ACCOUNTABILITY IN THE PUBLIC SECTOR
THROUGH QUALITY AUDIT SERVICES

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

Audits of Government Commercial Companies, Commercial Statutory Authorities, Off Budget State Entities, Majority Owned Entities, Provincial Councils, & Special Projects – December 2011

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REPUBLIC OF FIJI
OFFICE OF THE AUDITOR GENERAL

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

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

File: 102

6th January, 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

Audits of Government Commercial Companies, Commercial Statutory Authorities, Off Budget State Entities, Majority Owned Entities, Provincial Councils and Special Projects – December 2011

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 as at 31 December, 2011.

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
Acting Auditor - General

AUDITOR-GENERAL
FIJI

FOREWARD

This report discusses the results of financial audits undertaken for the following entities of Government:

- 8 Government Commercial Companies, Commercial Statutory Authorities, Off Budget State Entities and Majority Owned Entities;
- 1 Provincial Council; and
- 3 Special Projects.

Government Commercial Companies (GCC), Commercial Statutory Authorities (CSA), Off Budget State Entities (OBSE) and Majority Owned Entities (MOE)

7 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. 1 entity was issued a qualified audit opinion which showed that while the financial statement is fairly stated the financial data indicated a failure to follow applicable accounting standards or there was a significant uncertainty concerning certain financial data.

In June 2011 I reported the result of audits of 10 other entities under the same category which were completed during the 1st half of 2011. Therefore overall a total of 18 entities were audited in 2011.

Out of the 8 entities reported, 1 recorded deficit in its operation while 7 recorded operating profits. The following table summarizes the status of audits of GCC, CSA, OBSE and MOE to date:

	Government Entity	Audit Completed	Audit Opinion	Remarks
	Government Commercial Company (GCC)			
1	Airport Fiji Limited	2010	Unqualified	Awaiting submission of 2011 account for audit.
2	Fiji Broadcasting Corporation Limited	2008	Unqualified	2009 audit is in progress by PWC.
3	Fiji Ships & Heavy Industries Limited	2010	Unqualified	Awaiting submission of 2011 account for audit..
4	Food Processors Limited	2006	Qualified	2007 audit is still in progress due to transition to IFRS.
5	Fiji Ports Corporation Limited	2010	Unqualified	Awaiting the submission of 2011 account for audit.
6	Post Fiji Limited	2010	Qualified	Awaiting the submission of the 2011 account for audit
7	Rewa Rice Limited	2007	Unqualified	2008 accounts with the Ministry of Public Enterprise for restructure issue.
8	Unit Trust of Fiji (Management)	2010	Unqualified	Awaiting the submission of the 2011 account for audit.
9	Viti Corp	2005	Qualified	Audit of 2006 account has been completed and account sent to the Directors for signing on 2/11/2011.
10	Yaqara Pastoral Company	2010	Unqualified	Awaiting the submission of the 2011 account for audit.
11	Fiji Public Trustee Corporation Limited	2010	Unqualified	Awaiting the submission of the 2011 account for audit.

	Government Entity	Audit Completed	Audit Opinion	Remarks
	Commercial Statutory Authority (CSA)			
1	Public Rental Board	2009	Unqualified	2010 audit has been completed and account sent to the Board for signing on 15/12/11.
2	Housing Authority	2010	Unqualified	Awaiting the submission of the 2011 account for audit.
3	Fiji Electricity Authority	2010	Unqualified	Awaiting the submission of the 2011 account for audit.
4	Fiji Meat & Industry Board	2010	Unqualified	Awaiting the submission of 2011 account for audit.
	Majority Owned Entities (MOE)			
1	Pacific Fishing Company Limited	2010	Unqualified	Awaiting the submission of the 2011 account for audit.
2	Fiji Hardwood Corporation	2007	Unqualified	Draft 2008 account submitted to KPMG on 30/11/11 for audit. Audit is now in progress.
	Off Budget State Entity (OBSE)			
1	Fiji Development Bank	2011	Unqualified	Awaiting the submission of the June 2012 account for audit.

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

Provincial Councils

Only the Tailevu Provincial Council account for 2001 was submitted and audited in 2011 which was issued a qualified audit opinion. No other provincial councils submitted their accounts for audit in 2011.

Most provincial council audits have lagged over the years and my office together with iTaukei Affairs Board are in the process of updating these audits.

Special Projects

Three special projects including the Fiji Road Upgrading Project (FRUP III), ADB Flood Recovery Project and the Sustainable Energy Financing Project (World Bank Funded) were audited during 2011. All project accounts were issued unqualified audit opinions. The audit of the Suva/Nausori Regional Water Supply and Sewerage Project (ADB Funded) was in progress in December 2011.

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

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1. Fiji Development Bank
2. Fiji Meat Industry Board
3. Fiji Ports Corporation Limited
4. Housing Authority
5. Pacific Fishing Company Limited
6. Post Fiji Limited
7. Fiji Public Trustee Corporation Limited
8. Yaqara Pastoral Company Limited

SECTION 1: FIJI DEVELOPMENT BANK

The Fiji Development Bank is an autonomous statutory body that was established on 1st July 1967 to provide finance for projects that contribute to the development of Fiji's economy as well as improving the quality of life of its people. The Bank's operations are controlled by a Board of Directors appointed by the Minister of Finance.

Until recently, the Fiji Development Bank depended on Government to finance its operations. Apart from guaranteeing lines of credit for the Bank, Government also provided annual capital grants until the mid-nineties. Although capital grants have been infrequent since, Government continues to support development projects/plans and special assistance programs administered by the Bank vide interest subsidies and guarantees annually. The Bank has now diversified its portfolio to include commercial products and services which also assist in sustaining the Bank's core business of financing higher risk development projects.

The Fiji Development Bank's function is to facilitate and stimulate the promotion and development of natural resources, transportation, and other industries and enterprises in Fiji, and in the discharge of these functions the Bank gives special consideration and priority to the economic development of the rural and agricultural sectors of the economy of Fiji.

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PART A – FINANCIAL INFORMATION

1.1 Audit Opinion 2011

The audit of the financial statements of the Fiji Development Bank and its subsidiary for the year ended 30 June 2011 resulted in the issue of an unqualified audit report.

1.2 Abridged Statement of Comprehensive Income

For the year ended 30 June	Consolidated		The Bank	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Income				
Interest from Loans	34,728,532	30,364,508	34,727,731	30,363,558
Fees	4,947,203	4,041,258	4,947,203	4,041,258
Other Income	7,081,974	2,855,221	7,081,974	2,855,221
Total Income	**46,757,709**	**37,260,987**	**46,756,908**	**37,260,037**
Expenses				

For the year ended 30 June	Consolidated		The Bank	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Interest and other borrowings expenses	16,897,803	18,197,122	16,897,803	18,197,122
Operating expenses	3,828,813	3,233,360	3,825,428	3,226,699
Employee costs	6,670,530	6,886,168	6,670,530	6,886,168
Total Expenses	**27,397,146**	**28,316,650**	**27,393,761**	**28,309,989**
Operating profit before provisions	**19,360,563**	**8,944,337**	**19,363,147**	**8,950,048**
Allowances for credit impairment	16,858,563	6,592,440	16,858,563	6,592,440
Diminution in investments				
Operating profit before income tax expense	**2,502,000**	**2,351,897**	**2,504,584**	**2,357,608**
Income tax expense	---	---	---	---
Operating profit after income tax	**2,502,000**	**2,351,897**	**2,504,584**	**2,357,608**

The Bank recorded an operating profit of $2,502,000 in 2011 compared to $2,351,897 in 2010. This was the result of the increase in total income by 25% and reduction of total expenditure by 3%. The Bank is also not subject to income tax in accordance with section 17(29) of the Income Tax Act 1985.

1.3 Abridged Statement of Financial Position

For the year ended 30 June	Consolidated		The Bank	
	2011 ($)	2010 ($)	2011 ($)	2010 ($)
Assets				
Cash	44,776,489	21,556,022	44,732,724	21,512,938
Loans and advances	272,141,459	325,210,691	272,141,459	325,210,691
Investments	50,251	50,251	70,251	70,251
Non current asset held for sale	9,040,639	11,657,377	9,040,639	11,657,377
Land held for resale	675,822	513,149	675,822	513,149
Property, plant and equipment	14,805,809	15,372,324	14,805,809	15,372,324
Intangibles	45,218	56,763	45,218	56,763
Other debtors	3,585,165	4,326,700	3,582,037	4,324,052
Total Assets	**345,120,852**	**378,743,277**	**345,093,959**	**378,717,545**
Liabilities				
Bonds - Held-to-maturity	163,385,062	219,913,487	163,385,062	219,913,487
Borrowings	55,830,053	34,736,928	55,830,053	34,736,928
Employee entitlements	1,836,175	1,566,906	1,836,175	1,566,906
Defered income	1,792,623	2,023,282	1,792,623	2,023,282
Accounts payable and accruals	3,875,477	4,354,202	3,864,085	4,346,555
Other liabilities	5,158,511	5,407,521	5,158,511	5,407,521
Total Liabilities	**231,877,901**	**268,002,326**	**231,866,509**	**267,994,679**
Net Assets	**113,242,951**	**110,740,951**	**113,227,450**	**110,722,866**
Equity				
Capital	56,050,636	56,050,636	56,050,636	56,050,636
Reserves	11,187,562	11,187,562	11,187,562	11,187,562
Accumulated profits	46,004,753	43,502,753	45,989,252	43,484,668
Total Equity	**113,242,951**	**110,740,951**	**113,227,450**	**110,722,866**

Net Assets increased by 2% in 2011 compared to 2010 as a result of decline in total liabilities by 13%.

PART B – CONTROL ISSUES

1.4 Loans and Advances

The loan cycle consists of:

- Prequalification process;
- Appraisal, approval and disbursement process; and
- Monitoring and supervision.

The audit noted several internal control deficiencies within the loans and advances cycle which have been recurring audit issues from prior year audits.

The following issues were noted in the appraisal, approval and disbursement process:

- The Bank waived fees of $2,688 including application and establishment fees. These were waived after submissions made by the customer (a/c # 116479) that unnecessary fees might divert customers to other competitors like commercial banks. The Corporate department performed an assessment of the financial effect of waving the fees and concluded to waive the fees since the bank will only lose $2,689 but will earn interest of $11,250 per annum on $150,000. Furthermore an analysis noted was that the bank will lose $43,100 per annum if the bank decides not to waive the fees and the customer opts for other refinancing options;

- Review of loan account # 301713 revealed that the SVLR assessed during the appraisal process for the customer's loan application was 72% ratio of security over loan amount. Even though the SVLR was below required SVLR of 100%, the loan was still approved by the bank without any equity contribution by the customer towards the total project cost. No detail was filed on what was the mitigating factor;

- A loan officer recommended that loan account # 15978 to be declined as the Security Value to loan ratio (SVLR) was only 55.26%. The loan was approved by Branch manager with conditions that the customer makes an equity contribution of $10,288 and a data bureau search was to be made before release of funds. We noted at year end, the loan account has been graded as G with real risk of credit loss;

- Review of loan account # for 31285 revealed that the SVLR assessed during the appraisal process for the customer's loan application was 61% ratio of security over loan amount. Even though the SVLR was below 100%, the loan was still approved by the bank without any equity contribution by the customer towards the total project cost; and

- We noted that some loan have land or buildings as securities but there is evidence of these securities being valued by a bank's authorized valuer recently. Discussion with the SME, Suva Agriculture and Corporate Division managers revealed that the bank policy was to accept or maintain a valuation report for securities on loans that have been performed for 2 years. However, for securities that have an estimated value of less than $200,000, these are to be valued in house. The following loan accounts have valuation reports of securities that are more than 2 years old:

Account #	Division	Loan balance ($)
116454	Suva Corporate	628,256
116482	Suva Corporate	214,305
116472	Suva Corporate	137124

Non-adherence to approved policies and procedures increases the risk of financial losses to the Bank.

<u>Recommendation</u>

The Management should ensure that lending policies and procedures are strictly enforced.

<u>Management comments</u>

No comment was provided by the Bank.

1.5 Home Finance Company (HFC) term deposit

Our substantive review of the term deposits held by FDB Nominees Ltd in HFC noted a term of 1 year. However, the bank has disclosed the term deposit as 'Cash and Cash Equivalents' in the consolidated financial statements.

IFRS requires the term deposits to be classified as Cash and cash equivalents if the term of the deposit if less than 3 months.

The financial statements do not comply with IFRS.

<u>Recommendation:</u>

The Bank should ensure that disclosures in the financial statements are consistent with requirements of IFRS standards.

<u>Management comments:</u>

No comment was provided by the bank.

1.6 Certificate of Exemption (COE)

Under Legal notice 70 of the Income Tax Act of Fiji, the Bank, as a contracting entity is required to deduct a 15% provisional tax for contractual payments to entities that do not produce a valid Certificate of Exemption (COE).

Audit noted that 15% provisional tax has not been deducted from some payments made to various solicitors when no record of a COE is kept or documented by the Bank.

The Bank is in breach of the Income Tax Act and may be liable for the contractors' tax liabilities to the Fiji Revenue & Customs Authority (FRCA).

Recommendation

The Bank should comply with the requirement of the Income Tax Act for any contract payment.

Management comments

No comment provided by the bank.

SECTION 2: FIJI MEAT INDUSTRY BOARD

The Fiji Meat Industry Board was established in 1976 by the Meat Industry Act of 1970 to regulate and control the slaughtering of livestock. The Fiji Meat Industry Board became a restructured Commercial Statutory Authority from 2006.

The functions of the Board include the following:

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

The functions of the Board are largely servicing and regulatory.

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PART A - Financial Information

2.1 Audit Opinion - 2010

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

2.2 Abridged Consolidated Income Statement

Year Ended 31 December	2010 ($)	2009 ($)
Revenue		
Abattoir	3,626,285	3,303,959
Other Income	100,679	58,336
Total Revenue	**3,726,964**	**3,362,295**
Expenditure		
Staff Costs	848,881	901,776

Year Ended 31 December	2010 ($)	2009 ($)
Change in Inventories – Finished Goods	1,290,712	1,107,158
Raw Materials and Consumables Used	267,478	198,862
Other Operating Expenses	1,125,438	929,899
Total Expenditure	**3,532,509**	**3,137,695**
Profit From Operations	194,455	224,600
Finance Cost	(148,260)	(155,773)
Profit/(Loss) Before Tax	**46,195**	**68,827**
Income Tax Expense	-	-
Profit/(Loss) After Tax	**46,195**	**68,827**

The Board recorded a net profit after tax of $46,195 in 2010 compared to $68,827 in 2009. The decline in net profit after tax was due to increase in expenditure by$378,301 or 12%.

2.3 Abridged Consolidated Statement of Financial Position

As at 31 December	2010 ($)	2009 ($)
Assets		
Cash And Cash Equivalents	326,799	335,579
Receivables	386,762	443,008
Inventories	127,825	160,390
Property, Plant & Equipment	1,288,626	1,342,396
Total Assets	**2,130,012**	**2,281,373**
Liabilities		
Trade and Other Payables	309,707	424,270
Borrowings	1,285,045	1,368,037
Total Liabilities	**1,594,752**	**1,792,307**
Net Assets	**535,260**	**489,065**
Total Equity	**535,260**	**489,065**

The Board's net assets increased by $46,195 or 9.4% in 2010 compared to 2009 since total liabilities declined significantly by $197,555 or 11% compared to decline in total assets by $151,361. Decline in total liabilities was due to the repayment of loan in 2010.

PART B - Control Issues

2.4 Daily Banking

Banking of revenue should be done on a daily basis.[1]

Instances were noted where revenues collected were not lodged with the bank on a daily basis. Refer to Table 2.1 below for examples:

Table 2.1: Delay in banking

Collection Date	Amount ($)	Date Banked	No. of Days Delayed
21/01/10	6,505.55	26/01/10	5
22/01/10	5,208.15	27/01/10	5
25/01/10	3,507.50	28/01/10	3
18/02/10	6,637.05	22/02/10	4
19/02/10	9,936.55	24/02/10	5
18/03/10	5,496.15	24/03/10	6
19/03/10	14,150.25	23/03/10	4
22/03/10	3,215.55	26/03/10	4
23/03/10	2,272.85	28/03/10	5
24/03/10	4,749.80	30/03/10	6
26/03/10	6,525.75	31/03/10	5
21/04/10	5,457.45	27/04/10	6
22/04/10	3,887.55	28/04/10	6
23/04/10	5,598.75	28/04/10	5
19/05/10	3,956.20	27/05/10	8
20/05/10	6,425.25	25/05/10	5
21/05/10	2,878.75	27/05/10	6
17/06/10	11,218.05	22/06/10	5
21/06/10	5,841.70	28/06/10	7
22/07/10	10,985.05	27/07/10	5
09/09/10	10,003.80	21/09/10	12
14/09/10	3,657.85	24/09/10	10
16/09/10	5,590.20	24/09/10	8
24/09/10	9,724.10	05/10/10	11
27/09/10	2,452.30	05/10/10	8
30/09/10	10,447.10	07/10/10	7
07/10/10	7,869.75	27/10/10	20

Furthermore, audit was informed that a sum of $23,557.25 was misappropriated by the former cashier. Refer to Table 2.2 below for details:

[1] Finance Manual 7.2

Table 2.2: Funds Misappropriated

Date	Amount ($)
26/10/10	4,596.50
02/11/10	18,960.75
Total	**23,557.25**

The misappropriation was reported to the Board and subsequently referred to the Police Department. As at the date of audit[2], the matter was still under court deliberation.

There is a high risk of misappropriation of funds when lodgements are not done on a daily basis and cash records not thoroughly checked by the Finance Manager.

Recommendations

- **The Board should ensure that all revenues collected are lodged with the bank on a daily basis.**
- **Cash management is a high risk area therefore cash records should be thoroughly scrutinized by the Finance Manager on a regular basis.**

Board's Comments

The Board has a policy of daily banking and makes effort to follow it; however, there are instances when this does not eventuate for example, when the cashier is on sick leave.

The Board's cash is reconciled daily and is supervised by the assistant accountant and the report is forwarded to the Manager Finance on a daily basis. The Board takes note of the audit recommendation.

2.5 Debt Collection

Debtors' statements are to be issued to all customers who do business with the Board on credit within the first seven days of every month.[3] Collection of outstanding debts with the customers should be made before the 20th day of every month.[4]

Our analysis of the accounts receivable records revealed 13% improvement in debt collection in 2010 compared to the previous year. However, concern is raised on debts which have remained outstanding for a long period of time. Refer to Table 2.3 for details.

Table 2.3: Long Outstanding Debtors

Name	Amount Outstanding ($)	Date of Last Payment
Debtor 1	2,954.70	31/07/08
Debtor 2	11,322.38	10/06/10
Debtor 3	2,197.46	13/02/08
Debtor 4	952.00	20/08/10

[2] 19/08/11
[3] Finance Manual 6.0
[4] Finance Manual 6.2

Name	Amount Outstanding ($)	Date of Last Payment
Debtor 5	3,060.00	06/06/08
Debtor 6	1,770.33	30/12/09
Debtor 7	8,511.15	20/11/09
Debtor 8	2,374.88	2009
Total	**33,142.90**	

In addition, a significant amount of outstanding debts are over 30 days. Refer to Table 2.4 for a detailed breakdown:

Table 2.4: Aging of Debtors

Aging	Amount ($)
1 – 29 days	176,932.12
30 - 59 days	134,233.24
60 - 89 days	49,783.28
90 days+	72,917.91
Total	**433,866.55**

Lack of monitoring and follow up may result in the accumulation of outstanding debts which could affect the Board's cash flows and operation.

Recommendations

- **The Board should take concerted efforts to recover the dues from the above debtors. Possible write-off should be considered if all avenues to recover the debts have been exhausted.**
- **The Board should improve its debt recovery strategies to ensure that debts are settled early.**
- **The Board should ensure compliance with its Finance Manual with regards to debt management.**

Board's Comments

The long outstanding debtors are in dispute. The Board is trying to do all it can to recover the amounts. In year 2011, accounts management will recommend to the Board for write-offs.

2.6 Reconciliation of Fixed Asset Register and General Ledger

A Fixed Asset Register is to be maintained and updated by the finance and administration section in the head office for all fixed assets belonging to the Fiji Meat Industry Board.[5]

Variances were noted from our reconciliation of the Fixed Asset Register (FAR) and the General Ledger (GL) balances. Details are shown on Tables 2.5 and 2.6:

[5] Finance Manual 14.0

Table 2.5: Analysis - Suva Abattoir

Particulars	FAR Balances Cost ($)	GL Balances Cost ($)	Variances ($)
Land Yards & Roadways	440,542	439,780	762
Buildings	630,379	761,635	-131,256
Loose Tools	36,936	6,067	30,869
Motor Vehicles	501,811	500,900	911
Plants	1,366,776	1,425,062	-58,286
Furniture and Fittings	318,305	181,143	137,162
WIP	0	8,519	-8,519
	3,294,749	**3,323,106**	**-28,357**

Table 2.6: Analysis - Vuda Abattoir

Particulars	FAR Balances Cost ($)	GL Balances Cost ($)	Variances ($)
Buildings	367,373	367,188	185
Land Yards & Roadways	228,745	233,054	-4,309
Loose Tools	1,218	1,151	67
Plants	358,016	364,670	-6,654
Furniture and Fittings	8,795	2,256	6,539
Quarters	50,691	51,831	-1,140
	1,014,838	**1,020,150**	**-5,312**

Furthermore, the audit also noted that more than 50% of fixed asset listed in the FAR for Suva and Vuda Abattoirs have zero written down value (WDV), but are still being used by the Board.

Recommendations

- **The Board should conduct a board of survey of its fixed assets and ensure that all assets listed on the FAR exist and are accurately recorded in the both the FAR and the General Ledger.**
- **The Board should consider revaluing those assets with zero WDV if they are still providing economic benefit to the Board.**
- **The variances noted above should be reconciled and adjustments, if any, should be made to the FAR and the GL.**

Board's Comments

The management has take note of the audit recommendations.

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 2010 resulted in the issue of an unqualified audit report.

3.2 Abridged Income Statement

As at 31 December	Group		Company	
	2010 $	2009 $	2010 $	2009 $
Revenue				
Operating Revenue	41,517,998	38,764,916	28,928,384	25,908,786
Other Revenue	3,552,018	10,133,446	4,582,842	10,946,188
Total Income	**45,070,016**	**48,898,362**	**33,511,226**	**36,854,974**
Expenditure				
Operating Expenses	9,393,018	11,393,425	4,065,842	5,493,741
Salaries and Benefits	7,755,718	6,839,151	3,498,012	3,083,004
Property	3,207,669	3,043,056	3,207,669	3,043,056
Depreciation	9,726,372	8,569,252	7,674,436	7,098,798
Marine Service Charge	5,784,744	5,780,793	5,784,744	5,780,793

As at 31 December	Group		Company	
	2010 $	2009 $	2010 $	2009 $
Finance Expenses	2,219,474	2,526,375	2,135,230	2,425,122
Total Expenditure	**38,086,995**	**38,152,052**	**26,365,933**	**26,924,514**
Operating (loss)/profit before income tax	**6,983,021**	**10,746,310**	**7,145,293**	**9,930,460**
Income tax (expense)/ credit	(1,699,736)	(884,730)	(1,644,248)	(491,790)
Net (loss)/ Profit for the year after Income Tax	**5,283,285**	**9,861,580**	**5,501,045**	**9,438,670**

The company and subsidiaries recorded net profit after tax of $5,283,285, a significant decrease of $4,578,295 or 46.4% compared to 2009. The decline was mainly attributed to the normalisation of the other revenue collections which was inflated in 2009 due to the gain on; bargain procurement made from subsidiary Fiji Ships and Heavy Industries Limited and sale of assets.

3.3 Abridged Balance Sheet

As at 31 December	Group		Company	
	2010 $	2009 $	2010 $	2009 $
Current Assets				
Cash and cash equivalents	7,833,856	8,445,337	5,227,941	6,002,217
Trade and other receivables	2,883,759	3,432,429	2,538,970	2,220,670
Investments	8,000,000	4,000,000	7,750,000	4,000,000
Other current assets	1,960,022	6,453,149	959,352	1,403,982
Total Current Assets	**20,677,637**	**22,330,915**	**16,476,263**	**13,626,869**
Non - Current Assets				
Property, plant and equipment	131,188,195	131,074,792	113,920,907	119,537,164
Intangible asset	176,460	224,718	165,022	219,551
Investment property	3,366,122	3,493,375	3,366,122	3,493,375
Loan to subsidiaries	-	-	5,644,375	3,888,605
Investment in FSHIL	-	-	6,660,000	6,660,000
Deferred tax assets	469,807	1,172,322	132,404	908,568
Total Non–Current Assets	**135,200,584**	**135,965,207**	**129,888,830**	**134,707,263**
Total Assets	**155,878,221**	**158,296,122**	**146,365,093**	**148,334,132**
Current Liabilities				
Trade Payables and Accruals	4,050,526	4,233,481	2,719,587	2,924,928
Interest Bearing Borrowings	2,547,081	2,856,735	2,338,309	2,586,975
Provisions	273,045	280,000	273,045	280,000
Employee entitlements	609,725	485,171	495,089	334,197
Income tax liability	70,313	(536,053)	88,771	(681,466)
Total Current Liabilities	**7,550,690**	**7,319,334**	**5,914,801**	**5,444,634**
Non-Current Liabilities				

As at 31 December	Group		Company	
	2010 $	2009 $	2010 $	2009 $
Interest bearing borrowings	55,419,227	62,175,311	54,805,794	61,437,351
Deferred tax liability	819,312	687,076	-	-
Total Non-Current Liabilities	**56,238,539**	**62,862,387**	**54,805,794**	**61,437,351**
Total Liabilities	**63,789,229**	**70,181,721**	**60,720,595**	**66,881,985**
Net Assets	**92,088,992**	**88,114,401**	**85,644,498**	**81,452,147**
Share Capital	73,154,852	73,154,852	73,154,852	73,154,852
Accumulated Profits	18,934,140	14,959,549	12,489,646	8,297,295
Total Shareholder's Equity	**92,088,992**	**88,114,401**	**85,644,498**	**81,452,147**

The net asset positions of the company and subsidiaries improve by $3,974,591 or 4.5% in 2010 compared to 2009. This resulted mainly from the reduction in interest bearing borrowings. The financial position of the company remained strong in 2010.

PART B – CONTROL ISSUES

3.4 Inadequate Post Terminal Limited Loan Repayments

Prudent financial practices require that repayments cover current interest payments and a portion of the principal amount of the loan.

The monthly loan repayments ($20,000) from Ports Terminal Limited does not cover the interest portion of the inter company loan.

Since the interest portion of the intercompany loan is not covered in the repayments, it would not be possible to meet the terms and conditions of the loan agreement, more specifically the terms/period of the loan. Current arrangement for the loan repayments results in the increasing loan balances at each repayment period. Refer the Table 3.1 below:

Table 3.1: Loan Schedule for 2011 (Based On Current Arrangement)

Month	Repayment $	Interest $	Balance $
	20,000.00	7.50%	
Opening balance - December 2010			3,790,242.62
Jan-11	20,000.00	23,689.02	3,793,931.64
Feb-11	20,000.00	23,712.07	3,797,643.71
Mar-11	20,000.00	23,735.27	3,801,378.98
Apr-11	20,000.00	23,758.62	3,805,137.60
May-11	20,000.00	23,782.11	3,808,919.71
Jun-11	20,000.00	23,805.75	3,812,725.46
Jul-11	20,000.00	23,829.53	3,816,554.99

Month	Repayment $	Interest $	Balance $
Aug-11	20,000.00	23,853.47	3,820,408.46
Sep-11	20,000.00	23,877.55	3,824,286.01
Oct-11	20,000.00	23,901.79	3,828,187.80
Nov-11	20,000.00	23,926.17	3,832,113.98
Dec-11	20,000.00	23,950.71	3,836,064.69
	240,000.00	**285,822.07**	

Recommendation

The Management should amend the monthly loan repayment amount to ensure that the loan repayments are adequate to cover interest portion of the intercompany loan and loan balance to be fully repaid by the end of the loan period.

Company's Comments

Please note the repayment amount was decided by the Board while considering Ports Terminal Limited's (PTL) financial status last year which was not at par to Board's expectation hence the Board decided to reduce the repayment amount.

However, PTL's financial status has improved since then and management plans to resubmit a revised repayment schedule for PTL to be endorsed by the Board this year.

3.5 Fraud Reporting System

There is no formal fraud reporting or whistle blowing policy in place to provide guidance on how to report unethical practices by staff.

This increases the risk of misappropriation of assets by staff being unreported.

Instances of unethical practices by staff may not be reported by staff or third parties.

Recommendation

The Management should formulate a fraud reporting or whistle blowing policy.

Company's Comments

The whistle blowing policy has been subsequently endorsed by the Board in its meeting held on Thursday 30th June 2011 and is now in force.

3.6 Board of Survey

The company's policy[1] requires a board of survey to be performed at least once a year. This is to ensure assets exist and those not in existences are investigated.

[1] Finance Policy and Procedures Manual section 7.4.6.2- physical identification

There has been no board of survey carried out to verify the company's fixed assets. The last survey was carried out in 2007.

The lack of regular surveys increases the risk of misappropriation of assets.

<u>Recommendation</u>

The Management should ensure that a board of survey of the company's fixed assets is performed in accordance with company policy.

<u>Company's Comments</u>

An extensive asset tagging process began in October 2010 and is in progress, after which a final Board of Survey Report will be prepared for the management and the Board's information this year.

Please note since we have a huge list of fixed assets, especially Office Equipment, asset tagging and Board of Survey is a very expensive and time consuming exercise to carry out on an annual basis.

Therefore, Management will do a thorough study on how better this process can be managed to keep a tight control on all assets while minimising the risk of misappropriation. If necessary a suggestion will be put to the Board for amendment of Finance Policy accordingly.

3.7 Fiji Military Forces Long Outstanding Reimbursement Cost

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

Management 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.

<u>Recommendation</u>

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

<u>Company's Comments</u>

As noted by the auditors, management has continued to write to RFMF to pursue the collection of this debt which the PSU team has invoiced during their time of operation at the wharf , and since FPCL does not have the men power required to do collection on behalf of PSU. However, so far we have not received any response from RFMF.

Management has also taken the matter up to the Board level, and is seeking Board's involvement to solve this issue as soon as possible.

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SECTION 4: HOUSING AUTHORITY

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

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

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

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

Table of Content

PART A – FINANCIAL INFORMATION

4.1 Audit Opinion

The audit of the financial statements of the Housing Authority for the year ended 31 December 2010 resulted in an issue of an unqualified audit report.

4.2 Abridged Statement of Financial Performance

Year Ended 31 December	2010 $'000	2009 $'000
Income		
Interest Income	11,951	10,871
Interest Expense	(6,633)	(6,382)
Net Interest Income	5,318	4,489
Other Operating Income	6,301	4,693
Total Income	**11,619**	**9,182**
Expenditure		
Staff Costs	4,602	4,670
Bad & Doubtful Debts	1,008	609
Other Operating Expenses	5,055	3,355
Total Expenditure	**10,665**	**8,634**
Result for the year from Ordinary Activities	**954**	**548**

The Authority recorded a net profit of $954,000 in 2010 compared to $548,000 in 2009. This is due to the increase in interest income by $1,080,000 or 10% as well as other operating income which has increased by $1,607,234 or 34%.

4.3 Abridged Statement of Financial Position

As at 31 December	2010 $'000	2009 $'000
Assets		
Cash & Cash Equivalents	7,149	2,412
Loans	115,316	121,058
Inventories	12,306	12,222
Land held for future development	6,623	6,627
Property, Plant & Equipment	9,333	9,732
Other	10,446	474
Total Assets	**161,173**	**152,525**
Liabilities		
Borrowings	96,059	86,988
Employee Entitlements	687	742
Provisions	971	712
Other	6,908	8,489
Total Liabilities	**104,625**	**96,931**
Net Assets	**56,548**	**55,594**
Accumulated Funds		
Capital	41,772	41,772
Government Grant	15,958	15,958
Asset Revaluation Reserve	6,834	6,834
Accumulated Losses	(8,016)	(8,970)
Total Accumulated Funds	**56,548**	**55,594**

The increase in the total assets by $8,648,000 or 6% in 2010 was mainly due to the increased cash held at year end by $4,737,000. In addition, part of the loan from EXIM Bank of China amounting to $9,991,935 was released to the Authority through their contractor namely China Railway First Group (Fiji) Limited for the construction of the Fiji low cost housing project. This amount is disclosed in the financial statements as other assets.

Liabilities also increased by $7,694,000 or 8% as the result of increase in borrowings by $9,071,000 or 10%.

PART B CONTROL ISSUES

4.4 Inconsistent Loan Mortgage Portfolio Generated by Lendsphere System

The Authority's Lendsphere system records all transactions relating to loans and advances to individual customers. Reports from the system are used to update the loan and advance balances in the Authority's Navision general ledger. Customer balances on Lendsphere are interfaced with Navision and then reviewed to ensure they agree. The interface has resulted in a number of errors and the Authority has to manually reconcile the balances.

The manual reconciliation performed by the Authority assumes that the Lendsphere report is correct. The audit revealed that the data corrections are performed on a daily basis to correct customer accounts before monthly customer statements are printed. However, for the audit purposes, the Authority was able to generate correct loan portfolio for the year ended 31 December 2011 after liaising with the IT support and vendor based in India.

Recommendation

The Authority should resolve this with its IT Support and vendor based in India immediately.

Management Comments

No comment was provided by the Authority.

4.5 Portfolio Variance

At balance date, the total loan portfolio balance as per the general ledger (Navision) differed from the Lendsphere system balance by $1,267,846. The Lendsphere system recorded a higher balance.

All customer loan transactions such as disbursements, repayments and interest and charges are recorded in Lendsphere. Customer loan statements are generated from the Lendsphere system. This is then interfaced to Navision. The interface does not transfer the totals of the loan balances but the individual customer balances from Lendsphere to Navision.

The interface results in errors resulting in the balance being out of sync with the other. Theoretically, if the interface is working correctly, Navision will replicate the exact total and individual customer balances from Lendsphere.

Recommendations

- **The Authority should reconcile the data in both the Navision and Lendsphere systems.**
- **Monthly reconciliations for loans and advances balance should be prepared between the general ledger and Lendsphere.**

- **The flow of data should be monitored to ensure all data has been captured at general ledger level.**

Management Comments

No comment was provided by the Authority.

4.6 Variances between Navision Trial Balance And Navision General Ledger

The Navision system hosts the general ledger of the Authority. To compare the total loans and advances balance held in Navision with the total balance of the Lendsphere portfolio report, one could generate a trial balance report or a general ledger report comprising loan and advance accounts from the Navision system.

However, it has been noted that when a request is submitted in Navision system for a trial balance report on loans and advances, the amount returned on the report varies from a general ledger report submitted to the same system for the same period.

At 31 December 2010, the variance between the two reports is $1,454,514. A higher balance was recorded in the trial balance (which acts as a control account). The audit noted that some manual adjustments were posted directly to the control account to reconcile Navision balance with Lendsphere report.

The Authority processed an entry of $672,234 to reconcile Navision with Lendsphere report. The difference noted after this adjustment shows an unreconciled variance of $60,847. The variance may be due to incorrect set-up of the Navision report writing function.

Inconsistent reports increase the risk of incorrect financial reporting if different types of reports are used from the same system for different purposes.

Recommendations

- **Monthly reconciliations should be prepared for loans and advances balance between the control and subsidiary accounts in Navision.**
- **The Authority should review the report generation function of Navision and ensure it is correctly set up.**

Management Comments

No comment was submitted by the Authority.

4.7 Cash and Cash at Bank

There were numerous issues noted with the various bank reconciliations prepared by the Authority. Some of the said issues are as follows:

- The 11 AM Deposit account is used to transfer cash to and from the Westpac main operating account. The bank reconciliation of the Westpac main operating account has the 11 AM Deposit account closing balance as a reconciling item. The audit noted that a variance of $87,951 existed between the closing balance of 11 AM bank account statement and the balance noted in the bank reconciliation of Westpac main operating account;

- Unpresented cheques for the Westpac main operating account could not be traced to subsequent month's bank statements or to the following month's bank reconciliation's unpresented cheque listing. The audit noted cheques totalling $29,235 in December 2010, $3,200 in November and $1,817 in July bank reconciliations;

- A few of the cheques raised prior to November and December and presented in the November and December 2010 bank statements for Westpac main operating account could not be traced to October and November bank reconciliations unpresented cheque listings respectively;

- A variance of $54,852 and $527 existed between the lodgment not credited balances in the December and November 2010 Westpac main operating account reconciliation and the balance deposited in the subsequent month's bank statements respectively;

- Numerous direct credits, cancelled receipts and short banking in the Westpac main operating account were not posted in the general ledger as at 31 December 2010. Numerous transactions make up these reconciling items. The items were not posted to the general ledger subsequent to year end;

- The November and July Westpac main operating account reconciliation had a variance of $39,887.06 and $1,092 respectively;

- For the Colonial Bank account, a few cheques prepared in 2009 and 2010 were not posted in the general ledger as at 31 December 2009. A majority of these cheques have been presented to the bank but are yet to be posted to the general ledger;

- For the WBC Imprest account, the amount stated in the bank reconciliation as a reconciling item for a cheque incorrectly posted was different from the value stated on the cheque;

- For the ANZ bank account, cheques 176432 and 176521 prepared in the month December and presented in the bank but were not processed in the general ledger. Despite this, these cheques did not form part of reconciling items in the year end bank reconciliation;

- The Westpac main operating account and WBC Imprest account reconciliations had variances of $19,793 and $20,298 respectively; and

- The 11 AM bank account is kept to maintain liquid cash in an account with higher than commercial interest rate. The transactions processed in this bank account are captured in the Westpac main operating general ledger account. There is no separate account created in the Navision system to record all transactions in 11 AM bank account separately. As a result, there is no reconciliation prepared for 11 AM bank account. The closing balance of 11 AM bank account is treated as a reconciling in the Westpac main operating account reconciliation.

Bank reconciliations contain many reconciling items that are not supported. The number of errors noted in the bank reconciliations indicated a lack of adequate review of the bank reconciliation.

With the issues faced by the Authority on IT applications such as Lendsphere and Navision, the lack of effective review of bank reconciliations and rigorous investigation of reconciling items significantly increase the risk of fraud and incorrect financial reporting.

Recommendations

- **Management should ensure that monthly bank reconciliations are reviewed and approved by senior personnel. All reconciling items must be cleared on a timely manner.**
- **A separate general ledger be created in Navision system to record all transactions occurring in 11 AM bank account and a separate monthly reconciliation prepared.**

Management Comments

No comment received from the Authority.

4.8 IT Project Flaws

Many Information Technology related irregularities were noted. Most of these emerged from the implementation of general ledger system - Navision and the lending system – Lendsphere.

The audit noted that some account reconciliations included manual adjustments after using reports from Navision or Lendsphere. Variances in reports between the two reports could not be explained satisfactorily.

It has been established that this was largely due to the following:

- Interface problems between the two resulting in data being lost on transfer from Lendsphere to Navision;
- Issues with Lendshphere report writing function resulting in inconsistent reports generated; and
- Incorrect set-up of Navision trial balance and general ledger report writing function.

These irregularities greatly affected the preparation of reconciliations by Authority staff.

Recommendation

Management should take immediate steps to rectify the installation issues, programming and other technical aspects of both applications.

Management Comments

No comment provided by the Authority.

4.9 Daily Cashier Report

Audit test of controls on receipts and banking noted variances between the Daily Cashier Reports and Daily Cashier Reconciliation. The Daily Cashier Report is system generated whereas Daily Cashier Reconciliation is a manual reconciliation prepared by staff.

These reports did not reconcile to the relative deposits in the bank statements. Manual reconciliations were prepared to account for receipts missed by the system.

The manual cash reconciliations prepared by the cashiers had numerous receipts marked as cancelled or presented as other reconciling items between cash collected and receipts issued for a day. However, these receipts were not attached to the manual cashier reports.

Management attribute the issue to incorrect report generated by the system which somehow jumbles receipts from one day to the next and as a result, implemented the use of a manual reconciliation.

There is a risk that all receipts have not been captured in the general ledger or incorrectly coded. Due to the inaccurate reports and lack of audit trail to deposits, there is a significant risk of fraud.

Recommendation

Variances in the Daily cashier reports need to be verified and resolved before the end of the respective day. Manual reconciliation should agree to deposits banked.

Management Comments

No comment provided by the Authority.

4.10 Accounting Reconciliations and Supporting Documents

The audit was not provided the reconciliations or supporting documents for the following accounts.

- Excess received from customers $414,825; and
- House/Fire insurance $603,487.

Alternative tests noted that insurance premiums purchased by the Authority for itself or customers have been paid. There is no outstanding balance. Therefore, there should be no accrual for these as there is no present obligation due.

The Authority may be overstating its liabilities as a result of the above.

Recommendation

Reconciliations should be maintained on a monthly basis. Where there is no present obligation, a liability should not be recorded.

Management Comments

No comments received from the Authority.

4.11 Provision for Development Works in Progress

The basis for the calculation of provision on development WIP was not supported. The balance has been carried forward from prior years with no supporting explanation of how it was determined.

The provision made by the Authority may not be in accordance with International Financial Reporting Standards (IAS 39).

Recommendation

Any provision made against assets should have supporting documentation and a basis of calculation.

Management Comments

No comments provided by the Authority.

4.12 Maturity Mismatch and Absence of ALCO Committee

The audit noted absence of an effective Assets and Liabilities Committee. The Authority does not use maturity ladders to compare cash inflows and outflows daily and over a series of time bands to calculate cumulative net excess of deficit funds at selected maturity dates.

This would be a useful tool to determine net funding requirements by analyzing its present and future cash flows based on assumptions of the behaviour of the assets, liabilities and off-Balance Sheet items. This would assist in assessing the liquidity.

The Authority may face liquidity risks in the absence of proper cash flow forecasts or planning. Improper decisions may be made in absence of proper cashflow forecasts.

Recommendation

An Assets and Liabilities Committee (ALCO) should be set up. This will oversee the Authority's plan in managing liquidity risk and assist in dealing with these issues in greater detail before deliberation by the full board.

Management Comments

No comments provided by the Authority.

4.13 Squatter Resettlement

The Authority incurred an expenditure of $327,764 on behalf of Ministry of Health for squatter resettlement. However, the audit noted that this amount is yet to be recovered from Ministry of Health. No confirmation or arrangement of recovery has been made with the Ministry.

In addition, no recovery plan exists in the Authority. If the Authority does not take any immediate action to collect this debt, the amount may be deemed as doubtful.

Recommendation

The Authority should start liaising with the Ministry of Health for the recovery of $327,764.

Management Comments

No comment was provided by the Authority.

4.14 Provision for Repairs to Infrastructure and Medical Insurance

The Authority had made a provision for repairs (Infrastructure & Houses) and medical insurance. Audit did not receive any supporting documentation or basis to justify this provision. Standard accrual journals are processed each month. Bulk of this amount has been carried forward from past year.

IAS 37.C11 states that "Repairs and Maintenance of own assets cannot be provided for since these costs are associated with future use of assets. These costs are generally expensed when incurred."

The total provision made for repairs and medical insurance at 31 December 2010 amounted to $1,033,240. Refer to the Table 4.1 below for details.

Table 4.1: Details of Provisions Made

Account	Amount ($)	Remarks
Provision for Repairs - Infrastructure	933,240	Monthly journals are passed without any basis of calculation
Provision for Medical Insurance	100,000	Monthly accruals passed and maximum limit per annum is $100,000
Total	1,033,240	

The provision made for repairs should be supported by a legal obligation to repair infrastructure and houses (a contract) or the Authority has to demonstrate a constructive obligation (through prior practice) to support the making of this provision.

On the other hand, the Authority's current policy is to cater for medical expenses of staff up to $100,000 per annum. Therefore, the total provision made for medical expenses should be a maximum of $100,000 less any amount utilised during the year.

To conclude, the recognition of liabilities which do not meet the recognition criteria under *IAS 37* results in non-compliance with the financial reporting framework of the Authority.

Recommendation

The financial statements prepared by the Authority should comply with the requirements of its adopted financial reporting framework and IAS 37.

Management Comments

No comment was provided by the Authority.

4.15 Capital Accruals

The Authority has made capital accruals based on its budget but no present obligation existed for the accruals at balance date as contracts or purchase orders have been issued to suppliers.

No supporting details were provided for these capital accruals.

The lack of a present obligation indicates that there is no liability. There is a risk that liabilities are overstated at balance date.

Recommendation

Management ensure liabilities are only recognised once contracts with external parties are signed or purchase orders issued committing the Authority to the purchase.

Management Comments

No comment received from the Authority.

4.16 Liquidity Risk Management

The audit noted that there is no Assets and Liabilities committee of the Board to oversee liquidity risk.

Audit has not reviewed any liquidity risk management tool used by the Authority. The management of liquidity risk appears to be performed on an informal basis and based on management's review of financial information from time to time.

Using an effective liquidity risk management tool is important for a lending institution to minimise credit exposure and effectively match debt repayments from cash flows and/or refinancing.

The lack of formal Board monitoring on liquidity risk and without an effective liquidity risk management tool there is a risk that the Authority can find itself in a liquidity crisis that could affect going concern and business reputation.

Recommendations

- **An Assets and Liabilities Committee of the Board be set up.**
- **The Authority's management of liquidity risk should be formalised and an effective tool be designed or used to manage this risk.**

Management Comments

No comment received from the Authority.

4.17 Provision for Stock Obsolescence - Criteria

Provision against land and houses is based on internal valuation reports. If the book value was greater than the valuation, the Authority creates a provision for the difference.

Other factors such as land disputes, free-rider problems, unbuildable lands and land erosion has been ignored in the assessment of provision by the Authority. These factors should be reviewed with necessary amendments made to the provision. The state and circumstances of these properties may have changed since valuation date.

Apart from this, the audit also noted the inclusion of some land which may not be sold such as those land classified as either Civic, School, Community, playground etc.

The provision for stock obsolescence may be incorrect.

Recommendation

Management should ensure that all factors affecting the value of the land and houses must be considered in assessing the provision for stock obsolescence.

Management Comments

No comment was provided by the Authority.

4.18 Ageing of Inventories

On average, land and houses in inventory has been held for 11.48 years. This indicates that the Authority is facing difficulties in selling them. The Authority has not made any provision for impairment for some of these.

Some land cannot be sold due to illegal occupants not willing to move, properties occupied by religious groups, disgruntled tenants, squatter settlement, landslides and some are unbuildable lots.

The provision for stock obsolescence has not been re-assessed at year end taking into consideration the above factors. As a result the provision may be incorrect.

Recommendation

Management should consider stock ageing when assessing the provision for stock obsolescence.

Management Comments

No comment was received from the Authority.

4.19 Stale Cheques

The stale cheques account has not been cleared in a timely manner. Cheques have been carried forward from 2003 and those more than six months old amount to $241,236.

No proper review of this account has resulted in the balance being accumulated over time.

Recommendation

Management should ensure all account reconciliations are reviewed and long outstanding items be cleared accordingly.

Management Comments

No comment was provided by the Authority.

4.20 Credit Balance Refund

Incomplete "Credit Balance Refund" account reconciliation was provided for both the West and Central accounts. It had an opening balance of $11,159 and $64,194 respectively for which no breakdown is available.

The lack of reconciliation may increase the risk of fraud and error.

Recommendation

Management should ensure that all account reconciliations are prepared and reviewed in a timely manner. All reconciling items must be cleared with proper authorization.

Management Comments

No comment was provided by the Authority

SECTION 5: PACIFIC FISHING COMPANY LIMITED

Pacific Fishing Company Limited (PAFCO) has been trading since 1987 and is owned principally by the Government of Fiji. The company is 98% owned by the Government of the Fiji Islands with local investors owning the remaining 2%. The company is controlled by board of directors appointed by the Government.

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

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PART A – FINANCIAL INFORMATION

5.1 Audit Opinion - 2010

The audit of the financial statements of the Pacific Fishing Company Limited for the year ended 31 December 2010 resulted in the issue of an unqualified audit report.

5.2 Abridged Income Statement

Items	2010 $	2009 $
Revenue		
Sales	29,896,444	29,074,905
Other Income	1,155,509	1,576,581
Total Revenue	**31,051,953**	**30,651,486**
Cost and Expenses		
Cost of Production	28,184,249	26,564,199
Finance costs	286,996	313,632
Administration expense	1,164,004	1,070,165
Total Cost and Expenses	**29,635,249**	**27,947,996**
Operating (loss)/profit before income tax	**1,416,704**	**2,703,490**
Income tax benefit/(expense)	(182,485)	418,383

Items	2010 $	2009 $
Net (loss)/ Profit for the year after Income Tax	**1,234,219**	**3,121,873**

The company recorded a net profit of $1,234,219, which is a significant decrease of $1,887,654 from $3,121,873 recorded in 2009. This is attributed to the increase in total expenditure by $1,687,253 or 6% in 2010.

5.3 Abridged Balance Sheet

As at 31 December	2010 $	2009 $
Current Assets		
Cash at bank and on hand	48,630	10,354
Trade receivables	4,079,404	3,584,996
Inventories	4,666,364	3,548,761
Other receivables	1,821,086	2,103,042
Total Current Assets	**10,615,484**	**9,247,153**
Non Current Assets		
Property, plant and equipment	23,320,730	21,950,562
Deferred tax asset	1,118,957	1,317,682
Total Non Current Assets	**24,439,687**	**23,268,244**
Total Assets	**35,055,171**	**32,515,397**
Current Liabilities		
Interest bearing borrowings	5,005,311	3,906,313
Trade and other payables	3,070,331	2,609,432
Provisions	93,532	74,281
Total Current Liabilities	**8,169,174**	**6,590,026**
Non-Current Liabilities		
Deferred income	5,654,421	5,911,774
Deferred tax liability	-	16,240
Total Non Currents Liabilities	**5,654,421**	**5,928,014**
Total Liabilities	**13,823,595**	**12,518,040**
Net Assets	**21,231,576**	**19,997,357**
Total Shareholder's Equity		
Share Capital	14,800,000	14,800,000
Retained earnings	6,431,576	5,197,357
	21,231,576	**19,997,357**

The company's net asset position was strengthened by $1,234,219 or 6% in 2010 compared to 2009. The increase in net assets was due to the increase in Property, Plant and Equipment.

PART B – CONTROL ISSUES

5.4 General Ledger –Reconciliations and Adjustments

Based on our review of books of account and reconciliations, we are of the view that the quality of reconciliations and maintenance of accounting schedules and records requires improvements. The following anomalies were noted:

- Considerable time was taken up during our audit to identify the required adjustment entries and amounts, in order to process the entries in the financial statements for the year ended 31 December 2010.

- During our year-end audit, more than 30 late annual adjustments were processed, including reclassification adjustments. These adjustments were identified by us during our audit.

- There were delays in providing statutory financial statements and tax worksheets in accordance with International Financial Reporting Standards (IFRS's).

- Subsequently, when statutory financial statements and tax workings were provided, our review revealed further errors and omissions in tax effect reconciliations and disclosures. Accordingly, additional disclosure and policy notes were compiled to meet IFRS requirements.

The number and nature of adjustments indicate that reconciliations and review of account balances are not carried out critically and diligently. As such, there is a need to improve reconciliation processes, review processes, and year end reporting processes.

Inadequate and inconsistent controls in reconciliation review process could lead to inaccurate accounting recording and reporting.

Recommendations

- **Reconciliation process is a key control and should be used to identify and correct anomalies or miss-postings. For this control to work successfully, reconciliations must be prepared and reviewed consistently on a monthly basis by independent senior personnel and signed as evidence of the review.**
- **The company should improve its preparation of monthly and annual accounts ensuring accurate balances are incorporated and year end adjustments are kept at minimal.**
- **Late adjustments should be kept at minimum as it affects the timely completion of the audit and results in delay in finalisation of audit and reporting.**

Company's Comments

Proper preparation of monthly and annual accounts will be done to keep year end adjustment entry at minimal level. Before final papers are forwarded, individual accounts will be thoroughly reconciled and reviewed by senior personnel.

5.5 Revenue and Cash Receipts

Review of the receipts issued for Levuka gate sales, noted that certain receipts were not posted into the system nor deposited in the bank. Upon discussion with Financial Controller, it was noted that a sum of $58,610 out of the total unaccounted receipts of $79,785 were recovered and recorded respectively.

However, $21,175 worth of receipt remained unaccounted as at 31/12/10. The matter has been reported to the police.

In addition, on number of occasions significant delays were noted on lodgement of revenue receipts. Refer to Table 5.1 below for examples:

TABLE 5.1: DELAYS IN BANK LODGEMENT

Receipt Number	Receipt Date	Receipt Amount $	Date Deposited
86173	25/02/10	98.00	14/05/10
86245	03/03/10	90.00	18/05/10
86596	29/03/10	120.00	20/05/10
86734	06/04/10	30.00	10/06/10
87236	04/05/10	60.00	15/07/10
87664	27/05/10	180.00	31/08/10
87701	02/06/10	66.00	31/08/10
91432	24/03/10	181.50	31/03/10

The supervising officer failed to scrutinise the work performed by the subordinate officers with due diligence and care. Failure to this has resulted in misappropriation of substantial amount of revenue.

Recommendations

- **The systems and procedures including internal controls relating to revenue recording, receipting, banking, updating of books and reconciliation process should be reviewed and enhanced for gate sales.**
- **The receipts must be reconciled and banked on a daily basis. This needs to be verified by the supervising officer.**
- **PAFCO should consistently follow up with police on the status of the report.**

Company's Comments

All the receipts are reconciled and banked on daily basis. The practice is done from late October 2010. The supervising officer as well as Financial Controller ensures that all receipts are banked.

The report is being followed up on a timely basis

5.6 Journal Vouchers

Our review of journal entries noted that copy of journal vouchers are not printed and filed. Instead all journal vouchers are maintained in the system.

Furthermore, the journals processed during the financial year were not printed and approved by independent senior person. As such, audit was unable to verify the authorization and approval of these journals before being entered into the system.

This matter was also highlighted in prior years audit reports, however no improvement is noted.

Recommendations:

- **All journal entries should be well documented with proper reference to the amounts in supporting documents and details, and be initialled by the person preparing the journal and the person approving them.**
- **To ensure the accuracy of information processed, all journal entries be prepared by a competent personnel and should be reviewed and authorized by an independent person.**
- **Complete narrations should be written for all journal entries with this information recorded in the journal file.**

Company's Comments

Before any journal is passed in the system, it is approved by senior personnel by referring to proper details attached.

5.7 Value Added Tax (VAT) Returns

Audit noted the following anomalies in relation to VAT:

- High level indicative difference of $472,421 on comparing the total taxable supplies as per the VAT return and Vatable revenue as per the financial statements, whereby the total taxable supplies as per the VAT returns was understated.

- The difference was a result of VAT not charged on miscellaneous income such as fish eggs sales and service fees.

- VAT input claim amounting to $41,427 was recorded in general ledger, however this was not recorded in the VAT returns lodged for the month.

- Delay in lodgement of VAT returns.

Inaccurate and delay in lodgement of VAT returns could result in unnecessary penalties being imposed by Fiji Revenue and Customs Authority.

Recommendations

- **The Management of PAFCO should carry out special review of VAT recording and VAT returns preparation procedure with a view to improve the existing system and thereby ensuring the risk of potential VAT liability and penalties is reduced.**
- **The Management should also ensure timely and accurate lodgement of VAT returns with adequate supporting details.**

Company's Comments

PAFCO has already started practicing to charge Vat on income such as fish egg sale, drums, services fees etc. This will give true picture of vatable revenue. At the same time, we will ensure that Vat is lodged on timely basis.

5.8 Bank Account and Reconciliations

Our review of bank reconciliations revealed the following:

- Main operating overdraft account (account #: 1471030000) with Westpac Banking Corporation had exceeded its overdraft limit. Details are as follows:

Balance as per bank statement as at 31/12/10	$	3,841,904
Overdraft limit		3,500,000
Amount in excess	**$**	**341,904**

- No evidence of independent check and date of review of the bank reconciliations.

Failure to check the bank reconciliation on a timely basis could result in misappropriations being concealed. Also, excess fees could be charged on the excess overdraft amount.

Recommendations

- **The Management of PAFCO should critically review the cash flow position and monitor its cash flow needs on a continuous basis.**
- **Bank reconciliations should be signed by preparer and by person reviewing and approving the reconciliations.**

Company's Comments

Cash flow is daily monitored by the Financial Controller and the CEO to ensure that PAFCO is always operating below its maximum overdraft limit. Bank Reconciliations are also signed by the officer preparing it and by the FC on a monthly basis.

5.9 Assets - Impairment

The company has significant investment in property, plant and equipment. Recently, the company has made significant investments in building, plant and equipment.

Impairment of assets test should be carried out in a structured manner at each reporting date and its outcome should be documented.

International Financial Reporting Standards and best accounting and reporting practices require that the entity should undertake impairment assessment in a structured manner with adequate documentation. The company should continuously review the current value of all assets and in particular, processing equipments ensuring that the carrying values are not impaired.

<u>Recommendation</u>

The Company should assess at each balance date whether there is any indication that an asset has been impaired. Where a risk of impairment exits, the Company should perform impairment assessment, in a structured manner, and maintain documentation.

<u>Company's Comments</u>

The company will carry impairment of asset test and maintain documentation at balance date.

5.10 Minutes for Commitment

Minutes for approval by the Board for capital commitment amounting to $3,860,000 were not made available for our review.

In absence of the proper documentations of the approvals it is difficult to ascertain the authorisation of the capital commitment.

<u>Recommendation</u>

The Company should maintain complete set of Board minutes to document all resolutions of the board during the year. If the approval has not been documented previously, then it needs to be discussed and documented in the next Board meeting.

<u>Company's Comments</u>

Agreed.

SECTION 6: 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

6.1 Audit Opinion 2010

The audit of the financial statements of the Post Fiji Limited for the year ended 31 December 2010 resulted in the issue of a qualified audit report as follow:

The Balance Sheet includes inventory with the value of $3,976,454. In practice, Post Fiji Limited uses the last in first out (LIFO) formula to measure the cost of inventories, contrary to its accounting policy and the *International Accounting Standards 2 – Inventories*, which only allows the use of either first in first out (FIFO) or the weighted average for inventory costing. The audit was not unable to determine the exact adjustment if FIFO method was used due to limitation of scope of audit.

6.2 Abridged Statement of Financial Performance

Items	2010 $	2009 $
Income		
Sales Revenue	11,013,522	13,340,059

Items	2010 $	2009 $
Other Operating Revenue	15,160,454	15,714,859
Total Revenue	**26,173,976**	**29,054,918**
Expenditure		
Cost of Sales	9,157,298	11,682,498
Depreciation and Amortisation Expenses	1,122,053	1,056,881
Employee Benefits Expense	6,804,765	6,621,677
Administration and Operating Expenses	9,645,950	7,844,916
Selling, Marketing and Distribution Expenses	241,074	616,415
Other Operating Expenses	50,001	51,537
Finance Costs	228,164	400,200
Total Expenditure	**27,249,305**	**28,274,124**
Operating (loss)/profit before income tax	**(1,075,329)**	**780,794**
Income tax benefit/(expense)	279,834	88,845
Net (loss)/ Profit for the year after Income Tax	**(795,495)**	**869,639**

Post Fiji Limited recorded a net loss after income tax of $795,495 in 2010 compared to a surplus of $869,639 in 2009. The decrease in sales revenue by 17% in 2010 contributed towards the net loss after tax.

6.3 Abridged Statement of Financial Position – Balance Sheet

As at 31 December	2010 $	2009 $
Current Assets		
Cash and Cash Equivalent	2,069,483	3,873,022
Trade and Other Receivables	5,090,590	6,366,557
Financial Assets – held to maturity	1,200,000	1,200,000
Inventories	3,976,454	5,035,768
Other Current Assets	470,717	324,393
Total Current Assets	**12,807,244**	**16,799,740**
Non Current Assets		
Financial Assets – held to maturity	100,000	100,000
Property, Plant & Equipment	12,008,321	13,409,750
Deferred Tax Asset	694,072	536,898
Intangible Assets	806,155	60,452
Total Non Current Assets	**13,608,548**	**14,107,100**
Total Assets	**26,415,792**	**30,906,840**
Current Liabilities		
Trade & Other Payable	9,311,491	9,998,672
Interest Bearing Borrowings	1,334,520	2,496,785
Employee Entitlements	493,001	542,872
Provision for Income Tax	(347,232)	225,428

As at 31 December	2010 $	2009 $
Total Current Liabilities	**10,791,780**	**13,263,757**
Non-Current Liabilities		
Trade and Other Payables	1,766,482	1,768,894
Interest Bearing Borrowings	941,043	1,619,513
Employee Entitlements	222,840	306,549
Deferred Income	788,577	812,742
Total Non Current Liabilities	**3,718,942**	**4,507,698**
Total Liabilities	**14,510,722**	**17,771,455**
Net Assets	**11,905,070**	**13,135,385**
Total Shareholder's Equity		
Share Capital	5,600,000	5,600,000
Accumulated Profits	6,305,070	7,535,385
	11,905,070	**13,135,385**

Post Fiji's net assets declined by $1,230,315 or 9% in 2010 compared to 2009. This was due to the decreases in cash and cash equivalent (47%), trade and other receivables (20%), inventories (21%) and property, plant and equipment (10%). Total liabilities also declined by 18% in 2010.

PART B – CONTROL ISSUES

6.4 Inventory Costing

Post Fiji Ltd uses the last-in-first-out (LIFO) formula to measure the cost of inventories. Under International Accounting Standard (IAS) 2 – *Inventories*, the LIFO as a cost formula is prohibited. IAS 2 allows the use of both the first-in-first-out (FIFO) and the weighted average method for inventory costing. The LIFO method treats the newest items of inventory as being sold first. This is not a reliable representation of actual inventory flows.

The new inventory module system in IMAS was supposed to solve this problem, however relevant modifications required in IMAS module to support FIFO costing method is not yet done.

An incorrect valuation of inventories at year end using the LIFO method of valuation was recorded and this has resulted in the overstatement of inventories.

Recommendation

Management should liaise with the IMAS and Web Riposte Essentials (WRE) programmers to customize the costing in the inventory module to comply with IAS 2 costing of FIFO or weighted average costing.

Company's Comments

Your recommendation is noted and work has been done to address this.

6.5 Fraud in the Money Order Account

Fraud of $257,700 was committed by the Accounts Clerk in charge of money order reconciliations and the General Post Office (GPO) cashier in the money order account. This was discovered after there was a rotation of duties of staff. The two staffs were terminated and the case was reported to FICAC.

The company has stated that $320,709 (including prior year amounts) is recoverable from Money Order Shortage insurance. However, this amount will be provided as doubtful in 2011 if the amount is not recovered during the year.

Inadequate controls over money order procedures increases the risk of misappropriation of cash by staff.

Recommendations

- **Management should rotate the Post Master Business Account (PMBA) reconciliations among the staff on a regular basis and ensure that all money order forms for offline stations paid to be strictly cancelled with a 'Paid Stamp' to reduce the risk of misappropriation of cash.**
- **Senior staff should review monthly PMBA reconciliations on a timely basis.**

Company's Comments

Corrective measures have now been taken. This includes monthly reconciliation from January 2011 and daily reconciliation from September. In addition to this, reconciliation are now reviewed by the line manager.

6.6 Inventory Control

There were several variances in the year end stock take for online Post shops when compared to the perpetual records. The surplus and shortages are aggregated to an extrapolated overstatement of $68,254. Some examples of variances noted are shown in Table 6.1 below:

TABLE 6.1: VARIANCE IN INVENTORY RECORDS

Location	Code	Description	Perpetual quantity variance – surplus/ (shortage)	Surplus/ (shortage) $
Suva	MR382	String Name Card Holder	620	415
Suva	MS866	Glue Stick BIC 21g	480	994
Suva	MM795	Umbrella Local	96	384
Nausori	MB652	Myths Legends Fiji & Rotuma	30	210

Inadequate control over inventory at Post shops increases the risk of misappropriation of assets by staff.

Recommendation

Management should ensure that stock take variances against perpetual inventory are properly investigated for theft, error in counting or recording.

Company's Comments

Your recommendation is noted. We will be informing the Postmasters on this issue.

6.7 Profit Margin

Upon performing sales to cost of sales analysis, audit noted that the percentage profit margin over cost of sales was not realistic for some products: Refer to Table 6.2 below for details.

TABLE 6.2: ERRORS IN CODING FOR COST OF SALES

Product	Code	Total Sales ($)	Total COS ($)	Margin ($)	% over COS
Cards	500/562	23,064	23,829	(764)	(3%)
Household consumables	500/566	6,302	92,136	(85,834)	(93%)
Miscellaneous	500/568	123,364	811,184	(687,820)	(85%)

The above is anomaly is due to errors in coding of cost of sales (COS) to products for off-line stations.

This results in distorted sales to cost of sales analysis which cannot be relied on by management for decision making.

Recommendation

Management should ensure that cost of sales (COS) is properly allocated to correct account.

Company's Comments

Your comments are noted and the issue are currently being addressed.

6.8 Tender Irregularities

The following irregularities were noted in the tendering process and documentations:

- For tender for supply of groceries/frozen and household goods, bidders were required to submit $50 non refundable deposit with tender. However, the audit noted that in the tender file four cheques from bidders; Bidder 1, Bidder 2, Bidder 3 and Bidder 4 were still attached to tender documents and not banked. Also there is an envelope from the 5th Bidder containing $50 dollars cash.

- There was no evidence for approval of tender for sale of motorcycle fleet filed in the tender file. Management has not provided audit with reason for tender approvals not being filed.

- No tender committee meeting minutes were filed in the tender file for the sale of motor cycles. It appears that the tender has not yet been finalised and awarded to any bidder. Furthermore management could not provide us with reasons as to why the tender was not awarded to any bidder.

- Tender documents were not filed in an orderly manner. All tender documents are held in a loose manila folder; and

- Tender file for the supply of fuel was not provided to audit.

Non compliance with the tendering process and proper documentation increases the risk of fraud and error.

Recommendation

The Management should ensure that the tender process and documentation requirements are strictly adhered to. Lack of compliance with the guidelines set out in the Corporate Manual exposes the company to risk of loss and fraud.

Company's Comments

The tender process is currently being reviewed.

6.9 Debtors Control

Poor debt collection was noted as 66% ($3.4m) of debtors are over 90 days. This was attributed to poor record keeping. Furthermore, credit limits were not established for all customers in the IMAS system. Only new customers credit limits were established. In addition, in the WRE (point of sale) system credit limits were not established at all.

There is a risk that debtors would default in payment. As a result, this will have a negative impact on the company's cash-flow.

Recommendations

- **Management should ensure that records are corrected to improve debt collection.**
- **It should continually review the application of its credit policies to ensure that only credit worthy customers receive credit.**
- **It should establish credit limits to all its customers in order to avoid excessive credit given to customers.**

Company's Comments

Your comments are noted. However, the current WRE system does not have provision for the insertion of credit limits into the credit account details. The issue has been brought to the attention of the WRE supplier.

6.10 Data Backups

Management has provided, as doubtful debts of $195,976 which is equivalent to 88% of the total Post shop debtors. The reason for this provision was when the company was using QuickBooks system in 2009, it crashed in September 2009 and no backup was available to recover lost data.

Hence, management was not able to provide documentations for customer disputes in relation to payments of long outstanding debts.

Lack of adequate backups resulted in irrecoverable loss to the company.

Recommendation

Management should ensure that data backups are performed on a regular basis.

Company's Comments

Your commnets are noted and back ups are currently being performed and stored offsite.

6.11 No Assets Tag

Fixed assets are not tagged by the company despite a board of survey being conducted during the year.

This implies that fixed assets cannot be identified and verified with ease.

Recommendation

Management should tag each asset with a unique ID number.

Company's Comments

Your comments are noted. The matter will be reviewed.

6.12 Debtor Account not Updated for Dishonored Cheque

Post Fiji Limited has not updated individual debtor accounts for dishonored cheques but has created and posted all dishonored cheques to a dishonored cheque account. Examples include Lihave Investments and the Australian High Commission.

There is a risk that the company will not be aware of the true status of debtors at a given point in time and may grant further credits to the debtor even though the debtor still has outstanding balances.

Recommendation

Management should ensure that individual debtor accounts are updated accordingly for dishonoured cheques.

Company's Comments

Your comments are noted and this is currently being done.

6.13 Trust Account

Local money order, bill pay and deposit money amounting to $4,630,019 received from customers are banked into Post Fiji Limited's operating account. Under the Trust Act, Post Fiji Limited needs to hold these funds in a trust account and not in the operating account.

Trust funds are used by the company as its own money.

Recommendation

Management should set up a trust account to hold funds separately for trust deposits.

Company's Comments

Your comment is noted. However, the current practice as noted above is prudent in light of the nature of how trust funds are being kept and managed. We will however bring this to the attention of our line ministry.

SECTION 7: FIJI PUBLIC TRUSTEE CORPORATION LIMITED

Programme Statement

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

7.1 Audit Opinion

The audit of the financial statements of the Fiji Public Trustee Corporation Limited for the year ended 31 December 2010 resulted in the issue of an unqualified audit report.

7.2 Abridged Income Statement

Year ended 31 December	2010 ($)	2009 ($)
Revenue		
Fees	815,807	785,293
Interest income	1,032,584	768,391
Aid	70,607	33,075
Other revenue	24,697	5,614
Total revenue	**1,943,695**	**1,592,373**
Expenditure		
General and administration expenses	275,859	260,151

Year ended 31 December	2010 ($)	2009 ($)
Selling expenses	10,715	5,030
Staff and employee costs	446,178	478,125
Total expenditure	**732,752**	**743,306**
Operating profit before income tax	**1,210,943**	**849,067**
Income tax expense	340,343	246,304
Net profit after income tax	**870,600**	**602,763**

The Corporation recorded a net operating profit after tax of $870,600 compared to a net profit after tax of $602,763 in 2009. The increase in operating profit was due to increase in interest income which is attributed to better investment returns and recording of gross amount for interest income that was previously stated net of resident withholding tax.

7.3 Abridged Balance Sheet

As at 31 December	2010 ($)	2009 ($)
Assets		
Cash and cash equivalents	271,776	148,252
Trade and other receivables	779,151	2,292,441
Other current assets	38,424	50,815
Deferred tax asset	18,572	19,359
Financial assets	6,796,083	8,114,629
Property, plant and equipment	93,534	135,367
Intangible assets	47,533	71,306
Total Assets	**8,045,073**	**10,832,169**
Liabilities		
Deferred revenue	69,065	139,671
Trade and other payables	25,844	698,352
Provisions	330,469	295,480
Deferred tax liability	511	511
Total Liabilities	**425,889**	**1,134,014**
Net Assets	**7,619,184**	**9,698,155**
Shareholders' Equity		
Share capital	2	2
Share premium reserve	99,998	99,998
Capital reserve	5,717,131	8,166,702
Retained earnings	1,802,053	1,431,453
Total Shareholders' Equity	**7,619,184**	**9,698,155**

The company's net asset decreased by $2,078,971 or 21% in 2010 compared to 2009. The decrease is attributed to the payment of $3,000,000 to Government in the form of dividend and share of capital reserve. The payment required the Corporation to withdraw significant amount of investment to facilitate the payment resulting in the decrease in net assets of the Corporation.

PART B – CONTROL ISSUES

7.4 Inadequate size of Board

In terms of its composition, size and commitment the Board of the Corporation should be structured in a way that it effectively carries out its responsibilities. It is good practice to have a right size and mixture of Board of Directors for the proper oversight and control of the entity.

The Corporation had three directors until 16th July 2010 and 2 directors from that date until 31 December 2010. The audit considers that the size of the Board is inadequate considering the size and the nature of the Corporation's operation.

Inadequate size of the Board can have an effect on the effective overseeing of key aspects and control functions of the Corporation.

Recommendation

It is highly imperative that a correct size and mixture of Board is maintained at all times. This will ensure that important business matters of the Corporation are properly deliberated and important decisions properly taken.

Corporation's Comments

Board appointments for the Corporation are made by the Minister after consulting the Minister of Justice and with the endorsement of the Prime Minister in accordance with Article.37 (a) of the Articles of Association of FPTCL.

Board is aware of this limitation and has consulted the Minister and the Ministry on a number of occasions on this matter. At this stage it is beyond the scope of the Board and Corporation as these are mandated by shareholders.

7.5 Risk Management Policy

Risk Management Policy involves identification, measurement and control of key risks that impacts on the financial affairs and operations of the Organizations.

The Fiji Public Trustee Corporation Limited has no written Risk Management Policy in place to address possible risk issues that may affect its operations.

The Corporation's major financial and operational risk areas include Corporation and Trust's investments with Financial Institutions and safeguard of the Trust files.

The absence of Risk Management Policy can have a detrimental effect on the Corporation both financially and operationally.

Recommendation

The Corporation should prepare a written policy on Risk Management to safeguard the Corporation from any potential loss.

Corporation's Comments

The Corporation notes the recommendation and will be sorting Board decision on the implementation of an Integrated Risk Management system for the company.

7.6 Individually Held Investments Not Stated At Market Value

Financial assets should be classified as fair value in accordance with IFRS IAS 39.[1]

The Trust Individual Investments held with Unit Trust, Amalgamated Telecom Holdings and Fijian Holdings Unit Trust were not reported at fair value.

The measurement of individually held investments is not in accordance with the prescribed treatment under IFRS IAS 39. Accordingly, the General Ledger balance may be misstated.

Recommendation

The Corporation should report individually held investment to fair value in the books of the Trust.

Corporation's Comments

The market value of investments held with Unit Trust of Fiji, ATH & Fijian Holdings Unit Trust was not readily available as at year end closing. However, adjustments to the value of Unit Trust of Fiji investments were adjusted on January 1st 2011 once the information was provided by Unit Trust of Fiji. Going forward, the corporation will try and ensure that investment values are adjusted to reflect fair market value as at year end.

7.7 Balancing Off Item

Any adjustments made to the amounts reported in the financial statements should be appropriately supported.

Audit noted that the Corporation passed an adjustment made to a ledger account, Receivable from Trust Others amounting to $33,183.21 in order to balance the general ledger account, Receivable from Trust to the independent reconciliation carried out by the Corporation. Audit was not able to verify the accuracy of this adjustment due to lack of supporting documents.

There is a risk that the adjustment may result in overstatement of Accounts Receivable in Corporation's balance sheet.

[1] International Accounting Standards (IAS) 39- Recognition and Measurement of Financial Instruments

Recommendation

The Corporation should investigate the difference in general ledger and the reconciliation and take corrective actions to correct its general ledger.

Corporation's Comments

The management is currently working on rectifying all the reconciliations for the receivable account to correct the general ledger as per the recommendation. This arise from the clearing of the accounts receivable when the corporation tried to clear prior years receivables after the audit of 3 years accounts. The corporation was required to reflect a true and correct financial position after the 3 years audit was left with those un-reconciled differences.

7.8 Overstatement of VAT

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.[2]

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 will allow 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.[3]

Audit noted the following anomalies:

- As per VAT reconciliation with the Statement of VAT account, VAT payable to Fiji Revenue and Customs Authority, as at 31 December 2010 was more than the amount in the financial statement. Refer to Table 7.1 for details.

Table 7.1: Variance in VAT

Particulars	Amount ($)
VAT payable as per VAT Reconciliation	17,435
VAT receivable as per Financial Statements	(19,935)
Variance	**37,370**

- The Corporation did not prepare monthly VAT reconciliations for the year 2010.

As a result, current asset in the financial statement was overstated by $19,935 while current liability was understated by $17,435.

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

Recommendation

Monthly VAT reconciliations should be prepared comparing the Corporation's records and FRCA's statement of VAT account. Variance arising thereon from the reconciliation should be properly investigated and resolved.

Corporation's Comments

Since incorporation, the Corporation was always lodging monthly Vat Returns but due to continuous delays in the receiving of Assessment from FRCA, we were not able to reconcile to agree with any statement of vat account. Management will continue to persist with the following up with outstanding assessments and reconciliation of the Vat account accordingly with FRCA.

7.9 Debit balances in the Trust Account

The company's maintenance of trust accounts policy defines standards and procedures that are to be applied with the objective of maintaining accurate balances for individual trust accounts as well as all relevant records, through effective funds management. The maintenance of accurate account balances falls within the jurisdiction of the Manager Finance & Admin (MFA) and the safeguarding of all relevant records and files is the responsibility of the Manager Trust and Estate (MTE). [4]

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

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

Scrutiny of the trust/estate General Ledger, statement of accounts and file records revealed that the following Trust accounts had a debit balance as at 31 December 2010. Refer to Table 7.2 for details.

Table 7.2: Accounts with Debit Balance

Account No:	Account Type	Account Initial	Debit Balance as per statement of account ($)	Reason for the Debit Balance
18392	FNPF	MJS	28,076.74	Incorrect opening balance entered in trustsoft on 02/04/06.
12536	FNPF	KNN	10,476.75	Incorrect opening balance entered in trustsoft on 02/04/06. The correct balance on 02/04/06 was $24,996.20 but only $14,160.75 was entered.
24529	FNPF	JR	15,484.02	The receipt of $15,484.02 cheque from FNPF was not entered in trust soft.
24230	FNPF	SN	25,586.51	Incorrect opening balance entered in trustsoft on 02/04/06. The correct balance on 02/04/06 was $25,858.51 but system had nil opening balance.
24637	FNPF	KN	38,030.03	The receipt of $74,090.07 cheque from FNPF was not entered in trust soft. This account still has a credit balance of $40,937.44 to be distributed to two

[4] Fiji Public Trustee Corporation Limited – Finance Manual – Section 10.1
[5] Fiji Public Trustee Corporation Limited – Finance Manual – Section 10.6.2
[6] Fiji Public Trustee Corporation Limited – Finance Manual – Section 10.6.3

Account No:	Account Type	Account Initial	Debit Balance as per statement of account ($)	Reason for the Debit Balance
				beneficiaries who are under 21 years of age but this accounts file was closed by the corporation.
24638	FNPF	MC	16,553.53	The receipt of $16,554.62 cheque from FNPF was not entered in trust soft.
13035	FNPF	NR	19,787.24	Incorrect opening balance entered in trustsoft on 02/04/06. The correct balance on 02/04/06 was $20,374.44 but system had nil opening balance.
2713	Estate	WN	42,838.96	The cane proceeds received from this estate are not sufficient to cover up the fees charged by FPTCL.
9064	Estate	AR	52,187.83	There is no source of income from this estate. The property doesn't meet OHS requirement therefore cannot be given out for rent.

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

Debit balances exposes risk of incorrect payments to beneficiaries.

Recommendations

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

Corporation's Comments

Majority of these accounts were part of those trust and estate accounts that were in the process of verification and update in the new TrustSoft system. The debits were payments made for the respective beneficiaries with the credits placed in the deceased accounts or in the provision for monies held in trust. The matching exercise in these cases is at its final stages and all of the Trust accounts now rectified.

The last two accounts, AC/No's. (2713 & 9064) are Estate accounts inherited from the old Public Trustee Office (PTO), which are still being administered by the FPTCL to-date. The amounts are included as bad debts but are still to be recovered from the estates. The FPTCL is mandated under the FPTC Act.2006 to continue to work towards recovering old PTO debts. All debts recovered are added back to government reserves in the Corporation accounts.

7.10 Discrepancies in the Closed Trust Account Files

Fiji Public Trustee Corporation Limited is required to maintain a file for each beneficiary. Individual beneficiary's file is created when court appoints FPTCL to administer any Trust or Estate. Beneficiary's file is close when full and final settlement is completed.

Verification of sample beneficiary's files selected for audit revealed that some files are closed but its information in Trustsoft account was still active. Furthermore, audit noted that statement of account for those beneficiaries had balance in it. Refer to Table 7.3 for examples.

Table 7.3: Closed Files with Active Accounts

Account No:	Year file closed	Account Balance ($)
18835	2008	1,528.71
5283	2004	13,453.91

Discussion with the Officer in charge of Trust and Estate accounts revealed the following causes of the active balances:

- the Corporation failed to debit distribution fees of $43.50 for account 18835 when it was closed in 2008. As a result, interest is still being credited in this account.

- account 5283 was closed in 2004, but its account was incorrectly created when Trustsoft was launched in 2006.

There is a risk that there may be other closed files with active accounts and there is likelihood that Trust Creditors control account may be overstated.

Recommendation

Trust account files, which have been closed, should be looked at again ensuring that it is properly reconciled. Any variance arising thereon should be reconciled accordingly.

Corporation's Comments

Trust & Estates Accounts are classified as "closed" when all issues pertaining to the management and administration of the Estate or Trust are finalised together will the full reconciliation of the Accounts, which should be with nil balance signed-off by the Manager Finance & Admin.

In the process a manual reconciliation is carried on the Accounts to be closed with all interest due and payable rectified and paid out accordingly. This process has not been carried out on the two referred accounts and therefore not closed to date.

Furthermore, leading up to end of the financial year-end close all creditors subsidiary accounts will be reviewed to ensure that they continue to reflect a true status of the same.

7.11 Discrepancies in the Interest due for Distribution Reconciliation

Certain accounts in the subsidiary and general ledger require monthly reconciliations. All such reconciliations must be performed by the company accountant and evidenced as reviewed by MFA on the reconciliations. [7]

The reconciliation done for interest due for distribution did not reconcile with the interest due for distribution as per general ledger. Refer to Table 7.4 for details.

[7] Fiji Public Trustee Corporation Limited – Finance Manual – Section 11.1

Table 7.4: Variance in Interest due for Distribution

Particulars	Amount ($)
Balance as per Interest due for distribution reconciliation	1,644,058.30
Balance as per General Ledger	1,800,499.71
Variance	**(156,441.41)**

There is a possibility that interest due for distribution may be overstated in the financial statements for Trust and Estate Account.

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 beneficiary's accounts.

Corporation's Comments

The variances as discussed during the audit relates to the interest on interest amounts for the years prior to 2010 when we finally updated the prior year's accounts since incorporation in 2006. The interests distributed were based on the balances on the individual accounts excluding the interests, which were finalised in 2010.

The Corporation will be recalculating interest for the prior years and redistribute the variance amount to the beneficiaries.

7.12 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.[8]

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

- the interests for 2007, 2008 and 2009 were distributed to the beneficiary's account in 2010. Audit noted that while calculating the interest for 2008, the Corporation failed to take into account the 2007 interest that should have been distributed in 2008. Similarly, 2009 interest calculation did not take into account 2007 and 2008 interest that should have been distributed in 2009.

- variances were noted in the interest calculation and distribution by Trustsoft system and the interest calculated manually.

- audit was unable to test the accuracy of the interest calculated by the Trustsoft system because the Officer in charge of the Trustsoft 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 is managing the Trustsoft system runs the program for interest calculation.

Discussion with the Officer in charge of Trust and Estate Account revealed that the Corporation is required to prepare manual reconciliation for Estate Trust on a regular basis and the manual reconciliations for all other trust is only prepared when the full and final payment is discharged. Trustsoft system is adjusted when variance is noted during the time of the payment.

[8] Fiji Public Trustee Corporation Limited – Finance Manual – Section 15

The findings suggest that Trustsoft subsidiary ledgers are understated in 2008 & 2009 as interest were not calculated using the correct formula.

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

Recommendation

The Corporation should adjust the interest distribution to beneficiaries after recalculating the actual interest that should have been paid to the beneficiaries for the year 2008 and 2009. The difference should be incorporated in the 2010 interest distribution to beneficiaries.

Corporation's Comments

Interest calculations were based on the account balances on pro-rata basis for the respective years prior to 2010. Since the prior year's accounts audits were finally all cleared in 2010, the calculations were based on the account balances at the time excluding the interest on the interest amounts showing as variance indicated above. The differences will be incorporated in the 2010 interest distribution to beneficiaries in 2011.

7.13 Discrepancies in Fee & Other Payables to Corporation from Trust Account

The subsidiary ledger must be reconciled each month to the general ledger control account. Any variances between the two records should be reconciled promptly. The reconciliation must be reviewed by MFA to ensure that items appearing in the reconciliation are bona fide and are not carried forward unnecessarily from prior months. [9]

The following discrepancies in the Fee & Other Payable to Corporation from Trust Account were noted:

- there was a variance of $28,065.17 between Fee and Other Payables to Corporation reconciliation and general ledger.
- there was a variance of $6,037 between the general ledger balance and the reconciliation of Fee payable to FPTCL.
- inter-company adjustment of $25,748.89 could not be substantiated.

In absence of regular reconciliations, variances will not be detected and resolved in a timely manner.

Recommendation

The Corporation's Trust Accountant should reconcile the inter party balances, Fee & Other Payable to Corporation from the Trust Account on a regular basis to avoid year end balancing adjustments.

[9] Fiji Public Trustee Corporation Limited – Finance Manual – Section 10.6.11

Corporation's Comments

The above adjustments are being investigated and will be corrected to reconcile the G/L's accordingly.

7.14 Over Provision for Impairment against Investments

It is appropriate to create a provision for impairment for investments when there is possible risk of reduction in value or the principal amount invested.

The audit noted that the Corporation has created a provision for impairment for investments amounting to $5,034,075 against the Trust's funds investments in Pool Funds. Refer to Table 7.5 for details.

Table 7.5: Investment In Pooled Funds

Investments	Amount ($)
Reserve Bank of Fiji (Bonds)	17,110,000
Bank Term Deposits	19,000,000
Less: Provision for impairment	(5,034,075)
Net Investments in Pool funds	**31,075,925**

Investments in Bonds and Bank Deposits are unlikely to be impaired due to its nature.

There is a possibility that the investment amount may be significantly understated.

Recommendation

The Corporation's Management should review its policy on provisions and where appropriate write back provisions to report correct value of investments.

Corporation's Comments

A number of government bonds are due to mature in the next ten years with the latest in 2020. Whilst Bond's may be considered low risk or without any risk at all, the corporation is of the view that trust funds held for minor beneficiaries that due to mature at different time intervals with the current volatile and unpredictable economic situations might be imposed to some risks. The said provision was allocated for any possible losses or impairment in the redemption of any such investments.

However, management notes the recommendation for the review of the Corporation's policy on provisions.

SECTION 8: YAQARA PASTORAL COMPANY LIMITED

The Yaqara Pastoral Company Limited (YPCL) is a 100% Government owned commercial company.

YPCL is the major producer and supplier of quality beef. The company also produces quality breeding bulls to be distributed to small holder beef farmers around Fiji. YPCL's business activity has primarily two divisions:
- Livestock Division
- Crops Division

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PART A – FINANCIAL INFORMATION

8.1 Audit Opinion

The audit of the financial statements of the Yaqara Pastoral Company Limited for the year ended 31 December 2010 resulted in the issue of an unqualified audit report.

8.2 Abridged Statement of Comprehensive Income

Year Ended 31 December	2010 ($)	2009 ($)
Income		
Revenue	694,368	664,612
Cost of sales	133,662	(121,584)
Gross profit on trading	**828,030**	**543,028**
Other operating income	2,218,776	1,819,820
Total Income	**3,046,806**	**2,362,848**
Expenditure		
Administrative expenses	850,583	1,456,637
Selling and distribution	2,545	3,870
Other operating expenses	180,873	166,030
Total Operating Expenditure	**1,034,001**	**1,626,537**
Operating profit from operations	**2,012,805**	**736,311**
Finance costs	1,885	3,460

Year Ended 31 December	2010 ($)	2009 ($)
Operating profit before income tax	**2,010,920**	**732,851**
Income tax expense	784,796	453,564
Profit after income tax	**1,226,124**	**279,287**

Total profit after tax increased by $964,837 or 339% in 2010 compared to 2009. This was a result of the increase in other operating income particularly royalty income from the Natural Waters of Viti Limited. Royalty is paid to the company at a rate of 1.5% on the monthly turnover of Natural Waters of Viti Limited.

The decline in operating expenditure also contributed to the substantial profit recorded in 2010. The decrease in administrative expenses by 41.6% in 2010 was due to an impairment loss of $616,986 recognised in 2009 as a result of the decrease in land valuation.

8.3 Abridged Statement of Financial Position

As at 31 December	2010 ($)	2009 ($)
Current assets		
Cash on hand and at bank	1,016,512	1,237,844
Trade receivables	281,797	238,439
Held-to-maturity investments	2,227,446	2,167,738
Biological assets	2,575,974	2,321,828
Other current assets	887,358	1,086,204
Total current assets	**6,989,087**	**7,052,053**
Non-current assets		
Property, plant and equipment	6,137,446	6,044,970
Other non-current assets	65,990	111,505
Total non-current assets	**6,203,436**	**6,156,475**
Total assets	**13,192,523**	**13,208,528**
Current liabilities		
Creditors and accruals	281,137	100,831
Other current liabilities	46,771	44,724
Total current liabilities	**327,908**	**145,555**
Non-current liabilities	**516,063**	**454,401**
Total liabilities	**843,971**	**599,956**
Net assets	**12,348,552**	**12,608,572**
Equity		
Share Capital	1,191,846	1,191,846
Retained Earnings	11,156,706	11,416,726
Total equity	**12,348,552**	**12,608,572**

Net assets declined by $260,020 or 2.1% in 2010 compared to 2009 as a result of the increase in liabilities, specifically, creditors and accruals, and deferred tax liabilities. The reduction in current assets also contributed to the decreased net assets recorded in 2010.

PART B – CONTROL ISSUES

8.4 Operation of Yaqara Pastoral Company Limited

The principal activities of Yaqara Pastoral Company Limited include cattle ranching, sheep and goat farming and bee keeping. The company had reduced the operation of cash cropping and sugar cane farming from prior years.

A four year analysis of the financial performance of the company revealed that it has only been generating profits as a result of *Other Income*, which comprises mainly of the royalty income received from Natural Waters of Viti Limited. Details of the analysis are shown in the Table below:

Particulars	2010 ($)	2009 ($)	2008 ($)	2007 ($)
Profit before Income Tax	**2,010,920**	**732,851**	**1,891,042**	**2,508,129**
Other Income				
Royalty Income	2,001,873	1,699,780	2,168,204	2,608,491
Interest on Term Deposit	173,327	99,868	40,008	36,504
Bad Debts recovered	-	-	-	610
Sundry Income	43,576	20,172	867	1,363
Total Other Income	**2,218,776**	**1,819,820**	**2,209,079**	**2,646,968**
Operating Profit/(Loss) Less Other Income	**(207,856)**	**(1,086,969)**	**(318,037)**	**(138,839)**

The company has not generated profit from its principal activities and relies heavily on the royalty income to operate. The company would continue to be operating at a loss should there be no royalty income received from Natural Water Viti Limited.

Recommendation

The company should draw up strategies to improve the efficiency of operations of its core activities without depending heavily on royalty income.

Management Comments

No comments provided.

8.5 Disposal of Property, Plant and Equipment

A physical verification of all fixed assets of the company was carried out by a consultant in December 2010. As a result of the verification, adjustments were made to the Fixed Assets Register (FAR) to dispose off assets which physically do not exist. Similarly, adjustments were processed in the General Ledger to align the balances to the FAR.

Audit noted that accumulated adjustments were made to the FAR for which the breakdown could not be provided by the company and the consultant.

Property, plant and equipment of $6.1 million as reflected in the financial statements may be misstated at balance date.

Recommendation

The breakdown of accumulated adjustments made to the FAR should be identified and correctly disposed off from the register and the General Ledger.

Management Comments

No comments provided.

8.6 Lodgement of Company Annual Returns and Annual Tax Returns

An annual return for the company shall be lodged with the Registrar of Companies each year.[1]

All companies should lodge income tax returns within three (3) months of the end of their fiscal year.[2]

Based on company search at the Register of Companies, audit noted that the company has not lodged its annual returns for the year ended 31 December 2010. In addition, audit also noted that the company has not lodged its tax returns for the previous year, 2009.

Non-compliance with the Companies Act 1983 and the Income Tax Act exposes the company to penalties for non-lodgements of annual company returns and tax returns.

Recommendations

- **The company should ensure that its annual returns are lodged with the Registrar of Companies annually.**
- **The company should ensure that its tax returns are lodged with the Fiji Customs and Revenue Authority on a timely basis.**

Management Comments

No comments provided.

8.7 Stocktake

Stocktake is important to ensure the accuracy of the value of biological assets reflected in the financial statements.

While observing physical count of biological assets, audit noted that tags on some cattle were missing. Refer to the Table below for examples:

Classes	Date of Birth (Year)	Tag No.	Breed	Color
Cow	2009	FO0947	LX	Red
Cow	2007	7665	SG	Red

[1] Companies Act Section 127
[2] Income Tax Act Section 44

Classes	Date of Birth (Year)	Tag No.	Breed	Color
Cow	2007	8001	LX	Apricot/White
Hyper	2009	91029	SG	Red
Steer	2009	91004	SG	Red
Cow	2000	01001	SG	Red
Hyper	2009	CF0765	LX	Apricot
Hyper	2008	8826	LX	Apricot
Hyper	2008	8663	SG	Red
Cow	2008	8966	LX	Apricot
Cow	2005	CB0435	SG	Red

Missing tags on cattle increases the risk of incorrect recording and valuation of livestock.

Recommendation

The company should ensure that livestock are properly and correctly tagged for valuation purposes.

Management Comments

No comments provided.

Provincial Council

1 Tailevu Provincial Council

SECTION 1: TAILEVU PROVINCIAL COUNCIL

Tailevu Provincial Council was established under section 7 of the *i*-Taukei Affairs Act and regulation 3 of the *i*-Taukei Affairs (Provincial Council) Regulations 1996.

The functions of the Council are to:

- To formulate and implement policies for promoting the health, peace, order, welfare and good government of *i*-Taukei residents in the province;
- To formulate and implement policies for promoting the economic, cultural and social development of the province; and
- To carry out such other duties and functions which the Minister or the Board may see fit to delegate to the Council.

The Council shall have to make by-laws to any function entrusted to or vested in it under the provisions of the Act or these regulations for the purpose of enabling it to carry out the duties conferred upon it and with respect to all or any of the following matters:

- Roads, paths, tracks, jetties and landing places;
- Medical relief, public health and child welfare;
- Recreation and sports grounds;
- Village planning;
- Water supplies;
- Education and libraries;
- Cemeteries;
- The promotion of agriculture, fisheries, animal husbandry, and tourism;
- Market and pounds;
- Provincial transport and cartage of mails.

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PART A – FINANCIAL INFORMATION

1.1 Audit Opinion

The audit of the financial statements for the year ended 31 December 2001 resulted in the issue of qualified audit report due to the following:

1. Proper books of account and complete set of accounting records and reconciliation for the year ended 31 December 2001 were not maintained by the Council. The various notes to the financial statements, full information, details and supporting documentation in support of various balances were not been provided for audit. There is uncertainty that all income, expenditure, assets and liabilities have been brought to account or have been disclosed accurately.
2. Journal entries processed in the general ledger with adequate details and explanations were not made available and/or were not supported by the necessary supporting documents.
3. Provincial rates were recognized on a cash basis which was not in line with the generally accepted accounting principles. The impact of this cannot be ascertained reliably due to unavailability of adequate details and documents.
4. The council has not disclosed cash flow statement for the year ended 31 December 2001 as required under the *Fiji Accounting Standards 7- Cash Flow Statements*.
5. The Council meeting minutes dated 1 June 2001 recorded that the total Government funding received for 2001 was $443,359. However, only $273,938 has been taken up as income for the year. No details were provided for the difference between the two balances. Furthermore, VAT component of Government Subvention cannot be ascertained due to unavailability of relevant supporting details.
6. The loss on transfer of land and Ratu Cakobau House to Tailevu Provincial Holdings Limited and investment in Yasana Holdings Limited together with certain other adjustments relating to depreciation, loan repayment and interest expense have not been accounted properly.

7. The prior year impact of $315,850 was adjusted in the current financial year in the income statement as Prior Year Adjustments. No further information or supporting documents have been provided for audit review in respect to these adjustments.
8. Full information, details and documents in respect to various balances in respect to cash at bank have not been provided for my audit. Therefore, I am unable to verify the reconciling balances and certain other balances in respect to bank balances.
9. Various exceptions and discrepancies have been noted in respect to various investments. Furthermore, full information, details and documentations have not been provided in respect to investments.
10. Various exceptions and discrepancies have been noted in respect to certain property, plant and equipment balances. Furthermore, full information, details and documentations have not been provided in respect to certain balances.
11. Subsidiary ledgers were not maintained for creditors and accruals and un-disbursed government subvention together with adequate records for the year.
12. The Council has booked loan liability of $210,994. However, the loan was granted to Tailevu Provincial Holdings Limited in 1998 and documentary evidence for assignment of loan from Tailevu Provincial Holdings Limited to the Council was not provided for audit.
13. Complete records with regards to special funds of $208,586 invested in Tailevu Provincial Holdings Limited on behalf of various Tikina were not provided for audit.

1.2 Abridged Income Statement

Year ended 31 December	2001 $	2000 $
Revenue		
Income from Provincial Rates	42,108	25,162
Government Subvention	273,938	247,794
Other Income	21,691	915
Total Revenue	**337,737**	**273,871**
Expenses		
Operating expenses covered by government subvention	277,555	247,796
Operating expenses not covered by government subvention	289,272	57,708
Total Expenditure	**566,827**	**305,504**
Result for the Year from Ordinary Activity	**(229,090)**	**(31,633)**

The Council recorded an operating deficit of $229,090 in 2001 compared to an operating deficit of $31,663 in 2000. This was due to increase in expenditure by $261,323 or 86%.

1.3 Abridged Balance Sheet

As at 31 December	2001 $	2000 $
Assets		
Cash at Bank	187,172	193,697
Other Current Assets	6,081	159,614
Property, Plant & Equipment	256,152	1,205,730
Financial Assets	1,171,024	49,167
Total Assets	**1,620,429**	**1,608,208**
Liabilities		

As at 31 December	2001 $	2000 $
Other Current Liabilities	365,317	303,610
Borrowings	280,047	-
Special Funds	208,586	-
Deferred Revenue	11,307	16,387
Total Liabilities	**865,257**	**319,997**
Net Assets	**755,172**	**1,288,211**
Accumulated Funds		
Asset Revaluation Reserve	710,574	698,673
Accumulated Fund	44,598	589,538
Total Accumulated Funds	**755,172**	**1,288,211**

Net Assets declined by $533,039 or 41% compared to 41% as a result of increases in expenditure by total expenditure by $545,260 or 170%. There were increases in borrowings by $280,047 (100%) and special funds by $208,586 (100%).

PART B – CONTROL ISSUES

1.4 Books of Accounts and Accounting Function

Reconciliations are a key control and should be used to identify and correct anomalies or mispostings. For this control to work effectively there must be an effective monitoring and review function of the reconciliations.

It was agreed during our planning meeting that the management account together with all reconciliations and supporting documents would be made available to us a week before the commencement date of the audit for the preliminary review.

From the preliminary review of audit files, we noted various exceptions which were highlighted through our emails between 10 March 2005 and 14 September 2007.

Audit is of the view that the books of account were not accurately updated on a timely basis and reconciliations were not performed accurately on a timely basis. As a result, during the course of our audit and finalisation of accounts, the following adjustments were processed:

Table 1:1 Adjustments Processed During Audit and the Finalization of Accounts

Description	Amount ($)
Operating loss as per draft management accounts	**(349,599)**
Adjustments:	
To create additional provision for doubtful debts	(162,771)
To book interest payable on SBAU loan	(39,610)
To rectify interest expense incorrectly recorded by the Council	(5,249)
To book audit fees	(5,000)
To record interest expense understated by the Council	(950)
To realise depreciation charged on assets obtained under government grant	562
To rectify prepayment of insurance incorrectly expensed	1,109
To record adjustments relating to prior year	16,568
Operating profit before tax as per draft audited accounts	**(544,940)**

Accordingly, accounting functions and procedures need significant improvement. We consider this to be very important in view of the problems faced during the year's audit and considering the size and nature of the Council's operations.

Recommendations

- **Management should review its procedures for preparation of monthly reconciliations and more emphasis should be placed on in-depth review of reconciliations and reconciling items.**
- **The Council should take urgent action to improve its book keeping and accounting function.**

Management Comment

No comments provided.

1.5 Going Concern

The financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and satisfaction of liabilities on the normal course of the Council's operations.

As disclosed in the financial statements, as at 31 December 2001, the Council's current liabilities exceeded the current assets by $229,090. Furthermore, the Council has not been able to settle its liabilities on a timely basis.

The Council's continuation on a going concern is dependent upon its ability to maintain profitable operations, generate sufficient cash flows and raise adequate finance to meet its obligations as and when they fall due, and the continued financial support from the Government and Tikina.

Recommendation

The Council should continue to closely monitor its operations to reduce its operating costs and continue to achieve profitable operations. It must be appreciated that the going concern basis of preparing accounts may become invalid as a result of which a provision would have to be made for any possible loss on realisation of the Council's assets.

Management Comments

No comments provided.

1.6 Accounting System and Procedures

Our review of the books of account of the Council revealed accounting shortcomings including inaccurate, incomplete and untimely records being kept of general ledger account balances.

During the course of our audit, we noted that general ledger reconciliations were not accurately prepared and there was no evidence to suggest that reconciliations had been reviewed and approved by a senior independent accounting personnel.

Furthermore, progressive updates especially for balances relating to receivables, fixed assets, investment, interest bearing borrowings, fixed assets, creditors and accruals were not made. Our review of those details of transactions further indicated a high incidence of misposting involving interest expense, interest payable, depreciation and insurance prepayment.

The above resulted in a significant number of audit adjustments and led to delays in finalising the financial statements.

Accordingly, we are of the opinion that accounting functions and procedures require significant improvements. We consider this to be very important in view of the current status of the Council, the problems faced during the audit, and also considering the nature of its operations.

Recommendations

- **The Council should review and improve its accounting systems and procedures to ensure that the books of account are updated on a timely basis with all relevant supporting documents, reconciliations and records.**
- **Additional emphasis should be placed on in-depth review of the reconciliations and reconciling items. It is recommended that a checklist be maintained to set out each item, schedule that is required, to enable timely and accurate reporting. This checklist will also be an excellent management tool which can be used to monitor the timing and completeness of the information to be supplied / prepared.**
- **To reduce the risk of misposting, more emphasis should be placed on reviewing and checking of input and batch entry controls to ensure that all the transactions are correctly posted in the general ledger to the correct account heads.**

Management Comments

No comments provided.

1.7 Delays in Providing Information and Explanation

During our audit, there were delays in receiving reconciliations and supporting schedules such as loan repayment schedule and related agreement, details of accrued interest, other payables.

The following delays were encountered which are as follows:

(a) A checklist for our requirements for audit was provided on 10 September 2004 and subsequent follow ups were made for the required schedules, reconciliations and details.
(b) We received the initial trial balance, fixed assets schedule and certain reconciliations on 9 March 2005. However, based on our preliminary review of the above, we noted that a number of schedules, reconciliations and details were not provided for us to effectively commence the audit.
(c) All outstanding matters were communicated on the same date; however, little progress was made in relation to the requested outstanding information.
(d) We later received certain outstanding information on 30 March 2005 and then on 3 August 2005. However, majority of the schedules and reconciliations were still outstanding.

(e) After subsequent meetings and follow ups, we were provided with an updated version of the draft financial statements and certain reconciliations on 19 July 2006 and we were advised that the remaining outstanding information would be provided to us during the audit fieldwork.

(f) Upon commencement of our audit on 31 July 2006, we were provided with certain additional information. However, most of the schedules and details required earlier were not provided and with non-provision of any additional information and no further progress on the outstanding matters, the audit was suspended.

(g) Thereafter, several follow ups were made and the revised management accounts and majority of the reconciliations were received on 16 August 2007. However, we still noted that adequate records and supporting details had not been maintained by the Council.

This has resulted in significant delay in finalisation of audit of the financial statements for the year ended 31 December 2001.

Recommendation

The Council should ensure that all reconciliations and supporting documents together with final trial balance and management accounts should be made available on the first day of our audit commencement, thus enabling us to proceed effectively with our audit of the financial statements.

Management Comments

No comments provided.

1.8 Cash Flow Statement

We note that the Council has not prepared and presented cash flow statement for the year ended 31 December 2001 as required under the *Fiji Accounting Standards 7 – Cash Flow Statements*.

Recommendation

The Council should include in the financial reports a cash flow statement detailing major sources and application of cash within each functional activities of the Council.

Management Comments

No comments provided.

1.9 Prior Year Adjustments

Paragraph 34 of Fiji Accounting Standard 8 - Net profit or loss for the period, fundamental errors and changes in accounting policies, *"the amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of retained earnings. Comparative information should be restated, unless it is impracticable to do so"*

We note that during prior years, the loss on transfer of land and Ratu Cakobau House to Tailevu Provincial Holdings Limited and investment in Yasana Holdings Limited together with certain other adjustments relating to depreciation, loan repayment and interest expense had not been accounted for properly.

The prior year impact of $315,850 has been adjusted in the current financial year in the income statement as Prior Year Adjustments contrary to *Fiji Accounting Standard 8.*

Moreover, no further information or supporting documents were provided in respect of these adjustments.

Recommendations

The Council to take adequate care and ensure that all transactions are recorded accurately and in accordance with the Fiji Accounting Standards and that all supporting documents should be maintained by the Council for proper audit trail.

Management Comments

No comments provided.

1.10 Changes in Accounting System

We noted that during the year, the Council changed its accounting package from IDL to Winbiz.

We also noted that in certain instances accounting records from the IDL system were not in agreement with the opening balance in the Winbiz system.

We further noted that proper documents or trace of closing balances of accounts from the previous system to the opening balances of these accounts in Winbiz were not made available for our review.

Recommendation

The Council should exercise due care when transferring accounting records and data to ensure accuracy of account balances.

Management Comments

No comments provided.

1.11 Inadequate Insurance Cover

From our review of insurance policies, we noted that only vehicle with registration number DL 064 has been covered by insurance. All other property, plant and equipment are not covered by insurance.

Recommendation

The Council should immediately obtain adequate coverage for all properties, plant and equipment to fully secure all assets against fire, cyclone and other associated perils.

Management Comments

No comments provided.

1.12 Sundry Creditors and Undisbursed Subvention

From our review of sundry creditors amounting to $205,913, we noted that an aged creditors listing is not maintained.

We also noted that no reconciliation was made available for undisbursed subvention amounting to $22,745.

We further noted that payment vouchers for the months of January and February 2002 were not made available for our review to verify the subsequent payments of the above liabilities.

Recommendations

- **To ensure effective monitoring and management over creditors and cash flows, subsidiary ledgers for creditors should be maintained which may also be directly interfaced with the general ledger system.**
- **The Council should ensure that all payment voucher files are maintained properly and made available for audit.**

Management Comments

No comments provided.

1.13 Accruals

From our review of accruals, we note that no details or supporting documents were furnished to us for the following significant amounts included in the accruals listing:

Table 1.2: Non- Provision of the Details for Balances Relating To Accruals

Description	Amount ($)
Nausori Tikina	6,574
Dravo Tikina	5,103
Namara Tikina	2,385
Bureitu Tikina	4,618
Nuku Tikina	2,649
Verata Tikina	8,052
Namalata Tikina	3,515
Vugalei Tikina	7,063
Tai Tikina	3,143
Sawakasa Tikina	2,143
Namena Tikina	2,930
Wailotua Tikina	4,615

Description	Amount ($)
Nasautoka Tikina	2,648
Office 2000	2,500

Recommendations

More emphasis should be given towards filing of documents in a systematic way. Invoices are the prime source to suggest the validity of the transactions and these should be kept in order to maintain proper audit trail.

Management Comments

No comments provided.

1.14 Deposits from Public

From our review of the reconciliation for deposits from public, we noted a difference of $5,501 between the balance as per the reconciliation and the balance as per the general ledger. Refer to table 3.3 for details:

Table 1.3: Variance between the Reconciliation and the Ledger

Description	Amount ($)
Balance as per reconciliation	15,361
Balance as per subsidiary ledger	9,860
Difference	**5,501**

Recommendation

The Council should ensure that monthly reconciliations are performed for all the balance sheet items and reviewed by independent senior personnel. Differences, if any, on such reconciliations should be adjusted in the books of account only after review and approval from the senior personnel.

Management Comments

No comments provided.

1.15 Provincial Rates

From our review of provincial rates, we noted that these were recognized on a cash basis which is not in accordance with the generally accepted accounting principles.

This is also a departure from paragraph 25 of Fiji Accounting Standard 1 -Presentation of Financial Statements, which states that *"an enterprise should prepare its financial statements, except for cash flow information, under the accrual basis of accounting."*

Recommendation

The Council should ensure that provincial rates are accounted for on an accrual basis for proper measurement and reporting of the financial result for the year and to ensure compliance with the Fiji Accounting Standards.

Management Comments

No comments provided.

1.16 Land and Buildings

From our review of land and buildings, we noted that land and building relating to Cakobau House were transferred to Tailevu Provincial Holdings Limited in 2000. However, no further details in relation to the transfer of land and building and consideration were made available for our review and verification.

We further noted that during the year, the Council changed its depreciation calculation method from diminishing value to straight line for office equipment, plant and machinery, furniture and fittings and motor vehicles. However, no details of the adjustment made to the plant and equipment balances were provided for our review.

Moreover, land title for the Korovou leasehold land was not made available for our review.

Recommendations

The Council should ensure that:

- **Proper records should be maintained by the Council to ensure that any transfer or sale of the Council's property is accounted for accurately.**
- **Adequate data and information be maintained in support of changes in depreciation method and adjustments made to the plant and equipment balances.**
- **All land owned by the Council either freehold or leasehold should be supported by land title under the name of the Council.**

Management Comments

No comments provided.

1.17 Investment in Fijian Holdings Limited and Yasana Holdings Limited

From our review of investments, we noted that:

- As at 31 December 2001, the Council held a total of 19,951 Fijian Holdings Limited (FHL) shares. However, we noted that the Council's shareholding in FHL was 272,152 until 27 April 2000, at which time the shareholding of the Council was reduced to 19,951 of $1 each. The initial shareholding was never accounted for in the books of the Council.

- The Council held a total of 352,234 Yasana Holdings Limited (YHL) shares out of which 351,867 shares were acquired in 2000. However, this was also not accounted for in the books of the Council in 2000.
- A significant portion of the dividends earned on the FHL shares between 1998 and 2000 were used to repay loans obtained from the Fiji Development Bank. However, these were never recorded in the books of the Council and we could not ascertain the actual amount of dividends receipted by the Council due to incomplete investment and loan records.
- Shares in FHL are held in trust and resulting dividends must be reallocated to the various Tikinas. The receipt of dividend from FHL creates an obligation for the Council and is accounted for as "Sundry Creditors".

From the Shareholder's Dividend Statement of the Council made up till 30 April 2001, we note that the total dividends paid to the Council between 1998 and mid-2001 was $114,846. Furthermore, according to the investment confirmation received from FHL, total dividends paid to the Council in 2001 amounted to $3,990. However, records of the Council only showed an amount of $7,971 under "Sundry Creditors" as total dividends earned on the FHL shares during that period.

Recommendations

The Council should ensure that:

- **Complete set of books of accounts and accounting records are maintained for all investments and the respective liabilities.**
- **Full reconciliations should be performed for the differences between the investment and liability balances on a monthly basis, which should be reviewed by independent senior personnel and adjusted in the books progressively.**

Management Comments

No comments provided.

1.18 Term Deposits

From our review of investments, we noted that the Council has term deposits with ANZ Bank amounting to $30,253. However, no investment certificate or bank confirmation was provided for our review.

Recommendation

The Council should maintain investment certificates for all term deposits and obtain confirmations for proper audit trail.

Management Comments

No comments provided.

1.19 Investment in Tailevu Provincial Holdings Limited

In the year 2000, the Council acquired shares in Tailevu Provincial Holdings Limited (TPHL). However, the investment was never accounted for in the books of the Council in the year of the acquisition.

Subsequently, in 2001, $786,586 was recorded as the value of the Council's investment in TPHL. However, the Council was only issued a share certificate for 731,986 shares of $1 each by TPHL. No explanations or further documents were provided for the difference of $36,600. Investment confirmation from TPHL for the year ended 31 December 2001 was outstanding at the time of this report.

We also note that as per the annual return filed with the Registrar of Companies by Tailevu Provincial Holding Company Limited as at 31 December 2001, the Council owned 817,986 shares of the company. However, no further details were made available for the difference.

Recommendation

The Council should maintain an investment register and regularly update for all equity and other investments, showing for each investment; the cost, date of acquisition, additional costs incurred, par value, number of shares, share certificate numbers, dividend received, market value and other relevant details.

Management Comments

No comments provided.

1.20 Special Funds

From our review, we noted that the Council has invested $208,586 in Tailevu Provincial Holdings Limited on behalf of the various Tikinas.

However, no further details or supporting documents were made available for our review.

Recommendation

The Council should maintain proper schedules and supporting documents for all funds provided by the Tikinas for investment purposes.

Management Comments

No comments provided.

1.21 Deferred Revenue

From our review of deferred revenue amounting to $11,307, we note that complete set of records were not made available for our review and verification.

Recommendation

The Council should maintain proper records and reconciliations in relation to deferred revenue to ensure that it is accounted for accurately.

Management Comments

No comments provided.

1.22 Asset Revaluation Reserve

We note that there was a movement of $11,900 in the asset revaluation reserve of the Council.

We also noted that no revaluation was carried out during the year and the movement is due to incorrect transfer of asset revaluation reserve balances from IDL to Winbiz. However, no detailed breakdown of the asset revaluation reserve or proper details of the movement were made available for our review and we were unable to determine the accuracy of the balance in the asset revaluation reserve.

We further noted that realization of the asset revaluation reserve upon transfer of the land and buildings relating to Cakobau House to Tailevu Provincial Holdings Limited could not be ascertained due to unavailability of adequate details.

Recommendation

The council should maintain proper supporting documents for all movements in the asset revaluation reserve which should be made available for audit review and ensure that the asset revaluation reserve is accurately realized upon transfer of property.

Management Comments

No comments provided.

1.23 Bank Reconciliations

From our review of the bank reconciliation for ANZ current account number 105548 for the month of December 2001, we noted the following:

- Outstanding lodgements amounting to $33,159 was being carried forward from 1997.
- Debits amounting to $8,949.68 and credits amounting to $9,940.51 in the bank statements had not been processed in the books and were shown as reconciling items in the bank reconciliation.

No audit adjustment could be processed as details were not provided for our review. We also noted that the Council has a savings account with Colonial National Bank (account number 433057) amounting to $5,708.81 for which no details were made available for our review. Furthermore, bank audit certificates for all bank accounts were not received.

Recommendation

- **Bank reconciliation to be an important part of the internal control system and strongly recommend that the bank reconciliations should be prepared on a monthly basis and reviewed by independent senior personnel.**
- **The person reviewing these reconciliations must ensure that all reconciling items are cleared regularly, that stale cheques are written off, that all receipts are banked intact on a daily basis and outstanding lodgements are banked intact on the next banking day and that the control balances agree to the relevant records.**

Management Comments

No comments provided.

1.24 Interest Bearing Borrowings

From our review of interest bearing borrowings, we noted that the Tailevu Provincial Holdings Limited (TPHL) had obtained a loan for a principal sum of $230,000 from Fijian Affairs Board – Small Business Advisory Unit in June 1998, which was assigned to the Council in exchange for 230,000 shares of $1 each in TPHL in 2000. However, we were not provided with any documentary evidence for the assignment of loan from TPHL to the Council. However, the acquisition of shares and loan liability were never accounted for in the books of the Council in 2000.

Moreover, loan confirmation from Fijian Affairs Board – Small Business Advisory Unit was not provided for our review and we were unable to verify the security details disclosed in the financial statements.

Recommendations

The Council should formalize the assignment of loan liability by way of an agreement and ensure that loan confirmations are obtained and provided to audit.

Management Comments

No comments provided.

1.25 Advances to Staff

From our review of staff advances, we noted that the reconciliation provided for our review suggested that there were excess recoveries made from certain staffs. However, no details or explanations were provided to indicate how these balances were recorded in the books of the Council. Refer to table below for details:

Table 1.4: Credit Balance Indicating Excess Recoveries

Folio	Staff Initial	Amount ($)
1	RTL	(60.00)
12	JR	(30.00)

Folio	Staff Initial	Amount ($)
13	AD	(38.88)
50	RTL	(309.46)

We also noted the following differences in certain balances as per the reconciliation and the subsidiary ledger:

Table 1.5: Variance Between Reconciliation and the Ledger

Folio	Staff Initia	Balance as per Reconciliation ($)	Balance as per Subsidiary Ledger ($)	Difference ($)
15 & 17	LL	1,362.05	1,262.05	100.00
20	NS	500.00	600.00	(100.00)

We further noted that no systematic recovery procedures appeared to be in place to recover the advances within a reasonable time.

<u>Recommendations</u>

The Council should ensure that:

- **All reconciliations are reviewed by an independent senior personnel and necessary adjustment entries be processed, if required.**
- **Proper supporting documents are maintained by the Council for effective audit trail.**
- **The Council should review its policy on advances to staffs and action should be taken to recover outstanding advances. In particular, definite repayment plans per staff should be set for repayment terms and these should be strictly implemented and actively monitored.**

<u>Management Comments</u>

No comments provided.

1.26 Sundry Debtors

From our review of sundry debtors, we noted that certain differences in balances with the reconciliations provided for our review and the subsidiary balances. Refer to the table below for the details:

Table 1.6: Variance Between Reconciliation and the Ledger

Debtors	Balance as per Reconciliation ($)	Balance as per Subsidiary ($)	Difference ($)
Debtor 1	-	(65.19)	65.19
Debtor 2	40.89	736.26	(695.37)
Debtor 3	-	10.00	(10.00)
Debtor 4	1,766.00	1,566.00	200.00
Debtor 5	276.50	476.60	(200.01)
Debtor 6	1,351.14	972.19	378.95

The following anomalies were also noted:

- All balances included in "Loans to Public" had also been accounted as "Sundry Debtors".
- A receivable balance of $136,887 was noted under sundry debtors representing various Tikinas' share contribution towards the River House. However, no supporting documents or explanation were provided to demonstrate how these balances were established.
- A difference of $1,712 was also noted between the balance as per the "Tikina Shares River House" listing and the sundry debtors' reconciliation.
- Advances to public noted a difference of $1,727 between the balance as per reconciliation and trial balance.

A difference of $1,321 was noted between the reconciliation for advances to public and its subsidiary ledger in respect of Naigani Village.

Recommendation

The Council should take adequate care and ensure that all reconciliations are prepared accurately and that all supporting documents are maintained by the Council for proper audit trail.

Management Comment

No comments provided.

1.27 Investment in Tailevu Dairy Farmers Co-operative Association Limited

Our review of the minutes of the meetings of the Council members dated 1 June 2001 noted that the Council acquired 809,411 shares in Tailevu Dairy Farmers Co-operative Association Limited.

However, no share certificates or other documentary evidence was provided to substantiate the investment.

Also, this investment is not reflected in the Council's books of account.

Recommendation

The Council should accurately record all investments in its books and ensure that all share acquisitions are formalised in writing and share certificates obtained.

Management Comments

No comments provided.

1.28 Government Subvention

From our review, we noted that the Council received $271,948 from Fijian Affairs Board during the year. However, no agreement or written confirmation was provided to us in respect of the Government subvention granted to the Council in 2001.

We also noted that as per council minutes, the total Government funding received for 2001 was $443,359. However, only $273,938 has been taken up as income for the year. No details were provided for the difference.

Furthermore, VAT component of the Government subvention could not be ascertained due to unavailability of relevant supporting documents.

Recommendation

All agreements and written confirmations in relation to the receipt of Government subvention should be maintained properly and made available for review.

Management Comments

No comments provided.

1.29 Receipts

From our review of a sample of 24 receipts, we noted the following exceptions:

- There are no adequate controls in regards to the receipting system to ensure that all receipts are posted and also to avoid double posting.
- Receipts were not banked on a daily basis. Refer to Table 8 for details:

Table 1.7: Non-Lodgement of Receipts On A daily Basis

Clients	Receipt Number	Amount ($)	Receipt Date	Deposit Date
Client 1	40700	200.00	02/04/01	12/04/01
Client 2	40711	129.08	21/05/01	25/05/01
Client 3	40716	174.00	19/06/01	26/06/01
Client 4	40746	27,713.33	01/11/01	06/11/01
Client 5	40788	11,800.00	26/11/01	30/11/01

- Instance where the amount receipted differed from the amount processed into the general ledger. Refer to table 9 for the variance between the amount receipted and the general ledger.

Table 1.8: Variance Between Amount Receipted And The General Ledger

Clients	Receipt Number	Amount as per Receipt ($)	Amount as per General Ledger ($)	Variance ($)
Client 1	40850	25,832.25	28,872.00	3,039.75

No receipts were issued for the following amounts received by the Council in January and February 2001. Refer to table 10 for details.

Table 1.9: Non-Issuance Of Receipts

Particulars	Receipt Date	Amount ($)
Client 2	05/01/01	492.98
Client 2	27/02/01	299.08

Recommendations

The Council should ensure that:

- **All processed receipts should be marked as "Processed" to ensure control over receipts and proper accounting of revenue.**
- **All receipts should be banked intact on a daily basis thus maintaining control over**
- **receipts.**
- **Due care should be taken when processing receipts into the system.**
- **Receipts should be issued to avoid misappropriation of funds.**

Management Comments

No comments provided.

1.30 Journal Entries

During our review of the general ledger, we noted numerous journal entries for which adequate details and explanations were not made available and/or were not supported by the necessary supporting documents.

Recommendations

The Council should ensure that:

- **All journal entries are substantiated by journal vouchers and supporting documents and**
- **All journals vouchers are signed by the person who raises the journal vouchers and these be checked and approved by independent senior personnel thereby ensuring errors or omissions do not go undetected.**

Management Comments

No comments provided.

1.31 Operational Audit for the year 2009

1.31.1 Under-collection of Provincial Council Rates

Provincial Council rates are mainly used to meet the Council's expenditures not funded by the government subvention.

Until such time as the land rate or the *"soli vakavanua"* have been applied, a Council may, by resolution, impose a rate (referred to as the provincial rate) upon every male *i*- Taukei of a province between the ages of twenty one and sixty years or other classes recommended by the Chairman of the Council and approved by the Minister.[1]

Where any person liable to pay a provincial rate makes default in payment, the Council may after expiry of 30 days from the date on which such rate became due and payable, recover any money due or such rate in the like manner in which a Council may recover moneys owing to it in respect of a land rate.[2]

Audit noted that the Council's uncollected provincial rates were more than 50% of the budgeted amounts except for the year 2008. Refer to the Table 11 for details.

Table 1.10: Budgeted Versus Actual Collection of Provincial Rates

Year	2005 ($)	2006 ($)	2007 ($)	2008 ($)	2009 ($)
Budgeted	84,544	84,544	30,000	30,000	30,000
Actual	32,379	25,397	11,269	23,443	15,075
Variance	52,165	59,147	18,731	6,557	14,925
Percentage uncollected	**62%**	**70%**	**62%**	**22%**	**50%**

This indicates that those rates imposed by the Council under the i-Taukei (Provincial Councils) regulations were not fully complied and also the efforts of the Council to this collection were not enough.

The non-collection of the budgeted provincial rate in 2009 attributed to the following:

- Non-collection from the various Tikinas; and
- Endorsement by the *"Bose ni yasana"* on 30/06/09 for the cessation of the *"soli ni yasana"* from the year 2010, alternating that the operations of the council be funded from dividend received by the Council from investments held.

In addition, the non-subvention expenditure of the council in 2009 totalled $62,430 which was two times more than the estimated collection from rates.

Thus indicate that these expenditure were not being budgeted for and funded by government subvention.

Non-collection of provincial rates could hinder the councils operations in meeting its day-to-day non-subvention expenditure.

<u>Recommendation</u>

The Council should carry out consultation and remind the various Tikina on a regular basis on the collection of rates as required under the regulations and the deliverance of the Council output are also dependent on the collection of provincial rates.

[1] *i*- Taukei Affairs (Provincial Councils) Regulations, 1996 (Section 6) Regulation 47 (1) & 49
[2] *i*- Taukei Affairs (Provincial Councils) Regulations, 1996 (Section 6) Regulation 50 (3)(a) &9 b)

Management Comments

No comments provided.

1.31.2 Overspent in Budgeted Meal Allowance

Officers shall be paid meal allowance under the following circumstances:

(i) If required to work or undertake official travel two hours before or beyond normal working hours;
(ii) If required to work or undertake official travel during the lunch meal period during normal working days;
(iii) An additional meal allowance for each successive period of 5 hours continuous work performed immediately after the initial meal break at (i) above;
(iv) Except for (ii) above, no additional meal allowance is payable for work carried out during normal working hours.[3]

The Council's meal allowance budget has been overspent by 52% for the year 2009. Refer to the table below for details:

Table 1.11: Over-expenditure of Meal Allowances-2009

Allocation	Budget ($)	Actual Expenses ($)	Overspending ($)	Overspent (%)
Subvention	4,333	4,000	333	8
Non Subvention	2,500	8,924	6,424	72
Total	**6,833**	**12,924**	**6,757**	**52**

The non adherence to *i Taukei* Accounting manual and the lack of monitoring the approved budget resulted in the excessive meal expenditure. In one instance where various meals claim were incurred for a travel to an exam by an Officer.[4] Refer to the details below and *Appendix 1* for illustrations for these:

- Approved claim form Meal allowances were not used for some instances;[5]
- Incomplete meal claim forms;
- Meal allowances paid for visits that form part of the Councils area of duty;
- Mileage and visitation reports not attached to substantiate work done and the meals claimed;
- Meals claimed for preparation for *"Bose ni Yasana"* by almost all staffs;
- Meals paid to drivers for transporting the Council staff for field visits;
- Number of Council staff attending to villages or sites visits claimed for the meal.

Hence, the expenditure has exceeded by 52% of the budgetary allocation that could have been applied to the Council's development projects.

[3] General Order 510
[4] Refer to Voucher 420 of December 2009 for meal claim paid to Isimeli Nakalevu
[5] I-Taukei Affairs Board Accounting Manual, Section 1, Page 31

Recommendations

- **The Council should ensure that meal claims expenditure are incurred within budgetary allocation**
- **Clear guidelines on meal claims are to be developed to ensure that it is within the approved budget.**

Management Comments

No comments provided.

1.31.3 Missing/Incomplete Accounting Records

The Auditor General shall satisfy himself that expenditure has been properly authorised and applied to the purposes and that the regulations and procedures applied are sufficient to secure an effective control over expenditure, and that it has been incurred with due regard to economy and avoidance of waste and extravagance.[6]
The Council should forward, within two working days after the end of the period the original copy of the checklist and the relevant documents/statements to the Accountant (PCA).[7] The following anomalies as detailed in Appendix 2 were noted in respect of payment records:

- Missing payment vouchers and supporting documents;
- Inadequate supporting document – only request for payment were attached;
- Purchase of goods and services rendered without competitive quotes;
- Lack of verification of payments ;
- Non-maintenance of accrual listing;
- General ledger not updated for accruals recorded in the journal vouchers; and
- Inadequate supporting document to journal vouchers.

These indicate weak internal controls within the Council as highlighted during the 2001 audits continues to exist and there is blatant disregard to the financial regulations and accounting manual.

Non-maintenance of accounting records and the non-adherence to internal controls questions the economy and effectiveness with which the Council has made payments and therefore a catalyst to unauthorised payments.

Recommendations

The Council Treasurer should ensure that:

- **All payments are properly authorised and supported.**
- **All requests for payment are checked for completeness and accuracy before submitting to the Roko Tui to approve for payments.**
- **Three competitive quotes are obtained for all purchases.**
- **Journal vouchers raised are authorised and attached with all supporting documents.**
- **Records that are requested for audit purposes should be made readily available and properly stored in a secured place.**

[6] Audit Act Cap. 70 Section 6 (2) (c)
[7] Function 19 A(4) of Accounting Procedures for Provincial Councils

Management Comments

No comments provided.

1.31.4 Council Quarters

With the exception of those officers specified in General Order 601, all Officers occupying Government quarters of whatsoever grade or type or self contained flats, will be required to pay rent at the rate of eight percent (8%) of basic salary with maximum limits of rent for different grades of quarters.[8] Occupants of Government quarters are responsible for the security of the premises and their contents, and for keeping the grounds in proper order.[9]

Audit noted that the Council is not receiving any rental income from the 6 quarters occupied by the officers of the council while one of the quarters is being rented out. Total estimated revenue forgone totalled to $4,640 per annum at the rental rate being stipulated in the General Order. Refer to Table 1.12 below for revenue forgone as a result of non-collection of rent for the quarters occupied by staff.

Table 1.12: Revenue Forgone From Quarters

Quarters	Occupant	Quarters Grade	Gross Salary ($)	8% of Gross Salary ($)	Maximum Limit as per General Order 607 ($)	Un-deducted Annual Rental Income ($)
Vunivivi Hill						
1	Roko Tui	Grade IV	33,154	2,652.31	1,000	1,000
2	Senior Assistant Roko Tui	Grade IV	20,335	1,626.79	1,000	1,000
3	Assistant Roko Tui	Grade V	17,071	1,365.69	720	720
4	Treasurer	Grade VI	12,051	964.08	480	480
Korovou						
1	Assistant Roko Tui	Grade V	17,071	1,365.69	720	720
2	Assistant Roko Tui	Grade V	17,071	1,365.69	720	720
Total Rent Forgone						**4,640**

The above indicates loss of potential Council revenue and the incurrence of superfluous expenditure for maintaining quarter's compound without any income. In addition, the non collection of rent could financially restrain the budget allocated to the council denying taking up of development projects for the benefit of the Province.

Recommendations

The Council should ensure that rent is deducted by Officers occupying these Council quarters.

Management Comments

No comments provided.

[8] General Order 607
[9] General Order 613

1.31.5 Anomalies with Motor Vehicle Records

Drivers are required to enter correctly the station, department, date mileage/kilometre age at the start of day, full details of trip and enter all fuel and oil purchased, any maintenance done and any damage sustained[10].

Heads of department should ensure that accident reports are completed no later than 24 hours after the accident, or in case of the weekend, on the business day of the following week. The driver of the Government vehicle must report every accident to the Police immediately. The Public Works Department should undertake the accident repairs unless proper authority to effect repairs elsewhere has been obtained from the Ministry of Finance[11].

The Council has two vehicles for which the motor vehicle records revealed the following discrepancies:

- Running sheets were not completed by the drivers for the year 2009.
- Logbooks were not maintained for the Council vehicles.
- Neither the accident nor the police report was prepared for vehicle DU525 that was involved in an accident sometime in December 2008;
- Non-preparation and non-submission of vehicle quarterly returns to *i*-taukei Affairs Board.
- Competitive quotations not sought for the purchase of vehicle – FN098 valued at $44,120.
- Vehicles fuelled consecutively but destination of travel could not be substantiated since vehicle running sheets were not maintained.

The above indicates gross violation of the transport rules and instructions and therefore attributed as mismanagement of the council vehicles that could result in the abuse of the council vehicles.

Recommendations

The Council should ensure that:

- **The transport rules and instructions are adhered to at all times; and**
- **Accident and Police reports are prepared for any accidents involving the Council's vehicles.**
- **The Council should investigate the accident to vehicle DU 525 in December and ascertain whether proper action has been taken and responsible Office taken to task for not complying with Transport Rules and Instructions.**

Management Comments

No comments provided.

[10] Transport Rules and Instructions, Section 13 (2)
[11] Transport Rules & Instructions, Part IV: Accidents

1.31.6 Development Assistance Scheme (DAS)

Each agency must have in place a cost effective system of internal controls which safeguards money and property against loss.[12]

Development Assistance Scheme (DAS) is set up to put across developments and improvements in the availability of facilities in the villagers, tikinas within Tailevu province.

Every year the council is approved with $100,000 in their budget for DAS. The assistance is granted for both community-based and individual projects for which no budgetary allocations are provided by other line Ministries.

Funding is based on a cost sharing basis of one-third contribution from community and the two-third from Government.

The following anomalies in the utilization of the DAS funds for the past three years are listed below and detailed in *Appendix 3*.

- Tender were not being called for the building of the *"Roko Tui"* quarters which was paid out to the Council in 2008 totalling $99,000. In addition the comments from the Council that they were not informed to call for tender. From audit point of view is a blatant disregard to the financial regulations;
- There were no evidence of competitive quotations being sought for the building materials;
- Invoices and delivery dockets not maintained for materials purchased;
- Purchase orders not raised for materials bought;
- The tender advertised in the Fiji Times on 27/9/09 or the construction of the 2x3 bedroom house noted that the building contractor did not bid for the tender but the company was still awarded the tender for $97,000;
- DAS fund for the construction of the provincial quarters denies any capital development for the province;

The above anomalies are a catalyst to abuse of the office position and therefore cannot be deduced to be an economical, efficient and effective utilisation of the DAS funds for the benefit of the community as a whole.

Recommendation

- **The Council should ensure that funds allocated for development assistance are not being diverted and surcharge action to be taken against the responsible officer.**
- **The Council should ensure that the proper value is obtained for all sum spent and that the evaluation of bidder's submission such as the financial position and the capability to successfully carry out the projects before awarding tenders is taken.**
- **The *i*-taukei Affairs Board should investigate the awarding of the tender and whether procedures to screen each tender applicant to be able to complete any projects and whether due diligence were done.**

[12] Finance Instructions 2010 – Part 10: Internal Controls Section 59 (1) (a)

Management Comments

No comments provided.

1.31.7 Occupational Health & Safety (OHS)

Every employer shall ensure the health and safety at work of all his or her workers.[13]

Following anomalies were noted in respect to Council's Office:

- The Office and its amenities are in a deteriorating stage and are in urgent need of renovation and maintenance work.
- Rat droppings were noted due to the aged state of the building, luring pests.
- Absence of contract between the council and the landlord for the rental payment being made on a yearly basis of $10,000 as agreed during the October 2003 from the *"Bose ni yasana"* meeting.
- The councils documents, fixed assets and stationeries are placed in the conference room which is given on hire to patrons and therefore is susceptible to pilferage, loss/theft should the conference room be hired in the weekend.

Failure to address the above discrepancies could result in the Council facing legal action for non-compliance with the Occupational Health & Safety Act. Also, in the absence of a rent agreement, the landlord is not legally bound to maintain the building; making it difficult to the Council to take legal action against the landlord should an incident arise.

Recommendations

- **The Council should ensure that a safe working environment is provided to its employees under the OHS Act.**
- **A rental agreement should be drawn up between the Council and the Tailevu Provincial Holding to justify the claim of $10,000 per annum and to allow the landlord take responsibility for the safe working condition of the building**

Management Comments

No comments provided.

1.31.8 Submission of Financial Statements

The accounts of every council shall be audited by the Auditor General. By the first day of April in each year a Council shall prepare and transmit to the Auditor General a statement of account of the revenue and expenditure of the provincial fund in respect of the year ended 31st December immediately preceding together with a statement of the assets and liabilities of the fund as at that date together with such other statements as the Board may direct.[14]

[13] Health & Safety at Work Act, Section 9(1)
[14] ITaukei Affairs (Provincial Councils) Regulations – Clause 33 (2) & (3)

Audit noted that the Council has yet to submit the accounts from 2002 to 2009 to the Auditor General as required under the *i*-Taukei Affairs Regulation.

Failure of the Council to submit its accounts raises serious doubts on the actual performance of the Council and its financial positions.

Recommendations

The Council should ensure that the iTaukei (Provincial Councils) Regulations – Clause 33 (2) & (3) are adhered to.

Management Comments

No comments provided.

Appendix 1.1: Meal Claims Details

Date	Officer's Initial	Designation	Time	Work Covered	No. of Meals Claimed	Remarks
06/01/09	AR	Driver	10am – 3pm	Driving Roko Tui Tailevu (RTT) with PA Tailevu – Project Visits	2 meals	Only 1 meal should have been claimed during lunch hour
08/01/09			10am – 3pm	Driving RTT and Treasurer at FAB	2 meals	Only 1 meal should have been claimed during lunch hour
09/01/09			11am – 2pm	Driving RTT to Suva (FAB)	2 meals	Only 1 meal should have been claimed during lunch hour.
23/01/09 – 26/01/09	MR	Driver	8am – 9.30pm	Delivery of NLC and BNT letter to villages	6 meals	No expense claim form attached.
15/01/09	TPC Staff	Accounts Staff	4pm – 6pm	Update of Accounts	1 meal	Meal is claimable after two hours of normal working hours which is at 6.30pm not at 6pm.
24/01/09			8am – 5.30pm	Photocopying of BNT papers	2 meals	Meal is claimable after two hours of normal working hours which is at 6.30pm not at 5.30pm. I meal to be paid if worked during lunch hour.
2/02/09	MR	Driver	8am – 12.30pm	Took RTT to FAB, USP and then took ART Nakaiwalu to Naisogovau	1 meal	No meal claimable as no official work was done during lunch hours
09/01/09	KC		4.30pm – 6pm	Waiting for electrician to complete work at the office	1 meal	Meal is claimable after two hours of normal working hours which is at 6.30pm not at 6pm
12/02/09 - 18/02/09	MR	Driver	8am – 2pm 10am – 6.30pm	Delivery of BNT letter	5 meals	No expense claim form attached
10/03/09 – 13/03/09	MB	Youth Co-ordinator	8am – 8pm, 8am – 3pm	BNT Letters	6 meals	No expense claim form attached
17/03/09	SN		11am – 1pm	Naqareta Dispute Meeting	1 meal	No meal claimable as no official work was done during lunch hours.
27/03/09			11am – 1pm	Meeting with Roko Tui NSR	1 meal	No meal claimable as no official work was done during lunch hours
29/07/09 30/07/09 31/07/09 03/07/09 04/07/09 05/07/09 06/07/09	MB	Youth Co-ordinator	8.30-5pm 8.00-7pm 8.00-7pm 8.00-10pm 8.00-7 pm 8.00-7 pm 8.00-7 pm	Village visit	1 meal 2 meals 2 meals 2 meals 2 meals 2 meals 2 meals	-Expense claim form incompletely filled -Villages visited not documented -No report of visitation attached to substantiate claim. -Officer paid $117

Date	Officer's Initial	Designation	Time	Work Covered	No. of Meals Claimed	Remarks
31/07/09 03/08/09 04/08/09 05/08/09 06/08/09 07/08/09 10/08/09 11/08/09 12/08/09	SR AR JB	Assistant Roko Driver Assistant Roko	9.00-9.30pm 9.00-9.30pm 9.00-8.30pm 9.00-8.30pm 9.00-8.30pm 9.00-8.30pm 9.00-7.30pm 9.00-8.00pm 9.00-8.00pm	Naikawaga/Nakalawasa/ Tubalevu Nakorolevu/Naisausau/ Natila/Matamaivere Sote/Savu/Naimasimasi Naisaumua/Diavuni Visa-Logani/Nadavo Natobuniqio/Naiborebore Muanaira/Kwva/Bureta Vadarai/Nasilai/Munani Namata/Raralevu/Dravo		-the 3 staffs were paid $162 each on 13/08/09 for 18 meals claimed. -the villages could have been distributed amongst the 2 officers.
02/10/09	MT	Clerk-Korovou		Job done as authorised by Roko Tui	5 meals	Officer was paid $45. -there were supporting for dates and actual work done except her letter to be paid meal allowance.

Appendix 1.2: Details of Payments Anomalies

Date	Payment Voucher No.	Amount ($)	Payment Voucher Details	Remarks
16/03/09 19/03/09 26/06/09	100 105 218	140 40 100	• Sitting allowance - education sub-committee meeting on the 16/03/09 at the board room. • Hiring of minivan for workshop at Kiuva & return for 2 days. • Reguregu for officer Maika's father – Council's Driver.	Payment vouchers missing
16/06/09	204	300	Travelling expenses for village visit to Qoma and Naigani and return.	No supporting attached – such as travelling tickets and other expenses incurred.
17/07/09	236	60	Payment to Sitima Naqaravatu for cleaning up of Council staff quarters at Maji Hill for the month of July.	Maintenance of staff quarters still met by the Council even though staffs are occupying the quarters free of charge.
07/07/09	232	30	Payment to Saimoni Bola for cleaning up of Council staff quarters at Vunivivi Hill for the month of June.	Maintenance of staff quarters still met by the Council even though staffs are occupying the quarters free of charge.
10/08/09	253	150	Payment of TNK allowance for 2nd quarter 2009	No report attached.
24/09/09	305	59	Payment to Roko Tui Tailevu for 7 meals and reimbursement of $17 as out of pocket expenses for buying lunch for driver and ITAB IT officer.	• Receipts attached but audit is concerned on the reimbursement for cost of lunch. This is seen as misuse of position as the Roko Tui approved the reimbursement himself. • Driver also claimed his meal as per PV 306.
25/09/09	306	20	Payment to Maika Rasilisili (Driver) for 2 meal allowance and reimbursement of out of pocket allowance for parking ticket while parking in Suva ($1.50)	• Receipts attached. Details of purpose of trip to Suva were not documented. • Purpose of parking in Suva city was unclear.
23/10/09	355	21	Payment to Josefa Toganivalu for meal and out of pocket allowance. Meal - $9 Fuel - $5 Yaqona (sevusevu) - $7 *Fuel was for using private transport to pick up laptop.	• Details of meal claims were not filled • Mileage details were not submitted to accounts for claiming of fuel expenses • Destination to pick up laptop was not provided.
08/07/09	233	210	Payment to Roko Tui Tailevu as reimbursement for out of pocket expense for the cost of towing of vehicle ED 966 from Naluwai to Dilkusha.	• Details of this trip were not documented. Naluwai is not in the boundary of Tailevu Province. • Roko Tui to furnish explanation on the details of the trip, if for personal reasons, the total costs

Date	Payment Voucher No.	Amount ($)	Payment Voucher Details	Remarks
				should be reimbursed to the Council. • Reimbursement approved by Roko Tui Tailevu
18/12/09	420	875	Paid to Council staff for *"Bose ni Yasana"* cleaning up and other duties: Joape Nalatu - $55 Simeli Nakalevu - $52 Alipate Rabitu - $142 Kaiava Cama - $51.00 Semesi Raicebe - $45.00 Taneila Sawana - $54.00 Saula Mole - $27.00 Kelera Radininakelo - $42.00 MerelitaTuinabewa - $27 Asenaca Fetatuki - $36.00 Maika Raisilisili - $36.00 Mereani Batirerega - $64.50 MakalesiTamoi - $36.00 Elenoa Cagimatailalai - $36.00 Rayawa Miliana - $27.00 Ratu Ravuama Naikawalu - $63.00 Josefa Toganivalu – $81.00	• Bought 2 recharge cards and reimbursed by the Council. • Claimed for bus fare when officer did not attach bus ticket with expense claim form. • Driver paid allowance for delivering "*Bose ni Yasana*" minutes and other driving duties. • Driver was paid $142 when he should be paid $125 only. • Boat ticket/receipt from Bau Island and return not attached. • *"Bose ni Yasana"* preparations, cleaning up and other duties.

Appendix 1.3: Development Assistance Scheme Details

Year	Date Released	Amount ($)	Project	Discrepancies
2007	15/07/08	99,000 1,000	• Construction of staff quarters – Roko Tui • Administration Cost	• Grade IV quarters for the Roko Tui was built by Majesty Constructions for $99,000 as per the contract signed on 15/07/2008. • No tender was called for the construction of the quarters as according to Roko Tui who said that notices were placed at the construction site as this was to avoid the risk of attracting companies outside Tailevu and the job was awarded to Majesty Construction for their reputation.[15] • *i*-Taukei Affairs released the DAS without assessing the Tender documents. • Original Plan submitted to ITAB was amended from a 3 bedroom house to a 4 bedroom house inclusive of master bedroom incurring extra cost of $3,000 to re-draft the plan.
2008	04/08/09	50,000 36,678 3,629 4,693 4,000 1,000	Asst Roko Tui quarters renovation Provincial Treasurers quarters Office Equipments Office Furniture's Administration cost PC office Administration cost ITAB HQ	• Tender was called and published in the Fiji Times for the construction of the 2 Asst RT quarters. This was awarded to Kays Building Woks. • Kays Building Works successfully completed one quarters and is unable to complete the second quarters due to bankruptcy. • The Council has not paid the final payment of $2,425 and is not collecting $50 per day from the contractor as liquidated damages for failing to complete the works within the agreed time as per the contract. • Office furniture's bought without obtaining competitive quotations.
2009		99,000 1,000	• Renovation to staff quarters at Maji Hill, Korovou. • Office Equipments Administration cost	• Aawarded to Garuda Investments as they are from Nausori. No tender called for this exercise. • Bought Laptops and Computers for the Nausori and Korovou office. • Purchase of Projector.

[15] Correspondence on the release of DAS 2007 on the 11/07/08

SPECIAL PROJECTS

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1. Emergency Flood Recovery Project
2. Fiji Road Upgrading Project (FRUP) III
3. Sustainable Energy Financing Project (World Bank Funded)

SECTION 1: EMERGENCY FLOOD RECOVERY PROJECT

The Fiji Road Upgrading Project – Stage III is a government of Fiji project, estimated at appraisal in 1997 to cost $125 million [US$90m] excluding interest during construction. The Project is being implemented with financial assistance from ADB Loan No. 1530-FIJ dated 26 August 1997 for US$50m and the Fiji Government to meet the remaining 44% of the Project cost.

The project aims to help the Government to (i) improve efficiency of road sector services and increase private sector participation and (ii) improve management of the road asset and sector resources. It is also expected to reduce transport constraints on economic development, and thus improve returns on transport infrastructure.

Table of Content

PART A: FINANCIAL INFORMATION

1.1 Audit Opinion

The audit of the Statements of Expenditure of the Flood Recovery Project for the year ending 31 December 2010 resulted in the issue of an unqualified audit report.

1.2 Abridged Statement of Financial Performance

Year ended 31 December	2010 ($)	ADB Funded (87%) ($)	Government Funded (13%) ($)
EXPENDITURE			
Civil Works			
Emergency Response Costs	2,933,037	2,566,407	366,630
PMU Salary and Wages	33,575	0	33,575
Operational Costs	35,308	0	35,308
Consultancy Services			
Design	168,203	147,177	21,026
Project Coordinator	10,714	9,375	1,339
Financing Charges			
Interest and Commitment Charges	57,764	57,764	0
VAT	383,027	320,801	62,226

Year ended 31 December	2010 ($)	ADB Funded (87%) ($)	Government Funded (13%) ($)
TOTAL EXPENDITURE	**3,621,628**	**3,101,524**	**520,104**

A total expenditure of $3,621,628 (VIP) was incurred for flood related costs by Ministry of Works, Transport and Public Utilities and Land and Water Resource Management as at 31/12/2010. This comprised of eligible expenditures of $3,101,524 (VIP) loan funded and the balance of $520,104 remained government funded expenditure and was ineligible for reimbursement from loan funds.

Significant portion of expenses incurred in 2010 was used on emergency response cost which comprised $2,933,037 or 81% of the total expenditure. Emergency Response Cost relate to the rehabilitation of damaged roads, agricultural drainage schemes and water supplies and sewerage systems.

PART B: CONTROL ISSUES

1.3 Position of Project Accountant

Employment decisions in the public service are made without patronage, favouritism or political influence, and appointments and promotions are made on the basis of merit after an open, competitive selection process.[1]

On 15/5/10, an appointment was made to contract a Senior Accounts Officer to perform the duties of Project Accountant for Flood Recovery Project.

The officer's substantive post was Clerical Officer with salary scale of $8,092 - $15,001at the time of appointment. The Officer skipped two posts of Assistant Accounts Officer and Accounts Officer and was appointed as Senior Accounts Officer with salary scale of AC02 $29,935 - $37,982 per annum. The position for Project Accountant was not advertised and the officer was appointed based on the recommendations by her superiors only.

Audit further noted that in the Officer's employment contract her position was incorrectly stated as Clerical Officer.

Recommendation

The PMU must ensure that all vacant positions in public service are advertised and appointments made through proper recruitment and selection process.

Management Comment

No Comments.

[1] Part 2, Section 4(2) of the Public Service Act 1999

1.4 Appointment of Project Coordinator

Employment decisions in the public service are made without patronage, favouritism or political influence, and appointments and promotions are made on the basis of merit after an open, competitive selection process.[2]

Ministry of National Planning (MNP) shall be the Project Executing Agency which shall be responsible for the overall execution of the Project and coordination with each of Ministry of Works, Transport and Public Utilities and Land and Water Resource Management. Ministry of National Planning shall be supported by a Project Coordinator who shall be recruited as a consultant.[3]

The audit noted that nine applications were received after the post for the Project Coordinator was re-advertised in the daily newspapers on 20/03/10 when the first advertisement on 26/09/09 did not receive much public interest. The Ministry of National Planning short-listed two of applicants based on experience with ADB projects. Refer to the Table 1.1 below for details of the short-listed applicants.

Table 1.1: Shortlisted Applicants

EDP Number	Applicants Salary Expectation per annum	Work Experience	Qualification	MNP - Remarks
44665	$65,000.00	Currently a Senior Engineer with the Public Utilities holding the post of Director Department of Water & Sewerage. He has relevant work experience in managing ADB funded project and was the Project Manager for the ADB - Suva Nausori Regional Water & Sewerage Project and has 12 years experience in the implementation of infrastructure projects.	1) Bachelor in Engineering (Australia) 2) Bachelor in Science (USP)	Has necessary qualification and experience with ADB projects.
17089	$125,000	Ministry of Works (27 years). ADB Project Manager for sealing of Kings and Lodoni Roads.	1) Ordinary Technical Diploma (City & Guilds) 2) Bachelor of Science – Civil (Scotland) 3) Completed Core Knowledge of the Executive MBA with Mt Eliza International.	Has necessary qualification and experience with ADB projects.

[2] Part 2, Section 4(2) of the Public Service Act 1999
[3] Part 2, Section A of Schedule 5 of the Loan Agreement

On 22/11/10, EDP Number 17089 was appointed on contract for 1 year as a consultant to perform the duties of Project Coordinator for Emergency Flood Recovery Project with effect from 22/11/2010 with annual salary of $100,000.

The audit noted that the shortlisted applicants for the position were not interviewed. Instead he was appointed to the position of Project Coordinator based on the recommendation of the Ministry of National Planning and endorsement of the Prime Minister and the Asian Development Bank.

The audit also noted that EDP Number 44665 was not considered for the position even though he had relevant experience and qualification in the water and sewerage projects and his expected salary was $65,000 per annum. In addition no justification was provided on EDP Number 17089 annual salary of $100,000.

Recommendation

The PMU and MNP must ensure that all appointments to vacant positions in public service are made through proper recruitment and selection process.

Management Comment

No Comments.

1.5 Project Expenses not fully Reimbursed by ADB

Reimbursement of reasonable expenditures incurred under the Project shall only be approved for Works which have been procured in accordance with the procedures set out in Schedule 4 to the Loan Agreement.[4]

The audit noted instances where the ADB did not reimbursed the full amount applied for reimbursement by PMU. Expenses totalling $77,221 were disallowed for reimbursement by the bank for the year ending 31/12/10. Details of the amounts not reimbursed are shown in the Table below.

Table 1.2: Expenses Disallowed by ADB

Application No.	Application Amount ($)	Actual Amount Reimbursed ($)	Variances ($)
1	745,191.64	744,002.18	1,189.46
5	207,934.79	131,903.14	76,031.65
Total Variances			**77,221.11**

The above expenses were not reimbursed by the bank because adequate supporting documents for the expenses were not submitted to the bank. As a result the project expenses totalling $77,221.11 was paid from the Ministry’s budget and not the from the loan proceeds.

[4] Part 6, Schedule 3 of the Loan Agreement

Recommendations

- **The PMU must ensure that proper documentations are submitted for all claims to the Bank.**
- **The PMU should resubmit the claims with proper documentations.**

Management Comment

No Comments.

1.6 Double Reimbursement Claims

Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the effective date for works, subject to a maximum amount equivalent to thirty percent (30%) of the Loan amount; provided that the expenditures have been incurred and paid for after 11 January 2009 but not earlier than twelve (12) months before the date of this Loan Agreement.[5]

It was noted that a total of $37,478.29 was claimed twice by PMU for reimbursement from ADB. The PMU first submitted the reimbursement of $37,478.29 to ADB in claim number 2 dated 09/03/10. The same expenses were again submitted for reimbursement in claim number 5 dated 30/09/10. The amount was reimbursed by ADB in both claims which resulted in double payment by ADB. Details of the amount double claimed are shown below.

Table 1.3: Project Expenses Claimed Twice by PMU

Date of Reimbursement	Cheque Number	Payee	Amount ($)
06/11/2009	10081	Engineering Company 1	9,786.49
15/01/2010	679	Engineering Company 1	4,362.17
25/01/2010	688	Engineering Company 1	23,329.63
Total			**37,478.29**

The finding showed that claims submitted to ADB were not properly scrutinised by the PMU which resulted in double payment by ADB.

Recommendations

- **The PMU should properly review all claims submitted to ADB for reimbursement to ensure expenses are not claimed twice.**
- **The amount claimed twice from ADB should be adjusted against future claims from the bank.**
-

Management Comments

No Comments.

[5] Part 5, Schedule 3 of the Loan Agreement

1.7 Variance between ACCPAC Report and FMIS

The general ledgers from the Ministry of Finance shall be reconciled to the Department/Ministry's general ledger. Any errors, omission or misallocations must be immediately adjusted by way of journal vouchers. The reconciliation statements shall be signed, certified, dated and forwarded to the Ministry of Finance.[6]

The projects operating costs record maintained by the PMU did not reconcile with the FMIS general ledger. A variance of $38,924 was noted between the two records. Refer to Table below for details.

Table 1.4: Variance in ACCPAC and FMIS Figures

FMIS Amount (VEP) ($)	ACCPAC (VEP) ($)	Variance (VEP) ($)
147,884	108,960	38,924

The PMU did not provide details of the variance. The finding shows lack of supervision and proper checks by senior officers before postings are done.

Recommendations

- **The PMU must ensure that project expenses are properly posted to the ledgers.**
- **The PMU should ensure that the Accpac and FMIS records are reconciled on a monthly basis and any variance identified is investigated and adjusted after appropriate approval is obtained.**

Management Comments

No Comments.

1.8 Variance between ACCPAC Report and Project Progress Report

Details of each invoice or other source document for a payment must be promptly and accurately entered into the fields provided, these includes:

a) The correct voucher amount
b) The invoice date
c) The correct vendor identification of the supplier or the payee
d) The invoice identification, the local purchase order number it relates to, and where applicable, payment terms
e) The correct tax code
f) The correct bank code if agencies have more than one bank account; and
g) The ledger account it is charged to.[7]

[6] Finance Manual – Works and Transport 2005 S16.3.3 – 16.3.7
[7] Finance Instruction 2010 – S14

The projects operating costs records maintained by the PMU did not reconcile with the project progress report. Variance of $116,121 was noted between the two records. Refer to Table below for details.

Audit further noted that the variance was due to mispostings totalling $115,257, inclusion of VAT expenses totalling $657 and posting incorrect amount of $207.

Table 1.5: Mispostings

Mispostings	Amounts ($)
DECE (VR 47514)	75,000
BSP (VR 47605)	6,604.63
(VR 41191)	60.00
(VR 47911)	147.00
VAT (VR 47779)	166.56
VAT (VR 47944)	20.33
VR 41234 (Batch 426239)	30,591.00
VR 41195 (Batch 4266199)	41.67
VAT (VR 49051)	187.02
VAT (VR 49052)	66.67
VAT (VR 47079)	28.17
VAT (VR 47080)	10.55
VAT (VR 49053)	100.00
VAT (47194)	36.16
VR 41253 (Batch426257)	3,061.08
Total	**116,120.84**

The finding showed lack of supervision and proper checks by senior officers before postings are done to the ledger systems.

Recommendations

- **The PMU must ensure that project expenses are properly posted to the ledgers.**
- **The PMU should ensure that the ACCPAC and project progress report is reconciled on a monthly basis and any variance identified is investigated and adjusted after appropriate approval is obtained.**

Management Comments

No Comments.

SECTION 2: FIJI ROAD UPGRADING PROJECT (FRUP) III

The Fiji Road Upgrading Project – Stage III is a government of Fiji project, estimated at appraisal in 1997 to cost $125 million [US$90m] excluding interest during construction. The Project is being implemented with financial assistance from Asian Development Bank (ADB) Loan No. 1530-FIJ dated 26 August 1997 for US$50m and the Fiji Government to meet the remaining 44% of the Project cost.

On 19 March 2010, the ADB refinanced the remaining works for $US26.8m under the Supplementary Loan No. 2514-FIJ.

The project aims to help the Government to (i) improve efficiency of road sector services and increase private sector participation and (ii) improve management of the road asset and sector resources. It is also expected to reduce transport constraints on economic development, and thus improve returns on transport infrastructure.

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PART A – FINANCIAL INFORMATION

2.1 Audit opinion

The audit of the accounts of the Fiji Road Upgrading Projects for the year ended 31 December 2010 resulted in the issue of an unqualified audit report.

2.2 Abridged Statement of Expenditure

Sub Project Description		Allocation ($)	Total Expenditure As at 31/12/10 ($)	% ADB Funded
ICB Contract				
WSC 13/06(B W Holding Ltd)	VEP	1,076,862	840,405	77.5%

Sub Project Description		Allocation ($)	Total Expenditure As at 31/12/10 ($)	% ADB Funded
	Retention		804,776	77.5%
	VAT		105,051	77.5%
WSC 14/06(Standard Concrete Industries Ltd)	VEP	2,510,000	3,007,424	77.5%
	VAT		375,928	77.5%
WSC 30/09 (China Railway 5th Group Ltd)	VEP	910,000	796,360	77.5%
	VAT		100,516	77.5%
WSC 38/09 (China Railway 1st Group Ltd)	VEP	1,009,549	459,548	
	VAT		57,444	
WSC 04/08 (Fairdeal Earthmoving Co)		8,223,880	8,048,503	
WSC23/08 (Naim Cenderra Sdn Bhd)		14,567,450	14,637,077	
Project Management Unit		1,150,000	1,173,831	
Technical Support		405,000	434,970	
ICB Supervision		280,000	298,571	
Asset Management Unit		130,000	129,372	
Land Acquisition			46,380	
VAT (Direct Payment by ADB)			638,939	
VAT			3,120,817	
SUMMARY - TOTAL (F$)		**30,262,741**	**33,632,197**	

- The International Competitive Bidding (ICB) represented the cost of civil works treated as non-reimbursable expenditure and excluded land acquisition and crop compensation costs.

- The Project Management Unit (PMU) and Technical Support Services reflected expenditures incurred for payments of salary, local travel and subsistence, staff training and the administration costs of the PMU and expatriate staffs. Assets Management and Engineering Consultants represented consultancy fees and pilot survey.

The PMU incurred a total cumulative expenditure of $33,632,197 for FRUP as at 31/12/10 which included $4,597,030 as ADB loan funding and $29,035,167 as the Fiji Government contribution.

PART B – CONTROL ISSUES

2.3 Variances in Accpac and FMIS Records

The general ledgers from the Ministry of Finance shall be reconciled to the Department/Ministry's general ledger. Any errors or misallocations must be immediately adjusted by way of journal vouchers. The reconciliation statements shall be signed, certified, dated and forwarded to the Ministry of Finance[1].

Separate allocations shall be maintained for respective projects. All transactions in relation to the projects shall be entered into their respective allocations.

[1] Finance Manual - Works and Transport 2005 S16.3.3 – 16.3.7

The Department of National Roads including the Project Management Unit currently uses the ACCPAC accounting software. The records on ACCPAC are then uploaded to the government's Financials Management Information System (FMIS) at the end of each month.

Our audit noted variances in balances between the FMIS general ledger records, ACCPAC records and the Department's control ledger. Refer to Tables 2.1 and 2.2 for details:

Table 2.1: Variances in Project Components between FMIS and ACCPAC Records

Project Components	FMIS Amount [VEP] ($)	ACCPAC [VEP] ($)	Variance [VEP] ($)
Project Management Unit	1,450,500	1,173,831	276,669
Technical Support	194,694	434,970	(240,276)
ICB Supervision	298,169	298,571	(402)
Asset Management Unit	96,342	129,372	(33,030)
Land Acquisition	48,420	46,380	2,040

Table 2.2: Variances in Project Components between Control Ledger and ACCPAC Records

Project Components	ACCPAC Amount [VEP] ($)	GL [VEP] ($)	Variance [VEP] ($)
Project Management Unit	1,173,831	1,181,256	(7,425)
Technical Support Services	434,970	437,642	(2,672)
ICB Supervision	298,571	293,422	5,149
Asset Management	129,371	129,619	(248)

In addition, it was also noted that the expenditure records, when uploaded onto the FMIS, were recorded under one allocation only rather than under separate sub expenditure allocations. As a result, audit was not able to reconcile the individual account balances as shown on the Accpac system with the FMIS records.

Failures of the project accounting officers to effectively carry out reconciliations of the above records have resulted in the above variances. This could subsequently result in the misstatements of balances in the financial statements.

Recommendation

The PMU must ensure that Accpac records are reconciled with the FMIS and Control Ledgers on a monthly basis and any variances identified are investigated and adjusted accordingly.

Management Comments

This has been an ongoing issue in the past years. We having a problem with FMIS which does not record the cost required to the sub project level whereas the Accpac does. In August 2011, the FMIS has been strengthen with new software which we understand can accommodate our requirement and solve this problem completely.

2.4 Over Expenditure as at 31 December 2010

The Project Accountant shall ensure that as far as possible expenditure incurred during the year is within the approved budget.

The Project Management Unit (PMU) incurred over expenditure on the following projects undertaken in 2010. Refer to Table 2.3 for details:

Table 2.3: Analysis of Budget and Expenditure

Description	Overall Budgeted Expenditure ($)	Overall Actual Expenditure ($)	Variance ($)
SCIL	2,510,000	3,007,424	(497,424)
NCSB	14,567,450	14,637,077	(69,627)
Project Management Unit	1,150,000	1,173,831	(23,831)
Technical Support	405,000	434,970	(29,970)
ICB Supervision	280,000	298,571	(18,571)
Land Acquisition	-	46,380	(46,380)

Expenditures may not have been properly monitored to ensure that they are contained within their budgetary provisions.

Recommendations

- **The PMU must ensure that proper project costing and management is carried out to avoid cost over runs.**
- **The PMU must rigorously monitor expenses incurred to ensure that they are within the approved budget.**

Management Comments

The record shows the over-expenditure was at the sub-project level but the overall program was within the approved budget.

2.5 Maintenance of FRUP Records

The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto.[2]

The presence of a reliable and easy to follow audit trail is an indicator of good internal controls instituted by an agency.

Our review of expenditure records revealed that payment vouchers relevant to the project were not properly arranged. The records of the PMU were not maintained and filed separately from other payment vouchers for expenditures funded by Government at the Department of Roads.

The absence of an easy to follow audit trail hindered the progress of the audit as substantial audit hours were exhausted on trying to locate and identify the payments vouchers relevant to the PMU.

[2] Loan (No. 2514-FIJ) Agreement (3rd Road Upgrading Project Supplementary) – Section 4.05

Recommendation

It is recommended that payment vouchers and supporting records for the PMU are maintained separately for a reliable and easy to follow audit trail. This will greatly contribute to ensuring that the audit is completed before the deadline specified in the loan agreement, moreover, it will also contribute to the reduction of time taken to carry out the FRUP audit.

Management Comments

To have a separate record was initially recommended by ADB for ease of reference. However this was done when the force account was still in progress. Now we don't have force account and our records are filed together with the DNR records. The PMU will try to encourage the management if this system can be accommodated.

2.6 Journal Vouchers Not Approved

The Accounting Head or Accounts Supervisor must check that:

- all relevant details are included on the voucher;
- balances are adequately supported; and
- the correct accounts have been debited or credited[3].

Our review of journal vouchers processed during the financial year 2010 revealed that a number of journal vouchers were not approved by the Accounting Head before processing. The journal vouchers were raised and processed by the Clerical Officer[4]. This issue has been previously highlighted, however, no improvement has been made. Refer to Table 2.4 below for examples:

Table 2.4: Examples of Journal Vouchers not approved in 2010

Date	Journal Voucher No	Amount ($)
23/04/10	426036	22,903.30
30/04/10	426042	645.00
31/03/10	426026	126.00
03/10	426028	120,820.64
03/10	426028	6,195.82
21/04/10	426035	2,215.32
2/03/10	426011	87.68
10/10	426149	380,962.58

Journal vouchers were not verified and approved by a senior officer increasing the risk of incorrect entries in the accounting system. Without proper approval, the journal vouchers processed were unauthorized.

Recommendation

The PMU must ensure that all journal vouchers are independently verified and approved by the Project Management Accountant before they are processed.

[3] Finance Manual - Works and Transport 2005 S16.1.4
[4] Mr. Mosese Qiovou

Management Comments

Your recommendation is accepted. Our account officers are notified accordingly.

2.7 Senior Consultant Engineer - Contract

The Client shall pay to the Consultant the following remuneration[6]:

- Salary - FJ$81,000 per annum
- Housing Allowance - $12,000 per annum
- Cost of Living Allowance - $10,000 per annum

Except as otherwise agreed, total payment for remuneration under this contract shall not exceed FJ$103,000.

The Government will pay the Officer in respect of the period of service an annual basic salary of $103,000 per annum.[7] Provision for housing will be in line with the existing policy of Government. The Officer shall pay by way of rent for such quarters a sum calculated in accordance with the new rent formula.[8]

EDP Number 58703 was engaged as the Senior Construction Engineer with the Ministry of Works, Transport & Public Utilities in 2005 for twelve months renewable subject to mutual agreement between the Officer and the Ministry.

Our audit noted the following anomalies with regards to the employment of EDP Number 58703:

- Renewal of his employment contract was delayed for 2 years after it expired on 07/02/09. His employment contract was only formally renewed on 15/03/11 when he was re-engaged on his previous terms and conditions backdating to the period 08/02/09 to 08/02/11. The Officer's contract expired again on 09/02/11, however, as at the date of audit[9], the Officer was still engaged but without a valid employment contract.

- In accordance with his employment contract for period 08/02/09 to 08/02/11, he was entitled to an annual basic salary of $103,000. However, the audit noted that he was paid more than his entitlement as stated in the employment contract. The overpayments resulted from the continuation of payments of housing allowance from his previous contract. Refer to Table 2.5 for details:

Table 2.5: Salary payments for Senior Construction Engineer

Year	Total Paid ($)	Contract Amount ($)	Overpayment ($)
2010	115,730	103,000	12,730
2009	115,518	103,000	12,518
2008	108,919	103,000	5,919
2007	112,566	103,000	9,566
2006	117,090	103,000	14,090

[5] EDP No. 58703
[6] Contract Agreement between the Government of Fiji and EDP Number 58703 - 2005
[7] Employment Contract – 08/02/09 – 08/02/11 Section 3(a)
[8] Employment Contract – 08/02/09 to 08/02/11 Section 6
[9] 17/06/2011

The absence of supervisory checks, proper reconciliation of payroll, and delay in the renewal of employment contract have contributed to the overpayments of salaries.

Recommendations

- **The PMU should rectify the above overpayments and initiate necessary recovery action with immediate effect.**
- **The Ministry should ensure the prompt renewal of expatriates' work contracts once they are expired and also ensure consistency in the terms of all contracts.**
- **Payments of remuneration to expatriates should be limited to provisions of their employment contract. Any change to the conditions of the employment contract should be approved by the appropriate authority.**

Management Comments

The officer has been overpaid with his Housing allowance.

Housing allowance is fed under Code 03 which is reflected under Tax Allowance column in the payroll. The allowance of $461.54 is than added to the normal gross of $3989.62 which gives the fortnightly gross of $4451.16.This fortnightly gross multiplied by the 26 f/n's gives an annual salary of $115,730.16, yet the payroll continued to show the annual salary of $103,730.00. We will arrange for the overpayment to be recovered with immediate effect.

2.8 Resident Engineer - Contract

The Government will pay the Officer in respect of the period of service an annual basic salary of $103,000 per annum.[11] Provision for housing will be in line with the existing policy of Government. The Officer shall pay by way of rent for such quarters a sum calculated in accordance with the new rent formula.[12]

EDP Number 60159 was engaged on contract as the Resident Engineer for the FRUP III with an annual salary of $103,730.

The audit noted that the Officer was overpaid salary totalling $45,511.20 since 2005. Refer to Table 2.6 below for details:

[10] EDP No. 60159
[11] Employment Contract – 26/01/09 – 26/01/11 Section 3(a)
[12] Employment Contract – 26/01/09 to 26/01/11 Section 6

Table 2.6: Payment of unauthorized salary increase - Mr. Sivaguru Thillainathan

Year	Contracted Amount ($)	Remuneration Paid as per Government Payroll System ($)	Overpayment ($)
2005	103,730.00	106,465.30	2,735.30
2006	103,730.00	115,223.81	11,493.81
2007	103,730.00	113,461.40	9,731.40
2008	103,730.00	108,048.13	4,318.13
2009	103,730.00	113,692.58	9,962.58
2010	103,730.00	110,999.98	7,269.98
Total Salary	**622,380.00**	**667,891.20**	**45,511.20**

In addition, the Ministry did not renew his employment contract when it expired on 26/01/11. The Officer continued working without a valid contract.

Lack of proper salary reconciliation is evident as the PMU failed to identify and justify the above increases in salaries.

Recommendations

- **The Department should ensure that contract officers are paid in accordance to their terms of contract and any variances to the contract should be properly authorized and documented.**
- **The overpaid salary should be recovered from EDP Number 60159.**
- **The Department must ensure that all Officers engaged for the project have a valid employment contract.**
- **Salary reconciliation should be carried out on a monthly basis and any variances to be investigated and rectified accordingly.**

Management Comments

The officer has been overpaid with his Housing allowance.

Housing allowance is fed under Code 03 which is reflected under Tax Allowance column in the payroll. The allowance of $461.54 is than added to the normal gross of $3989.62 which gives the fortnightly gross of $4451.16. This fortnightly gross multiplied by the 26 f/n's gives an annual salary of $115,730.16, yet the payroll continued to show the annual salary of $103,730.00. We will arrange for the overpayment to be recovered with immediate effect.

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2.9 Director of National Road - Contract

Approval is granted for the upgrading of salary for EDP Number 63814, Engineer, from his current EP04 grade to the maximum salary scale of EP01 grade. **This is to be effective from the date**

[13] EDP No. 63814

he assumed the duties of the Post of Director National Roads.[14] With effect from 01/06/11, a new set of contract to be issued on the line position he is appointed on (Director National Roads).[15]

Where children of the officer are educated in Fiji or abroad up to the age of 18 years or is over 18 years and under 27 years of age and is receiving fulltime instruction at any University, College or School or other educational establishment, actual school fees not exceeding $5,000 per child will be paid on production of necessary documents.[16]

Upon completion by the Officer of the period of service or upon termination of this agreement by the government under the terms of paragraph 7 hereof, but not otherwise, provide the officer with a free passage class to Sri Lanka according to paragraph 4(a) above.[17]Provided that no passage will be provided under this sub- paragraph if the officer does not leave Fiji **within one (1) month of the date of such completion or termination**, or such lesser period as government may specify.[18]

Our review of the Project Management Engineer's personal file revealed that the Officer's contract expired on 16/01/09 but he continued working without a valid contract. As at the date of audit[19], the Officer's contract was still not renewed. The following anomalies were also noted:

- The Officer's salary was increased to maximum scale of EP01 $72,154 with effect from 07/05/10 and was backdated to 25/02/08, although there was no evidence that the Officer was formally appointed as Acting Director of Roads from 25/02/08. The backdating of the increase in salary was contrary to the approval given by the PSC. Refer to the Table below for details of overpayments:

Period	Amount $	Remarks
25/02/08 - 31/12/08	26,388.73	Back date payment was made to the Officer on 13/12/10 via Cheque No. 858096.
01/01/09 - 06/05/10	41,846.54	The payment voucher was prepared, however, audit advised that this be temporarily put on hold, awaiting clarification on the issue of backdating the increase in his salary.
Pay 10 – Pay 13 2010 72,154 - 41,068 = 31,086/26 * 29	34,672.85	The salary scale has been increased to EP01 level. The Accounts Section has been instructed to seek a clarification from the PSC
Total Overpaid	**61,061.58**	

- The Officer and his family (wife and two children) travelled to Sri Lanka on two occasions in 2010.The Officer opted for the longer route Nadi/Melbourne/Sydney/Singapore/Colombo/Hong Kong/Nadi) instead of the shorter and cheaper route (Nadi/Hong Kong/Colombo/Hong Kong/Nadi). The details of the cost of air passage were as follows:

Date	Chq No	Payee	Amount $	Remark
29/03/10	856242	Discount Flight Center	19,268.00	• No valid contract to substantiate this travel.

[14] PSC Correspondence dated 18/03/10
[15] PSC Correspondence dated 26/04/11
[16] Officers work contract signed copy for period 16/01/06 to 15/01/09 Section
[17] Officers work contract unsigned copy for the period 16/01/09 to 15/01/10 Section 4 (2) (c)
[18] Officers work contract unsigned copy for the period 16/01/10 to 15/01/10 Section 4(2)(c)
[19] 13/07/11

Date	Chq No	Payee	Amount $	Remark
				• Even if the contract was valid the trip should not be accommodated by the FRUP III as it was made after the One month from the start of the new contract.
02/12/10	858953	Discount Flight Center	23,644.00	• No valid contract to substantiate this travel. • Even if the contract was valid the trip was not specified in the contract agreement.

- The Officer claimed reimbursement for additional expenses incurred by him while travelling to and from Sri Lanka which appeared to be extravagant in nature. In addition, the validity of his entitlements regarding his travels is questionable as he did not have any valid employment contract during the period. Refer to the Table below for details:

Particulars of Expenditure Claimed	Amount $
Accommodation (Hotel Singapore)	656.38
Reschedule Air Ticket	3,612.60
Unaccompanied Luggage	4,117.54

- The Officer claimed education allowance amounting to $15,000 in 2010 for his child's educational expense while attending Swinburne University of Technology in Melbourne, Australia. In accordance to his initial contract, the Officer is only entitled to $5,000 per annum per child as education allowance on production of necessary documents.

- The Officer was paid 25% gratuity claim on two occasions without any valid employment contract. Refer to the Table below for details:

Date	Salary Scale Rate	Amount $
25/03/10	41,068	13,449.77
19/05/11	72,154	18,038.50

There is lack of coordination and consultation between the Ministry and PSC on the legitimate remunerations and entitlements for Project Management Engineer , which resulted in the substantial overpayment of salaries and allowances and reimbursements of expenditures.

Recommendations

- **The Department should immediately consider the renewal of EDP Number 63814 employment contract if he will continue to be employed by the Department and the PMU.**
- **Any reimbursement of expenses outside his initial contract entitlement should be properly approved and any unauthorized reimbursement should be recovered from the officer.**
- **Payment of education allowance in excess of $5,000 should be recovered from the officer.**
- **The gratuity allowance payment should be either regularized or to be recovered from the officer.**
- **The Department should comply with the approval and directives given by the PSC.**
- **The issue regarding the upgrading and backdating of salaries should be resolved with PSC before any payment is made to EDP Number 63814.**

Management Comments

- *After his contract expired, the officer signed the new Contract with then PS of the Ministry. Unfortunately this contract was not formalised due to change of PS.*
- *All eligible expenses were paid as usual as per the contract.*
- *On officer's request PS approved that if one or more of the children not used the eligible amount the remainder be transferred to the others as required. This was also approved by PSC.*
- *Gratuity payment made according to Contract has been regularized.*
- *The effective date is the date he was appointed as PME. PME post is paid EP01 salary scale. In this regard please see our PS letter to PS, PSC.*

2.10 Engagement of Consultant Services to Recruit Expatriate Engineers

Consultancy Services for Recruitment of Expatriate Engineers for Department of National Roads and Works Portfolio was awarded to an Engineering Company at a Basic Contract Sum of $137,868 (VIP).[20]The duration of the Contract shall be 30 days from the date of commencement of the contract.

The offshore recruitment will involve a total of 37 recruits in 22 unique roles covering at least 5 countries. The roles will include 32 engineers and 5 architects.

Our review of the relevant records revealed the following anomalies:

- The total payments made to the Engineering Company in relation to above contract amounted to$243,885 surpassing the initial contracted sum by 77%, which was not approved by the

  Public Works Tender Board. Refer to Table 2.7 below for details of payments:

- **Table 2.7: Details of Payment**

Date	Chq No.	Amount ($)	Particulars
25/09/09	853865	68,934.27	Upfront payment 50 % of the consultation fee.
10/05/10	856695	68,934.48	Payment of outstanding amount for recruitment of expatriates for PWD (VAT Inclusive)
31/12/10	859861	75,719.36	Final consultation payment.
16/12/09	855083	9,187.61	Advertising reimbursed at cost plus 15%
21/07/10	857492	21,109.00	Reimbursement of upfront payment of travel, accommodation and additional interview room Bangladesh (At cost plus 10%)
Total		**243,884.72**	

- Out of the 37 positions, only 23 suitable applicants were shortlisted and 8 were successfully recruited. Refer to the Table 2.8 for the details of the 37 positions:

[20] Tender No. CSC 07/2009

Table 2.8: Details of Positions to be Recruited

Department	Post	No. Staff Required
Works	General Administration (Mech)	5
	Design and Costing Services Engineers	5
	Design and Costing Services Architects	5
	Construction Services	4
	Electrical Services Administration	5
Total		**24**
National Roads	Policy and Administration	7
Total		**7**
FRUP	Project Management	4
	Technical Support Services(Road and Bridge)	2
Total		**6**

The success of the recruitment drive may be questionable due to the substantial sum of money utilized compared to the outcome..

Recommendation

As explanations provided during the audit were unsatisfactory, the Department should justify the payments made to the Engineering Company in excess of the amount specified in the contract.

Management Comments

This contract was personally handled by Permanent Secretary. Contract was prepared and signed. We were directed to make payment from FRUP allocation.

In this regards please refer to emails on this subject. Following emails explain the details Email dated: 17/6/2010, 9/7/2010, 7/10/2010, 7/16/2010, 7/16/2010, 7/18/2010, 7/18/2010

The company was varied to include additional works. In the contract there is a clause to state that Reimbursable Expenses will be paid separately. This was approved by PWTB. Such clauses are common in all Consultancy services contracts.

2.11 Accommodation for Expatriates

Provision for housing will be in line with the existing policy of Government. The Officer shall pay by way of rent for such quarters a sum calculated in accordance with the new rent formula.[21] Our audit noted that the Department paid a sum of $45,230 to Tropic Towers Hotel for the accommodation of four expatriate officers from August to December 2010. This was due to the unavailability of government quarters to accommodate the Officers. Refer to Table 2.9 for details of payments made to Tropic Towers:

[21] Section 6 Signed Contract Agreement

Table 2.9: Payments made to Tropic Towers

Date	Cheque No.	Amount $
17/09/10	858093	4,258.00
23/12/10	859232	10,109.70
23/12/10	859242	9,588.00
30/12/10	859330	8,509.35
07/03/11	859872	9,640.80
12/04/11	860238	3,124.80
Total		**45,230.65**

The above officers continued to be accommodated at Tropic Towers in 2011 and there is no evidence of consultation by the Departments with the Public Service Commission (PSC) on the provision of government quarters to these expatriate engineers. The average monthly accommodation charges for the four expatriate officers if continued to be accommodated at Tropic Towers are as follows:

- Expatriate 1 - $4,230.00 *($141.00 per day, $50,760 per annum*)
- Expatriate 2 - $2,326.50 *($77.50 per day, $27,918 per annum*)
- Expatriate 3 - $2,326.50 *($77.50 per day, $27,918 per annum*)
- Expatriate 4 - $3,807.00 *($126.90 per day, $45,684 per annum*)

The costs of accommodating the officers at Tropic Towers for such a long period of time appeared excessive. Lack of proper planning, consultation and decision making is also evident as the Department failed to arrange for suitable alternative such as government/rented quarters at reasonable costs.

Recommendations

- **The Department should immediately consult PSC regarding the allocation of government quarters/government rented quarters to the above mentioned expatriate engineers taking into account the excessive charges that is already being paid for accommodating them at Tropic Towers.**
- **In the absence of suitable government quarters, the Ministry should consider paying the officers reasonable housing allowances instead.**

Management Comments

The officers were accommodated in the hotel due to the non-availability of government quarters. Despite our request, nothing has been finalized from PSC for availability of quarters.

2.12 COVEC Equipment

The China National Overseas Engineering Corporation (COVEC) was awarded a contract to complete a substantial upgrading of the Kings Road (Korovou to Nayavu) and the Lodoni Road (Korovou to the Queen Victoria School) on Viti Levu. The contract price was approximately $57 million. The project involved the construction and sealing of approximately 50 kilometer of roads, construction of 16 new bridges, a major realignment of the Kings Road, and approximately 2 million cubic meters of earthworks over a period of four years.

The works were scheduled to be completed by 17 July 2005. However, by the end of August 2005, the works were still only 35% complete. COVEC had already been paid approximately $29 million at this date. On 4 October 2005, the engineer (Roughton International Ltd) certified that COVEC was in breach of its contract by failing to progress works in a timely manner. The contract was eventually terminated on 6 March 2006.

The Ministry, through its legal representative Hazelton Law (New Zealand based legal firm), made a compensation claim against COVEC, seeking damages amounting to $51,959,000 and further $12,000,000 as interest component. This is an estimated additional cost that would be incurred by the Government to complete the project.

Further verification of the documents made available to audit revealed that government in order to recoup the cost to complete the projects retained the retention sum amounting to $5,964,163 and also seized the vehicles/heavy machineries with an estimated market value of $4,572,500[22] and plants, equipments, buildings, furniture and fittings amounting to $663,480[23]. Refer to *Appendix 1* for details.

Our visit to the project site in Viwa, Tailevu on 16/06/11 revealed that most vehicles, heavy machineries, plants, equipments and the building are not in use and have deteriorated to a great extent and some beyond economical repair while some vehicle parts were missing. Refer to *Appendix 2* for illustrations regarding the conditions of the assets.

The audit was informed[24] that the above items were for the project use purpose and could not be sold since the legal ownership of the vehicles was still with COVEC. No efforts were made to maintain the assets in suitable condition or safeguard them from vandals and from theft.

Recommendations

- **The Department should follow up on the compensation claim and seek legal opinion before disposing off plants and vehicles currently maintained at the project site.**
- **The Department should also consider maintaining the assets in suitable condition if it wishes to derive some monetary compensation from disposing off the assets.**

Management Comments

Recommendation is accepted.

[22] Estimated market value as at 06/03/06.
[23] Value for most items could not be ascertained.
[24] Deputy Secretary Planning and Design – Mr Paula Balailevuka

APPENDIX 2.1 – DETAILS OF COVEC VEHICLES AND PLANTS GARAGED AT VIWA SITE OFFICE - TAILEVU

Make	Model	Description	Reg No.	Qty	Market Value – 6/03/2006
Komatsu	D85E	Bulldozer	DU826	1	10,000
Komatsu	D85E	Bulldozer	n/a	1	13,000
Komatsu	D155A-3	Bulldozer	DU811	1	80,000
Shantui	TY220	Bulldozer	n/a	1	25,000
Shantui		Bulldozer	n/a	1	-
Caterpillar	D6R-XR	Bulldozer	DX376	1	90,000
Caterpillar	D6R-XR	Bulldozer	DX377	1	90,000
Shantui	TY220	Bulldozer	DZ995	1	45,000
Shantui	TY220	Bulldozer	EK842	1	45,000
Komatsu	PC 300-6	Excavator, tracked	n/a	1	75,000
Komatsu	PC 300-6	Excavator, tracked	n/a	1	80,000
Komatsu	PC 300-6	Excavator, tracked	n/a	1	50,000
Komatsu	PW150	Excavator, wheeled	n/a	1	15,000
Sumitomo	SH220LC-3	Excavator, tracked	n/a	1	60,000
Sumitomo	SH220LC-3	Excavator, tracked	n/a	1	60,000
Sumitomo	SH220LC-3	Excavator, tracked	DX375	1	60,000
Sumitomo	SH220LC-3	Excavator, tracked	DX374	1	60,000
Sumitomo	SH220LC-3	Excavator, tracked	DZ996	1	50,000
Sumitomo	SH330LC-3	Excavator, tracked	n/a	1	85,000
Sumitomo	SH330LC-3	Excavator, tracked	DZ997	1	60,000
Komatsu	PC210-7	Excavator, tracked	EQ673	1	125,000
Komatsu	PC210-7	Excavator, tracked	EQ674	1	150,000
Komatsu	WA450-L	Front end loader	DT975	1	70,000
Komatsu	WA380-3A	Front end loader	DT976	1	45,000
Komatsu	WA380-3A	Front end loader	DU309	1	45,000
Komatsu	WA380-3A	Front end loader	DU310	1	45,000
JCB		Front end loader and digger	DU819	1	30,000
Komatsu	WA380-3A	Front end loader	EK843	1	60,000
Komatsu	WA380-3A	Front end loader	EK844	1	80,000
Komatsu	WA380-3A	Front end loader	EQ672	1	90,000
Komatsu	WA380-3A	Front end loader	EQ675	1	90,000
Komatsu	WA450-L	Front end loader	DT975	1	70,000
Komatsu	GD661-A-1	grader	DU308	1	40,000
Galion	850-B	grader	DU307	1	75,000
Komatsu	GD661-A-1	grader	DU305	1	30,000
Komatsu	GD623-1	grader	DU306	1	40,000
Bomag	BW216D-2	roller compactor	n/a	1	10,000
Bomag		roller compactor		1	2,000
Bomag	BW216D-2	roller compactor	DU821	1	15,000
Bomag	BW216D-2	roller compactor	DU822	1	10,000
Bomag		roller compactor		1	2,500
Chinese	All rubber tyred	roller compactor	n/a	1	5,000
Bomag	BW216DH-3	roller compactor	DX371	1	40,000
Bomag	BW216DH-3	roller compactor	DZ993	1	45,000
Bomag	BW216DH-3	roller compactor	n/a	1	40,000
Ingersol	ProPAC Ser 150DPP	roller compactor	EK841	1	60,000

Make	Model	Description	Reg No.	Qty	Market Value – 6/03/2006
Ingersol	SD - 160DX	roller compactor	EN059	1	90,000
Mitsubishi	FV 415 JDCR	dump truck	DU298	1	10,000
Mitsubishi	FV 415 JDCR	dump truck	DU281	1	10,000
Mitsubishi	FV 415 JDCR	dump truck	DU282	1	10,000
Mitsubishi	FV 415 JDCR	dump truck	DU283	1	10,000
Mitsubishi	FV 415 JDCR	dump truck	DU284	1	7,500
Mitsubishi	FV 415 JDCR	dump truck		1	500
Mitsubishi	FV 415 JDCR	dump truck	DU286	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU287	1	500
Mitsubishi	FV 415 JDCR	dump truck	DU288	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU289	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU290	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU088	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU291	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU292	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU293	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DT974	1	7,500
Mitsubishi	FV 415 JDCR	dump truck	DU294	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU087	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU295	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU086	1	15,000
Mitsubishi	FV 415 JDCR	dump truck	DU085	1	7,000
Mitsubishi	FV 415 JDCR	dump truck	DT972	1	20,000
Mitsubishi	FV 415 JDCR	dump truck	DU296	1	20,000
Mitsubishi	FV 415 JDCR	dump truck	DT973	1	20,000
Mitsubishi	FV 415 JDCR	dump truck	DU297	1	17,000
Mitsubishi	FV 415 JDCR	dump truck	EB743	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB754	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB744	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB751	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB752	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB750	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB749	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB745	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB740	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB748	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB753	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB755	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB747	1	35,000
Mitsubishi	FV 415 JDCR	dump truck	EB742	1	35,000
Dongfeng	EQ3242YG	dump truck	EQ648	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ649	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ650	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ661	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ662	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ663	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ664	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ665	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ667	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ669	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ670	1	20,000
Dongfeng	EQ3242YG	dump truck	EQ671	1	20,000
Ingersol	crawlair CM348	rock driller with		1	160,000

Make	Model	Description	Reg No.	Qty	Market Value – 6/03/2006
Rand	with 750	compressor			
Ingersol Rand	crawlair CM348 with 750	rock driller with compressor		1	160,000
Dongfeng	101F	water truck	EF987	1	3,500
Dongfeng	101F	water truck	EF986	1	3,500
Dongfeng	1101F	water truck	EF991	1	3,500
Dongfeng		fuel supply truck		1	-
Dongfeng		fuel supply truck		1	3,500
Dongfeng		fuel supply truck		1	5,000
Leyland	Comet 12.13	bitumen spray truck	DU313	1	50,000
Phoenix	MK7T	chippings spreader	DU818	1	60,000
Kato	NK300 E-V	crane	DU315	1	150,000
Chinese	n/a	crane	DU316	1	35,000
Hino		tractor with low bed trailer transporter	EQ832 & DK006	1	25,000
N/a		trailer transporter	DP366	1	7,500
Toyota	Hilux 2.8D	utility - 4wd vehicle, double cab	DT483	1	14,000
Toyota	Hilux 2.8D	utility - 4wd vehicle, double cab	DS735	1	14,000
Toyota	Hilux 2.8D	utility - 4wd vehicle, double cab	DT864	1	10,000
Toyota	Hilux 2.8D	utility - 4wd vehicle, double cab	DT484	1	4,000
Toyota	Hilux 2.8D	utility - 4wd vehicle, single cab	DT750	1	4,000
Toyota	Prado	suv - 4wd vehicle	EA418	1	28,000
Toyota	Prado	suv - 4wd vehicle	EB696	1	30,000
Toyota	Kijang LGX1.8EFI	passenger vehicle	DS736	1	16,000
Mitsubishi	L200	utility - 4wd vehicle, double cab	DT332	1	3,500
Mitsubishi	B2500	utility - 4wd vehicle, double cab	DT586	1	10,000
Mazda	????	utility - 4wd vehicle, double cab	DK499	1	3,000
Mazda	B2500	utility - 4wd vehicle, double cab	DX009	1	16,000
Mazda	B2500	utility - 4wd vehicle, double cab	DW898	1	16,000
Mazda	B2500	utility - 4wd vehicle, double cab	DU793	1	16,000
Mazda	B2500	utility - 4wd vehicle, double cab	DU391	1	10,000
Mazda	B2500	utility - 4wd vehicle, double cab	DU390	1	11,000
Mazda	B2500	utility - 4wd vehicle, double cab	DT839	1	12,000
Mazda	B2500	utility - 4wd vehicle, double cab	ED155	1	27,500
Mazda	B2500	utility - 4wd vehicle, double cab	EP834	1	32,500
Mazda	B2501	utility - 4wd vehicle, single cab	DW897	1	16,000

Make	Model	Description	Reg No.	Qty	Market Value – 6/03/2006
Mazda		mini bus - 12 seater	DU397	1	8,500
Mazda	T3500	truck - workers transporter	DI382	1	8,500
Mazda	T4600	truck - workers transporter	DZ975	1	11,000
Mazda	T3500	truck - workers transporter	EL648	1	22,000
Mazda	T3500	truck - workers transporter	EP219	1	22,000
Ford / Mazda		utility - 4wd vehicle, double cab	DL984	1	2,000
Nissan	Patrol	suv - 4wd vehicle	DS810	1	25,000
Mitsubishi	Fuso	truck - flat deck	DW248	1	3,000
Toyota		truck - flat deck	DZ509	1	3,000
Total					**4,572,500**

APPENDIX 2.2 – PROJECT SITE AT VIWA TAILEVU - 16/06/11






SECTION 3: SUSTAINABLE ENERGY FINANCING PROJECT (WORLD BANK FUNDED)

The objective of the program is to increase significantly the adoption and use of renewable energy technologies and the more efficient use of energy in participating Pacific Island States through a package of incentives to encourage local financial institution to participate in sustainable energy finance.

The multi – party Sustainable Energy Financing Program which is funded by the World Bank and supervised by the Department of Energy aims to promote the financing of Sustainable Energy and energy efficiency investments in Fiji. This program is quite new and apart from Fiji it has also been introduced to four (4) other participating island states: the Solomon Islands; the Independent State of Papua New Guinea; the Republic of the Marshall Islands and the Republic of Vanuatu.

Table of Content

PART A - FINANCIAL INFORMATION

The Sustainable Energy Financing Project was enacted by an agreement between the Fiji Government and the World Bank in 2007 in accordance with the provisions of Standard Conditions in the Global Environment Facility Grant Agreement.

3.1 Audit Opinion

The audit of the Statement of Expenditure and Revenue of the Sustainable Energy Financing Project (SEFP) for the year ended 31 December 2010 resulted in the issue of a qualified audit report as a balance of $30,269 was reflected in the SEFP financial statements as cash at bank.

The Ministry of Finance records revealed an unutilized balance of $106,034. I was not able to obtain sufficient appropriate evidence to substantiate the accuracy of cash at bank of $30,269 as SEFP did not maintain a bank account and no reconciliation was prepared since 2008.

3.2 Abridged Statement of Financial Performance

Year ended 31 December	2010 $	2009 $
INCOME		
World Bank Grant	34,888	21,509

Year ended 31 December	2010 $	2009 $
TOTAL INCOME	**34,888**	**21,509**
EXPENDITURE		
Staff/Personnel Costs	52,739	-
Other Operating and Administration Expenses	108,880	-
TOTAL EXPENDITURE	**161,619**	**-**
NET (DEFICIT)/SURPLUS FOR THE YEAR	**(126,731)**	**21,509**

A net deficit of $126,731 was recorded in 2010 compared to a surplus of $21,509 in 2009. This was due to the Department of Energy's failure to claim reimbursement of expenses incurred by SEFP in 2009 totalling $143,992 from Ministry of Finance.

3.3 Abridged Statement of Financial Position

As at 31 December	2010	2009 $
Assets		
Cash at Bank	30,269	157,000
TOTAL ASSETS	**30,269**	**157,000**
ACCUMULATED FUNDS	**30,269**	**157,000**

The currents assets (cash at bank) balance declined by 81% or $126,731 in 2010 because the expenses totalling $161,619 incurred by SEFP in 2010 were yet to be reimbursed by Ministry of Finance.

PART B – CONTOL ISSUES

3.4 Cash at Bank Balance

The Executive Agency/Management Contractor will maintain a financial management system in a manner adequate to reflect the operations, resources and expenditures of the Project[1]

SEFP projects are funded by the World Bank. Funds received from the World Bank are deposited into the Consolidated Fund account at Ministry of Finance. SEFP received these funds from Ministry of Finance through the Department of Energy.

A balance of $30,269 was reflected in SEFP financial statements as cash at bank however, Ministry of Finance records revealed an unutilized balance of $106,034. A variance of $75,765 was noted.

The audit could not substantiate the accuracy of cash at bank amount as SEFP did not have a bank account and no reconciliation was prepared since 2008.

[1] Executive Agency Operations Manual- Part 4 Financial Management

Recommendations

- **SEFP should have a separate bank account and ensure that monthly bank reconciliations are prepared.**
- **SEFP should ensure that all funds received from World Bank are deposited into the bank account.**
- **SEFP should reconcile its cash at bank with Ministry of Finance records.**

Department Comments

No comments provided

3.5 Low Number of Assistance Given Through the Project

The Sustainable Energy Financing Project (SEFP) seeks to exert its impact through Global Environment Facility (GEF) grant resources to facilitate the financing of quality investments by individuals and Micro and Small Enterprises (MSEs). This financing will emanate from local Participating Financial Institutions (PFIs) in each country of operation. The financing support, mainly in the form of partial loan guarantees, will be backed up by a Risk Sharing Fund (RSF) funded with GEF resources.

SEFP will focus its limited resources on development of a commercial market for three technologies: (1) Solar PV, (2) Pico- hydro and (3) switching diesel generators to be fuelled by coconut oil, with related appliances such as red light systems.[2]

The Manager for SEFP was appointed on contract for one year. Specific deliverables expected of the Manager, SEFP during the year included:

- Signing at least one additional participating financial institution within the first 6 months of the project;
- At least 40 approved loans within the first 6 months of the project;
- Approved loans for at least a minimum of 3 coconut oil fuel projects; and
- Approved loans for at least a minimum of 3 pico – hydro projects.[3]

The audit noted that since the inception of SEEP in 2008, very small number of loans was approved by the only PFI, which is ANZ Bank. The findings were as following.

- The Unit managed to sign with only 1 financial institution, ANZ Bank as a Participating Financial Institution (PFI);
- A total of twenty two (22) applicants were received by the Project Unit which was referred to ANZ Bank. Out of this only six (6) loans or 27 % were approved by ANZ. These were for medium

[2] Executive Agency Operations Manual
[3] Contract Agreement – Management Contractor for SEFP, Annex A Terms of Reference and scope of services for Management Contractor Section 4

and small enterprise category. No loans were approved for individual and micro category under SEFP;

- The unit was to have loans approved for at least 3 coconut oil fuel projects and at least 3 pico – hydro projects within one year. However, since its inception in 2008 the Unit only managed to get 4 solar projects and 1 bio fuel projects. No hydro projects were undertaken. Refer to Table 3.1 below for details.

Table 3.1: Projects Approved

Number Of Loan	Name Of Company	Energy Type	Energy Used On
3	CBS Power Solution	Solar	Electricity for homes, health centres and street lights
1	Clay Engineering	Solar	Electricity for homes
1	CBS Power Solution	Bio-fuel generators	Electricity and street lights for villages
1	EnergyPro	Energy Efficiency	Energy audit

Most of the loans were not approved due to lack of collaterals or unavailability of financial records of applicants.

The finding shows that there is a need to review and amend the loan facility under the project to allow greater participation not only from medium small enterprise but also from individuals as well.

Such amendment will ensure that the World Bank's loan subsidy granted under the scheme achieves its objectives.

Recommendation

The Department of Energy as the Executing Agency should conduct a review and assessment on the effectiveness of the Sustainable Energy Financing Project and make recommendations to the World Bank to encourage greater participation from the public.

Department Comments

No comments provided