REPUBLIC OF FIJI

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22nd December 2009

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

Dear Sir

REPORT OF THE AUDITOR GENERAL

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

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

Tevita Bolanavanua
Acting Auditor - General

AUDITOR-GENERAL
FIJI

Management comments

Your point is noted and management is trying to work out a way of tracking the costing of stock in line with IFRS and the company policy

4.5 Variances in Inventory Count

There had been considerable variances noted in the stock take figures and the balances reflected in the stock listing produced by the Inventory System for the Postshops.

The surplus and shortages are aggregated to come to a net surplus or shortage. The quarterly stock take figures are not reconciled to the General Ledger. There is no evidence of investigations conducted by the company to verify these variances.

In addition, audit also noted that the Post Fiji Ltd did not perform a stock take at the end of financial year 31 December 2008.

Inadequate controls over inventory at Postshops increases the risk of misappropriation of assets by staffs. Furthermore the non-reconciliation of stock take figures to the General Ledger on a quarterly basis increases the risk of inaccurate financial reporting of stock valuations.

Recommendation

It is recommended that the quarterly stock take variances against perpetual records are properly investigated for theft, error in accounting or recording.

Management comments

From 2009, quarterly reconciliation are being done for stock take figures and variances are investigated. Quarterly reconciliation being filed by Finance. We do not agree with the 3rd paragraph of stock take being done on the 31st Dec. To be removed

4.6 Internal Audit

The Internal Audit Section doest not operate under an approved audit plan and lacks proper planning and auditing. The work carried out by the Section focus on stock and cash holdings in different Post Offices and special investigations requested by management.

During the year, there was no internal audit performed on Finance, Payroll, Human Resource and Marketing. In addition, we noted that risk assessment was not performed by the Internal Audit Section to prepare a risk register, audit program and timetable. High risk areas such as procurement, tenders, payments, receipts and banking, payroll and general ledger reconciliations were not audited frequently.

The non performance of risk assessment increases the risk of errors and fraud being undetected on a timely manner.

Recommendations

- **Management should ensure that risk assessment is performed and a risk register prepared.**

- **The risk register, audit programs and timetable of the internal audit should be prepared before the beginning of the year and approved by the Board.**

Management Comments

To discuss with the auditors

4.7 Stationery Contract

After perusing the minutes of the Postshop Business Committee meeting, we established the following:

i. On 5 June 2008, the committee had resolved that the tender for exercise books was to be on consignment basis.

ii. On 29 July 2008, the committee awarded two companies the contract to supply exercise books for the Warwick and Viti brand respectively.

iii. Company A had agreed for Post Fiji Limited to be the sole distributor of Warwick exercise books and as such, policing of this exclusivity clause would be carried out by Post Fiji.

Since the contract document with Company A could not be located during the audit, we could not ascertain whether the purchase of Warwick exercises books were on consignment basis or outright purchase.

Upon further inquires it was revealed that the Warwick exercise books were purchased outright by Post Fiji Limited. However, we could not determine the cost to Post Fiji Ltd of the outright purchase of Warwick exercise books. These exercise books are stored in level 3 of the GPO building in Suva.

The disadvantage of outright purchase is that Post Fiji Limited will incur additional storage cost as well as the likely risk of damages to the exercise books.

Recommendations

- **Management should ensure that companies who have been awarded contracts through the tender process should comply with the terms of the contract.**
- **It is recommended that an investigation be carried out on why the terms of the contract with Company A in relation to the provision of Warwick exercise books were not complied with.**

Management Comments

The outright purchase was made because it was easier to account for this in our books given the many outlets that we have. We understand the issue of the cost of storage being associated with outright purchase. We have tried to minimise the purchases in 2009 and order when required instead of overstocking

4.8 Debtors Control

Our review of the Debtors listing revealed the following anomalies:

i. Sixty seven percent 67% or $3,642,454 of debts were over 90 days, which is due to laxity in debt collection.

ii. Credit sales were still extended to some customers who have not settled their long outstanding debts.

iii. No evidence of review of credit limits or credit assessment performed on these debtors before credit was offered.

iv. Debtor turnover days were 110 days.

There is a risk that the debts would not be recovered, which could have an impact on the company's cashflow.

Recommendations

- **Management should take appropriate actions and implement strategies to improve debt collections, specifically, for long outstanding debts.**
- **It is recommended that the company not consider extending credit to those debtors who still owe money to the company. The company should continuously review the application of its credit policies.**
- **The company should urgently review its credit policy and make relevant changes to safeguard its interest.**

Management Comments

- *The $3.6m also includes overseas debtors which was totalling $2,426,186 at the end of 2008. The overseas debtors are recovered in the following year and are normally under 90 days and over.*

- *Your points are noted for the credit terms and debtors turnover. For the local debtors, the team have been more aggressive in collection in 2009 in trying to recover debts*

4.9 Excessive Cash Holding

We noted that some Post Offices were holding cash on hand above the reserve amount. The amount held also exceeded the amount that is insured for cash.

The company maintains an insurance cover over cash with an Insurance Company as follows:

- ✓ Suva and Ganilau House- limited to $200,000 each section
- ✓ All other locations- limited to $50,000 each section

However, as at 31 December 2008, the Post Offices listed in the table below were holding cash which were more than both the reserved amount and the insured amount.

Station	Insured Amount	Reserve amount	Cash held	Excess
Ba	$50,000	$3,000	$69,480	$66,480
Labasa	$50,000	$20,000	$149,252	$129,252
Lautoka	$50,000	$8,000	$35,166	$27,166
Suva	$50,000	$20,000	$215,003	$190,003
Nadi	$50,000	$4,000	$52,097	$48,097

Holding excessive cash increases the risk of fraud and theft and in the event of theft, the company would not be in a position to recover the excess money held.

Recommendation

Management should ensure that cash held in the Post Offices does not exceed the reserved limit.

Management Comments

Excess cash is held at the end of the month to cater for social welfare payments which normally exceeds $1m a month. However your point is noted and there is a team working on reviewing the cash holding for each post office. The insurance will be done accordingly

4.10 Tender Irregularities

Our review of the tendering process and documentation revealed the following irregularities:

- Tender documents are not kept intact in the tender file. Examples are: T03/08 Renovation of Nasinu Post Office, T05/08 Web design, T06/08 Supply of corporate uniform, T07/08 Supply of Point of sale equipments, T08/08 Security and T09/08 Back to school;
- Successful tender could not be verified for T07/08 Supply of Point of Sale equipments.
- For tender “T09/08 Back to school”, tender date was 28/07/08. However, the date written on the “Tender opening form” was 23/07/08;
- For tender “ T08/08 Security”, the previous/current provider was awarded the contract despite their hourly charge rate of $2.80 being higher than three other tenders whose hourly charged rates ranged from $2.00 to $2.50;
- The list of tenders received and signed off by the tender committee was not in the file for T03/08 Renovation of Nasinu Post Office;
- Unsuccessful tenders were not notified through writing.

Non compliance with the tendering process and proper documentation increases the risk of fraud and error. Lack of compliance with the guidelines set out in the Corporate Manual exposes the company to risk of loss and overpayments.

Recommendation

Management should ensure that the company’s approved tender process and documentation requirements be strictly adhered to.

Management Comments

Management will address this matter to ensure that this is not repeated.

4.11 Excessive and Negative Annual Leave

From our review of the provision for annual leave, we noted several instances of annual leave days in excess of 10 days being carried forward. As per the Policies and Procedures manual of Post Fiji, a maximum of 10 working days can be carried forward to the next financial year. The current practice is in contradiction to the policies set for the company.

Some examples of large and negative annual leave carried forward by staff are as follows:

Employee No.	Annual leave balance at year end	Value ($)
47856	120	24,923
53116	147	23,746
45291	133.5	23,106
16667	127	21,981
53432	85	14,385
7626	(8)	(238)
7521	(8)	(238)
7543	(22)	(516)

Carrying forward excessive leave to the next financial year would potentially increase the liability of the company when employees take leave. When an employee takes annual leave in future, the payout to the employee may be higher than if the leave were utilised in the current year. This is due to possible salary increases.

Carrying negative leave increase the risk of losses to the company when the staff leaves the company.

Recommendation

We recommend that the company adheres to the policies pertaining to the leave balances.

Management Comments

For those with excessive leave, we are ensuring that this will be fully utilised before the revision of any salary. For negative annual leave, our HR will be strictly monitored.

4.12 General Provisioning

Post Fiji Limited recognizes a general provision for stock obsolescence equivalent to about 1% of total inventory. This contravenes paragraph 29 – 30 of the International Accounting Standard 2 – *Inventories*, which states that only specific provisioning is allowed. Proper calculations were not performed to support the amount provided. As a consequence, net inventory disclosed in the financial statement at year end may be over/under stated.

Recommendation

It is recommend that regular ageing of its inventories is performed to determine slow moving stock which could then be used as a benchmark for the provision for stock obsolescence.

Management Comments

Point noted.

4.13 Trust Account

Bill pay and deposit money received from customers are banked into the Post Fiji operating account. Under the Trust Act, Post Fiji Ltd needs to hold these funds in a trust account and not in its operating account.

Trust funds may be used by the company if banked with its operating funds.

Recommendation

It is recommended that management consider setting up a trust account to hold funds separately for trust deposits.

Management Comments

- *It is very difficult for Post Fiji to implement this. Our post offices and outlets collect bills on behalf of corporate customers, and some require us to settle the collections on the very next day, for instance, Telecom Fiji. In these cases, Post Fiji uses its own money from its main bank account to remit to the corporate customers. The same also goes for Social Welfare payments which are done monthly and Post Fiji bills and collects from the Social Welfare Department subsequent to a month end. With this arrangement, we believe that there is no risk of Post Fiji using the clients money for some other purposes.*

- *There is also the problem of having no access to banking facility for some of our remote stations available. However, we understand the issue raised and will try to work out a practical way of us maintaining a separate bank account*

SECTION 5: FIJI HARDWOOD CORPORATION LIMITED

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

The principal activities of the company during the year ended 31 December 2006 were the business management of forest plantations, timber growers and the sale of trees and timber.

During 2006 financial year the company was also engaged in processing of logs into sawn timber. Apart from the above there were no significant changes in the nature of activities of the company during the year.

PART A – FINANCIAL INFORMATION

5.1 Audit opinion

The audit of the financial statements of the Fiji Hardwood Corporation Limited for the year ended 31 December 2006 resulted in the issue of an unqualified audit report. However attention was drawn to the following matter.

- The audit report for the year ended 31 December 2005 reported the inability to ascertain the accuracy and reliability of the books of accounts maintained for the year ended 31 December 2005. There is uncertainty that income, expenditure, assets and liabilities that were brought into account were disclosed accurately and therefore unable to ascertain the impact of this on the financial position, results and cash flows for the year ended 31 December 2006.

5.2 Statement of Financial Performance

Year Ended 31 December	2006 $	2005 $
Revenue		
Sales	14,116,675	14,255,212
Other Income	166,841	189,569
Total Revenue	14,283,516	14,444,781
Expenditure		
Cost of sales	11,615,245	8,992,368
Distribution	622,214	753,040
Personnel Expense	1,195,339	1,677,343
Operating Expense	6,600,687	4,486,269
Total Expenditure	20,033,485	15,909,020
Profit/(Loss) from operations	(5,749,969)	(1,464,239)
Finance cost	1,041,951	600,494
Loss before tax	(6,791,920)	(2,064,733)
Income tax expense	-	-
Loss after tax	(6,791,920)	(2,064,733)

The loss recorded by the Corporation increased by $4,727,187 or 229% compared to 2005 as a result of the increase in cost of sales, personnel and operating expenses.

5.3 Abridged Balance Sheet

As at 31 December	2006 $	2005 $
Current Assets		
Cash and cash equivalents	809,278	139,118
Other current assets	3,588,576	5,189,600
Total current assets	4,397,854	5,328,718
Forest Assets	159,605,955	159,605,955
Property, plant & equipment	7,237,018	7,403,533
Non – Current Assets	166,842,973	167,009,488
Total Assets	171,240,827	172,338,206
Current Liabilities		
Bank overdraft	-	111,502
Borrowings	1,478,323	22,923
Trade payables	1,719,534	1,623,839
Employee Entitlements	159,493	68,371
Other Liabilities	2,930,017	3,094,903
Total Current Liabilities	6,287,367	4,921,538
Non Current Liabilities		
Borrowings	15,810,321	11,481,609
Non-Current Liabilities	15,810,321	11,481,609
Total Liabilities	22,097,688	16,403,147
Net Assets	149,143,139	155,935,059
Total Equity	149,143,139	155,935,059

The Corporation's net assets had declined by $6,791,920 or 4% in 2006 compared to 2005. This was due to increase in liabilities by $5,694,541 or 35% in 2006.

PART B – CONTROL ISSUES

5.4` Forest Assets

Audit noted that the standing forest resources of $159,605,955 comprised of approximately 54,115 hectares of mahogany plantations, which range from young plantations to plantations that are 40 year old.

It is also noted that there is a natural addition to the forest plantation in every year. However, the quantum cannot be determined until proper assessment or valuation is carried out.

The corporation's directors have resolved not to amortise forest assets for the year ended 31 December 2006 as they are of the view that the increase in the value of forest assets due to increase in age offsets the decline in these assets from harvesting, since the corporation is at present harvesting at approximately 50% of sustainable capacity.

As a result no amortisation or additions to plantation costs have been recorded.

Audit is of the view that the forest assets should be amortised based on logs harvested. The basis and amount of amortisation should be based on sound and robust methodology and subject to annual review.

Moreover no valuation report has been obtained for the year 2006. Therefore, the fair value of the forest assets can not be ascertained.

Recommendations

- **The corporation should review its amortisation policy of forest assets and consideration should be given to develop sound robust amortisation methodology and amortise the forest assets based on logs harvested.**
- **Internal assessment on an annual basis to be carried out in the absence of independent valuation in order to present fair and reasonable value of the forest assets in the financial statements.**

Management Comments

The Directors' assertions above are based on a sound background. The basis is the increase in the value of the forest asset due to the maturing of forests, and the harvesting being below 50% of sustainable capacity. This justification has been confirmed by the increase in the value of the forest asset as per the valuation done as at year 2007.

5.5 Litigations Claims

Reviewing the solicitors' confirmation received, we noted the following litigation cases currently being pursued against the corporation:

Case No.	Potential Losses
303/2002	Loss of mahogany Plantation on Vugalei plantation lease
294/2003	Loss of mahogany Plantation in Naimasimasi, Tailevu
HBC 74/2006	Loss of profits derived from supply of logs.
43/06	$215,000 in unpaid contributions.
271/2003	Loss of lease over NLC Lot 15.
552/2005	Loss of profits derived from logging on Koronovo leased land.

Whilst disclosures have been made as contingent liability, provision of $250,000 has also been made for the potential liability that may arise out of the above claims including litigations.

Audit noted that the corporation terminated the contract of former CEO for which provision of $50,000 has been made in the books of account.

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

Subsequent to balance date on 8 November 2007, the Native Land Trust (Leases and Licenses) (Amendment) Regulations 2007 were gazetted. The effect of these regulations is that all Court cases against the corporation claiming invalidity of the mahogany 99-years leases do not have legal ground.

Recommendations

- **The progress of all litigation cases should be reviewed periodically and detail calculations and adequate provisions should be maintained wherever considered necessary.**
- **All the provision should be made in accordance with the FAS 37.**

Management Comments

The Board of directors review the legal cases every month and are of the view that there is no necessity to make any provisions for any of the litigation claims. This is further confirmed by the retrospective legislation passed by the Government, as stated above.

The provision for $250,000 was an entry passed for the financial year 2005, as per a Board of Directors' decision, to accommodate any unrecorded liabilities that may arise during the subsequent years. This has proved to be prudent as evidenced in the adjustments passed during the subsequent years.

5.6 Fixed Assets Register

Audit review of the corporation's fixed assets noted that the corporation did not maintain a detailed fixed assets register for the manufacturing division.

The current list of fixed assets which were purchased from two suppliers, shows only totals for different asset categories.

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

Recommendation

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

Management Comments

The above comments are noted

5.7 Employment Benefits

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

However, audit noted that the value of this employment benefits have not been considered for PAYE deductions. From our review of VAT returns, we also noted that VAT output on the benefits has not been accounted for.

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

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

By excluding of the above from PAYE deductions and VAT exposes the corporation to additional taxes and penalties.

Recommendations

- **The corporation should comply with the provisions of the Income Tax Act and make additional PAYE deductions pertaining to all employment benefits.**
- **The corporation should take appropriate corrective measures to account for VAT output on employee benefits such as motor vehicles.**

Management Comments

PricwaterhouseCoopers has reviewed the Payroll System and the benefit being processed therein and their recommendations have been implemented since late 2007.

5.8 PAYE Deductions and Accruals

Personnel files were not updated with all updates on a regular basis.

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

Moreover the benefits provided to management staffs were not disclosed in the PAYE Annual Summary.

The corporation was subjected to tax investigation by FIRCA for which non payment of PAYE was identified. From our review of the Statement of PAYE account, we noted the PAYE liabilities amounting to $291,588 were under accrued by the corporation. This was subsequently booked by way of audit adjustment.

Recommendations

- **The payroll calculations should be checked by independent personnel. The management should ensure that all benefits are considered while calculating the taxable income and PAYE tax of the employees and necessary tax should be deducted at source.**
- **The changes in the rates of pay, etc. should be properly authorised and adequately documented. A copy of all such updates should be kept in the personnel files.**
- **All the benefits should be disclosed in the PAYE Annual Summary.**

Management Comments

PricewaterhouseCoopers recommendations have been implemented from late 2007.

Further, we now have a HR officer who is responsible for updating the personnel files of all employees.

5.9 Inventories

From our review of the inventories of the corporation, audit noted the following:

1. Stock on hand for Forest account amounting to $23,460.85 was being carried forward from prior years. No details were provided to us in relation to this balance.

2. The corporation values its sawn timber inventories at lower of cost or net realisable value (NRV). To determine the NRV, the management took the selling price as an indication of NRV without considering the selling costs.

3. Subsequently, after adjusting for the selling cost, inventories were written down by $108,310 by way of audit adjustment.

Moreover, the following differences in the physical inventories as per the valuation report and the monthly movement report were noted.

Location	As per valuation report (m^3)	As per monthly movement report (m^3)	Difference (m^3)
Navutu	2,764.940	2,758.811	6.13
Nasinu	-	5.710	(5.71)
Waivunu	329.348	313.423	15.93
Total difference			16.34

Based on average cost price, the impact of the above difference would be approximately $9,000.

Since the amount involved was immaterial, no adjustment entries were proposed.

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

- Quantity of sawn timber as per stock obsolescence totalled to 3,376.404 m^3 as compared to 3,528.215 m^3 as per valuation report. The difference of 151.811 m^3 remains un-reconciled at the date of this report. Therefore, we are unable to determine if provision for stock obsolescence has been correctly accounted.

We further noted a difference of $7,676 between the provision for stock obsolescence and the trial balance. This was subsequently rectified by way of audit adjustment.

Recommendations

- **The corporation should maintain complete details of inventory balances. Further, adequate supporting should be kept and made available for the audit.**
- **To value inventories at net realisable value (NRV), the selling costs or point of sale costs should also be considered to determine the correct NRV.**
- **Physical inventory balances should be properly reconciled with the year end closing inventory schedules to ensure completeness and accurate valuation of the same.**
- **Stock valuation should be verified by a senior person ensuring that proper costing is carried out and stock valuation report updated on a regular basis.**

Management Comments

All the above recommendations have already been applied from the year 2007. The details for observations items 1, above was given to the auditors during the course of the audit. This was for logging equipment.

5.10 Credit Control Procedures

A review of the year-end debtors and advances balances revealed that a large percentage of year end debtors were long overdue. Credit control procedures in relation to receivable balances require significant improvements.

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

Furthermore audit noted that, additional provision for doubtful debts amounting to $2,567,199 was made by the corporation during the year.

Recommendations

- **The management implement strict credit control procedures with a view to minimise the outstanding debtors balance at any point in time. The ageing and collection statistics should be included as part of monthly management reporting.**
- **Customers whose accounts are in excess of the agreed credit terms and are overdue should be reviewed periodically and necessary corrective action should be taken to ensure that receivable balance is collected as per the credit terms.**

Management Comments

From 2007, stringent credit control procedures are in place, which are closely monitored by Management and the Board of Directors. All old debts are adequately provided for, as evidenced by the large provision of $2,567,199 mentioned above.

5.11 Contractual Provisional Taxes

Under the Income Tax Act, any person making payment under a contract for services (other than employment which is subject to PAYE tax deductions) to a resident person or entity is required under the relevant income tax regulations to make a deduction for provisional tax of 15% of the gross amount for services rendered and pay the same to Inland Revenue unless the service provider holds a certificate of exemption.

Inland Revenue may seek the payment of all provisional taxes before allowing any deduction for expenditure which is subject to provisional tax. Alternatively, Inland Revenue may recover the provisional tax together with the penalty from the corporation.

From our review of Statement of Provisional Tax Account, we noted that provisional tax was not deducted on all contractor payments.

Recommendation

The corporation should ensure that a deduction of provisional tax of 15% of the gross amount is made from payments to service providers and paid to Inland Revenue unless the service provider holds a certificate of exemption.

Management Comments

Noted. Systems and procedures were put in place from mid 2007.

SECTION 6: 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.

PART A – FINANCIAL INFORMATION

6.1 Audit Opinion 2009

The audit of the financial statements of the Fiji Development Bank for the year ended 30 June 2009 resulted in the issue of an unqualified audit report.

6.2 Abridged Statement of Financial Performance

For the year ended 30 June	Consolidated		The Bank	
	2009 $	2008 $	2009 $	2008 $
Income				
Interest from Loans	39,240,723	45,029,126	39,239,174	45,027,583
Fees	2,188,065	7,822,482	2,188,065	7,822,482
Other Income	3,209,839	10,771,948	3,190,989	10,771,667
Total Income	44,638,627	63,623,556	44,618,228	63,621,732
Expenses				
Interest and other borrowings expenses	14,668,517	20,496,744	14,668,517	20,496,744
Operating expenses	3,893,045	5,579,258	3,889,693	5,553,427
Employee costs	6,387,920	7,474,643	6,387,920	7,474,643
Total Expenses	24,949,482	33,550,645	24,946,130	33,524,814
Operating profit before provisions	19,689,145	30,072,911	19,672,098	30,096,918
Provisions	16,196,258	26,273,475	16,196,258	26,273,475
Operating profit before income tax	3,492,887	3,799,436	3,475,840	3,823,443

For the year ended 30 June	Consolidated		The Bank	
	2009 $	2008 $	2009 $	2008 $
Income tax expense	---	---	---	---
Operating profit after income tax	3,492,887	3,799,436	3,475,840	3,823,443

A decline in operating profit after tax to $3,492,887 was recorded by the bank for 2009 compared to $3,799,436 in 2008. This was a result in decreases in the bank's income by 30% however the bank was also able to reduce its expenditure by 31% in 2009 compared to 2008.

6.3 Abridged Statement of Financial Position

For the year ended 30 June	Consolidated		The Bank	
	2009 $	2008 $	2009 $	2008 $
Cash	33,267,104	11,606,425	33,219,645	11,560,222
Current loans and advances	356,051,842	381,462,688	356,051,842	381,462,688
Other current assets	2,851,694	4,862,109	2,848,098	4,871,617
Property, plant & equipment	15,583,638	14,766,872	15,583,638	14,766,872
Other non-current asset	491,592	2,008,024	511,592	2,028,024
Total Assets	408,245,870	414,706,118	408,214,815	414,689,423
Current borrowings	30,423,853	111,922,151	30,423,853	111,922,151
Other current liabilities	15,291,763	14,515,637	15,284,505	14,505,692
Non current borrowings	254,141,199	188,936,162	254,141,199	188,936,162
Total Liabilities	299,856,815	315,373,950	299,849,557	315,364,005
Net Assets	108,389,055	99,332,168	108,365,258	99,325,418
Capital	56,050,636	56,050,636	56,050,636	56,050,636
Reserves	11,187,562	5,623,562	11,187,562	5,623,562
Accumulated Profits	41,150,857	37,657,970	41,127,060	37,651,220
Total Capital and Reserves	108,389,055	99,332,168	108,365,258	99,325,418

The increase in the net assets by $9,056,887 or 9% in 2009 compared to 2008 was attributed to decreases in short term liabilities.

PART B – CONTROL ISSUES

6.4 Loans and Advances

The audit noted several internal control deficiencies within the loans and advances cycle. These issues noted are recurring issues reported in prior year audits. The loan cycle consists of:

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

Some of the deficiencies in controls noted are:

1. Prequalification

It was noted that there were instances when the prequalification requirements were not properly filed or met loan requirements. These include:

- Wrong application fee collected. The application fee should have been $100 but $50 was receipted (Account #401262);

- Pac In Solution Limited was in liquidation and could not enter into contract with customer (Account # 2194) to buy the company. The loan was initially approved but after FDB became aware of the legal status of Pac In Solution, the legal department advised the loan officer to decline the loan offer. This shows that proper due diligence was not performed at the initial stage of the loan processing;

- A customer (Account # 45357) does not have business and accounting skills to run a business. Loan was declined initially but later approved. The loan has now gone bad with Security Reserve Valuation inadequate to cater for loan;

2. Appraisal, approval and disbursement

The following issues were noted for appraisal, approval and disbursement:

- Security items include fibreglass boat, outboard engine, dive tanks, chainsaws, tools laptop, generator, ropes etc. No valuation on these items in the file. These items were estimated at market price by loan officer. The bills of sale over these items are weak as these items can be sold to third parties. This is because there is no need of title change for these type of assets (Account # 401116);

- There were a lot of duplicate copies of documents like photocopies of application forms, mortgage papers, security progress reports, valuation reports, loan agreement and customer details and so on with originals also in file. This increase files size and duplicated information. Documents not filed systematically for easy reference; and

3. Monitoring and supervision

- Most loans were in arrears and did not make repayments in a timely manner.

- Audit noted that some loans were not properly appraised, proper search performed on person applying for loan or business plan or evidence of funds, etc. However, the bank approved the loans in prior years to customers. The Loan Procedures Manual requires policy and standards must never be compromised because of the desire to meet the expectations of a customer, colleague or sale target. (Account # 113269).

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

Recommendation

Management should ensure that policies and procedures are strictly enforced.

Management comments

Prequalification
Management has taken note of these and have carried out remedial actions where necessary:
- *Account # 401262 – The customer has been advised of the incorrect application fee charged and has paid an additional $50.00 (receipt no.4016939).*
- *Account # 2194 – Credit checks were conducted for the applicant company but not for the vendor company during the approval process. In future, credit checks will also be conducted on vendors to avoid such problems.*
- *Account # 45357 – The decision to reconsider, and approve the loan was however based on: the projects capacity to service its debt with DSC 1.8:1 at COGS of 80%; raising $12K to meet deposit (28%) evidence satisfactory commitment upfront; proven credit history on existing farm account; income source from cane proceeds exists. Bank may pursue this to service proposed debt should project fail. Furthermore, the client's 5-year experience as a sales assistant, coupled with his wife's association to retail business added merit to the loan approval.*

Appraisal, approval and disbursement
- *Account # 401116 – Bill of sale is taken over moveable items, which is a normal and acceptable mode of security for banks. For the BOS securities provided for this loan, the purchase price of the items were taken as their security value, based on the nature of the items.*
- *Management has taken note of the duplication of documents on file and has advised the network to ensure that proper filing is maintained.*

Monitoring and supervision
- *Of the total portfolio, 77% were performing loans, of which 58% were not in arrears and the balance of 19% were within the acceptable arrears age for performing loans. The, high arrears are due to the following factors:*
  - *bank does not have trading accounts, thus repayments cannot be deducted at source;*
  - *bank's nature of business in catering for high-risked loans.;*
  - *these customers also have erratic cash flows due to delayed crop maturity/project completions and fluctuating weather patterns;*
  - *the current global condition and its effect on the national economy; and*
  - *the effects of the January 2009 flood.*

  In spite of the above constraints, the Bank is making all efforts to contain the current arrears at acceptable levels.
- *Account # 113269 – Management has noted the comments and is in agreement that approved policies and procedures must be adhered to. For the cited account, management is of the view that proper procedures were followed. This loan was approved in April 2005. This proposal was also supported by the Ministry of Fisheries and Forests under SCARF fishing scheme, as per their feasibility/viability study dated 16th December 2004. As technical professionals, the Fisheries Department's opinion on the viability of the project played an integral part in the Bank's decision to proceed with funding.*

6.5 Internal Audit

The audit noted that the internal audit team did not complete all projects set out in its plan for the financial year. 11 programs out of the 21 were not completed. Out of the 11, 6 were in the process of report finalization, 1 was in progress and 4 outstanding.

Audit review of the internal audit reports reveal that issues raised for Bank branches are recurring issues from prior years. There seems to be lack of corrective action by staff. The function of Internal Audit would not be effective unless the issues highlighted in the internal audit reports are addressed by staff. It was noted that management responses to audit findings were slow.

The audit program and the status of the audit reports are as follows:

Number	Audit area	Target month	Status/Date of report
1	SME	July 2008	October 2008
2	Corporate	July 2008	September 2008
3	Agriculture	July 2008	November 2008
4	New Products	July 2008	November 2008
5	Nausori	August 2008	Finalising report
6	Sigatoka	August 2008	November 2008
7	Nadi	August 2008	November 2008
8	Lautoka	August 2008	November 2008
9	Rakiraki	September 2008	Finalising report
10	Ba	September 2008	January 2009
11	Savusavu	September 2008	January 2009
12	Labasa	September 2008	Finalising report
13	Seaqaqa	September 2008	Outstanding
14	AMU	December 2008	Current working on this
15	Legal Division	January 2009	Finalising report
16	Finance	January 2009	Finalising report
17	HRM	February 2009	Finalising report
18	MIS	March 2009	Outstanding
19	Training	March 2009	Outstanding
20	Properties	April 2009	July 2008
21	R & M	May 2009	Outstanding

The delays in internal audit work increases the risk of issues not being identified and corrected on a timely basis.

Recommendation

Management should ensure that Internal Audit's work programs are strictly adhered to. There should also be timely reporting to the Board. The Board should take appropriate action for continuous breach of policies and procedures by staff.

Management comments

Comments are noted. Because of lack of experienced staff and high staff turnover, Internal Audit couldn't have completed its work programs. New staff had to be trained on the job and this delayed normal work flow. A number of other special assignments, which included investigation of highly suspicious transactions and hindsight reviews) may have also interrupted the achievement of the work program. We have since put in another staff in the department.

Reporting to the Board Audit Sub-Committee has been lacking particularly during this reporting period. We have noted to strictly adhere to the scheduled quarterly meeting that had been approved by the Board Audit Sub-Committee.

We have noted to take stronger disciplinary measures against staff that have continuously breached policies and procedures.

6.6 Review of Assets

A board of survey was conduced by Properties department in 2009 to confirm the existence of assets. However, Properties' Fixed Asset Register (FAR) does not reconcile to Account's FAR as Properties' FAR maintains all fixed assets of the Bank. The board of survey report is in the process of being finalised.

During the board of survey, a lot of computer equipment were identified for write off but the equipment could not be matched to the Account's FAR, so the recording of these disposals have been put on hold.

The non reconciliation of Properties' FAR to Account's FAR increases the risk of overstatement in assets in the accounts.

The lack of a proper reconciliation of records by the custodian and listing used to prepare accounts increases the risk of errors in the accounting of assets.

Recommendation

Management should ensure that Finance and Properties reconcile their FAR and accounts be adjusted accordingly to the Board of survey carried out.

Management comments

The Comments are noted. Management will complete the Board of Survey Report by 31.12.2009 with a detail reconciliation statement. Management is also in the process of reviewing its existing property manual that includes the acquisition, recording, managing and disposal of fixed assets and the same will be completed by 31.12.2009.