ACCOUNTABILITY IN THE PUBLIC SECTOR
THROUGH QUALITY AUDIT SERVICES

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF

Audit of Accounts of Government Commercial Companies, Commercial Statutory Authorities
June 2009

REPUBLIC OF FIJI
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2nd July, 2009

Commodore Josaia V. Bainimarama
Prime Minister and Minister for Finance
P O Box 2353
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SUVA

Dear Sir

REPORT OF THE AUDITOR GENERAL

Audit of Government Commercial Companies and Commercial Statutory Authorities

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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 Government Commercial Companies and Commercial Statutory Authorities that were completed during the 1st half of 2009.

Tevita Bolanavanua
Auditor - General

AUDITOR--GENERAL
FIJI

Introduction

This report presents the results of financial audits of 5 Government Commercial Companies (GCC) and a Commercial Statutory Authority (CSA) completed during the 1st half of 2009. Financial audits of GCC and CSA that are in progress will be reported in December 2009.

The following table summarizes the status of all audits in the above categories to date:

	Government Entity	Audit Completed	Audit Opinion	Remarks
	GCC			
1	Airport Fiji Limited	2008	Unqualified	
2	Fiji Broadcasting Corporation Limited	2007	Unqualified	2008 account yet to be submitted for audit.
3	Fiji Ships & Heavy Industries Limited	2007	Unqualified	A subsidiary of Fiji Ports Corporation Limited from June 2009.
4	Food Processors Limited	2006	Qualified	2007 account yet to be submitted for audit.
5	Fiji Ports Corporation Limited	2008	Unqualified	
6	Post Fiji Limited	2007	Unqualified	Audit of 2008 account is in progress.
7	Rewa Rice Limited	2006	Qualified	2007 account yet to be submitted for audit.
8	Unit Trust of Fiji (Management)	2007	Unqualified	Audit of 2008 account is being finalized.
9	Viti Corp			Leased to Dairy farmers Co-operative Fiji Limited.
10	Yaqara Pastoral Company	2007	Unqualified	2008 account yet to be submitted for audit.
11	Fiji Public Trustee Corporation Limited			Audit of 2006 account is being finalized.
12	Ports Terminal Limited	2008	Unqualified	
	CSA			
1	Public Rental Board	2007	Unqualified	2008 account yet to be submitted for audit.
2	Housing Authority	2007	Unqualified	2008 account yet to be submitted for audit.
3	Fiji Electricity Authority	2008	Unqualified	
4	Fiji Meat & Industry Board	2007	Qualified	2008 account yet to be submitted for audit.

GCC operate purely on commercial basis while CSA has both social and commercial functions. Both types of entities are established and governed by their respective legislations. Some have specific provisions on dates for the submission of their accounts and are meeting them satisfactorily while others have not shown any improvement since they were last reported.

The 6 entities reported were all issued unqualified audit opinions which implies that their financial statements give a true and fair view (or are presented fairly in all material respects) in accordance with the identified financial reporting framework.

The report of each entity has 2 sections. Section 1 covers the financial information and section 2 includes control issues identified during our audit. Financial information summarizes the financial statements and control issues represent our audit findings, recommendations and the management comments.

Readers will note that some audit findings raised in this report have no management comment. This implies that none was received from that respective statutory authority.

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SECTION 1: AIRPORTS FIJI LIMITED

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

AFL operates 15 public airports in the Fiji Islands. These include two international airports – Nadi and Nausori, and 13 outer island airports.

AFL also provides air traffic management (ATM) in the Nadi Flight Information Region (FIR). The Nadi FIR includes the air spaces of Fiji, Tuvalu, New Caledonia, Kiribati, and Vanuatu covering an area of 6.1 million square kilometres. The ATM operation is currently contracted to a private company, Strategic Air Services Limited (SASL)

PART A – FINANCIAL INFORMATION

1.1 Audit Opinion

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

1.2 Abridged Income Statement

YEAR ENDED 31 DECEMBER	2008 $	2007 $
REVENUE		
Air Navigation Charges	9,788,059	9,148,423
Airport Security/Development Fee	7,387,239	5,851,265
Concessions	8,041,640	7,531,828
Landing And Parking Fees International	8,970,611	7,899,056
Passenger Service Charge	3,073,966	2,932,151
Rental- Offices And Warehouses	3,093,407	3,045,753
Other Operating Income	3,670,263	3,990,733
TOTAL REVENUE	44,025,185	40,399,209
EXPENDITURE		
Contract Costs	1,790,664	1,756,035
Depreciation	10,359,201	10,438,324
Salaries & Wages	11,886,690	10,679,076
Utilities	3,090,127	3,177,373
Other Operating Expenses	11,645,015	13,564,833
TOTAL EXPENDITURE	38,771,697	39,615,641
PROFIT FROM OPERATIONS	5,253,488	783,568

AFL recorded a profit from operations of $5,253,488 in 2008 compared to $783,568 in 2007 as a result of an increase in total revenue by 9%. Significant increases were noted for:

- passenger service charges increased by $141,815 or 4.8% due to the increase in the number of international passenger;

- landing and parking fees international increased by $1,071,555 or 13.6% due to increase in the landing charges for aircrafts and the emergency landing of the airbus in December 2008 which weighs about 540 tonnes;

- air navigation charges increased by $639,636 or 7% due to the charges of $2 per tonne for the services provided by the control tower which was not charged previously; and

On the other hand, total expenses decreased in 2008 by $834,944 or 2.1% mainly due to decrease in interest expense by $1,047,795 or 35.4% while industrial disputes decreased by $1,000,000 or 100%.

1.3 Abridged Balance Sheet

As at 31 December	2008 ($)	2007 ($)
Current assets		
Cash and cash equivalents	17,050,405	15,696,216
Receivables	5,281,768	5,404,472
Other assets	2,531,464	2,177,392
Total current assets	24,863,637	23,278,080
Non current assets		
Deferred tax asset	2,583,474	5,138,004
Property, plant and equipment	149,307,302	150,781,296
Total non current assets	151,890,776	155,919,300
Total assets	176,754,413	179,197,380
Current liabilities		
Accounts payable	5,852,807	13,961,916
Borrowings	6,384,695	4,938,629
Other current liabilities	1,689,164	2,644,627
Total current liabilities	13,926,666	21,545,172
Non current liabilities		
Borrowings	23,460,237	31,306,619
Deferred tax liability	15,029,823	16,916,280
Other non current liabilities	2,348,838	1,476,146
Total non current liabilities	40,838,898	49,699,045
Total liabilities	54,765,564	71,244,217
Net assets	121,988,849	107,953,163
Shareholders' equity		
Share capital	92,300,180	81,849,908
Retained earnings	29,688,669	26,103,255
Total shareholders' equity	121,988,849	107,953,163

The company's net assets increased by $14,035,686 or 13% in 2008 compared to 2007 mainly due to the following:

- Increase in cash and cash equivalents by $1,354,189 or 8.6% due to an increase in short term deposits.

- Accounts payable declined by $8,109,109 or 58% due to the decreased in land rental by $9,611,371 or 99%.
- Borrowings declined by $6,400,316 or 17.7% due to repayment of ANZ bank loan.
- Decline in employee benefits by $539,259 since the implementation of arbitration award was done in 2007; and
- Decline in deferred tax liability by $1,886,457 or 11%.

PART B – CONTROL ISSUES

1.4 Passenger Screening Charges

We note that Air Pacific Limited has disputed the passenger screening charges totaling approximately $1.08m. The balance outstanding as at the 31 December 2007 amounted to $824,830.

The company has been advised by their solicitors that the passenger screening charges are recoverable and accordingly management is following up to ensure the overdue amounts are collected. However, as a prudent measure, the management has made an allowance for doubtful debts amounting to $1.08m for the year ended 31 December 2008 and is also pursing this matter for recovery.

Recommendations

We recommend that the management should take necessary action to recover the above amount. Further, the allowance for doubtful debts should be reviewed on an annual basis and appropriate adjustments should be made, when required.

Management Comments

The matter is before the Court of Appeal. AFL's position comes from the amended Civil Aviation securities act and the CAAFI Civil Aviation security program regulations. Allowance for doubtful debts is as per finance policy manual.

SECTION 2: FIJI SHIPS & HEAVY INDUSTRIES LIMITED

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

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

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

PART A – FINANCIAL INFORMATION

2.1 Audit Opinion

The audit of the financial statements of the Fiji Ships and Heavy Industries Limited for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

2.2 Abridged Income Statement

Year Ended 31 December	2007 $	2006 $
Revenue		
Operating Income	1,390,004	2,700,656
Direct Costs	(1,037,842)	(1,412,681)
Gross Profit	352,162	1,287,975
Other Operating Income	159,102	88,475
Operating Expenses	(952,943)	(939,197)
Other Operating Expenses	(520,411)	(866,196)
Loss from Operations	(962,090)	(428,943)
Finance Costs	(152,660)	(111,911)
Loss before income tax	(1,114,750)	(540,854)
Income tax (expense)/ benefit	(84,294)	87,681
Net Loss for the year after Income Tax	(1,199,044)	(453,173)

The company recorded a net loss of $1,199,044 in 2007 compared to a net loss of $453,173 in 2006 because of decline in income received from slipway and shipyard revenue by $1,310,652 or 49%.

2.3 Abridged Balance Sheet

As at 31 December	2007 $	2006 $
Current Assets		
Cash and Cash Equivalents	73,375	701,921
Trade Receivable	411,707	799,780
Inventories	130,025	138,413
Other Current Assets	68,716	77,585
Total Current Assets	683,823	1,717,699
Non - Current Assets		
Property, Plant and Equipment	6,248,001	6,568,370
Deferred Tax Assets	139,869	219,518
Intangible Assets	6,413	1,423
Total Non –Current Assets	6,394,283	6,789,311
Total Assets	7,078,106	8,507,010
Current Liabilities		
Trade Payables and Accruals	259,475	581,010
Interest Bearing Debt	282,171	356,923
Provisions	306	8,230
Total Current Liabilities	541,952	946,163
Non-Current Liabilities		
Interest Bearing Debt	1,056,417	882,066
Total Liabilities	1,598,369	1,828,229
Net Assets	5,479,737	6,678,781
Total Equity	5,479,737	6,678,781

Net assets decreased by $1,199,044 or 18% in 2007 compared to 2006 due to decreases in cash and cash equivalents, trade receivables, inventories, property, plant and equipment and deferred tax assets.

PART B – CONTROL ISSUES

2.4 Business Performance – Substantial Losses

The company has recorded a substantial net operating loss of $1,114,750 for the year ended 31 December 2007. In 2006, the operating loss was $540,854. If this is not dealt with in a timely manner it will create financial difficulties.

Recommendation

FSHIL should prepare individual boats Income and Expenditure statement when repairing work is being carried out in order to identify the basis for loss arising.

Management Comments

Currently, manual records are maintained and used to monitor and evaluate the financial results of individual ship repair projects, i.e. whether the company makes a profit or loss from each project.

We replaced the IDL computerized accounting system with a MYOB package from January 2007. The MYOB package has a "Job costing" sub-system which was specifically designed to provide financial performance reports for each project.

However, this job costing system has not been able to integrate all the necessary data from the other relevant sub-systems (payroll, purchase and inventory) due to cabling and networking problems.

Work will commence soon to re-run the cabling works and re-configure our networking system, at the end of which we will then be able to have an all-inclusive financial reporting system for individual projects.

2.5 VAT and Sales Reconciliation

Audit noted that there was a variance in the sales as per the financial statements and sales as per VAT Returns.

Particulars	Amount ($)
Total sales as per vat returns	1,652,833
Total sales as per financials	1,535,842
Variance	(116,991)

This implies that sales are overstated in the VAT returns. Such discrepancies could also lead to potential tax queries from the Fiji Islands Revenue and Customs Authority.

Recommendation

FSHIL should lodge amended vat returns with correct sales figure for the respective months if necessary.

Management Comments

No comments provided

2.6 VAT Reconciliation

Audit noted that there was a variance in the vat payable as per the financial statements and VAT refund as per Vat Reconciliation.

Particulars	Amount ($)
Vat Refund as per vat Reconciliation	(88,412)
Vat Payable as per Financial	66,888
Variance	(155,300)

The variance exists because of the amended VAT returns lodged for the year 2006 may not have been corrected in the MYOB data

This implies that VAT liability is overstated in the financial statement.

Recommendation

FSHIL should investigate the reasons for variance and incorporate necessary adjustments in the financial statements.

Management Comments

The 2007 financials show, at Note 15, the sum of $66,888 as 'Other Payables'. This amount is made up of two components as follows:

Vat Payable	*$63,708*
Clearing Accounts	*$ 3,180*
	$66,888

At this stage, we believe that the sum of $63,708 is correct. However, we have been reconciling the figures for 2006 and 2007 to allay the concerns raised in your letter. Any adjustments that might be required will be done in 2008 financials.

2.7 Breach of Loan Agreement

Audit noted that one of the financial covenants stated in a bank loan agreement, requires the Company to have a debt service ratio of 1.25:1. However, FSHIL had a debt service ratio of 0.73:1 as at 31 December 2007.

Further, the company does not maintain a schedule of loan covenants.

The company is in breach of the bank loan covenants and could be subjected to redress.

Recommendation

The Company should take appropriate action in order to maintain a relationship with the banker.

Management Comments

In view of recurring losses, it is inevitable that the company has not been able to meet its loan covenants with the Bank.

Meetings and discussions over the telephone are held with bank officials from time to time and they are aware of the company's predicament. The Bank has, however, not taken any drastic action so far as, we believe, the company has been able to meet its monthly commitment for loan repayments.

SECTION 3: YAQARA PSTORAL COMPANY LIMITED

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

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

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

YPCL has the Caboni Centre for genetic improvement covering and area of about 2,500 acres. This station is responsible for breeding two distinct breeds, Santa Gertrudis and Limousine. From the station selected offspring's' are distributed to the commercial herd or the Ministry Agriculture's livestock division or directly to farmers. On average, 20 prime bulls are distributed to farmers through the MASLR's subsidies programme whereas 80% of the total herd forms the commercial herd. The company also has horse, sheep, and goat rearing programmes.

In the Crops Division, YPCL has been planting sugarcane and also produces honey.

PART A – FINANCIAL INFORMATION

3.1 Audit Opinion

The audit of the financial statements of the Yaqara Pastoral Company Ltd for the year ended 31 December 2007 resulted in the issue of an unqualified audit report.

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

3.2 Abridged Income Statement

Year Ended 31 December	2007 $	IFRS Restated 2006 $
Revenue	791,814	1,360,380
Cost of sales	47,714	(81,535)
Gross profit on trading	839,528	1,278,845
Other operating income	2,646,969	1,578,949
Total Income	3,486,497	2,857,794
Administrative expenses	837,087	1,109,600
Selling and distribution	2,809	5,110
Other operating expenses	137,373	126,256
Total Operating Expenditure	977,269	1,240,966

Year Ended 31 December	2007 $	IFRS Restated 2006 $
Operating profit from operations	2,509,228	1,616,828
Finance costs	1,099	3,125
Operating profit before income tax	2,508,129	1,613,703
Income tax expense	970,496	743,374
Profit after income tax	1,537,633	870,329

Total profit after tax increased by $667,304 or 77% compared to 2006. This was a result of the increase in revenue, specifically, royalty income. The royalty is paid to the company at a rate of 1.5% on the monthly turnover by the water bottling company.

The decrease in total expenditure by $265,723 or 21% also contributed to the high net profit earned by the company in 2007.

3.3 Abridged Balance Sheet

As at 31 December	2007 $	IFRS Restated 2006 $
Cash on hand and at bank	753,401	1,086,835
Trade receivables	772,134	265,764
Other debtors and prepayments	271,372	86,366
Biological assets	2,412,857	2,348,013
Held-to-maturity investments	1,549,756	515,129
Inventories	8,342	7,759
Property, plant and equipment	6,872,040	7,190,050
Deferred tax assets	55,845	83,661
Deferred expenditure	36,455	88,687
Total assets	12,732,202	11,672,264
Creditors and accruals	76,770	98,700
Provision for annual leave	13,157	10,879
Deferred income - grants	31,949	32,015
Deferred tax liabilities	349,390	396,983
Deferred income - grants	106,681	132,052
Total liabilities	577,947	670,629
Net Assets	12,154,255	11,001,635
Total equity	12,154,255	11,001,635

Net assets increased by $1,152,620 or 10% in 2007 compared to the previous year. The increase in net assets is attributed mainly to the increase in total assets, specifically, trade receivables and held-to-maturity investments.

The decrease in total liabilities was a result of decrease in creditors and accruals, deferred tax liabilities and deferred income-grants.

PART B – CONTROL ISSUES

3.4 Incorrect Tax Return

During our review of the tax return lodged and the notice of assessment for the year ended 31 December 2006, we noted that the amortization of leasehold land expenses amounting to $247,483 was been added back twice in the Return of Income.

As a result, the company incurred additional tax expenses amounting to $76,720.

We also noted that the error was not been detected by the company to date.

Recommendations

- **We recommend that the company lodge an amended Income Tax Return for the year ended 31 December 2006 and seek amended assessment from the Inland Revenue.**

- **Appropriate due care must be exercised while compiling the Return of Income so that errors and omissions are avoided and the company is not un-necessarily burdened with additional income tax or penalties.**

3.5 Lease Royalty Income

As per the Agreement between the lessee and Yaqara Pastoral Company Limited (YPCL), the royalty is paid to YPCL at a rate of 1.5% monthly turnover.

The audit noted that the turnover certificate from the lessee has not been obtained by the YPCL to confirm the total royalty receivable. It was also noted that withholding taxes on the royalty payments to Yaqara Pastoral Company Limited was deducted.

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

Recommendations

- **An audit certificate confirming the lessee's turnover should be requested as provided in the Agreement to confirm the royalty income.**
- **The company should make an application to the Inland Revenue seeking Certificate of Exemption for the royalty receipts from the lessee.**

SECTION 4: 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 activities of the company in the course of the financial year were provision and managing of ports services and facilities. 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 a subsidiary trading as Ports Terminal Ltd.

PART A – FINANCIAL INFORMATION

4.1 Audit Opinion

The audit of the financial statements of the Fiji Ports Corporation Limited and subsidiary for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

4.2 Abridged Income Statement

As at 31 December	2008 $	2007 $
Operating Revenue	36,000,156	34,517,125
Other Revenue	1,385,780	3,118,672
Total Revenue	37,385,936	37,635,797
Administration Expenses	5,726,648	2,523,227
Operating Expenses	26,683,704	26,181,075
Finance Expenses	2,997,994	3,065,592
Total Expenditure	35,408,346	31,769,894
Net Surplus for the year before income tax	1,977,590	5,865,903

Net surplus declined in 2008 by $3,859,358 (45%) because of increase in administration expenses by $3,638,452 (11%).

4.3 Abridged Balance Sheet

As at 31 December	2008 $	2007 $
Cash and Cash Equivalents	8,795,058	4,681,224
Trade and other Receivables	2,170,286	2,093,407
Investments	3,000,000	2,202,292
Other Current Assets	2,308,562	1,524,777
Property, Plant and Equipment	126,959,065	131,642,144
Investment Property	3,530,433	3,557,882
Deferred Tax Assets	5,411,343	4,513,481
Total Assets	152,174,747	150,215,207

As at 31 December	2008 $	2007 $
Trade and other Payables	4,422,998	3,344,766
Interest Bearing Borrowings	60,488,172	58,942,671
Income Tax Liability	1,200,863	960,543
Intangibles	1,643,101	1,643,101
Deferred Tax Liability	1,178,290	1,604,623
Other Liabilities	840,483	1,049,588
Total Liabilities	69,773,907	67,545,292
Net Assets	82,400,840	82,669,915
Shareholders' Equity		
Share Capital	73,154,852	73,154,852
Accumulated Profits	9,245,988	9,515,063
Total Shareholders' Equity	82,400,840	82,669,915

Net assets decreased by $269,075 in 2008 compared to 2007 as a result of a decrease in property, plant & equipment by 4%.

PART B – CONTROL ISSUES

4.4 Maritime Ports Authority of Fiji Debt

Included in the balance sheet is a balance of $261,097 as Maritime Ports Authority of Fiji (Ports Terminal Ltd) debtor, which is fully provided for. The amount is inclusive of $40,000 negative balances which have also been outstanding for a long time.

Carrying forward of debtors which may not exist has resulted in incorrect financial reporting.

Recommendation

The above debts including those that have been long outstanding and cannot be verified should be followed up and written off.

FPCL Comments

Management is aware of this issue and has recently employed a person to specifically look for the information from the old MPAF files and its reconciliation. We are targeting November 2009 for its clearance.

4.5 VAT Receivable

Included in the general ledger is a VAT Receivable balance of $117,963.58, carried forward from Maritime Ports Authority of Fiji (MPAF), which is now the Ports Terminal Ltd. No refunds have been received to-date. The "Statement of VAT Accounts" for MPAF revealed that there were no refunds.

Audit also noted that sales declared in the VAT Returns were $977,236 more than the sales recorded in the general ledger. A proper reconciliation has not been prepared.

The Corporation has recognized an asset that may not exist. The lack of sales reconciliation increases the risk of incorrectly declaring revenue in the VAT Returns.

Recommendation

The company should prepare sales as per VAT Return to sales as per the Trial Balance on a monthly basis.

FPCL's Comments

Management is aware of this balance. We are currently finalizing our reconciliation and submit to the board our final recommendations. In recognition of the unlikely receipt of these refunds, this balance was fully provided for in the accounts.

SECTION 5: PORTS TERMINAL LIMITED

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

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

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

PART A – FINANCIAL INFORMATION

5.1 Audit Opinion

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

5.2 Abridged Income Statement

As at 31 December	2008 $	2007 $
Revenue		
Handling	13,324,265	11,888,951
Pilotage	152,836	360,645
Other Revenue	495,176	498,980
Total Revenue	13,972,277	12,748,576
Expenditure		
Administration Expenses	2,051,601	1,973,323
Selling, Marketing and Distribution Expenses	9,423,323	8,361,416
Finance Expenses	35,460	57,825
Total Expenditure	11,510,384	10,392,564
Operating profit before income tax	2,461,893	2,356,012

The company recorded an increase in operating profit before income tax of $105,881 or 4.5% in 2008. This was due to increases in revenue from stevedoring, cargo handling and warehousing.

5.3 Abridged Balance Sheet

As at 31 December	2008 $	2007 $
Cash and cash equivalents	2,113,252	1,681,062
Trade and other receivables	2,356,451	2,685,135
Other current assets	1,902,857	1,167,724
Property, plant and equipment	5,616,893	5,606,723
Deferred tax asset	63,179	45,362
Total Assets	12,052,632	11,186,006
Trade and other payables	1,276,744	914,069
Interest bearing borrowings	398,153	1,031,423
Provision for income tax	385,601	255,625
Employee Entitlement	122,102	98,984
Deferred tax liability	668,313	637,452
Total Liabilities	2,850,913	2,937,553
Net Assets	9,201,719	8,248,453
Shareholders' Equity	9,201,719	8,248,453

Net assets increased by $953,266 or 12% in 2008 compared to 2007 as a result of increases in assets, specifically, cash and cash equivalents and other current assets. The substantial decrease in the company's interest bearing borrowings from Fiji Ports Corporation Ltd also contributed to the increase in net assets.

PART B – CONTROL ISSUES

5.4 Fiji Ports Corporation Limited Debt

Included in the company's balance sheet is an amount of $1.4 million receivable from Fiji Ports Corporation Limited. The amount was recorded in 2005 after a change in the shareholding and structure of the company.

No development has occurred since 2005 on the recoverability of this amount. The company's assets may be overstated.

Recommendation

The company should review the recoverability of this amount and ensure that it is recorded at realisable value.

PTL Comments

In the consolidated accounts, the balance is recognised as goodwill on consolidation with the transfer of PTL's assets to FPCL. This is explained further in Note 1.23 in the financial statements.

SECTION 6: FIJI ELECTRICITY AUTHORITY

The Fiji Electricity Authority (FEA) is established, incorporated and constituted under the provisions of the Electricity Act of 1966 and began operations from 1 August that year.

The Authority is governed under the Public Enterprise Act 1996. The principal activity of the FEA is to provide and maintain a power supply that is viable, economically sound and consistent with the required standards of safety, security and quality of power supply.

The Authority aims to provide clean and affordable energy solutions to Fiji and the Pacific and to provide all energy through renewable resources by 2011. The FEA is entrusted with enforcing the Electricity Act and regulations, setting standards, examining and registering electricians, and is empowered to approve and license suppliers to serve certain areas.

PART A – FINANCIAL INFORMATION

6.1 Audit Opinion

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

6.2 Abridged Income Statement

Year Ended 31 December	2008 $'000	2007 $'000
Revenue		
Operating Revenue	159,439	147,768
Other operating income	24,778	20,258
Total Revenue	184,217	168,026
Expenditure		
Personnel expenses	17,310	15,550
Fuel costs	89,250	60,016
Lease and Rent Expenses	1,905	2,662
Electricity purchases	12,984	9,969
Depreciation	29,013	27,400
Other operating expenses	27,303	30,850
Total Expenditure	177,765	146,447
(Loss)/profit from operations	6,452	21,579
Finance Costs	(8,439)	(7,275)
Share of profit of joint venture	717	352
Operating profit before income tax	(1,270)	14,656
Income tax (expense)/ credit	3,745	(4,078)
Net Profit for the year after Income Tax	2,475	10,578

The Authority recorded an operating profit after tax of $2,475,000 in 2008 compared to $10,578,000 in 2007. The significant decline in operating profit was largely due to high fuel cost, personnel expenses and purchases of the electricity.

6.3 Abridged Balance Sheet

As at 31 December	2008 $'000	2007 $'000
Current Assets		
Cash and cash equivalents	10,028	41,721
Receivables and prepayments	30,295	25,005
Other current assets	15,206	14,891
Total Current Assets	55,529	81,617
Non Current Assets		
Property, plant and equipment	658,670	563,729
Other non current assets	23,546	23,747
Total Non Current Assets	682,216	587,476
Total Assets	737,745	669,093
Current Liabilities		
Interest bearing borrowings	40,815	46,231
Other current liabilities	16,189	17,186
Total Current Liabilities	57,004	63,417
Non-Current Liabilities		
Interest bearing borrowings	202,156	139,807
Deferred tax liabilities	50,484	54,528
Other non current liabilities	43,548	33,672
Total Non Current Liabilities	296,188	228,007
Total Liabilities	353,192	291,424
Net Assets	384,553	377,669
Total Capital and Reserves	384,553	377,669

Net assets increased by $6,884,000 or 1.8% in 2008 compared to 2007 because of increases in property, plant and equipment by $94,941,000 or 16.84%.

PART B – CONTROL ISSUES

6.4 Inventory Subsidiary Systems and Controls

Audit noted that the Authority does not maintain inventory ageing report.

Audit advised that all stock are useable and the Authority has written off all obsolete and damaged stocks, and accordingly no additional provision was required as at balance date.

Recommendation

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

6.5 Debtors Reconciliation

From our review of electricity receivables reconciliation, we noted that the receivables listing showed a balance of $12,356,737 as against balance of $12,073,953 in the general ledger.

Full reconciliation and explanation has not been provided for our review.

We further note that differences over the years in this aspect have been as follows:

31 December 2008	$282,784
31 December 2007	$839,720
31 December 2006	$555,198
31 December 2005	$378,048
31 December 2004	$304,664
31 December 2003	$180,000

The difference between the subsidiary and control accounts over the last few years is of concern as it indicates that the two systems are not integrated properly and indicates a breakdown in internal controls.

Recommendations

- **The above difference should be immediately reconciled and adjustments, if any, should be processed in the respective ledgers.**
- **The Authority should review its system and introduce immediately the necessary corrective measures**.

6.6 Electricity Debtors – Unallocated Debits and Credits

From our review of electricity receivables for the year ended 31 December 2008, we noted the following amounts of unallocated debits and credits are shown separately as part of the electricity receivables.

PARTICULARS	AMOUNT ($)
Unallocated credits	1,195,734
Unallocated debits	176,925

Full details and reconciliation were not provided for our review.

Recommendation

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

6.7 Long Overdue Receivables

From our review of electricity debtors ageing report, we noted significant balances in long outstanding receivables as at 31 December 2008. We provide the following details:

PARTICULARS	31/12/2008 ($)
61-90 days	101,904
90 days and above	472,052

Audit further noted that the normal credit period for all electricity debtors is 30 days.

Recommendations

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

6.8 Capital Projects and Borrowings

Audit noted significant increase in interest bearing borrowings during the past two years. We also noted significant increase in borrowing costs during past 12 months.

These borrowings were for capital projects and, in particular, renewable power sector development projects.

Audit noted that certain recent project undertakings such as the Nadarivatu Hydro Power Project would require further borrowings for the purpose of further developments on the projects. We also note that these capital projects are currently not generating any income.

The increased borrowings will lead to higher interest cost and repayment commitments.

Furthermore, given that significant borrowings are denominated in US dollars and given the recent devaluation of Fiji dollar, there will be increased repayment commitments.

Furthermore, in accordance with provisions of the Income Tax Act, interest cost relating to long term capital projects is generally not deductible for tax purposes until the project starts generating income.

Recommendation

The Authority should continue monitoring the increasing level of borrowings, interest costs and repayment commitments, and its impact on the Authority's activities, and ensure that adequate funding is available to meet all its commitments as and when they fall due.

6.9 Financial Instruments and Risks

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

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

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

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

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

Recommendations:

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

6.10 Impairment of Assets

The Authority has significant investment in property, plant and equipment. Works are in progress to upgrade the transmission equipment. In view of this, impairment of assets test needs to be considered by the Authority.

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

Based on the trend in technological development and prevailing economic situation, the Authority should continuously review the current value of all assets and in particular transmission equipment ensuring that these assets are not over stated.

Recommendations

- **The management review the carrying value and remaining useful life of all assets ensuring that the carrying values do not exceed the recoverable amount.**
- **The Authority should assess at each balance date whether there is any indication that an asset has been impaired. Where a risk of impairment exits, the Authority should re-assess the asset's carrying value and process appropriate necessary adjustments.**

6.11 Bank Covenants

The audit noted that as at 31 December 2008, the Authority has breached certain financial covenants as stipulated by ANZ Banking Group.

Following details are provided.

Financial Ratio	ANZ Norm	Actual
Debt service cover	Not below 1.2 times	0.94
Debt to EBITDA	Not to exceed 5 times	6.5

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

Recommendation

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

6.12 Internal Audit

Audit is of the view that the scope and coverage of internal audit function appears to be inadequate in relation to the size of the Authority and nature of its business. More specifically, the internal audit function does not include the high risk areas, such as revenue, fixed assets, supply chain division, payroll and payments.

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

Recommendations

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

The internal audit function should:

i) **Enhance its scope to include all the accounting and finance areas and more specifically to test the internal controls in relation to revenue and expenditure cycles thereby adding greater potential benefit to the business.**

ii) **Suggest improvements in the existing systems and internal control procedures and follow up on the recommendations made in the internal audit reports.**

6.13 Accounting Procedures Manual

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

Recommendation

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

6.14 Fixed Assets

From our review of the fixed asset schedule for the year ended 31 December 2008, we noted the following exceptions:

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

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

(iii) Only one general ledger account (account no. 85110) is maintained for accumulated depreciation for all fixed assets categories.

Recommendations

- **To maintain effective control over the Authority's fixed assets, we suggest that computerized fixed asset register be maintained and regularly updated for all fixed assets showing for each asset name, the cost, date of purchase, identification number, and other relevant details.**
- **Regular physical stock take of fixed assets coupled with a reconciliation of the fixed assets register to the general ledger should be carried out to assist management in exercising proper physical control over fixed assets.**
- **Accumulated depreciation in the general ledger should be split into separate account heads for each class of fixed assets.**

6.15 Land Titles

From our review of the fixed assets schedule, we noted that the Authority has a number of freehold land and leasehold land. However, land titles could not be matched to the fixed assets schedule as no land title numbers are disclosed in the fixed assets schedule.

Furthermore, we noted that due to caveats placed on the land title in respect of the acquisition of land at Kinoya, land title has not yet been legally transferred to the Authority.

The above has been disclosed appropriately in the financial statements.

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

Recommendations

- **All freehold or leasehold land owned by the Authority should be included in the fixed assets schedule and should be supported by land title under the name of the Authority.**
- **The Authority follows up on all the transfer of the land titles on an urgent basis.**