR FIJI LIMITED

Food Processors is a wholly owned government commercial company which has been in operation for over 20 years. Its' main line of business is food manufacturing.

The company produces tomato sauce, chilli sauce, soy sauce, coconut oil, Worcestershire PMU sauce which is produced under licence for Goodman Fielders. The company continues to develop food products using local indigenous vegetables, fruits and root crops for local and export markets.

The fine quality foods are manufactured under the brand name "Pacific Cown" which are sold locally and exported to Australia, New Zealand, Canada and the USA.

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PART A – FINANCIAL INFORMATION

6.1 Audit Opinion

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

- The Property, Plant and Equipment (PPE) in the financial statements have not been revalued in accordance with Fiji Accounting Standard (FAS) 16 Property, Plant and Equipment. The last revaluation was conducted in 1998.

- Government loan amounting to $960,000 has not been recorded in the annual financial statements as at 31 December 2007.

6.2 Abridged Income Statement

Year Ended 31 December	2007 ($)	2006 ($)
Revenue		
Operating Income	2,221,037	2,557,410
Other Operating Income	257,818	340,564
Total Revenue	**2,478,855**	**2,897,974**
Expenditure		
Cost of Sales	1,697,720	2,089,236
Administrative Expenses	85,593	108,460
Bad and Doubtful Debts	0	34,281
Operating Expenses	484,455	562,600
Finance Cost	93,411	61,939
Total Expenditure	**2,361,179**	**2,856,516**
Profit Before Tax	**117,676**	**41,458**
Income Tax for the Year	**33,404**	**13,354**
Net Profit for the Year	**84,272**	**28,104**

Food Processor Fiji Limited recorded an after tax profit of $84,272 in 2007 compared to $28,104 in 2006 as a result of effective control excised over expenditure. Significant decreases were noted for:

- Cost of sales decreased by $391,516 or 18.7% as a result of the decrease in the volume of sales in 2007 due to competition from new products such as red top tomato sauce and general decline in consumer disposable income;
- Administration expenses decreased mainly due to decline in bank charges, director's fees and board meeting expenses.
- Other operating expenses decreased by $78,145 due to decline in advertising, marketing and promotion and related expenses.

6.3 Abridged Statement of Financial Position

As at 31 December	2007 ($)	2006 ($)
Current assets		
Cash and cash equivalents	1,316	2,029
Receivables	545,876	584,330
Inventories	1,332,813	942,768
Other current assets	362,319	354,123
Total current assets	**2,242,324**	**1,883,250**
Non current assets		
Deferred tax asset	14,572	20,059
Property, plant and equipment	1,894,088	2,018,902
Total non current assets	**1,908,660**	**2,038,961**
Total assets	**4,150,984**	**3,992,211**
Current liabilities		
Trade and other payable	551,014	487,478
Borrowings	515,968	376,917
Other current liabilities	46,827	32,062
Total current liabilities	**1,113,809**	**896,457**
Non current liabilities		

As at 31 December	2007 ($)	2006 ($)
Borrowings	834,804	861,450
Deferred tax liability	36,243	58,032
Other non current liabilities	86,663	111,077
Total non current liabilities	**957,710**	**1,030,559**
Total liabilities	**2,071,519**	**1,927,016**
Net assets	**2,079,465**	**1,995,195**
Shareholders' equity		
Share capital	687,679	687,679
Share Deposits	1,000,000	1,000,000
Retained earnings	391,786	307,516
Total shareholders' equity	**2,079,465**	**1,995,195**

The Company's net assets increased by $84,270 or 4.2% in 2007 compared to 2006 mainly due to the significant increase in inventories by $390,046 or 41.4%.

PART B – CONTROL ISSUES

6.4 Improving the Timeliness of Financial Reports

Financial reports are intended to meet the needs of decision makers and the Board of Directors. To accomplish this objective, financial reports must be available on time to make informed decisions. In accordance with this, the Fiji Accounting Standards [FAS 1(52)] states that "the usefulness of financial statements are impaired if they are not made available to users within a reasonable period after the balance date. An enterprise should be in a position to issue its financial statements within six months of the balance sheet date."

The draft financial statements of Food Processors (Fiji) Limited for the year 2007 was submitted to the Office of the Auditor General on 08 July 2010. The late preparation of the annual financial statements diminished its usefulness for decision making purposes.

Recommendation

The annual Financial Statement of the Company should be prepared and submitted within six months of the balance date.

Management Comments

No comment received from management.

6.5 Lodgement of Annual Return

Section 127 of the Company's Act, states that every company having share capital should lodge an annual return. If the Company fails to comply with this section, the Company and every officer of the Company who is in default shall be liable for a fine.

The last annual return for the Company was filed in 2003 as such it is in breach of the Companies Act and may be liable for fines.

Recommendation

The Company needs to update its Company records that are maintained with the Registrar of Companies.

Management Comments

No comments received from management.

6.6 Poor Cash Flow Management

Food Processors (Fiji) Limited had a bank overdraft limit of $220,000 with a commercial bank in 2007, however we noted that as at 31 December 2007 the company had an overdraft balance of $316,295. The bank statement reflected an overdraft balance of $276,615 as at 31 December 2007 and un-presented cheques amounted to $40,959 while lodgements not credited amounted to $1,280.

This resulted in the Bank overdraft limit being exceeded incurring daily excess fee.

Recommendation

The company should prepare cash flow projections on a weekly basis to monitor its payments and receipts and to manage its cash flow effectively so as to ensure that it is within its overdraft limit. This will avoid the incurrence of unnecessary bank charges and fees

Management Comments

No comment received from management.

6.7 VAT and Sales Reconciliation

The following were noted from audit review of the VAT and sales reconciliations:

Particulars	Amount ($)
Total sales as per VAT returns	1,903,644.53
Total income as per financials (including rental income)	2,395,850.00
Variance	**$ 492,205.47**

This implies that income has been understated/undeclared in the VAT Returns. In doing so the company declared a lower VAT output resulting in less VAT payable. Such discrepancies could lead to potential tax queries from the Inland Revenue Department.

Recommendation

This discrepancy should be resolved by the Financial Controller with a valid explanation. If necessary amended VAT returns need to be prepared and lodged.

Management Comments

No comment received from management.

6.8 Rental Income

All income received by the Company needs to be disclosed in the VAT Returns. This should be the case even if the income is zero rated. Audit noted that rental income from properties amounting to $174,813 during 2007 was not disclosed in the VAT returns.

The Company has failed to disclose all income in its VAT returns as required by the VAT Decree.

Recommendation

This matter is recurring from previous year and should be seriously taken on board by management and regularized.

Management Comments

No comment received from management.

6.9 Government Loan Not Recorded

National Trading Corporation Limited (NATCO) a parent company of Food Processors (Fiji) Limited borrowed $2.9million from Government.

Through a Cabinet decision in 2004, this loan was transferred from NATCO to Food Processors (Fiji) Limited. FPFL was then required to service this loan. Later on, out of this loan, $1M was further restructured as Government Equity (currently disclosed as Share Deposits).

A third party confirmation from Government revealed that loan outstanding from FPFL as at 31 December 2007 amounts to $1.9M. However, FPFL has only recorded $940,000 as loan repayable to Government in its Statement of Financial Position as at 31 December 2007.

The remainder of the loan ($960,000) is not recorded in the books of FPFL. Instead it is treated as a loan to Batiri Orchards Limited, which is a sister company of FPFL. It is noted that FPFL is in discussions with Government to transfer $960,000 to Batiri Orchards Limited.

FPFL's liability is understated by $960,000 as at 31 December 2007 due to the non recording of this loan from Government. This issue has been disclosed as a qualification in the audit report.

Recommendation

Audit strongly recommends that FPFL urgently discuss & regularize the above matter with Government and $960,000 should be recorded as FPFL's loan until the decision is finalised.

Management Comments

No comment received from government.

6.10 Government Loan Agreement

A loan agreement between the Government of the Fiji Islands and Food Processors Fiji Limited was not finalised for the loan which was transferred from NATCO to FPFL. This loan was transferred through a cabinet decision in 2004 as stated above.

In the absence of a loan agreement loan terms and conditions are not formally agreed to.

Recommendation

The company should formalize the loan repayments to Government by way of a loan agreement between the two parties.

Management Comments

No comment received from management.

6.11 Waiver of Interest on Government Loan

In a cabinet decision in November 2009, Government approved the waiver of all accrued existing interest on the Government loan which was transferred from NATCO to FPFL in 2004. Government also approved to freeze interest on this loan until underutilized properties of FPFL, namely the NATCO building and the Savusavu properties were disposed.

As at 31 December 2007, interest accrued on Government loan transferred from NATCO to FPFL in 2004 amounted to $201,475. A retrospective adjustment was not incorporated into the annual accounts of FPFL for 2007 to take into account the subsequent event of the waiver of the interest on Government loan.

Recommendation

Audit recommends that the annual accounts be amended to reflect the waiver of all accrued interest on the Government loan as approved by the Government.

Management Comments

No comment received from management.

6.12 Fixed Assets Register & Depreciation Schedule

A Fixed Assets Register is a subsidiary ledger which records asset codes, asset costs, descriptions, date of acquisition and location. This information is necessary not only for periodic verification of the assets existence and condition, but will also assist in future when the asset is disposed off.

Adequate description of all buildings and other properties of the Company should be kept on the register. References to title numbers, description of the structures and land location and area should be briefly but clearly stated. The register should be provided with columns for the following information:

(1) Date of acquisition

(2) CT, Lease or Registration Number
(3) Make, model, engine number
(4) Initial cost
(5) Cost of additions
(6) Total cost
(7) Provision for depreciation (accumulated)
(8) Written down value
(9) Proceeds of disposal
(10) Profit or loss on disposal

Whilst a depreciation schedule is maintained, audit noted that FPFL did not prepare a proper set of complete and accurate Fixed Asset Register (FAR) for the year ended 31 December 2007. Furthermore the following irregularities in the land & buildings present in the depreciation schedule were noted:

(1) Freehold land and buildings are recorded and depreciated together at 2.5% in the depreciation schedule. Freehold land does not attract depreciation therefore depreciation expense is overstated.

(2) Leasehold land and buildings for the Millet Street, Vatuwaqa Property are recorded and depreciated together at 2.5% in the depreciation schedule whereas leasehold land should have been amortised over its lease life of 99 years. By depreciating this at a rate of 2.5%, the Company is effectively giving the property a life of 40 years. Therefore depreciation expense is over stated.

(3) Leasehold land and buildings for the Savusavu Property are recorded and depreciated together at 1.25% whereas leasehold land should have been amortised over its lease life of 99 years. By depreciating this at a rate of 1.25%, the Company is effectively giving the property a life of 80 years. Therefore depreciation expense is over stated.

(4) No land/lease titles were provided for the following properties recorded under land and buildings:
   a. Sigatoka Naveyago Shed
   b. Sigatoka
   c. Wayevo
   d. Nabouwalu
   e. Ginger Shed

<u>Recommendations</u>

The Company should take necessary corrective action to correctly state the value of land & buildings in the financial statements.

<u>Management Comments</u>

Ni comment received from management.

6.13 Revaluation of Property, Plant and Equipment

Paragraph 32 of Fiji Accounting Standards 16 (Property, Plant and Equipment) states that the Property plant and equipment should be valued every 3 to 5 years.

Audit noted that the revaluation adjustments relating to 2005 valuation for CL 4995 and CT 11266 were not adjusted in the books of account.

Further, the company reassessed the carrying value of its plant and equipment in 1998 based on director's estimates. Independent valuations were not obtained. The above has been disclosed as a qualification in the audit report as well as notes to the financial statements.

The value of property, plant and equipment is understated in the balance sheet. This matter has been recurring from last year.

Recommendations

The company should process the revaluation adjustment relating to land and building in the book of accounts.

Management Comments

No comment received from management.

SECTION 7: PORTS TERMINAL LIMITED

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

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

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

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PART A – FINANCIAL INFORMATION

7.1 Audit Opinion

The audit of the financial statements of the Ports Terminal Limited for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

7.2 Abridged Statement of Financial Performance

Year Ended 31 December	2011 ($)	2010 ($)
Income		
Sales	13,081,250	11,317,964
Other Income	7,232	22,218
Total Income	**13,088,482**	**11,340,182**
Expenditure		
Staff and employee benefits	3,842,193	3,931,206
Depreciation and amortization expense	1,881,858	1,649,812

Year Ended 31 December	2011 ($)	2010 ($)
Finance costs	226,614	253,335
Equipment Hire	2,072,757	2,141,331
Machine costs	1,586,644	1,478,329
Management Fees	300,000	300,000
Other operating expense	1,772,941	1,627,064
Total Expenditure	**11,683,007**	**11,381,077**
Operating (loss)/profit before income tax	**1,405,475**	**(40,895)**
Income tax (expense)/ credit	(129,572)	14,480
Net (loss)/ Profit for the year after Income Tax	**1,275,903**	**(26,415)**

The company recorded a net profit of $1,275,903 in 2011 compared to a net loss of $26,415 in 2010. This was mainly attributed to the increase in sales revenue by $1,763,286 (16%) compared to 2010.

7.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash and cash equivalents	3,885,440	1,174,108
Trade and other receivables	777,277	618,356
Inventories	174,907	261,895
Financial Investments – held to maturity	250,000	250,000
Prepayments and other assets	203,875	625,666
Current Tax Benefit	109,516	18,457
Total Current Assets	**5,401,015**	**2,948,482**
Non Current Assets		
Property, plant and equipment	9,349,153	11,019,889
Trade and other receivables	1,441,199	1,441,199
Deferred tax asset	36,519	230,040
Total Non Current Assets	**10,826,871**	**12,691,128**
Total Assets	**16,227,886**	**15,639,610**
Current Liabilities		
Interest bearing borrowings	319,424	---
Trade and other payables	1,374,465	1,850,775
Provisions	110,505	102,388
Total Current Liabilities	**1,804,394**	**1,953,163**
Non-Current Liabilities		
Interest bearing borrowings	3,374,272	3,790,243
Deferred income tax liability	696,425	819,312
Total Non Currents Liabilities	**4,070,697**	**4,609,555**
Total Liabilities	**5,875,091**	**6,562,718**
Net Assets	**10,352,795**	**9,076,892**
Equity		
Share Capital	3,084,300	3,084,300
Retained Earnings	7,268,495	5,992,592
Total Equity	**10,352,795**	**9,076,892**

Net assets increased by $1,275,903 or 14% in 2011 compared to 2010. This was the result of increase in cash and cash equivalents by $2,711,332.

PART B – CONTROL ISSUES

7.4 VAT on Handling Activities (Zero Rated Supply)

The supply to a person in that persons' taxable activity capacity (and not in that person's private capacity) who in that capacity belongs in a country other than Fiji of services comprising of –

(a) the handling or storage of goods at or their transportation to or from a place at which they are to be exported or have been imported or the handling or storage of such goods in connection with such transport; or

(b) ancillary transport activities in relation to any ship or aircraft in a port or airport; or

(c) the making of the arrangements for the supply of any of the services referred to in this paragraph and paragraph 7 of this Schedule.

For the purposes of this paragraph, "ancillary transport activities" includes loading, unloading, handling, landing, berthing and stevedoring.[1]

The audit noted that VAT was incorrectly picked up by the system on stevedoring and TORS revenue.

As a result $223,305 was erroneously recorded as VAT on revenue:

VAT charged on revenue due to system error in 2011	-	209,197.61
VAT charged on revenue due to system error in 2010	-	14,107.42
Total		**223,305.03**

Failure to regularise the above system error has resulted in excess VAT being paid to Fiji Revenue & Customs Authority.

Recommendation

Management should liaise with Fiji Revenue & Customs Authority to resolve the above matter.

Company's Comments

We note the comments. We have been liaising with Fiji Revenue & Customs Authority and they have advised that PTL will need to lodge the amended VAT returns in order for them to assess the same.

7.5 2010 Bonus

The preparation of the financial statements requires the use of management judgment and accounting estimates. Certain estimates are particularly sensitive because of their significance to the financial statements and the possibility that actual future events affecting them may differ significantly from management's current expectations.

In 2010, the Ports Terminal Limited provided a provision for bonus amounting to $172,619.

[1] VAT Decree Amendment – Zero Rated Supply Section 15 (1) (2); page 103

However, there was no evidence made available during the audit to substantiate the above bonus payout provisions. In addition, no bonus was paid in 2011 pertaining to 2010 financial period.

As a result, the provision for bonus is overstated in the financials.

Recommendations

- **Management should ensure that provisions are substantiated prior to it being reflected in the financials.**
- **Necessary adjustments should be passed to rectify the above over provision.**

Company's Comments

We note the comments. To date management has not received any advice from the Ministry of Public Enterprise stating that the 2010 bonus for PTL will not be paid. The last correspondence received from the Ministry advised that PTL's 2010 bonus was being considered. It would be premature to write back the bonus provision before the Ministry confirms its position on the same.

7.6 Debtors

Debts must be written-off after all practical and cost-effective efforts have been made to recover them.

The audit noted that the followings debtors amounting to $21,286 have been appearing in the PTL records since 1999. The Management has created a provision for doubtful debts, however no considerations has been made on writing off the amounts as bad debts:

Table 7.1: Details of Long Outstanding Debtors

Account Code Name	Amount ($)	Year of Debt	Comments
Debtor 1	8,405	1999 – 2000	Audit noted that a Winding up notice was made to Shipping Company in 2003 but was withdrawn. A legal firm have confirmed that the files for this case have been destroyed since it is more than 7 years old. In view of the age of the debt it is recommended the debt be written off.
Debtor 2	4,674	2005	Company no longer in operation. No contact details available internally. Investigations with Freight services companies and other major Shipping Companies revealed that they had no history of trading with this company. Registered office of this company is now vacant (FEA). Listed phone inactive and it is recommended that the debt be written off.
Debtor 3	2,676	2002 – 2004	Findings reveal that account consists of various companies for container storage. Debt dates back to 2002 and there is absolutely no information available from clients. Therefore, we cannot ascertain the validity of the invoices as there are no attachments or order number listed. Various attempt of recovery has been unsuccessful. It is recommended that the debt be written off.
Debtor 4	865	2006-2008	Company has no record of these invoices and cannot trace it with their orders/jobs. Various attempts to recovering debt over

Account Code Name	Amount ($)	Year of Debt	Comments
			the years have been unsuccessful. It is recommended that the debt be written off.
Debtor 5	155	2008	Company has no record of these invoices and cannot trace it with their orders/jobs. Company is no longer trading with Ports Terminal. Attempts to collect outstanding amount would cost more than the debt. It is recommended that the debt be written off.
Debtor 6	150	2008	Company has a winding up notice from a well known hardware retailer. This company is no longer in operation. Proof of Debt has been filed by FPCL and delivered to Office of the Official Review. Chances of recovery is very low and given the sum outstanding $150 it is considered impractical to pursue this debt any further. It is recommended that the debt be written off.
Debtor 7	36	2009	Company has changed its name and no longer trading with Ports Terminal Limited. No trace of this order or job found. Collection action considered impractical. It is recommended that the debt be written off.
Debtor 8	4,674	2007	Vessel Deposit received by PTL and banked. However these vessel deposits were not allocated against these outstanding invoices. Recommend this be written off since customer has paid in full.
Debtor 9	1	2005	Collection action considered impractical. It is recommended that the debt be written off.

Failure to take appropriate measures would result in overstatement of debtors balance in the books at year end.

Recommendation

Management should assess and seek Board approval for the write off of unrecoverable accounts amounting to $21,286.

Company's Comments

Comments are noted. Management will seek Board approval for write off of these unrecoverable amounts before 2012 accounts are finalised.

7.7 Inventory Overstatement

Inventory purchasing, storage and recording should be efficiently managed to ensure that there is a sufficient level of inventories when needed, while minimizing the cost of holding inventory and the risk of stock becoming obsolete or damaged.

The audit noted the following anomalies in the management of stores items:

- Stolen tyres valued at $2,612 were still included in inventories value at year end.

- Short supply of 6 tyres which was taken up in inventories valued at $3,661.

- Double recording of inventory items (spare parts – Hydraulic Filter) noted during audit stock take, which has resulted in an overstatement in inventories of $7,393. The double recording of inventories is reflecting conflicting cost which could not be ascertained given the available records.

- Variance of $3,969 was noted in the year end oil stock balance. This has resulted after PTL changed its oil recording system. PTL now accounts for each oil type separately when compared to previous years when it was accounted together.

- The Company's procedures manual does not contain a specific policy on inventory of spare parts and oil. Parts are not recorded when it is purchased but directly received by the mechanical department. It is only at the monthly stock take, that the inventory records are updated. Thus there is no control on inventory movement during the month.

The above indicates poor store management and lack of monitoring system in place. Failure to put adequate measures in place would allow room for further misappropriations and incorrect reflection of inventories in year-end financials.

Recommendations

- **Management should review/assess the recoverability of the stolen and short supplied stock and write off any unrecoverable amount.**
- **Management should formulate a policy on inventory purchases and management.**
- **Audit adjustment of $13,666 (2,612+3,661+7,393) should be made to write off the difference in tyres and spare parts.**

Company's Comments

Management notes the comments. Many of the issues highlighted was due to the fact that there was no storeman dedicated to looking after PTL stock (spare parts/oils /fuel) in the past. Management has appointed a storeman in 2010 and the above issues were brought to light. These items could not be written off during the year as management had not received police reports for stolen inventory; however, these have been adjusted in the 2011 accounts. Management will seek board approval to write off fuel variance before finalising 2012 accounts.

SECTION 8: POST FIJI LIMITED

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

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

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PART A – FINANCIAL INFORMATION

8.1 Audit Opinion 2011

The audit of the financial statements of the Post Fiji Limited for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

8.2 Abridged Statement of Financial Performance

Items	2011 ($)	2010 ($)
Income		
Sales Revenue	8,757,470	11,013,522
Postage, stamp and other sales	4,462,864	4,672,009
Rental – postal box and bag	2,142,037	2,007,225
Agency commission and other services	6,639,565	7,035,998
Other Operating Revenue	1,724,515	1,445,222
Total Income	**23,726,451**	**26,173,976**
Expenditure		

Items	2011 ($)	2010 ($)
Cost of Sales	7,043,175	9,157,298
Depreciation and Amortisation Expenses	1,287,079	1,122,053
Employee Benefits Expense	7,114,676	6,804,765
Administration and Operating Expenses	7,961,167	9,645,950
Selling, Marketing and Distribution Expenses	285,266	241,074
Other Operating Expenses	25,212	50,001
Finance Costs	572,343	228,164
Total Expenditure	**24,288,918**	**27,249,305**
Operating (loss)/profit before income tax	**(562,467)**	**(1,075,329)**
Income tax benefit/(expense)	86,834	279,834
Net (loss)/ Profit for the year after Income Tax	**(475,633)**	**(795,495)**

The Company recorded a net loss after income tax of $475,633 in 2011 compared to a net loss after income tax of $795,495 in 2010. The improvement in company's operation was mainly attributed to the decrease in total expenditure by $2,960,387 (11%).

8.3 Abridged Statement of Financial Position – Balance Sheet

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash and Cash Equivalent	2,772,961	2,069,483
Trade and Other Receivables	4,490,772	5,090,590
Financial Assets – held to maturity	1,450,000	1,200,000
Inventories	4,220,214	3,976,454
Other Current Assets	326,407	470,717
Total Current Assets	**13,260,354**	**12,807,244**
Non-Current Assets		
Financial Assets – held to maturity	-	100,000
Property, Plant & Equipment	11,346,608	12,008,321
Deferred Tax Asset	780,906	694,072
Intangible Assets	589,873	806,155
Total Non-Current Assets	**12,717,387**	**13,608,548**
Total Assets	**25,977,741**	**26,415,792**
Current Liabilities		
Trade & Other Payable	8,813,334	9,311,491
Interest Bearing Borrowings	2,606,611	1,334,520
Employee Entitlements	565,509	493,001
Provision for Income Tax	(355,478)	(347,232)
Total Current Liabilities	**11,629,976**	**10,791,780**
Non-Current Liabilities		
Trade and Other Payables	1,744,323	1,766,482
Interest Bearing Borrowings	25,845	941,043
Employee Entitlements	263,748	222,840
Deferred Income	884,412	788,577
Total Non-Current Liabilities	**2,918,328**	**3,718,942**
Total Liabilities	**14,548,304**	**14,510,722**
Net Assets	**11,429,437**	**11,905,070**

As at 31 December	2011 ($)	2010 ($)
Shareholder's Equity		
Share Capital	5,600,000	5,600,000
Accumulated Profits	5,829,437	6,305,070
Total Shareholder's Equity	**11,429,437**	**11,905,070**

Net assets declined by $475,633 or 4% in 2011 compared to 2010. This was mainly due to the decrease in Property, Plant and Equipment by $661,713 (6%) and the increase in current interest bearing borrowings by $1,272,091 (95%).

PART B – CONTROL ISSUES

8.4 Cash and Stock Shortages

The Company must have in place a cost effective system of internal control which safeguards money and property against losses.

The audit noted that there were cash and stock shortages in certain Stations signifying weak controls in the areas of cash and stock. The following cases were noted:

Table 8.1: Cash And Stock Shortages

Office/Agency	Cash/ Stock	Shortage Amount ($)
Daku Postal Agency	Cash	63,997.48
Totoya Post Office	Stock	43,700.00
Lomaivuna Post Office	Stock	1,356.44
Vunisea Post Office	Stock	3,010.76

Weak controls in the areas of cash and stock could result in misappropriations and fraud.

Recommendations

- **Management should investigate this matter and make an effort to recover the above amounts from the responsible officers.**
- **Appropriate action should be taken against the responsible Officers for the shortages noted.**

Company's Comments

Dakau Postal Agency and Totoya Post Office cash shortages cases had been reported to Police and to our insurers. Lomaivuna Post Office stock shortages were fully recovered in October 2011.

As for Vunisea Post Office, the stock shortage is currently being investigated.

8.5 Creditors - Aged Payables Adjusted

Post Fiji Limited failed to provide the aged payables listing as at 31/12/11. However, audit received the year reconciliation which matched with the general ledger which had significant adjustments particularly reversals for January 2012.

Discussion with the management revealed that the Accounts Payable module in IMAS does not facilitate proper cut-off procedures for invoice and payments, thus resulting in manual reconciliations. Refer Table 8.2 below for details.

Table 8.2: Aged Payables

Particulars	Amount ($)
Total Aged Payables	4,283,604.41
Less: Jan Invoice posted in Dec 2011	(2,242,530.52)
Add: Jan payment posted in Dec 2011	392,837.73
Add: Late Invoices Entry Dec 2011	31,732.51
Add: Stale Cheque PJ172	7,576.05
Add: Staff Advance P/Shop	1,680.00
Balance as per general ledger	**2,474,900.18**

The above implies that there are deficiencies in the IMAS system's payables module as it is unable to perform cut-offs in the payables module. Also, there is a high risk that creditor reconciliations are not correctly performed thus leading to significant adjustments at year end.

Recommendation

Management should look into the system and rectify the situation as to why the system is unable to extract aged payables when backdated and ensure proper reconciliations are done for the creditors.

Company's Comments

Your comment is noted. We will ensure that all the invoices are inputted and the aged payables report is printed before any other month's punching is done.

In addition, we will also liaise with our IMAS consultant on the possibility of performing cut-offs in the payables module in order to generate aged payables report.

8.6 Creditors – Variances in Balances

The Company must reconcile the Creditors account monthly and any variances should be adjusted accordingly.

The audit noted variances in creditor's balances when compared with supporting calculations, documentary evidence and direct confirmations.

The following variances were noted in creditor 4 when compared with general ledger and Subsidiary Ledger (Supporting Reconciliation):

Table 8.3: Variance in Creditor Balance

Fiji Directories Limited	Amount ($)
Amount as per AP subsidiary ledger	7,403.84
Amount as per Reconciliation	3,334.20
Balance as per general ledger	**4,069.64**

Furthermore, audit noted variances between the creditor's balances as per Post Fiji Limited's records and creditor confirmations. Refer to Table 8.4 below for details:

Table 8.4: Variance in Creditors Balances

Creditor	Balance as per Aged Payables ($)	Balance as per Creditor Confirmation ($)	Variance ($)
Creditor 1	48,187.45	80,405.38	32,217.93
Creditor 2	3,674.13	0	3,674.13
Creditor 3	72,926.50	116,124.03	43,197.53

The above implies that proper creditor reconciliations are not carried out in a timely manner causing distortion in the payables amounts and this may not correctly reflect the payables position of Post Fiji Limited.

Recommendation

The Management must ensure that accurate reconciliations are maintained for creditors to reflect actual payable position of the Company and this will also avoid disputes between the creditors.

Company's Comments

For the Creditor 1 and Creditor 3 invoices, these related to the transportation of PFL's overseas and local mails. The amount billed by Creditor 1 is first verified to the mail weights sent. Once this is done, accruals are made accordingly. In the instance above, the variance for Creditor 1 and Creditor 3 was booked as an accrual in December 2011.

According to our records, we owe Creditor 4 and Creditor 2. Data entered into Accounts payable subsidiary ledger are from actual invoices received. We believe that the creditor confirmation may not be correct in this instance. We will take this up with the respective creditors.

8.7 Cash

The Accounting Head shall, from time to time, arrange surprise inspections of the accounts of their Cash.

Post Fiji Limited's business significantly comprises handling and management of cash. The following weaknesses were noted for cash:

- Cash book and cash on hand reports were not produced for audit verification. This was due to Post Masters not sending them with the bank reconciliations. Receipts and payments were verified to bank statements;

- There was low frequency of surprise cash counts at the post offices;

Non compliance with cash and bank reconciliation in cash count procedures increases the risk of misappropriation of cash.

Recommendation

Management must ensure that Postmasters send their cash accounts with relevant supporting documents and reports in a timely manner to achieve correct cash position of the respective stations.

Company's Comments

Postmasters do send their cash management report (summary generated from WRE system), bank statement, lodgment listing with their bank reconciliations. These documents are sufficient for checking purposes at Finance and there is no need for the physical cashbook to be sent. This manual cashbook is kept by the online post offices as a backup.

In 2011, there was only 3 audit staff who managed to cover 36 Post Offices. However, with the increase in manpower from late 2011 to 6 personnel audit is on track to visit all stations in the current term. An annual audit plan has been approved by the Board, which will ensure that audit objectives are met.

8.8 Debtors Over 90 Days

Ensure source documents for debtors are checked and summarised for billing and payments received within a month.

Debtors were noted to be in over ninety-day (90 days) category in the aged listings. Some of the categories of debtors having over 90 day's receivables are as follows:

Table 8.5: Debtors over 90 days

Category	Over 90 Days Debtor ($)	Total Outstanding Amount ($)	Percentage %
Debtor 1	257,491.06	420,823.93	61
Debtor 2	17,862.19	31,960.57	56
Debtor 3	35,683.56	219,716.09	16
Debtor 4	206,721.20	221,942.09	93
Total	**517,758.01**	**894,442.68**	**58**

The implications are as follows:

- Keeping debtors in over ninety-day category for a long time reflects a weak system of collection mechanism in place and this is likely to impact on the cash flow of the business and distorts the financial position of the company.
- There is a significant sum of money held up in the debtors who are in the ninety-day category and this is impacting on the financial position of the company and this also distorts the working capital position.
- There is risk that debtors would default in payment and this would possibly lead to writing off some debtors.

- The above can also affect the cash-flow position of the company.

Recommendations

- **Management must ensure that collections department adheres to thirty days collection time to avoid the aging of debtors which mostly exceeds ninety days.**
- **Debtors should be regularly reminded for payments and credit assessments be done adequately prior to approving credits.**

Company's Comments

We agree with the recommendation. Debtors over 90 days were accumulated from 2010. Out of $517,758.01, $420,550 was provided for and $26,747.28 was collected after negotiating with some debtors. Reminder emails and customer visitations are in place and we are assessing them with the current repayment trend to assist us in the next term around.

8.9 Cash Account Reconciliations Not Provided

The Company failed to provide the Cash account reconciliations for the following cash accounts. It was further noted that these accounts were closed. Refer to Table 8.6 below for details.

Table 8.6: Accounts for which Reconciliations not provided

Station	Amount ($)
Batiki	16,796.85
Levukaidaku	3,795.15
Makadru	1,614.72
Naroko2ywa	480.98
Total	**22,687.70**

Due to non-availability of supporting documentation for the balance, reliance on the account balance cannot be fully placed upon. Also since the accounts are closed now there is no avenue to determine whether the amounts were appropriately remitted back.

Recommendation

Management must ensure that proper record keeping of all account balances are maintained to revert back to it for substantiation of the amounts and proper remittance be done for cash amounts for which the accounts are closed.

Company's Comments

Your comment is noted.

8.10 Outdated Corporate Governance Manual

The Company must revise their policies and procedures in a timely manner to ensure all regulations have been incorporated

The audit noted that the Corporate Governance Manual has not been revised since the first edition in January 2003.

This implies the company has not incorporated the current procedures and policies within the manual and this may pose a risk of not formalised policies and procedures of the company as far as the new business operations are concerned.

Recommendation

The Management must ensure prompt review of the company's corporate governance manual which should be amended to also incorporate the policies and procedures of the current operations.

Company's Comments

Your comment is noted.

SECTION 9: PUBLIC RENTAL BOARD

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

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

The main activities of the Board are as follows:

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

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PART A – FINANCIAL INFORMATION

9.1 Audit Opinion - 2010

The audit of the financial statements of the Public Rental Board for the year ended 31 December 2010 resulted in an issue of an unqualified audit report.

9.2 Abridged Statement of Financial Performance

Year ended 31 December	2010 ($)	2009 ($)
Income		
Rental Income	2,390,500	2,316,585
Operating Income	1,774,164	2,271,218
Total Operating Income	**4,164,664**	**4,587,803**
Expenditure		

Year ended 31 December	2010 ($)	2009 ($)
Depreciation	372,857	391,074
Staff Costs	915,077	1,003,703
Other Operating Expenses	1,436,082	1,627,961
Net Financing Costs	127,660	269,958
Total Expenses	**2,851,676**	**3,292,696**
Net Profit for the Year	**1,312,988**	**1,295,107**

The Boards net profit increased by $17,881 or 1.4% in 2010 compared to 2009 as a result of effective control excised over expenditure.

9.3 Abridged Statement of Financial Position

As at 31 December	2010 ($)	2009 ($)
Assets		
Cash	1,076,676	435,722
Investments	75,430	1,571,000
Other Assets	144,445	181,173
Property, Plant & Equipment	7,210,805	7,288,806
Total Assets	**8,507,356**	**9,476,701**
Liabilities		
Creditors	1,973,667	1,745,138
Deferred Revenue	567,995	630,792
Borrowings	2,960,452	5,377,981
Employee Entitlement	190,105	220,641
Total Liabilities	**5,692,219**	**7,974,552**
Net Assets	**2,815,137**	**1,502,149**
Total Equity	**2,815,137**	**1,502,149**

There was a significant improvement in the Board's financial position in 2010. This was due to decline in term loan by $2,417,529 or 45% and decline in employee entitlement by $30,356 or 14% in 2010 compared to 2009.

PART B – CONTROL ISSUES

9.4 Prior Period Adjustments

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorized for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversight or misinterpretations of facts, and fraud.

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

(a) restating the comparative amounts for the period (s) presented in which the errors occurred.[1]

The financial statements submitted for audit by PRB for the year ending 31/12/10 had a variance of $63,554 in assets and liabilities amounts compared to its general ledger amounts. Refer to table 9.1 below for details.

Table 9.1: Variance between Financial Statement Figures and the General Ledger

Descriptions	Amount As Per Audited Financial Statements ($)	Amount As Per General Ledger ($)	Variance ($)
2009 Lands & Buildings WDV	14,968,996	14,979,160	10,164
2008 Restated Rent Receivables	(12,390)	-	(12,390)
2008 Restated Trade Creditors & Accruals	66,072	-	66,072
Total			**63,554**

The variance was due to adjustments which were made to the previous year's accounts but the adjustments were not passed in the general ledger system. To reconcile the variance between financial statements and the general ledger PRB passed a journal entry for $63,554 on 18/10/11 by debiting Building Repairs and Maintenance and crediting the Retained Earnings accounts in Equity.

The audit noted that crediting Retained Earnings Account to reconcile the variance was incorrect. PRB was not able to identify the individual accounts for adjustments.

In addition audit could not substantiate the accuracy of adjusting amount of $63,554 as adequate details were not provided by the PRB.

Recommendations

- **The Board should ensure proper rollover of accounts is done after the auditing of the Board's account every year.**
- **The Board must ensure that all audit adjustments are made to the general ledger system before the accounts are closed and rolled over.**

Management Comments

1. Comments are noted.

2. Management will ensure in future that general ledger is matched properly with the final accounts before roll over is made.

9.5 Accumulated Depreciation Variance between FAR and GL

The Navision system used by PRB does not facilitate correct rolling-forward procedures for property, plant, and equipment opening cost and accumulated depreciation balances.

The following variances were noted after rectifying the Fixed Asset Register accumulated depreciation balances against the Navision general ledger accumulated depreciation balances. Refer to table 9.2 below for details.

[1] International Accounting Standards 8, sections 5 and 42

Table 9.2: Variance in Depreciation between FAR and the General Ledger

Asset Category	Fixed Assets Register			General Ledger	Variance 31/12/10
	Depreciation 1/1/2010 ($)	Depreciation for the year 2010 ($)	Depreciation 31/12/10 ($)	Depreciation 31/12/10 ($)	($)
Land and Building	8,583,101	287,662	8,870,763	8,856,410	14,353
Furniture & fittings	452,911	26,524	479,435	476,068	3,367
Total Variance					**17,720**

Property, plant and equipment balance in the financial statements do not agree to the balances in the general ledger for the year ended 31 December 2010. As result the value of the property, plant and equipment in the fixed assets register was overstated by $17,720 as at 21/12/10.

Recommendation

The Board should properly reconcile the variance in accumulated depreciation between the FAR and the general ledger.

Management Comments

1. Comments are noted.
2. The variance in FAR and GL were corrected during audit process and FAR reconciled with the GL.
3. Management will ensure FAR are reconciled before accounts are submitted for auditing.

9.6 Bonding for Managers and Others to Study

An employee selected for studies in Fiji or overseas and/or is granted study with salary shall be bonded to serve the Board upon successful completion of studies.[2]

Employees who are taking the formal courses for which prior approval of the Board has been obtained shall be reimbursed for expenses related to the courses for which prior approval of the Board has been obtained and will be on a 8:2 percentage ratio (80% of tuition cost reimbursed to employee upon successfully completing the unit).[3]

The Board paid tuition fees for part – time studies at the University of the South Pacific for three of its managers. Refer to table 9.3 below for details.

Table 9.3: Details of programmes undertaken by Management Staff

Staff Initial	Programmes Undertaken	Amount Paid ($)
MS	Masters in Business Administration	7,865.10
PV	Masters in Business Administration	7,983.10
AK	Post Graduate Diploma in Accounting	4,514.20
Total		**20,362.40**

[2] Public Rental Board Human Resource Policies 10.2
[3] Public Rental Board Human Resource Policies 9.7.2

Audit noted that these Officers did not sign bond agreements for their studies which were funded by the Board.

The audit also noted that a Finance Coordinator for the Board who was pursuing his Australian CPA Program resigned and was reimbursed 80% of his tuition fees. The Board could not hold him back as there was no bond agreement signed by the Officer for his studies which was funded by the Board.

In absence of bond agreements for Officers whose studies are funded by the Board, there is a high risk that these officers may leave the organisation after completing their studies.

Recommendation

The Board should consider that Officers studying at Boards cost sign bond agreement at the commencement of their studies.

Management Comments

1. Comments are noted and appropriate improvements would be made in the HR policy.

2. Management staffs have completed their studies and now serving their bond period with the Board.

9.7 Purchase of Motor Vehicle for General Manager

If the State Owned Entity (SOE) is employing more than 100 staff, the Chief Executive Officer (CEO) is entitled to a 4 wheel drive vehicle otherwise a sedan car is the entitlement. Any variation would be subject to approval by the Board and Higher Salaries Commission (HSC).[4]

PRB purchased a 4 wheel drive vehicle at a cost of $64,500 for the General Manager after trading in of the old vehicle. The purchase of the 4 wheel drive vehicle was approved by the Board in its meeting held on 24/11/2010. The Board purchased a vehicle for the General Manager even though he was not entitled to a vehicle as part of his salary package.

The finding shows that the Board did not comply with Ministry of Public Enterprise's guideline on purchase of vehicle.

Recommendations

- **The Board should inform and seek advice from the Ministry of Public Enterprise on this matter.**
- **The Board should comply with the Ministry of Public Enterprise's guideline of purchase of vehicles in future.**

Management Comments

1. The Board of Directors' were informed of the guideline set by Ministry of Public Enterprises at the Board meeting of 24/11/2010.

2. PRB motor vehicle policy entitles the General Manager and other Managers to have vehicles for use in office and private use after hours.

[4] Ministry of Public Enterprises letter dated 6 August 2007, Annexure II

3. Ministry of Public Enterprises guidelines would not be practical to follow given the nature of operation of PRB.

<u>Further OAG Comments</u>

PRB must ensure that their vehicle policy is in line with the Ministry of Public Enterprise's guideline on vehicles use.

9.8 Breach of Tender Procedures

An advertisement calling for expressions of interest from reputable car dealers for sale of Board's one executive vehicle and two twin cabs was placed in the local newspapers. All submissions were to be received before 3.00pm, Friday the 12/11/2010 and late submissions were not to be accepted.[5]

At the close of the tender on 12/11/2010, tenders were received from four interested parties for purchase of Board's vehicles. Refer to table 9.4 below for details

Table 9.4: Details of Vehicles Tendered for Sales

Bidder	Date Tenders Received	Vehicle Registration	Tendered Amount ($)
Bidder 1	12/11/10	ET145	25,000
	12/11/10	ET159	18,000
	12/11/10	ET160	12,700
Bidder 2	12/11/10	ET160	10,000
	12/11/10	ET159	7,000
Bidder 3	12/11/10	ET159	7,550
	12/11/10	ET160	8,120
Bidder 4	16/11/10	ET159	17,000
	16/11/10	ET160	17,000

The Board sold the vehicle registrations ET159 and ET160 to Bidder 4 for $17,000 each on 25/11/10 despite that Bidder 4 tenders were received four days after the tender closing date.

Audit further noted that Bidder 1 tendered a higher price for ET159 at $18,000 which was submitted before the tender closing date. However, the Board did not sell vehicle ET159 to him.

The finding shows that the Board did not comply with the tender process and favoured the 4th Bidder.

<u>Recommendation</u>

Ministry of Public Enterprise should investigate the matter and take appropriate action.

<u>Management Comments</u>

*1. Bidder 1 was only interested in purchasing **ONLY one** vehicle and required 14 days to arrange finance before settlement could take place.*

*2. Bidder 4 on the other hand purchased **both** pickup vehicles at a higher price and settle immediately.*

3. The Board of Directors at their meeting on 24th November 2010 agreed with the justifications provided and approved the sale accordingly.

[5] Expression of Interest – 19/10

SECTION 10: FIJI PUBLIC TRUSTEE CORPORATION LIMITED

The corporation 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

10.1 Audit Opinion

The audit of the financial statements of the Fiji Public Trustee Corporation Limited for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

10.2 Abridged Statement of Financial Performance

Year ended 31 December	2011 ($)	2010 ($)
Income		
Fees	639,832	815,807
Interest income	605,633	1,032,584
Aid	33,075	70,607
Other revenue	28,528	24,697
Total Income	**1,307,068**	**1,943,695**
Expenditure		
General and administration expenses	265,750	275,859
Selling expenses	9,748	10,715
Staff and employee costs	434,017	446,178
Total Expenditure	**709,515**	**732,752**
Operating profit before income tax	597,553	1,210,943
Income tax expense	176,926	340,343
Net operating profit after income tax	**420,627**	**870,600**

The Corporation recorded a net operating profit after tax of $420,627 in 2011 compared to a net profit after tax of $870,600 in 2010, a decrease of $449,973 (52%). This was due to a decrease in interest income by $426,951 (41%) as a result of withdrawal of investments and decline in market interest rates. The Fees also decreased by $175,975 (22%) due to new Trusts from Invalid Nominees no longer administered by FPTCL as per High Court Directives.

10.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash and cash equivalents	3,611,726	271,776
Trade and other receivables	393,048	779,151
Other current assets	351,285	38,424
Total Current Assets	**4,356,059**	**1,089,351**
Non-Current Assets		
Deferred tax asset	13,118	18,572
Financial assets	3,864,630	6,796,083
Property, plant and equipment	88,057	93,534
Intangible assets	23,765	47,533
Total Non-Current Assets	**3,989,570**	**6,955,722**
Total Assets	**8,345,629**	**8,045,073**
Current Liabilities		
Deferred revenue	35,990	69,065
Trade and other payables	36,802	25,844
Provisions	241,912	330,469
Total Current Liabilities	**314,704**	**425,378**
Non Current Liabilities		
Deferred tax liability	123	511
Total Non-Current Liabilities	**123**	**511**
Total Liabilities	**314,827**	**425,889**
Net Assets	**8,030,802**	**7,619,184**
Shareholders' Equity		
Share Capital	2	2
Share Premium Reserve	99,998	99,998
Capital Reserve	5,708,122	5,717,131
Retained Earnings	2,222,680	1,802,053
Total Shareholders' Equity	**8,030,802**	**7,619,184**

The company's net asset increased by $411,618 (5%) in 2011 compared to 2010. This was attributed to the increase in cash at bank balance by $3,339,950 due to Liquidated Investment held in term deposit at the end of the year which was proposed for the purchase of a building.

PART B – CONTROL ISSUES

10.4 Reconciling Adjustments

It is essential that all reconciling items in a reconciliation statement are appropriately supported.

An adjustment of $50,592.65 was noted following review of the Fees and VAT reconciliation for the year 2011. No supporting documents were provided to support this adjustment entry. Accordingly, audit was not able to verify the accuracy of this adjustment due to lack of supporting documents.

Such adjustment undertaken to balance general ledger with its reconciliation may result in overstatement of Accounts receivable in Corporation's Balance sheet.

Recommendation

The Management should ensure that reconciliations are properly reviewed and all reconciling items has the basis and supporting documentations to support its existence in the reconciliation.

Corporation's Comments

The Corporation notes the above adjustment which relates to prior year adjustment figures and we are working to verify the adjustments in the accounts receivable from trust and estate. Sometimes mismatching in allocation through processing of payments, receipting and systems GL interface transactions usually arise when large volumes of transactions are involved.

The above relates to VAT receivable from Trust and payable to Corporation for the prior years incorrectly allocated from prior years.

10.5 Value Added Tax

The net amount receivable or payable in respect of VAT should be included as part of accounts receivable or payable. Assets should be recorded net of VAT if the tax is recoverable.[1]

The Corporation's VAT account should be reconciled on a monthly basis with the statement of VAT account issued by Fiji Revenue and Customs Authority. The monthly reconciliations would allow the Corporation to identify and rectify the understatement or overstatement of VAT input and VAT output in the VAT returns on a timely basis.

Registered persons providing exempt supplies and all persons other than registered persons incur irrecoverable VAT on their related inputs. For these persons, VAT increases the cost of the goods and services they supply. VAT should therefore be included in such costs. In particular in these circumstances VAT on fixed assets should be added to the purchase cost of the fixed assets concerned.[2]

Our review of the VAT records revealed the following anomalies:

- A variance of $61,304 was noted between the General Ledger and the independent reconciliation carried out during audit with the Statement of VAT account received from FRCA. Refer to Table 10.1 below for details;

[1] Fiji Accounting Standard 103 – Section 7
[2] Fiji Accounting Standard 103 – Section 8

Table 10.1: Variance in VAT

Particulars	Amount ($)
VAT Payable as per VAT Reconciliation	30,482
VAT Receivable as per Financial Statements	30,822
Variance	**61,304**

- Monthly VAT reconciliations were not prepared by the Corporation for the year 2011.

- VAT was not booked on Accruals and Creditors at year end for some of the creditors. Accordingly, the Corporation has reported these Accruals and Creditors exclusive of VAT. Refer to Table 10.2 below for examples;

Table 10.2: Creditors not inclusive of VAT

Creditor	Amount as per creditors ledger ($)	Amount as per supplier invoice ($)	VAT not booked ($)
Creditor 1	6,825.00	7,848.75	1,023.75
Creditor 2	695.65	800.00	104.35
Creditor 2	1,130.43	1,300.00	169.57
Total	8,651.08	9,948.75	1,297.67

There is a possibility that the Corporation is understating its VAT liability by not accruing VAT on creditors.

Recommendations

- **Monthly VAT reconciliations should be prepared between the Corporations records and FRCA's statement of VAT account and any variance arising thereon should be properly investigated and resolved.**
- **VAT should be recorded on all accrual and creditor accounts.**

Corporation's Comments

Management notes the points highlighted above on monthly reconciliations.

However, In 2011 all the 12 Vat Returns lodged by the Corporation and the assessment carried by FRCA were always in agreement and therefore no items of dispute. The above issue of unreconciled VAT relates to the same issue highlighted in '3.0' as items un-reconciled from prior year. Management is working to rectify the above.

The amendments were reflected in accounts and future Vat recorded in accruals will be Vat inclusive as above and immateriality of the amount is also noted.

10.6 Discrepancies in the Interest Due For Distribution Reconciliation

Sound internal control requires the maintenance of reconciliation which ensures the accuracy and validity of financial information and ensures that unauthorized changes have not occurred to transactions during processing. All such reconciliations must be performed by the company accountant, and evidenced as reviewed by Management Finance & Admin (MFA) on the reconciliations. [3]

Our audit noted that reconciliation for interest due for distribution did not reconcile with the interest due for distribution as per general ledger. Refer to Table 10.3 below for details.

Table 10.3: Variance in Interest due for distribution

Particulars	Amount ($)
Balance as per interest due for distribution reconciliation	1,527,543.33
Balance as per general ledger	1,317,933.06
Variance	**209,610.27**

Differences in the reconciliation for interest due for distribution with the general ledger increase the risk that the interest due for distribution may not be accurately and fairly stated in the financial statements. Also there is a risk that incorrect interest may be distributed to the beneficiaries due to un-reconciled interest distribution amount.

Recommendation

The variance should be investigated and the actual balance for interest due for distribution should be determined before the interest is distributed to the beneficiaries' account.

Corporation's comments

The variance refers to interest on interest figures not accounted in the reconciliation, which will be redistributed to beneficiaries with the 2011 interest.

10.7 Debit balances in the Trust Account

The Accountant will be responsible for reporting on trust account balances to the MFA on a regular basis. [4]

The Company should not allow any trust/estate account to be overdrawn.[5]

Trust accounts shall be subject to independent systematic reconciliation and audit procedures by the Internal Auditor with priority given to accounts with debit balances. [6]

Audit of trust/estate balances in the Trustsoft system, statement of accounts and file records noted that the following accounts had debit balances as at 31 December 2011. Refer to Table 8.4 below for details;

[3] Fiji Public Trustee Corporation Limited, Finance Manual – Section 11.1
[4] Fiji Public Trustee Corporation Limited, Finance Manual 2009 – Section 10.6.1
[5] Fiji Public Trustee Corporation Limited, Finance Manual 2009 – Section 10.6.2
[6] Fiji Public Trustee Corporation Limited, Finance Manual 2009 – Section 10.6.3

Table 10.4: Accounts with Debit Balance

File No.	A/C No.	Account Type		Debit Balance as per statement of Account ($)	Remarks
		Estate	FNPF		
03/06	24381	√		5,268.66	A/c shows debit balance due to acceptance fees charged in 2006.
30/72	2713	√		42,649.41	A/c shows debit balance even though cane proceeds are received.
464/06	25069	√		6,009.39	A/c shows debit balance due to fees charged by FPTCL to the account.
435/85	9064	√		52,187.83	A/c in debit balance since 2008 and FPTCL continue to charge fees for reimbursable expenses & other legal fees.
269/01	20357	√		906.33	A/c in debit balance. Beneficiary are minors
508/06	27407		√	3,932.18	A/c in debit balance since 2008 & opening balance 2.4.06 not adjusted. The opening bal in Trustsoft was $0, while actual PTO balance was $3929.98 credit.
368/94	14438		√	2,179.93	A/c in debit balance since 2006 & opening balance 2.4.06 not adjusted. The opening bal in Trustsoft was $0, while actual PTO balance was $1380.24 credit.
263/95	15177		√	1,818.43	A/c in debit balance since 2006 & opening balance 2.4.06 not adjusted. The opening bal in Trustsoft was $89.53 credit, while actual PTO balance was $206.22 credit.
501/04	23667		√	6,216.97	A/c in debit balance since 2006 & opening balance of 2.4.06 is not adjusted. The opening balance in Trustsoft was $236.14 credit, while actual PTO balance was $6199.41 credit.
508/06	27406		√	3,932.18	A/c in debit balance since 2007 & opening balance of 2.4.06 is not adjusted. The opening balance in Trustsoft was $0, while actual PTO balance was $3929.98 credit.

Discussion with the Officer responsible for Trust and Estate accounts revealed that a large number of files were not correctly vetted in 2006 by the Accounting Firm, KPMG. Consequently, when payments relating to these accounts were made, it resulted in overdrawn balances.

Debit balances exposes risk of incorrect payments made to beneficiaries. Additionally, there may be a possibility that withdrawals from these accounts were unauthorized resulting in a debit balance.

Recommendations

- **All Trust accounts with debit balances should be reconciled and adjusted accordingly.**
- **Corporation should make every effort to ensure that all Trust files which are not vetted are immediately identified and adjusted.**

Corporation's Comments

The above debit balances refer to the old Public Trustee Office debts that the current FPTCL is still trying to recover from those clients. Any such amounts recovered would be reflected as an increase in the capital reserves account (CSA) for the corporation and any payments as a reduction to the CSA. Corporation is continuously working on files not vetted to be adjusted.

10.8 Discrepancies in Interest Distribution

Interest rate will be determined by the Board of directors and is subject to change from time to time. Interest will be calculated and recorded monthly based on the minimum daily balance at the forecast interest rate. The interest is to be paid on yearly basis.[7]

The following anomalies were noted during the review of interest calculation and distribution:

- Variances were noted in the interest calculation from 02/04/06 to 2010 and distribution between Trustsoft system and the interest calculated manually.

- The manual reconciliation for the balance of 2010 interest has not been done by the FPTCL hence the adjustments are not passed accordingly to the individual beneficiaries account in the Trustsoft system. Refer to Table 10.5 below for samples tested.

Table 10.5: Details of Accounts for which no Manual Interest Calculation Done

File No.	A/C No.	Trustsoft System interest 2010	Manual Interest 2010	Adjustment: to Trustsoft 2010	File Type		Remarks
					FNPF	Estate	
272/82	7191	25.14	Not done	Not done		√	Manual reconciliation for 2010 Interest is not done & adjusted in Trust soft. Settlement done on 16.3.2011
341/05	24278	494.31	Not done	Not done	√		Manual reconciliation for 2010 Interest is not done & adjusted in Trust soft. Settlement done on 8.3.2011

[7] Fiji Public Trustee Corporation Limited, Finance Manual 2009 – Section 15

File No.	A/C No.	Trustsoft System interest 2010	Manual Interest 2010	Adjustment: to Trustsoft 2010	File Type		Remarks
					FNPF	Estate	
476/93	13756	-	Not done	Not done	√		KMPG opening balance 0. Correct PTO balance $2554.70 credit. Manual reconciliation for 2010 Interest is not done & adjusted in Trust soft. Settlement done on 10.6.11
127/74	3291	662.66	Not done	Not done		√	Manual reconciliation for 2010 Interest is not done & adjusted in Trust soft. Settlement done on 21.12.11

Discussion with the Accounts officer revealed that the manual reconciliation for 2010 interest will only be conducted once beneficiaries lodge an application for full settlement/school expenses/maintenance and medical.

Furthermore, the audit was unable to test the accuracy of the interest calculated by the Trust soft system as the Officer in charge of the Trust soft was unable to explain how the system calculates interest and what data needs to be entered for the system to process interest. The Software Factory personnel who are managing the Trustsoft system run the program for interest calculation.

There is a risk that the errors in the Trustsoft interest calculation may not be detected as Corporation's personnel do not have the expertise to fully understand how the system operates.

Recommendations

Management should:

- **adjust the individual Trustsoft balance to determine the correct interest paid to the beneficiaries account each year.**
- **carry out manual reconciliation of interest for 2010 and compare with Trustsoft interest and any difference should be adjusted accordingly.**

Corporation's Comments

Manual adjustments are made to accounts to reflect its correct status and the correct interest, fees charged etc, when ever identified during the reconstruction of the accounts.

The current system calculation is based on pro-rata balances in each trust account over the given period, calculated at a variable % on each account. The Interest due for distribution is then allocated to each individual account based on the variable %. Checks are carried on a sample before final interest is distributed. So far this has been the most accurate method of calculation of interest to over 12,000 trust accounts.

10.9 Legal Fees Charge Rates

Where the Corporation provides any services other than those to which fees are set in accordance with this section[8], the Board of Directors may set the fee to be charged by the Corporation[9].

[8] Fiji Public Trustee Corporation Act 2006 – Section 29-(1) a-i
[9] Fiji Public Trustee Corporation Act 2006 – Section 29 (3)

The fees set by Regulation or by the Board of Directors in accordance with this section shall be subject to review by the Commerce Commission[10]

The Corporation is charging $150 and $75 per hour to clients for the legal services provided to them by the Legal Officer and the Legal Assistant respectively who are employed by the Corporation.

The audit noted that these rates were not approved as per the Corporation Act. Additionally, the audit failed to sight Board approval authorising that the above rates be charged to the clients. The Corporation has earned $10,685 in legal fees from clients.

The above indicate that the Corporation has not complied with the Fiji Public Trustee Corporation Act 2006.

Recommendation

The Management should obtain the approval of the Board of Directors for the rates to be charged to the clients and the services that will be rendered by the Corporation.

Corporation's Comments

Above comments noted.
The above rates have been the rates charged by previous Legal Officers on legal services carried out by the corporation for all clients. The said rate is said to be below the market rates charged by solicitors in private practice.

[10] Fiji public Trustee Corporation Act 2006 – Section 29 (5)

SECTION 11: 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 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.

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PART A – FINANCIAL INFORMATION

11.1 Audit Opinion

The audit of the financial statements of the Company for the year ended 31 December 2006 resulted in the issue of an unqualified Audit Report however the attention of the Board was drawn to the following matter:

At 31 December 2006, the company has accumulated losses of $5,678,134 (2005: $5,727,934) and there is an overall excess of current liabilities over current assets of $360,941 (2005: $403,097). Accordingly there is significant uncertainty as to whether the company will be able to continue as a going concern and whether it will be able to pay its debts as they become due and payable and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amount nor to the amount or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

11.2 Income Statement

Year ended 31 December	2006 ($)	2005 ($)
Revenue		
Rental of Property	129,000	119,659
Other Operating Revenue	-	146,673
Total Revenue	**129,000**	**266,332**
Expenditure		

Year ended 31 December	2006 ($)	2005 ($)
Operating and Administration Expense	(73,533)	(261,880)
Total Expenditure	**(73,533)**	**(261,880)**
Gain from operations	**55,467**	**4,452**
Finance Costs	(5,667)	121,603
Operating profit/(loss) before income tax	**49,800**	**(117,151)**
Income Tax (Expenses)/Benefit	-	-
Net Profit/(Loss) for the year	**49,800**	**(117,151)**

The Company recorded a net profit of $49,800 in 2006 compared to a net loss of $117,151 in 2005. This was a largely attributed to the decrease in operating and administration expenses.

11.3 Balance Sheet

As at 31 December	2006 ($)	2005 ($)
Current Assets		
Cash on hand and at bank	145,320	75,826
Trade & Other Receivables	46,362	46,362
Total Current Assets	**191,682**	**122,188**
Non-Current Assets	**4,595,681**	**4,651,830**
Total Assets	**4,787,363**	**4,774,018**
Current Liabilities	**552,623**	**525,285**
Long term Liabilities	**3,512,874**	**3,576,667**
Total Liabilities	**4,065,497**	**4,101,952**
Net Assets	**721,866**	**672,066**
Shareholders' Equity		
Issued Capital	6,000,000	6,000,000
Share Deposits	400,000	400,000
Accumulated Losses	(5,678,134)	(5,727,934)
Total Equity	**721,866**	**672,066**

Net assets of the company increased by $49,800 or 7.4% compared to 2005 as a result of increase in cash on hand and at bank.

PART B - CONTROL ISSUES

11.4 Loan Balance Variances between the Company and Ministry of Finance

The Government agreed to lend Viti Corporation Company Limited sums not exceeding three million seven hundred thousand dollars ($3,700,000) towards refinancing the Company's depts and other development costs at an interest rate of five percent per annum over a period of ten years.[1]

The loan was interest free for the first 3 years until 31 December 2002. Thereafter, the loan was subject to interest at the rate of 5% per annum payable on 30 June and 31 December. The audit noted that the company had defaulted its repayment commitments due poor financial performance.

[1] Loan Agreement Clause B

On 18 January 2005, Cabinet agreed that the above terms relating to loan from government be reviewed to suit the company's financial position and that the matter be referred again to the Cabinet after discussions between the Ministry of Finance and the Ministry of Public Enterprises.

On 22 November 2005, the board of the company agreed to the proposed amended loan schedule for a 30 year repayment term at 0.0765% interest which would be calculated against the $3.7million principal loan.

Audit confirmation[2] received from the Ministry of Finance showed an outstanding loan balance of $3,458,500 while the company's financial record reflected a loan balance of $3,956,341 as at 31 December 2006. There is a variance of $497,841 noted between the records of the Ministry of Finance and the company.

Furthermore, in a letter date 03 October 2011, the Ministry of Finance clarified that the interest accrued since 2003 has been waived. However, the relevant Cabinet decision for the waiver of accrued interest was not produced for audit verification.

Recommendations

- **The Company should liaise with Ministry of Finance and reconcile the variance to ensure that correct loan balance is reflected in the financial statements.**
- **If the decision to waive the accrued interest is supported by a Cabinet decision, then the company should make necessary adjustments in its books of account.**

Management Comments

We are in the process of reconciling the variance in the loan balance between the company and Ministry of Finance.

11.5 Going Concern

When preparing financial statements, management should make an assessment of an enterprise's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubts upon the enterprise's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the enterprise is not considered to be a going concern.[3]

At 31 December 2006, the company has accumulated losses of $5,678,134 and there is an overall excess of current liabilities over current assets of $360,941.

As disclosed in the financial statements, there is significant uncertainty as to whether the company will be able to continue as a going concern and whether will it be able to pay its debts as they become due and payable and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. This contradicted the Statement by Directors in the

[2] Confirmation dated 12 November 2009
[3] Fiji Accounting Standard 1 (23)

financial statements, in which it states that the the company will be able to pay its debts as and when they fall due.

Recommendations

- **The company should develop appropriate strategies to generate sufficient revenue to continue operating as a going concern and be able to pay its debt.**
- **The Ministry of Public Enterprises should seriously consider and find solutions to the Going Concern issues affecting the company.**

Management Comments

We are pursuing additional revenue opportunities which will be finalized in the second half of 2012. Going forward, VCCL will continue to explore similar opportunities that would strengthen the cash flow situation.