



ACCOUNTABILITY IN THE PUBLIC SECTOR  
THROUGH QUALITY AUDIT SERVICES

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# REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

**Audits of Statutory Authorities – June 2010**

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## **Audits of Statutory Authorities - June 2010**

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File: 102

12 July, 2010

Commodore Josaia V. Bainimarama  
Prime Minister and Minister for Finance  
Office of the Prime Minister  
Government Buildings  
**SUVA**

Dear Sir

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**REPORT OF THE AUDITOR GENERAL**

**Audit of Accounts of Statutory Authorities – June 2010**

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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 statutory authorities that were completed during the 1<sup>st</sup> half of 2010.

Tevita Bolanavanua  
**Acting Auditor - General**



# INTRODUCTION

This report summarizes the results of financial audits of 14 statutory authorities which were completed during the 1<sup>st</sup> half of 2010. Audits that are still in progress will be reported in December 2010. The following table summarizes the status of audits of all statutory authorities to date:

	Statutory Authority	Audit Completed	Audit Opinion	Remarks
1	Agriculture Marketing Authority	2007	Qualified	2008 and 2009 accounts received on 10/6/10. Audit to start after Agency Financial Statements (AFS) audit is completed.
2	Capital Development Authority	2008	Unqualified	2009 audit completed and account sent for signing on 29/6/10.
3	Fiji Arts Council	2003	Qualified	2004 account yet to be submitted for audit.
4	Fiji Institute of Technology	2006	Unqualified	Audit for 2007 is in progress but delay caused by adoption of IFRS standards.
5	Fiji Inland Revenue & Custom Authority	2008	Unqualified	2009 audit is being finalized.
6	Fiji National Council for Disabled Persons	2008	Unqualified	2009 account received & audit to start in August 2010.
7	Fiji Museum	2004	Unqualified	Fiji Museum is appointing its own auditor to audit 2005 accounts.
8	Fiji Servicemen Aftercare Fund	2007	Unqualified	2008 account has been submitted for audit and this will start in August 2010.
9	Fiji Sports Council	2005	Unqualified	2006 audit completed and accounts sent for signing on 24/0/10.
10	Tourism Fiji (Fiji Visitors Bureau)	2008	Unqualified	2009 audit is in progress.
11	Korovou Rural Local Authority	2007	Qualified	2008 account yet to be submitted for audit.
12	National Fire Authority	2007	Unqualified	2008 account yet to be submitted for audit.
13	National Food & Nutrition	2008	Unqualified	2009 account received & audit to start in August 2010.
14	National Substance Abuse Advisory Council	2008	Unqualified	Audit of 2009 account in progress.
15	Navua Rural Local Authority	2008	Qualified	2009 account has been submitted for audit. Audit to commence in August 2010.
16	Price Incomes Board	2008	Unqualified	
17	Training and Productivity Authority of Fiji	2008	Unqualified	2009 account yet to be submitted for audit.
18	Coconut Industry Development Authority of Fiji	2005	Qualified	CIDA account was sent for signing on 25/6/10. CIDA operation taken over by MPI from 2010.
19	National Road Safety Council	2007	Qualified	2009 account is yet to be submitted for audit.
20	Consumer Council of Fiji	2008	Unqualified	2009 account received & audit will start in August 2010.
21	Fiji Islands Trade & Investment Board	2008	Unqualified	2009 account sent for signing on 25/6/10.
22	Sugar Industry Tribunal	2008	Unqualified	Audit of 2009 account is in progress.
23	Fiji Audio Visual Commission	2008	Unqualified	2009 audit is being finalized.

	Statutory Authority	Audit Completed	Audit Opinion	Remarks
24	Commerce Commission	2008	Unqualified	2009 account yet to be submitted for audit.
25	Ra Rural Local Authority	2007	Qualified	Audit of 2008 account will commence on 13/7/2010
26	Western Division drainage Board	2005	Qualified	2006 account yet to be submitted for audit
27	Fiji Co-operative Union	2003	Qualified	2004 account yet to be re-submitted for audit.
28	Land Transport Authority	2008	Unqualified	2009 audit is in progress.
29	National Centre for Micro Finance	2007	Qualified	2008 account yet to be submitted for audit.
30	Fiji Shipping Corporation	2008	Unqualified	Audit of 2009 account is in progress by KPMG.
31	Rotuma Development	1995	Qualified	1996 audit is in progress.
32	Fijian Affairs Board	1996	Qualified	Audit of 1997-2000 is in progress.
33	National Trust of Fiji	2005	Unqualified	2006 audit yet to be finalized.
34	Centre for Appropriate Technology			New audit-2009 audit has been completed and file is with Director for review.
35	Civil Aviation Authority of Fiji	2008	Unqualified	Audit of 2009 account is in progress by E&Y.
36	Fiji Independence Commission Against Corruption	2008	Unqualified	2009 account yet to be submitted for audit.

Statutory authorities 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. A contributing factor in the delay in audits of statutory authorities is the lack of capacity to undertake accounting work in some of the statutory authorities.

Only 7 of the statutory authorities audited during the 1<sup>st</sup> half of 2021 reported surpluses during the periods audited whilst the other 7 incurred losses in their operations. 8 statutory authorities were issued unqualified audit reports while 6 were qualified. An unqualified opinion is issued when the financial statements give a true and fair view (or are presented fairly in all material respects) in accordance with the identified financial reporting framework. A qualified audit opinion is issued when the overall financial statements are fairly stated but that either the financial data indicated a failure to follow applicable accounting standards or there was a significant uncertainty concerning certain financial data.

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

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

## Statutory Authorities

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1. Civil Aviation Authority of Fiji
2. Prices and Incomes Board
3. Fiji Servicemen's After-Care Fund
4. Fiji Shipping Corporation
5. Coconut Industry Development Authority
6. Consumer Council of Fiji
7. Navua Rural Local Authority
8. Fiji Islands Revenue & Customs Authority
9. Western Drainage Board
10. Training Productivity Authority of Fiji
11. Ra Rural Local Authority
12. National Centre for Small & Micro Enterprises Development
13. Fiji Independent Commission Against Corruption
14. Korovou Rural Local Authority

## SECTION 1: CIVIL AVIATION AUTHORITY OF THE FIJI ISLANDS

The Civil Aviation Authority of the Fiji Islands (CAAFI) is an Aviation Regulatory Authority in the Fiji Islands and is responsible to discharge its functions on behalf of the Fiji Government under its responsibility to the Chicago Convention on International Civil Aviation Organization (ICAO).

It regulates the activities of:

- airport operators,
- air traffic control and air navigation service providers,
- airline operators,
- pilots and air traffic controllers, aircraft engineers, technicians, airports,
- airline contracting organisations and
- international air cargo operators.

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## PART A – FINANCIAL INFORMATION

### 1.1 Audit Opinion

The audit of the consolidated financial statements of the Civil Aviation Authority of the Fiji Islands and its subsidiary Air Terminal Services for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

The attention of the Authority was however drawn to that no independent verification was made on the correctness of the departure tax revenue totaling \$5,446,339 as it had relied solely on information provided by Airports Fiji Limited.

### 1.2 Abridged Statement of Financial Position

As at 31 December	2008 \$	2007 \$
<b>Current Assets</b>		
Cash	5,678,273	4,889,334
Income Tax Refund Due	426,497	723,268
Trade Receivable	2,824,651	3,026,333
Inventories	706,740	631,160

As at 31 December	2008 \$	2007 \$
Other Assets	2,745,597	12,805,279
Investments	8,450,000	5,950,000
<b>Total Current Assets</b>	<b>20,831,758</b>	<b>28,025,374</b>
Non-Current Assets	65,637,231	66,177,779
<b>Total Assets</b>	<b>86,468,989</b>	<b>94,203,153</b>
Current Liabilities	4,235,299	4,728,003
Long term Liabilities	2,188,027	2,064,351
<b>Total Liabilities</b>	<b>6,423,326</b>	<b>6,792,354</b>
<b>Net Assets</b>	<b>80,045,663</b>	<b>87,410,799</b>
<b>Shareholders' Equity</b>		
Reserves	25,091,110	24,811,599
Retained Earnings	43,407,843	51,568,878
Minority Interest	11,546,710	11,030,322
<b>Total Equity</b>	<b>80,045,663</b>	<b>87,410,799</b>

Net assets of the Authority decreased by \$7,365,136 or 8.4% in 2008 compared to 2007 that was largely due to the write off of accrued land rental of \$9,625,265 owed by Airport Fiji Limited. The write off was approved by the Cabinet on 16<sup>th</sup> October 2008.

### 1.3 Abridged Statement of Financial Performance

Year ended 31 December	2008 \$	2007 \$
Operating Revenue	31,734,645	31,943,185
Other Income	455,321	1,338,463
<b>Total Income</b>	<b>32,189,966</b>	<b>33,281,648</b>
Operating and Admin. Expenditure	(37,457,520)	(28,024,764)
<b>Operating profit before tax</b>	<b>(5,267,554)</b>	<b>5,256,884</b>
Income Tax (Expenses)/Benefit	(442,448)	(460,171)
<b>Operating profit after tax</b>	<b>(5,710,002)</b>	<b>4,796,713</b>
Minority Interest	(951,033)	(1,130,041)
<b>Net profit</b>	<b>(6,661,035)</b>	<b>3,666,672</b>

Net profit declined by \$10,327,707 or by 282% in 2008 due to write off of bad debts totaling \$10,450,272 following Cabinet decision to write off accrued land rental owed by Airport Fiji Limited.

## PART B – CONTROL ISSUES

### 1.4 Departure Tax Revenue

Departure tax revenue is recognized based upon information provided by Airports Fiji Limited. The statistics provided by the Immigration Department do not reconcile the data provided by Airports Fiji Limited.



### **Recommendation**

**The Authority should request for more reliable data, to ensure that revenue is correctly stated in the books of accounts.**

### **Management Comments**

*This is a recurring issue. In the absence of any reliable statistics from AFL in the past, the Authority has approached for assistance from Ministry of Finance, Bureau of Statistics and even the Auditor General of Fiji so that the amount received could be verified for correctness, however, there has been little success. The Authority however, continues its endeavor to obtain a reconciliation to match as closely as possible to the revenue received.*

## **1.5 Accounting Software**

The Authority uses Image Accounting Software. It has limitations in performing roll over of accounts. Due to this reason the trial balance does not balance. The difference is recorded as part of retained earnings. These limitations could render the general ledger to be incorrect.

### **Recommendation**

**The Authority should invest in better accounting software.**

### **Management Comments**

*The present software is capable of performing end of year roll-over functions, however, this function is restricted to the supplier of the software who was engaged by the Authority in previous years on a Service Level Agreement (SLA) for accounting software maintenance and other technical expertise not available in-house. The SLA expired some years ago and not renewed in the expectation that new software would be purchased on the divestiture of the non-core activities. Since divestiture has prolonged for an unexpected long period, the Authority would be engaging the same contractor to carry out the required roll over functions. This will assist in the migration of data to a new accounting software.*

*Another reason for the roll-over function not carried out was the delay in finalizing the accounts due to non-availability of ATS (Fiji) Ltd financial statements until late in the year. ATS accounts were required to consolidate the Authority's accounts as CAAFI held the majority shares in ATS.*

*The Authority is already in the process of drawing up specifications for new accounting software suite which will take care of the requirements based on a regulatory status accounting platform when the divestiture exercise is completed.*

## SECTION 2: PRICES AND INCOMES BOARD

The Prices and Incomes Board was established on 1<sup>st</sup> July 1973 in accordance with the Counter – Inflation Act. The Board is a statutory body under the control of a single board member who is appointed by the Minister of Finance. In carrying out its statutory function, the board is empowered under the Counter – Inflation Act (Cap 73) upon the Ministers directive and approval, to control the following:

- prices;
- charges;
- remuneration;
- dividends
- rents; and
- any connected purpose as determined by the Minister.

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## PART A – FINANCIAL INFORMATION

### 2.1 Audit Opinion

The audit of the financial statements of the Prices & Incomes Board for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

### 2.2 Abridged Income Statement

Year Ended 31 December	2008	2007 \$
<b>Income</b>		
Grants from Government	1,047,111	1,047,111
Other Income	8,518	6,818
<b>Total Income</b>	<b>1,055,629</b>	<b>1,053,929</b>
<b>Expenditure</b>		
Personnel Expenses	782,027	811,650
Other Operating Expenses	230,159	246,896
<b>Total Expenditure</b>	<b>1,012,186</b>	<b>1,058,546</b>
<b>Result for the year from Ordinary Activities</b>	<b>43,443</b>	<b>(4,617)</b>

Tighter controls over expenditure resulted in a significant decrease in expenditure by \$43,360 or 4.4%. This saw an improved result in its operation from deficits of (\$4,617) in 2007 to a surplus of \$43,443 in 2008.

The surplus for the year consists of only 4% of total receipts of the Board. Further controls should be exercised over expenditure particularly salaries, wages and related payments which consisted of 76% of total expenditure.

### 2.3 Abridged Balance Sheet

As at 31 December	2008 \$	2007 \$
<b>Current Assets</b>		
Cash at Bank	93,699	50,256
Vat Receivable	1,189	1,189
<b>Total Assets</b>	<b>94,888</b>	<b>51,445</b>
<b>Total Accumulated Funds</b>	<b>94,888</b>	<b>51,445</b>

The increase in the net assets by \$43,443 or 84.4% in 2008 compared to 2007 was attributed to an improvement in revenue collection and tighter control over expenditure.

## SECTION 3: FIJI SERVICEMEN'S AFTER-CARE FUND

A committee appointed by the Minister of Finance manages the Fund which was established generally for the aid and care of ex-servicemen and their dependents. The broad scope of activities is covered under Section 13 of the Fiji Servicemen's After-Care Fund Act.

The mission or core business of the Fund is in the following areas:

- To provide funds for the maintenance and welfare of persons who have served at any time during the war in or with the Fiji Naval or Military Forces or any branch of the Allied Forces or any Allied Merchant Service or any Nursing Service attached to any of the Allied Forces and for the aid and care of the wives, widows, children and other dependents of such persons;
- To provide such persons or any of them with medical care and surgical appliances;
- To provide for the education of the children such persons or any of them;
- To assist such persons or any of them to fit and equip themselves for any profession, trade or calling;
- To make loans to persons specified above, subject to such conditions the committee may think fit;
- To make the payment of all reasonable costs, charges and expenses of the Committee or incidental to the applications and the administration of the Fund.

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## PART A – FINANCIAL INFORMATION

### 3.1 Audit Opinion

The audit of the financial statements of the Fiji Servicemen's After-Care Fund for the year ended 31 December 2007 resulted in the issue of an unqualified Independent Audit Report.

### 3.2 Abridged Statement of Financial Performance

Year ended 31 December	2007 \$	2006 \$
<b>INCOME</b>		
Government Grant	5,340,000	4,564,000
Other	64,879	278,881
<b>TOTAL INCOME</b>	<b>5,404,879</b>	<b>4,842,881</b>
<b>EXPENDITURE</b>		
Beneficiary Payments	4,569,257	4,516,424
Staff/Personnel Costs	204,209	225,729

Year ended 31 December	2007 \$	2006 \$
Other Operating & Administration Expenses	111,572	120,273
Ex-Servicemen's Association	70,589	20,913
Christmas Island Veterans	8,938	14,880
<b>TOTAL EXPENDITURE</b>	<b>4,964,565</b>	<b>4,898,219</b>
<b>NET SURPLUS (DEFICIT) FOR THE YEAR</b>	<b>440,314</b>	<b>(55,338)</b>

Total income increased by \$561,998 or 12% in 2007 as a result of increase in government grant by \$776,000 or 17%. The Fund recorded a surplus of \$404,314 in 2007 compared to a deficit of \$55,338 in 2006. The surplus recorded in 2007 constituted 8% of total income.

### 3.3 Abridged Statement of Financial Position

As at 31 December	2007 \$	2006 \$
Current Assets	447,192	6,878
<b>TOTAL ASSETS</b>	<b>447,192</b>	<b>6,878</b>
<b>ACCUMULATED FUNDS</b>	<b>447,192</b>	<b>6,878</b>

Currents assets increased by \$440,314 in 2007 as a result of increase cash inflow from government grant. The Fund also utilized only \$4,932,335 from the grants received resulting in a higher closing bank balance as at 31<sup>st</sup> December 2007.

## PART B - CONTROL ISSUES

### 3.4 Destruction of Old Records and Documents

Any accounting records or documents that are required to be retained under existing Act and Regulations will only be destroyed under specific instructions from the Auditor General.<sup>1</sup>

Contrary to the above regulation, the Fund destroyed files and reports of 1998 to 2000 during the period 4 May 2007 to 5 May 2007, without obtaining any approval from the Office of the Auditor General. The table below provides details of items destroyed.

Year	Files and Reports Destroyed
2000	<ul style="list-style-type: none"> <li>• Adall Jan – Dec</li> <li>• Pay Summary Jan – Dec</li> <li>• Payrolls Banks: ANZ, CNB, Westpac, Bank of Baroda</li> <li>• Reconciliation Summary Jan – Dec</li> <li>• Stale Cheques Jan – Dec</li> <li>• Payrolls Master File Jan – Dec</li> <li>• Edit Report Jan – Dec</li> <li>• Remittance Jan – Dec</li> </ul>

1. Committee of Management- Fiji Servicemen's Aftercare ( Financial Management Procedure Manual - Miscellaneous 11.1)

Year	Files and Reports Destroyed
	<ul style="list-style-type: none"> <li>Bank Reconciliations Jan - Dec</li> </ul>
1998 – 1999	<ul style="list-style-type: none"> <li>Statement of Account (Bank)</li> <li>Issued Cheques Report (2)</li> <li>Pay Summary Jan – Dec</li> <li>Bank Recon Report</li> <li>Payroll Masterfile Jan – Dec</li> <li>Payroll Banks: ANZ, Westpac, CNB, Baroda</li> <li>Adall Report Jan – Dec</li> <li>Unpresented Cheques Report</li> <li>NLC's File Despatch centres, Banks</li> </ul>

The Fund has breached the regulations pertaining to the maintenance of records, which would have been essential for the Public Accounts Committee's scrutiny and deliberations.

### **Recommendation**

**The Fund should seek prior approval and clearance from the Office of the Auditor General for the destruction of old records.**

### **Fund's Comments**

*The Fund's office experienced a year in which its filing storage facilities (cabinets, shelves, etc) were overloaded with old files and records. This was due to the delay in auditing of the previous years accounts which were being held up for quite some time, coupled with the inclusion of ex-peacekeepers into the Fund's Act from 2007. The storage facilities were only limited and the increase in files and records far exceeded the storage capacity. While we agree with the findings, the destruction of old files was done in good faith. However your point is noted and will be actioned.*

## **3.5 Stale Cheques**

Where cheques remain outstanding in the unpresented cheques lists for an unreasonable time, attempts shall be made to locate the payees in order to obtain presentation of cheques before they become stale.<sup>2</sup>

Stale cheques as at 31/12/07 totalled \$59,813 compared to \$10,090 in 2006, an increase of 493%. Refer to the table below for details.

Month	Amount \$
January	8,017
February	7,204
March	6,043
April	4,678
May	4,570
June	3,885
July	5,160
August	4,185

<sup>2</sup> Financial Management Procedure Manual – Committee of Management. (Reconciliation 4.5)

Month	Amount \$
September	4,285
October	4,588
November	3,184
December	4,014
<b>Total</b>	<b>59,813</b>

The stale cheques belonged mainly to recipients who dwelled in remote rural areas with their allowances normally sent to District Officers Offices (DO) and Post Offices. The remoteness and the distance of these recipients from the collection point contributed significantly to their non-collection and return of cheques to the Fund after becoming stale.

Failure to effectively monitor unpresented cheques that becomes stale has resulted in excessive unpaid allowances on a monthly basis.

### **Recommendations**

- **The Fund should design an effective monitoring mechanism to minimize the issue of stale cheques.**
- **The Fund should consider engaging the services of the ANZ – Rural Banking Services to facilitate the payment of allowances to recipients who are in remote rural areas.**

### **Fund's Comments**

*The Fund's monitoring system is in place through Life Certificates which is dispatched to recipients every six months. Recipients are required to sign and return the form within the three months of its dispatch. The allowance is suspended thereafter, if the Life Certificate is not received at the Fund's office. Most stale cheques in rural or remote areas occur when recipients cashed their cheques at rural agencies like grocery shops etc and for the agents to bring the cheques for presentation at the bank and this takes time. Meantime efforts are being made to improve this area of our operations.*

*Presentation on the ANZ Rural Banking Services was made during the Fund's meeting with the recipients at various centres around Viti Levu, Vanua Levu, Taveuni and Ovalau. While the majority of the recipients opted in favour of the service, the rest preferred to remain with their current payment arrangement. Might we add that many of those who opted for Rural Banking Services have withdrawn from that service for reasons best known to them.*

## **3.6 Engagement of Advertising Media Consultant**

The Secretary and Assistant Secretary and any other officer responsible for expenditure shall at all times exercise proper economy in the expenditure of funds and ensure that proper value is obtained for all money used.<sup>3</sup> All purchases are to be authorized through the issue of the Local Purchase Order (LPO). In addition, LPO's are to be signed only by the Secretary and Assistant Secretary. LPO must contain all relevant information for the supplier including costs.<sup>4</sup>

<sup>3</sup> Financial management Procedure Manual – Committee of Management. ( 3.1 Control of Expenditure)

<sup>4</sup> Financial management Procedure Manual – Committee of Management. ( 5.1 Purchases and Payments)

The Fund in 2006 engaged a Media Consultant for the designing and printing of its quarterly newsletter – “Au Vura”. However, audit noted the following anomalies:

- There was neither a contract nor any agreement drawn up between the Fund and the Consultant.
- No competitive quotations were obtained.
- No LPO was issued

A sum of \$15,435 was paid on 31/12/07 to AdMed for the designing and printing the quarterly newsletter. Refer to the following table for details of the payments for the designing and printing of the newsletter in 2006 and 2007.

Date	Cheque No.	Amount \$
23/03/06	348	982.50
16/04/06	394	982.50
07/08/06	836	1,105.00
09/08/06	847	1,105.00
01/12/06	227	1,105.00
19/12/06	274	1,105.00
<b>Total for 2006</b>		<b>6,385</b>
17/05/07	739	1,105
11/06/07	823	1,105
11/10/07	426	1,100
24/10/07	479	1,860
10/12/07	638	1,940
14/12/07	661	1,940
<b>Total for 2007</b>		<b>9,050</b>

Furthermore, it was noted that the Fund made an advance payment of 50% of the total cost to the consultant and the balance was to be paid upon the delivery of the printed newsletter.

Without any contract or an agreement, the interest of the Fund would not be safeguarded and protected from third parties.

### **Recommendations**

- **The Fund should ensure that a contract or an agreement is drawn up when engaging third parties, to protect the interest of the Fund.**
- **Tenders should be advertised when committing large sum of funds.**

### **Fund's Comments**

*We have noted your comments and the Fund will ensure that proper procedures and guidelines are followed when engaging such services in future. The Fund is quite satisfied with the magazine in its current form. We feel that it has served its purpose well because of the many positive feedbacks we receive from the recipients.*



## SECTION 4: FIJI SHIPPING CORPORATION LIMITED

The Fiji Shipping Corporation Limited is a wholly owned company of government set up in 2004 under the Companies Act to administer the Shipping Franchise Scheme. It is controlled by a Board of Directors appointed by the Minister for Transport.

The company conducts its business within the legal framework of the Companies Act, VAT Decree, Income Tax Act, and International Financial Reporting Standards.

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## PART A – FINANCIAL INFORMATION

### 4.1 Audit Opinion

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

### 4.2 Abridged Statement of Financial Performance

As at 31 December	2008 \$	2007 \$
<b>Revenue</b>		
Grant Income	1,644,692	1,685,408
Other Income	6,916	-
<b>Total Revenue</b>	<b>1,651,608</b>	<b>1,685,408</b>
<b>Expenditure</b>		
Direct Costs	1,422,750	1,482,611
Other Expenses	221,942	202,797
<b>Total Expenditure</b>	<b>1,644,692</b>	<b>1,685,408</b>
<b>Profit from operations</b>	<b>6,916</b>	<b>0</b>
Finance Income	-	1,897
<b>Operating profit before income tax</b>	<b>6,916</b>	<b>1,897</b>
Income tax (expense)/ credit	(2,180)	(588)
<b>Net Profit for the year after Income Tax</b>	<b>4,736</b>	<b>1,309</b>

The Company's net profit after income tax increased by \$3,427 in 2008 compared to 2007 due to gain on sale of motor vehicle.

### 4.3 Abridged Statement of Financial Position

As at 31 December	2008 \$	2007 \$
<b>Current Assets</b>		
Cash at Bank	156,450	187,444
Prepayments and other assets	33,202	35,071
<b>Total Current Assets</b>	<b>189,652</b>	<b>222,515</b>
<b>Non - Current Assets</b>		
Property, plant and equipment	42,471	77,362
Other non current assets	526	842
<b>Total Non Current Assets</b>	<b>42,997</b>	<b>78,204</b>
<b>Total Assets</b>	<b>232,649</b>	<b>300,719</b>
<b>Current Liabilities</b>		
Trade and other payables	115,711	114,092
Provisions	4,951	2,900
Deferred Income	101,694	178,170
<b>Total Current Liabilities</b>	<b>222,356</b>	<b>295,162</b>
Non-Current Liabilities	-	-
<b>Total Liabilities</b>	<b>222,356</b>	<b>295,162</b>
<b>Net Assets</b>	<b>10,293</b>	<b>5,557</b>
<b>Shareholders' Equity</b>	<b>10,293</b>	<b>5,557</b>

Net assets increased by 85.2% in 2008 compared to 2007 due to significant decline in deferred income by 42.9% in 2008.

## PART B – CONTROL ISSUES

### 4.4 Review of the franchise scheme

Audit noted that the Shipping Franchise Scheme was under review during the financial year. The review has not been completed due to lack of funds as well as the government looking at other options for the company.

There is a possibility that some of the shipping operators are using the profits to pursue other interests that are not directly related for the improvement of services under the franchise scheme.

#### **Recommendation**

**The company should ensure that the Shipping Franchise Scheme review is completed. This could assist in the better allocation of franchise payments and continuous assessments could result in government subsidies not been necessary once the routes become economical.**

**Management Comments**

- i.) *The review of the Franchise scheme was terminated due to unavailability of funds and a proposed merger is being planned for by the Government between the Government Shipping Services and Fiji Shipping Corporation Limited.*
- ii.) *The role of Trade Development Officer is to continue to promote trade and development in the outer islands, particularly in the uneconomical routes that are currently serviced by the Franchise operators.*
- iii.) *With the promotions of trade and development we believe some of the routes will become economically viable.*

**4.5 Deficiency in working capital**

Fiji Shipping Corporation Limited recorded a deficiency in working capital of \$32,704 as at 31 December 2008. This is a decrease from 2007, where there was a deficiency in working capital of \$72,647.

This implies that at present the current assets expected to be liquidated within twelve months cannot meet the debts due within the same period.

The company may not have sufficient funds or working capital to meet debts as and when they fall due and would need to utilise its overdraft facility and incur interest expense on the facility.

**Recommendation**

**Consideration should be given to managing working capital effectively and budgeting for cash flow purposes.**

**Management Comments**

*We will seek an approval for overdraft facility for the purpose of meeting cashflow in the coming year. Effectively the management will be perusing to ensure that we adhere to the approved budget allocations.*

## SECTION 5: COCONUT INDUSTRY DEVELOPMENT AUTHORITY

The Coconut Industry Development Authority was established to administer the development of the coconut industry in the Fiji Islands on an integrated basis in order to achieve increased production of coconut lands in the traditional and plantation areas.

The principal activity of the Authority was to foster:

- Research and agricultural extension activities relating to the coconut industry, design to improve hybrid and other high yielding varieties and their use in planting and replanting;
- The application of inter-cropping and mixed farming systems in coconut lands;
- Innovative land- use and land tenure systems and farming techniques in coconut land.

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## PART A – FINANCIAL INFORMATION

### 5.1 Audit Opinion

The audit of the financial statements of the Coconut Industry Development Authority for the year ended 31 December 2005 resulted in the issue of a qualified audit report. The qualifications were as follows:

- The debtors and creditors general ledger as at 31 December 2005 was not in agreement with the debtors and creditors subsidiary ledgers by \$9,749 and \$65,594 respectively.
- There was a difference in the Coconut Industry Development Authority (CIDA) term loan balances as per the general ledger and the audited signed financial statements of Copra Millers of Fiji Limited. Term loan balances as per the Authority amounted to \$633,192 whereas the subsidiary's financials recorded \$758,644.

## 5.2 Statement of Financial Performance

Year Ended 31 December	2005 \$	2004 \$
<b>Revenue</b>		
Sales	5,146,659	4,313,668
Other Income	691,400	124,459
<b>Total Revenue</b>	<b>5,838,059</b>	<b>4,438,127</b>
<b>Expenditure</b>		
Cost of sales	5,249,218	3,745,536
Depreciation	176,084	149,909
Personnel Expense	408,415	144,149
Operating Expense	487,265	255,906
<b>Total Expenditure</b>	<b>6,320,982</b>	<b>4,295,500</b>
Profit/(Loss) from operations	(482,923)	142,627
Finance cost	5,915	19,452
<b>(Loss)/Profit before tax</b>	<b>(488,838)</b>	<b>123,175</b>
Income tax expense	-	8,240
<b>(Loss)/Profit after tax</b>	<b>(488,838)</b>	<b>114,935</b>
(Loss)/Profit attributable to Minority Interest	28,321	(16,787)
<b>Net Profit</b>	<b>(460,517)</b>	<b>98,148</b>

Net Profits of the Authority decreased by \$558,665 or 569% in 2005 compared to 2004. The decline in Net Profit was attributed by an increase in expenditure by \$2,025,482 or 47%.

## 5.3 Statement of Financial Position

As at 31 December	2005 \$	2004 \$
<b>Assets</b>		
Cash	287,715	1,315,279
Term Deposits	125,781	191,606
Trade Receivable	245,524	225,498
Inventories	977,482	824,092
Other Assets	62,455	16,371
<b>Total Current Assets</b>	<b>1,698,957</b>	<b>2,572,846</b>
Non-Current Assets	1,993,845	1,793,100
<b>Total Assets</b>	<b>3,692,802</b>	<b>4,365,946</b>
<b>Liabilities</b>		
Current Liabilities	538,321	416,020
Long term Liabilities	622,621	929,229
<b>Total Liabilities</b>	<b>1,160,942</b>	<b>1,345,249</b>
<b>Net Assets</b>	<b>2,531,860</b>	<b>3,020,697</b>
<b>Accumulated Fund</b>		
Accumulated Profit	2,488,514	2,949,031
Minority Interest	43,346	71,666
<b>Total Accumulated Fund</b>	<b>2,531,860</b>	<b>3,020,697</b>

Net assets had declined by \$488,837 or 16% in 2005 compared to 2004 as the result of decreases in cash by \$1,027,564 or 78% in 2005 compared to 2004.

## **PART B – CONTROL ISSUES**

### **5.4 Financial Procedures Manual to be Developed**

Audit noted that the Authority does not have a finance procedures manual in place. The finance procedures manual documents in detail policies and procedures in relation to the accounting activities and processes. The documented standard on the finance policies and procedures will assist the staff of the Authority in carrying out their responsibilities

The risk of not having documented policies and procedures manual could increase the risk of proper procedures not being followed leading to potential losses for the Authority.

#### **Recommendation**

**The Authority should consider documenting the procedures and practices for Finance and compiling a comprehensive policies and procedures manual.**

#### **Management Comments**

*Effort was made by management to put the financial procedures manual in place by hiring an accounting firm. However, the accounting firm failed to prepare and produce a manual to CIDA. Currently management is working on this. However, the completion of the manual will be subject to funding availability.*

### **5.5 Inter-Company Balances to be Properly Reconciled**

There were variances noted in the inter company balances between the Authority and Copra Millers of Fiji Limited. These variances also indicates that the inter company balances are not reconciled on a regular basis. We noted the following:

	Balance as per Coconut Industry Development Authority (\$)	Balance as per Copra Millers of Fiji Limited (\$)
Advance to the subsidiary	646,501	758,644

The variance was adjusted during consolidation by effecting a journal entry of \$140,063 in accumulated funds. This adjustment included an additional \$28,320 which could not be verified.

This could result in variances at consolidation level which may not be reconcilable. This could result in misstatements in significant account balances in the financial statements.

#### **Recommendation**

**The inter company balances should be reconciled and confirmed at regular intervals during the year by referring to the management accounting records, preferably at quarterly intervals.**

### **Management Comments**

*There was anomaly in the reconciliation when the advance was made and that anomaly was carried forward to 2005. CIDA will attempt to resolve this issue in the 2006 audit.*

## **5.6 Creditors and Accruals to be Reconciled**

During our review of the creditors and accruals reconciliation, audit noted that accruals amounting to \$19,730 could not be substantiated. Verification of this amount was difficult as the exact composition was not known. The creditors and accruals reconciliation had no evidence of review by a senior officer.

Misstatements in account balances may not be identified if the composition of balances is not known.

### **Recommendation**

**Creditors and accrual balances should be properly reconciled on a regular basis to avoid any unknown balances and this reconciliation should be reviewed by a senior officer.**

### **Management Comments**

*CIDA will make arrangements with your office to have this issue resolved.*

## **5.7 Subsidiary Company's Financial Statement**

Audit noted that the subsidiary company's financial statements, Copra Millers of Fiji Limited was qualified in respect of the following:

1. The debtors and creditors general ledger as at 31 December 2005 was not in agreement with the debtors and creditors subsidiary ledger by \$9,749 and \$65,594 respectively.
2. There was a difference in the Coconut Industry Development Authority (CIDA) term loan balance as per the general ledger and the audited signed financial statements of Copra Millers of Fiji Limited. Term loan balance as per the Authority amounted to \$633,192 whereas the subsidiary's financials recorded \$758,644.

The above qualification of the subsidiary company's financial statement has also resulted in the Authorities financial statement to be qualified.

### **Recommendation**

**The Authority should take appropriate action in order to have the above differences reconciled in the book of its subsidiary.**

**Management Comments**

*The management and board are aware of the issue. Appropriate decision will be made to close the issue.*



## SECTION 6: CONSUMER COUNCIL OF FIJI

The Consumer Council of Fiji is a statutory body established under the Consumer Council of Fiji Act, 1976 (Cap 235). The Act was amended in 1992 to enable the transfer of certain functions of the Council to the new Department of Fair Trading and Consumer Affairs established under the Fair Trading Decree, 1992. The Council is required to do such acts as it considers necessary to ensure that the interest of the consumers of goods and services are promoted and protected.

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## PART A – FINANCIAL POSITION

### 6.1 Audit Opinion

The audit of the financial statements of the Consumer Council of Fiji for the year ended 31 December 2008 resulted in the issue of an unqualified audit report but attention was drawn under emphasis of matter for the following:

- The MYOB creditor's ledger balances did not reconcile with the creditor's listing confirmations, resulting in a variance of \$14,229; and
- A variance of \$18,252 was noted from the salaries and wages reconciliations undertaken and the audited figure.

### 6.2 Abridged Statement of Financial Performance

As at 31 December	2008 \$	2007 \$
Government Grant	560,192	520,029
Other Income	30,767	121,414
<b>Total Income</b>	<b>590,959</b>	<b>641,443</b>
<b>Expenditure</b>		
Depreciation	20,178	20,487
Rent and rates	50,200	50,200

<b>As at 31 December</b>	<b>2008 \$</b>	<b>2007 \$</b>
Salaries, wages and related payments	361,723	354,733
Telephone and postage charges	15,296	19,256
Traveling expenses	10,835	10,309
Sundry expenses	83,038	78,698
<b>Total Expenditure</b>	<b>541,270</b>	<b>533,683</b>
<b>Net Surplus/(Deficit) for the year</b>	<b>49,689</b>	<b>107,760</b>

There Council recorded a surplus of \$49,689 in 2008, compared to \$107,760 in 2007 as a result of decline in other income by 75%. The surplus recorded in 2008 constitutes 8% of total income.

### 6.3 Abridged Statement of Financial Position

<b>As at 31 December</b>	<b>2008 \$</b>	<b>2007 \$</b>
<b>Current Assets</b>		
Cash on hand and at bank	119,156	77,849
Other current assets	17,313	16,251
<b>Total Current Assets</b>	<b>136,469</b>	<b>94,100</b>
<b>Non – Current Assets</b>		
Property, plant and equipment	88,128	81,488
Deferred finance charges	7,644	13,177
<b>Total Non – Current Assets</b>	<b>95,772</b>	<b>94,665</b>
<b>Total Assets</b>	<b>232,241</b>	<b>188,765</b>
<b>Current Liabilities</b>		
Accounts payables and accruals	43,973	31,815
Grant – AusAid project	106,634	71,304
Other current liabilities	108,050	109,774
<b>Total Current Liabilities</b>	<b>258,657</b>	<b>212,893</b>
<b>Non-Current Liability</b>		
Loan	7,088	32,010
<b>Total Non – Current Liability</b>	<b>7,088</b>	<b>32,010</b>
<b>Total Liabilities</b>	<b>265,745</b>	<b>244,903</b>
<b>Net Assets</b>	<b>(33,504)</b>	<b>(56,138)</b>
<b>Accumulated Funds and Reserves</b>	<b>(33,504)</b>	<b>(56,138)</b>

The has been some improvement in the Council's balance sheet position compared to 2007 as the result of increase in cash inflow during 2008.

## PART B - CONTROL ISSUES

### 6.4 Resignation Accepted Without Clearing Outstanding Debt

The employment of the employee under this agreement may be terminated mutually at any time during the contract period by either party giving written notice thereof to the other party, such notice to be

given not less than three (3) months prior to the date of termination or be accompanied by the payment of the forfeiture, as the case may be, of salary representing that part of the required three (3) months' notice not fulfilled.<sup>1</sup>

The Council accepted the resignation of the following officers without the clearance of their outstanding debts. Refer to the table below for details.

Employee Initial	Amount Owed \$	Status
NR	3,481.32	Employee resigned and had subsequently passed away
IM	3,877.13	Outstanding
DK	1,099.27	Outstanding
Total	8,457.72	

The Council also failed to reflect these transactions in their financial statements, resulting in current assets and accrued revenue being understated in the balance sheet.

### **Recommendations**

- **The Council should recover the amounts outstanding from the employees and record the transactions in their accounts.**
- **The Council should submit the employees' names to the Fiji Data Bureau to restrict and minimize the credit ratings of these officers.**
- **Responsible officers should be considered for surcharge action.**

### **Council's Comments**

- *Council accepts that these staff members failed to give adequate notice under the contract of service relevant at the time. However, the Council was guided by the ERP 2007 to realign its provisions under the new labour laws. That is a staff should have a mandatory contract of service after one month's employment and notice of period that would apply for termination is equal to one month [s29(1)(d)]. Therefore 3 months was deemed excessive and unfair which later the Council changed to one month period.*
- *Having said this, the Council agrees it has the task of collecting outstanding dues from these staff, except for Roy who passed away last year.*
- *It must be noted that the Council continued pursuing the matter with NR and IM.*
- *But under the ERP the Council appears to be statute barred as it allows any claims to be filed only after 6 months of dispute [s170(6) which Council was not aware at that time.*
- *The Council is not a member of the Data Bureau, which makes it difficult to submit employees name into the Data Bureau*

## **6.5 Salaries and Wages Reconciliation**

The salary reconciliation must reconcile the difference between the previous fortnight payroll report and the current report, and must be prepared prior to each pay date.<sup>2</sup>

<sup>1</sup> Councils Contract for Employees Clause 9

<sup>2</sup> Finance Manual 2005 Section 4.6.4

A variance of \$18,252.03 [Salaries and Wages records] between the audited figure and the salaries and wages reconciliation prepared by the Council. Refer to the table for details.

Description	Amount \$
Council	361,722.65
Audit	343,470.62
Variance	18,252.03

The above indicates lack of supervisory checks on the reconciliations prepared, resulting in the variance of \$18,252.03.

Such negligence could result in overpayment or fictitious payments made for wages and salaries.

### **Recommendation**

**The Council should ensure that monthly salaries and wages reconciliation is prepared and checked properly.**

### **Council's Comments**

*The Council records any payment in relation to salaries and wages in the payroll register. As you understand, no money has been misappropriated and staff were not underpaid or overpaid. The Council has taken note of the suggestion made by the AG and in future will ensure that proper salaries reconciliation is prepared on a monthly basis as required by the auditor. The Council will purchase payroll software, which will curtail any errors made in relation to salaries/ wages.*

## **6.6 Creditors Listing**

Council must ensure that all commitments and invoices are promptly and accurately recorded in the accounting system, to meet management and external reporting needs.<sup>3</sup>

A variance of \$14,229.43 was noted between the General Ledger and the Creditors/Accrual's listing of the Council. No proper records/register was maintained for the Creditors/Accruals listings.

Refer to the table below for details.

General Ledger Balance \$	Balance as per Creditors/Accruals Listing \$	Variance \$
29,655.55	15,426.12	14,229.43

The amounts reflected under Payables were also included in Accruals. Payables and Accruals are two separate accounts in the general ledger.

Furthermore, up to date<sup>4</sup> audit have only received three third party confirmations from the creditors of the Council. Confirmation letters were sent to the creditors on 15 October 2009.

<sup>3</sup> Consumer Council of Fiji – Finance Manual (44)

<sup>4</sup> 16 December 2009

Improper accounting practices increases the risk of misappropriation and abuse of the Councils funds.

### **Recommendations**

- **Variance of \$14,229.43 should be investigated and reconciled to the general ledger. The**
- **Council should ensure that proper records are maintained for creditors and accruals listing and this should be reconciled monthly to the general ledger.**
- **Back up listing of creditors and accruals should be maintained by the Council.**

### **Council's Comments**

*Proper accounting procedures were not followed. This was due to unqualified person (with experience) was handling accounts in 2008. The Board made a decision to appoint a qualified person to take charge of Council's accounts after realizing the fact that the Accounts section needed a qualified person to improve our accounts. As MYOB, figures were not reconciled to the general ledger the accruals were not done properly, therefore the variance of \$14,229.43 should be written off.*

## **6.7 Discrepancies in Financial Records**

Council must have in place a cost effective system of internal controls which:

- a. safeguard money and property against loss;
- b. avoids or detect accounting errors; and
- c. avoids unfavorable audit reports.

The following discrepancies were noted about the Councils financial records:

- Bank Reconciliation opening balance for 2008 does not reconcile with the 2007 audited account closing cash balance.
- Stale cheques amounting to \$336.67 written off by audit in the 2007 audit were still taken up in the 2008 bank reconciliation statements.
- Creditors listing derived from the MYOB system does not reconcile with the general ledger balance. This was due to wrong classifications and some accounts not taken up in the general ledger.
- Accruals not reversed when paid.
- Aging of creditors [\$25,141] and debtors [\$4,813.37] were not prepared.
- No listing for 'Accountable Advance' was provided since general ledger has a balance of \$1,111.
- Trust account statement of receipts and payments not provided for audit.
- Wages and salaries reconciliation submitted to audit did not reconcile with the General Ledger balance.

The above discrepancies indicate that the Accounts staffs lack accounting knowledge; thus they require the services of a qualified and experienced Accountant in order to eliminate such discrepancies.

### **Recommendation**

**The Council should consider engaging a qualified accountant.**

### **Council's Comments**

*Proper accounting procedures were not followed. This was due to poor accounting skills of a person who took charge of the Council's account. The Council already identified the poor management of the accounts section. The Council will get the accounts sorted out for 2009 to clear off the variance identified in the audit. General ledger will be maintained and updated every month to reflect the transactions that took place in that particular month.*

## SECTION 7: NAVUA RURAL LOCAL AUTHORITY

The Navua Rural Local Authority is established under section 10 of the Public Health Act.

The Authority is responsible for the provision of sanitary services such as garbage collection, the operation of the market, community centre and public health projects.

The authority charges garbage fees, market fees and other fees to meet the costs of these services.

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## PART A – FINANCIAL INFORMATION

### 7.1 Audit Opinion

The audit of the financial statements of the Navua Rural Local Authority for the year ended 31 December 2008 resulted in the issue of a qualified audit report as the Statements of Revenue and Expenditure of the Authority was prepared using cash basis of accounting and do not take into account revenues not received and expenditures not paid at balance date. Furthermore, a Balance Sheet was not prepared contrary to Fiji Accounting Standards (FAS) 16 and Section 7(4) of the Public Health (Sanitary Services) Regulations.

### 7.2 Abridged Income Statement

Year Ended 31 December	2008 \$	2007 \$
<b>Revenue</b>		
Garbage fees	10,368	6,623
Public Toilet Fees	9,449	9,453
Market Fees	13,945	16,820
Grant	26,667	20,000
Other Income	12,916	9,094
<b>Total Revenue</b>	<b>73,345</b>	<b>61,990</b>
<b>Recurrent Expenditure</b>		

Year Ended 31 December	2008 \$	2007 \$
Wages and Salaries	25,812	22,748
Administration and General	53,915	29,309
Other Expenses	-	11,791
<b>Total Expenditure</b>	<b>79,727</b>	<b>63,848</b>
<b>Result for the year from Ordinary Activities</b>	<b>(6,382)</b>	<b>(1,858)</b>
Balance as at 1/1/08	(7,435)	(5,577)
<b>Deficit at the end of the year</b>	<b>(13,817)</b>	<b>(7,435)</b>
<b>Represented By:</b>		
Cash at Bank and on Hand	4,952	11,334
Advance from Central Board of Health	(18,769)	(18,769)
<b>Total Assets</b>	<b>(13,817)</b>	<b>(7,435)</b>

The Authority recorded an operating deficit of \$6,382 in 2008 compared to deficit of \$1,858 in 2007. This was due to significant increase in salaries and wages, administrative expenses and general expenses. A tighter control however is warranted to reduce the Authority's expenses.

## PART B – CONTROL ISSUES

### 7.3 Arrears of Fees

Garbage and market fees are one of the main sources of income for the Authority and collection should be on timely basis to ensure that funds are available to finance the Authority's recurrent and capital expenditure.

Audit noted that unpaid garbage fees at the year end totalled \$26,315. Arrears of garbage fees as at 31 December for the past 5 years stands as following.

YEARS	ARREARS (\$)
2008	26,315
2007	35,478
2006	42,878
2005	39,769
2004	31,086

Audit noted reduction in arrears by 26 % from \$35,478 in 2007 to \$26,315 in 2008. However the accumulated arrears remained substantial and as a result could hinder any development the Authority would wish to undertake.



### **Recommendations**

- **The Authority should continue with its effort in recovering the outstanding debts.**
- **The Authority should also impose stringent debt recovery policies and seek advice from the Central Board of Health on instituting legal actions.**

### **Management Comments**

*Your recommendations were duly noted and 10 debtors owing a substantial amount of money has been lodged with the Small Claims Tribunal for arrears recovery in 2008. However, this was not successful as many of the debtors were financially unable to pay the arrears.*

*Through a board resolution, 2 bailiffs have also been employed by the Navua Rural Local Authority to recover all arrears of garbage fees.*

## **7.4 Discrepancies in Cash Receipts**

The revenue collector shall bank money received on a daily basis at least. If it is not practical to bank money daily money may be kept overnight, but it must be kept under lock and key in a safe strong box.

Review of cash receipts and bank statements for 2008 revealed \$1,331.70 was not deposited into the Authority's bank account. According to the Acting Secretary and Acting Clerk \$706.36 was stolen from the Clerk's drawer in February 2008 which was reported to Police on 3/3/08.

The balance of \$625.34 is not accounted for. The Acting Secretary and Acting Clerk did not provide any explanation regarding the missing fund.

Audit further noted that bank reconciliations were not prepared from September to December 2008.

The above finding indicates poor internal control. This issue was also highlighted in last year's audit report when short deposit of \$459 was noted.

### **Recommendations**

- **Daily banking should be done by the Authority to avoid short lodgements or misappropriation of funds.**
- **The Authority should carry out an investigation regarding short lodgements with a view of taking appropriate disciplinary actions against those involved.**

### **Management Comments**

*The matter of \$706.36 that was stolen from the Clerk's drawer is still pending in Court (Navua Police Station Crime Report 99/08).*

*The current clerk has been advised to do intact banking to avoid discrepancies and also to avoid theft.*

*Through a Board resolution on 03/03/10, the Secretary of Navua Rural Local Authority has been advised to scrutinize all lodgments to avoid misappropriation of funds. And also to make sure that all vouchers are carefully binded for future reference. Through the Board resolution all short lodgments are to be immediately queried and if the need arises to be reported to Police.*

## 7.5 Non Compliance with the Contract Agreement

The contract agreement states that the contractor shall supply own material and labour for the repair of Navua Market and have agreed that the schedule of repairs listed below shall be undertaken:<sup>1</sup>

Schedule of Repairs:

1. Changing of 82 x 14 ft roofing iron;
2. Change ridge cap – 17;
3. Changing of timber 6 x2x 18ft – 10 rafters;
4. Changing of timber 6 x2x 20ft – 8 rafters;
5. Changing of timber 3 x2x 18ft – 5 purlin;
6. Changing of timber 4 x2x 18ft – 3 purlin;
7. Changing of timber 12 x1x 14ft – 14 fascia board;
8. Laying of 37 ft of V Drain and concrete pavement to discharge rain water from roof top;
9. Change PVC down pipe – 4 ; and
10. Change PVC down pipe – 19<sup>2</sup>.

In addition the payment shall be made in three instalments:

- i First payment when one third of the work are completed schedule 1,2,3 and 4 - \$4,260
- ii Second payment when two third of the work are completed schedule 5,6 and 7 - \$4,260
- iii Third payment when all the works are satisfactory completed schedule 8, 9 and 10. - \$4,260<sup>3</sup>

The Authority paid \$12,780 to Iobe Taukei Salili for works done on stages one and two. Audit noted that the works carried out by the contractor were not in accordance with the work specified in the contract agreement. The work done by the contractor were as following which were in complete, however the Authority continues to pay the contractor the contracted amount.

### First Stage

- 30 corrugated iron on both sides (15 x2)
- 9 rafters of 15 feet
- 4 lines of Purlins of 18
- 7 ridge cap replaced

### Second Stage;

- 40 corrugated iron on both sides (20 x2)
- 9 rafters of 15 feet
- 4 lines of Purlins of 18
- 8 lengths ridge cap replaced
- 3 x 2, 2/18'
- 7kg roofing nail
- 1 gal R/6 redoxide
- 1kg 3" gal nails
- 1/20' Pine R/S
- 2/15' Dressed Pine
- Fascia Board 10/6m

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<sup>1</sup> Contract Agreement Clause I and II

<sup>2</sup> Contract Agreement Clause II

<sup>3</sup> Contract Agreement Clause V

Failure to comply with the contract agreement may result in poor quality of work done by the contractor.

### **Recommendations**

**In future the Authority must ensure that works are completed as per the contract before payments are made.**

### **Management Comments**

*The market master has been summoned to explain the breach of contract by the Contractor and Navua Rural Local Authority. The findings revealed the Contractor was paid a total of \$8,478.99 as opposed to your Audit report of \$12,780.00.*

*The Contractor was paid from the Government Grant Allocation and the vouchers are attached for your reference.*

### **Further OAG Comments**

*As per the payment vouchers obtained from NRLA office, total of \$12,780 has been paid to the contractor on the following dates.*

3/7/08	chqe no. 480	\$4,260
8/7/08	chqe no. 482	\$4,260
18/7/08	chqe no. 483	\$4,260

*Hence we stand by our findings that total of \$12,780 has been paid to the contractor and not \$8,478.99 as claimed by NRLA.*

## **7.6 Non-Compliance with the Public Health (Sanitary Services) Regulations**

Section 7(4) of the Public Health Act states that the Authority shall deliver to Auditor General a statement of account showing all monies received and expended together with a balance sheet. An item of property, plant and equipment should be recognised as an asset when it is probable that the future economic benefits associated with the asset will flow to the enterprise and the cost of the asset to the enterprise can be measured reliably<sup>4</sup>.

The Authority adopted cash basis of accounting for financial reporting. The Authority failed to incorporate the property, plant, equipment, debtors, creditors and prepayments into the Statement of Financial Position.

In addition, the Statement of Revenue and Expenditure does not take into account revenue not received, expenditure not paid and prepayments at balance date. Hence the revenue and expenditure are understated and do not accurately reflect the Authority's performance for the year ended 31/12/08.

As a result, the financial statements for the year ended 31/12/08 do not reflect the true financial position of the Authority; hence it is a limited statement of financial information.

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<sup>4</sup> Fiji Accounting Standards 16(7)

### **Recommendations**

- **The Authority should comply with the requirements of the Fiji Accounting Standards and the Public Health Act while preparing the financial statements.**
- **The Authority should adapt to accrual basis of accounting in order to fairly reflect the financial operations during the financial period.**

### **Management Comments**

*Interview with the Clerk revealed that the Local Authority does not have any fixed assets as in the form of office furniture etc. The only assets that the Authority has are in form of cash as all the furniture and office machines belongs to the Ministry of Health thus the cash basis of accounting for financial reporting.*

*The Accounts Clerk has been advised to use Fiji Accounting Standards and Public Health Act while preparing the financial statements for the Navua Rural Local Authority.*

### **Further OAG Comments**

*The Authority does have assets and liabilities such as cash, debtors, office equipment arrears of audit fee etc. which could be better report if the Authority adopts accrual accounting. Under accrual accounting assets and liabilities are to be disclosed in the balance sheet.*

*Requests have also been made to have a Board of Survey carried out for all non-expandable items to the Ministry of Health via Memorandum dated 11/11/09 and 09/02/10. To date we have received no reply on the same from the Ministry of Health Accounts section.*

## SECTION 8: FIJI ISLANDS REVENUE & CUSTOMS AUTHORITY

The Fiji Revenue and Customs Authority (FIRCA) was established as a statutory Authority under the FIRCA Act 1998 and encompasses the operations of the former Fiji Islands Inland Revenue and the Fiji Islands Customs Services. FIRCA commenced operations on January 01, 1999.

The FIRCA Act specifies the following functions of the Authority:

- To act as agent of the State and to provide services in administering and enforcing the laws specified in the First Schedule of the Act.
- Generally to exercise all functions and perform duties carried out by the Inland Revenue Department and the Fiji Islands Customs Service.
- To advise the state on matters relating to taxation and customs and excise and to liaise with appropriate Ministries and statutory bodies on such matters.
- To represent the State internationally in respect of matters relating to taxations or customs and excise and
- To perform such other functions as the Minister may assign the Authority.

### Revenue Collection Division

The Taxation Division has two major units namely, the Revenue Collection Section and the Risk and Compliance Section. The Revenue Collection Section is the operational arm, which deals with, return lodgements, assessments and collection of revenue. Also, the Revenue Collection Section is responsible for processing Income Tax and VAT returns lodged by all taxpayers. Their function includes:

- Customer enquiry services;
- Lodgement of returns;
- Tax assessments on returns lodged;
- Issue tax assessment statements;
- Collect tax revenue; and
- Provide tax advice and education.

The Risk and Compliance Section is responsible for recovery and compliance issues. It also ensures that taxpayers, traders and other stakeholders comply with various legislations administered by FIRCA. The division also identifies, analyse and manages risk areas. The Division is structured with four broad sections namely Large International Compliance, Small/Medium Compliance, Strategic Intelligence & Risk Profile and Debt Management & Lodgement Enforcement and Investigation.

### Customs Services Division

The Customs Division is responsible for:

- collection of Revenue for FIRCA in the customs area;
- acts as a principal agency for Border control; and
- Cargo clearance and a trade facilitator in allowing movement of goods, people and services from one foreign port to another.

The Division provides information on security measures to all its stakeholders; it provides business support to corporate bodies, the private sector and works in partnership with business entities to protect copyright, trade mark, counterfeiting, etc.

The Division also acts on behalf of other public agencies in carrying out their responsibilities and functions at the border, and administers all Customs Laws and Regulations.

It represents the organization and the Government internationally to bodies such as World Customs Organization (WCO), World Trade Organization (WTO), Oceania Customs Organization (OCO) and the Regional Intelligence Liaison Office (RILO) and provides advice to the Private and Public sector.

Its main functions are revenue collection, trade facilitation, warehousing, international trade, industry support providing information on tariff and trade, valuation, making recommendation under section 10 and 11 to the Minister for Finance, amending National Legislation to facilitate in implementing revised or new changes and resource allocation.

Units that fall under Border Management are: Wharf Area, Outstations, Customs Examination Branch, Customs Marine Unit and Primary Line.

### Corporate Services Division

The Corporate Services Division offers support functions to the Customs and Taxation Divisions of the Authority.

The Corporate Services Division comprises of eight sections namely; Information Technology, Finance, Legal, Policy, economic analysis and research, Human Resources, Training & Development, Records Management and Internal Assurance.

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## PART A - FINANCIAL INFORMATION

### 8.1 Audit Opinion

The audit of the financial statements of the Authority for the year ended 31 December 2008 resulted in the issue of an unqualified audit report however the Authority's attention was drawn to the following:

- the correctness of the revenue collected by the Authority on behalf of the State could not be substantiated as the audit was denied access to taxpayer records, contrary to section 111 of the Income Tax Act and Section 7(2)(a) of the Audit Cap (Cap 70)

### 8.2 Abridged Statement of Financial Performance

Year Ended 31 December	2008 \$	Restated 2007 \$
Revenue		
State Revenue	1,244,531,852	1,234,452,416
Less: Payment to Government	(1,244,531,852)	(1,234,452,416)
Grants from Government	27,899,065	27,899,065
Fees and Charges	4,168,632	4,392,594
Other Income	1,066,317	1,532,269
<b>Total Income</b>	<b>33,134,014</b>	<b>33,823,928</b>
Employee Costs	21,839,802	21,506,014
Recurrent Expenditure	8,771,893	8,048,863
<b>Total Expenditure</b>	<b>30,611,695</b>	<b>29,554,877</b>
<b>Net Surplus (Deficit) for the Year</b>	<b>2,522,319</b>	<b>4,269,051</b>

Net surplus declined by \$1,746,732 (41%) in 2008 compared to 2007 as a result of increase in expenditure by 4%. Revenue collection also declined by 2% in 2008.

### 8.3 Abridged Statement of Financial Position

As at 31 December	2008 \$	Restated 2007 \$
Cash at bank	13,957,517	13,918,072
Investments	20,032,015	8,000,000
Other current assets	1,050,407	799,408
Property, plant & equipment	10,897,230	9,100,991
<b>Total Assets</b>	<b>45,937,169</b>	<b>31,818,471</b>
Current Liabilities	5,579,398	4,042,391
Grant received in advance	14,860,499	6,439,932
Deferred grant income	1,838,498	2,267,325
<b>Total Liabilities</b>	<b>22,278,395</b>	<b>12,749,648</b>
<b>Net Assets</b>	<b>23,658,774</b>	<b>19,068,823</b>
Restated Opening balance	17,787,918	13,518,867

As at 31 December	2008 \$	Restated 2007 \$
Net Surplus	2,522,319	4,269,050
	20,310,237	17,787,918
Add: Asset Revaluation Reserve	3,348,537	1,280,905
Total Accumulated Funds	23,658,774	19,068,823

The increase in net assets by \$4,589,951 or 24% in 2008 compared to 2007 was due to significant increase in investment.

## PART B – CONTROL ISSUES

### 8.4 Legal Title to Land and Buildings

As from the commencement of this Act,<sup>1</sup> all movable property vested in the State immediately before that date and used or managed by the Inland Revenue Department or Customs and Excise Department, and all assets, interests, rights, privileges, liabilities and obligations of the State relating to those Departments shall be transferred to and shall vest in the Authority without any conveyance, assignment, or transfer.<sup>2</sup>

If a question arises as to whether any particular property, asset, interest, right, privilege, liability, or obligation has been transferred to or vested in the Authority under subsection (1), a certificate signed by the Minister shall be conclusive evidence that the property, asset, interest, right, privilege, liability or obligation was or was not so transferred or vested.<sup>3</sup>

Out of the \$10.9 million in Property, Plant and Equipment (PPE), land valued at \$3.9million is not supported with legal titles. Moreover, land worth \$500,000 at the Nadi Airport is land leased by Airports Fiji Ltd (AFL). Despite this, FIRCA, neither having title nor a lease, has reflected the value of this land in its financial statement.

Satisfactory explanation on the legal title or the signed certificate from the Minister for Land is yet to be provided by the Authority. In the absence such title to support ownership, it could not be substantiated whether land reflected in the financial statement is true and fair.

### Recommendations

**The Authority should ensure that:**

- **Legal titles for the land or the signed certificates from the Minister are obtained for the ownership of the land.**
- **The ownership for the land at Nadi Airport is clarified.**

### Authority's Comments

<sup>1</sup> FIRCA Act 1998

<sup>2</sup> FIRCA Act 1998, Section 16 (1)

<sup>3</sup> FIRCA Act 1998, Section 16 (4)



*We agree that having a land title is conclusive evidence of ownership or obtaining a certificate from the Minister. We can confirm that AFL has not been reflecting land in their financial records and therefore land has not been double counted.*

## 8.5 Increase in Outstanding VAT Refunds

Where the Commissioner is required to refund any amount to any registered person pursuant to section 38(4)<sup>4</sup> or section 39(8)<sup>5</sup> of this decree, the Commissioner shall refund to that registered person the amount required to be refunded not later than –

- (a) the end of the month following the month in which the return of that registered person was received by the Commissioner; or
- (b) the end of the month following the month in which the return was due to be furnished by that registered person, whichever is later.<sup>6</sup>

The outstanding VAT refunds increased by \$37,338,861 or 139% in 2008 compared to 2007. Refer to the table below for details:

Year	Amount \$	%
2005	10,823,770	---
2006	34,749,613	221
2007	26,805,068	(23)
2008	64,143,929	139

The actual refunds payments exceeded the forecasted refund for the year, indicating an under-budget of VAT refunds for the year. Moreover, there are VAT refunds outstanding dating back to year 1992. Refer the followings for details:

Year	Amount \$
1992 - 1995	2,546
1996	55,746
1997	11,408
1998	68,813
1999	102,368
2000	56,904
2001	135,827
2002	160,530
2003	595,573
2004	1,490,149
2005	2,686,220
2006	6,336,153
2007	15,905,541
2008	36,536,152
<b>TOTAL</b>	<b>64,143,929</b>

<sup>4</sup> Subject to vat decree, if, in relation to any particulars required to be furnished by section 37 of this decree, the amount determined in accordance with subsection (2) or (3) of this section, is a negative amount, the amount of the negative shall be refunded to the registered person by the Commissioner in pursuant to section 65 of this decree.

<sup>5</sup> It, in relation to nay taxable period and any registered person, the total amount that may be deducted under subsection (2) of this section and section 86 of this decree exceeds that aggregate amount of output tax of that registered person attributable to that taxable period, the amount of excess may, subject to this decree, be refunded to that registered person by the Commissioner pursuant to section 65 of this decree.

<sup>6</sup> Vat Decree 1991, section 65(2)

The accumulation of VAT refunds as liability is susceptible to interest under section 67 of the VAT Decree, the payment of which is a gratuitous cash outflow from Government's already dwindling cash reserves.

### **Recommendations**

- **The forecasts for VAT refunds should be targeted at reducing carried forward outstanding refunds at year end.**
- **Prompt payment of refunds should be encouraged which would save the Authority from meeting unnecessary or avoidable commitments/expenditure such as interest under section 67 of FIRCA Act.**

### **Authority's Comments**

*Various factors have contributed to the accumulation and non-refund of excess VAT claims. Some of these factors are;*

- *Businesses are under audit in which case VAT refunds are held;*
- *Some of them are fraud cases which are being investigated;*
- *Some taxpayers tax or VAT returns are not up to date;*
- *In some cases further information was required for analysis but was not supplied by the tax payer.*
- *In few cases returns cannot be located (very old cases);*
- *In some cases VAT refunds are held pending verification of claims by VAT Review Team (VRT);*
- *The bulk of the refunds have accumulated due to insufficient funds in the VAT Refund Forecast (limitation by MOF);*

*Although there is the provision (s67) for interest payments, Commissioner has the powers to withhold VAT refunds under Section 65 of the VAT Decree on various grounds such as those mentioned above which does not attract interest payouts. More recently, the Minister for Finance has agreed to increase the VAT Refund forecast (with an additional \$51 million) to assist in reducing the outstanding amount.*

## **8.6 Non-inclusion of Customs Liabilities and Arrears of Revenue**

The function of the Authority is to act as an agent of the State and to provide services in administering and enforcing the laws specified.<sup>7</sup> Moreover, the Authority is to advise the State on matters relating to taxation and customs and excise and to liaise with appropriate Ministries and Statutory bodies in such matters.<sup>8</sup>

Audit of agency financial statement noted that customs arrears and liabilities are not disclosed as state arrears and liabilities.

The undisclosed arrears from Customs include customs clearance of goods after working hours (C1's), Short Payment Advices (SPA's) for short paid duties and outstanding outdoor fees for clearance of aircrafts arriving after the normal working hours while the undisclosed liabilities include customs refunds/rebates that are yet to be paid by the Authority.

The non-inclusion of these arrears results in the understatement of the arrears of revenue by FIRCA. As such the government arrears of revenue and liabilities are not reported correctly in its Agency Financial Statement.

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<sup>7</sup> FIRCA Act 1998, Section 22 (a)

<sup>8</sup> FIRCA Act 1998, Section 22 (b)

The Authority made a commitment to submit the customs arrears return to Ministry of Finance in their 2007 audit management comments; however, this has yet to materialize as at audit date.<sup>9</sup>

### **Recommendation**

**Quarterly Customs returns are to be prepared by the Customs section head and forwarded to its Finance Division for inclusion in the state financial statement.**

### **Authority's Comments**

*Appropriate actions are being put in place through, weekly and monthly reporting to ensure that all outstanding dues are collected on timely basis. SPA returns and arrears of revenue are being made on monthly and quarterly basis.*

*If there are delays then warning letters are issued and later upon expiry of the mandatory period Section 95 of the Customs Act are enforced on all future imports of the defaulter. Additionally Customs Services and Legal Section are exploring means of recovery.*

## **8.7 Suva Customs**

### **8.7.1 Post Audit**

#### **8.7.1.1 Post Audit Backlogs**

Section 114 of the Customs Act of 1986 stipulates that the officers of Fiji Islands Revenue and Customs Authority have the power to inspect, examine, make copies of or take extracts from any documents relating to the exported, imported, warehoused, removed from warehouse or transhipped goods.

The post audit section of the Fiji Islands Revenue and Customs Authority is responsible for the audit of all entries processed. The audit noted that the section has set two months as a target for which to audit entries; meaning that in December they should be auditing September entries.

As at audit date<sup>10</sup>, the post audit section was auditing entries for the month of May 2008. The section is facing staffing constraints with only 2 conducting the audits and has 5 months audit backlogs.

Furthermore, the section has no written set procedure to conduct the audit even though officers are familiar with the checks that needs to be carried out. This is a recurring issue in the Auditor Generals report however no improvement was noted.

Should the section continue to audit without audit targets and test programs that is uniform throughout the Authority, along with the inadequate staff resource, there is a risk that the backlog will worsen and a possible loss of revenue from un-audited entries. There is also a significant risk of loss of revenue for Government especially when desk audits, demand letters and Short Payment Advice's (SPA) can only be served for a period of one year or twelve months whereas a full compliance audit warrants investigations for a 5 year period with the issue of demand letters dating back 5 years.

### **Recommendations**

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<sup>9</sup> 17 April 2009

<sup>10</sup> 21/01/09

- **The Authority should ensure that the Post Audit Section set audit targets to achieve and audit programs are developed to ensure that the audit is carried out in a systematic manner.**
- **The Authority should ensure that the post audit section is given reasonable staff resources so that the audit timeliness of entries are not compromised.**

#### **Authority's Comments**

*The Post Audit Section has set audit targets to carry out audit in a systematic manner but the present structure fails to realize the importance of the section. As a result the section has to make do with two officers only. In the JERP exercise the Post Audit function were made redundant. This is a core function of Customs and we are trying to rebuild it again.*

*Unless the section has full staff complements the outstanding SAD will continue exist. However, the Management has agreed to strengthen this section. Further the Customs Division is currently developing a post audit procedure, in compliance with World Customs Organisation (WCO) Risk Management and Audit procedures.*

#### **8.7.1.2 Outstanding Short Payments Advices (SPAs)**

The full settlement of the Short Payment Advice (SPA) amounts should be made within fourteen days of the advice.<sup>11</sup>

Outstanding SPAs as at 31/12/08 amounted to \$658,119.50. Refer to **Appendix 1** for details.

In addition, out of the outstanding SPAs of \$347,742.42 as at 31/12/07, \$215,246.47 is still outstanding as at 31/12/08. Refer to **Appendix 2** for details. This issue has been highlighted in the previous Auditor General's report; however, no appropriate action has been taken by the Authority to rectify it.

Long-outstanding SPAs increases the risk where the Authority may have to write off the unrecoverable amounts as bad debts reducing revenue for government.

#### **Recommendations**

- **The Authority should ensure the timely collection of Short Payment Advices.**
- **Appropriate actions should be taken to recover the outstanding SPA's.**

#### **Authority's Comments**

*The SPA is raised by Customs when it is discovered that a short collection of duty has been made on consignment due to various reasons.*

*Under the Customs Act the importer or his/her agent is required to pay any SPA within the prescribed time or alternately furnish the Authority with an explanation acceptable to the Comptroller that the demand for duty short paid is incorrect and should be withdrawn.*

*Initially when short payment of duty is discovered during auditing the owner or his/her agent is required to pay the shortfall within 14 days. If they fail a further 7 days is given by way of letter. After 7 days the provision of Section 95 is imposed on the owner to recover the outstanding SPA's.*

*Further the Authority will be imposing DPO on the owners of the defaulting companies.*

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<sup>11</sup> Fiji Islands Customs Services Short Payments Advice Form

## 8.7.2 Ships Accounts

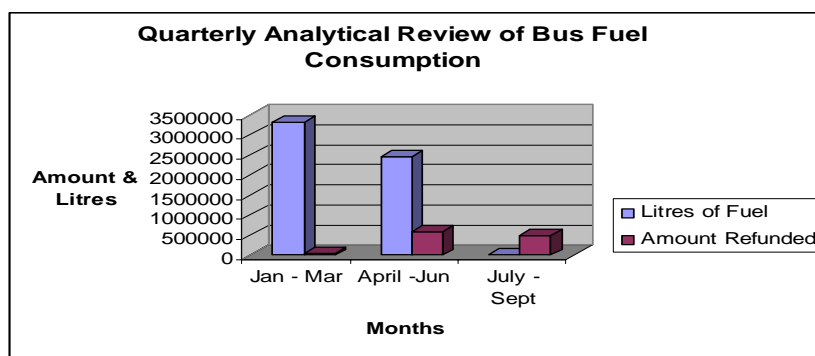
### 8.7.2.1 Analytical Review of Fuel Concessions to Bus Companies

Fuel concessions to Bus companies are a Government policy aimed at achieving objectives of enhancing social services granted under section 10 of the Customs Act by the Minister of Finance, National Planning, Public Enterprise and Sugar Industry.<sup>12</sup>

Audit noted that there has not been any form of analytical reviews prepared in relation to the litres of fuel consumed and the refunds paid to each individual bus operators.

Effective from July 2008, bus companies are submitting additional information, namely; daily routes taken per bus, number of trips, distance per route per bus, number of litres of fuel used per bus and drivers name and signature per bus per route. This added information on the Bus Fuel Consumption Sheet ensures greater accountability however analytical reviews are not done. According to the OIC, the division does not have enough staff to carry out these forms of analysis.

However, in the absence of analytical reviews and random checks, the newly designed Fuel Consumption Sheet will not be of much use, particularly if Bus Operators are submitting manipulated figures. Audit analytical review noted fluctuating litres of fuel consumed. For illustration refer to the chart below.



In the absence of trend analysis, the reasons for the fluctuations illustrated above cannot be verified. This could result in increased quantity of fuel consumed monthly in the course of providing transportation to the public.

### Recommendations

- Analytical reviews and trend analysis need to be carried out to determine reasons behind increases in claims and to investigate any other anomalies noted by the section.
- Random checks to be made to test the authenticity of information submitted by Bus operators.

### Authority's Comments

<sup>12</sup> Ministry of Finance Circular dated 12/03/07

*Comments are noted. Analysis is currently being done by the Customs Compliance and Ships Account. It is to be noted that additional information required for this analysis is to be obtained from the Land Transport Authority (LTA).*

*Further LTA has conducted a workshop in FIRCA regarding road service licensing and conditions for Bus Companies. The workshop has assisted FIRCA to understand conditions outlined in Bus Companies Road Service Licenses.*

*A database has been developed for the monitoring of Bus Companies fuel consumption.*

#### **8.7.2.2 Outstanding Refunds to Bus Companies and Diplomatic Missions**

Refunds of tax, duty, or other receipts collected shall be dealt with in accordance with the Governments Finance Instruction.<sup>13</sup> Accepted refund liabilities for the Authority are to be paid within the terms and conditions of any contract or legislative requirement; however, liabilities outstanding at the end of a financial year should be paid, where possible within 15 days of the end of the year.<sup>14</sup> Accepted refund liabilities for taxes and customs duties are to be processed promptly within the Governments prescribed maximum period.<sup>15</sup> Where no due date is specified, payments must be settled within 30 days from the date of the invoice.<sup>16</sup>

Audit of the Bus Claims register and Diplomat motor spirit register noted that there are unpaid refunds totalling \$313,213 and \$7,505.02 respectively. Details of these claims are shown in **Appendix 3** and **Appendix 4**.

Delays in processing causes undue pressure from the claimants and challenge the time taken by the Authority in processing such claims.

Moreover, outstanding customs rebates/refund is not reflected in the FIRCA's annual financial statement resulting in an understatement of Government liabilities. This has been highlighted in the previous years Auditor General's reports; however, no corrective action has been taken by the Authority.

#### **Recommendations**

- **The Authority should provide justification in relation to the delays in processing bus claims.**
- **Outstanding customs rebates/refunds are to be incorporated in the authority's annual agency financial statement.**

#### **Authority's Comments**

*The 21.9% revenue rebate depends entirely on the availability of funds from Government. Our records have established that 2008 fuel claims were processed within a time frame of 4 days except in cases where claims were rejected and re-lodged.*

*All 2008 claims lodged are passed and none of the claims are outstanding. All bus companies have been informed that they need to lodge the claims before the 7<sup>th</sup> of the following month so that we are able to process and dispatch to Finance Suva before the 15<sup>th</sup> of the month. Monthly returns are prepared and forwarded to Manager Revenue for his analysis and scrutiny.*

---

<sup>13</sup> FIRCA Finance and Accounting Direction 3.6.1

<sup>14</sup> FIRCA Finance and Accounting Direction 5.5.1

<sup>15</sup> FIRCA Finance and Accounting Direction 5.5.2

<sup>16</sup> Finance Instruction 2005, Section 19 (4)

### **8.7.2.3 Manifest Anomalies**

The master or agent of every aircraft or ship, whether laden or in ballast, shall, subject to the provisions of the customs laws, within 24 hours after arrival from outside Fiji at any airport or port, or at another place especially allowed by the proper officer, make a report to the proper officer, in the prescribed form or by means of an electronic message ad in the prescribed manner, of such aircraft or ship, and of it cargo and stores and of any package for which there is no bill of lading or airway bill.<sup>17</sup>

In addition, the Compiling Officer (Senior Customs Officer) shall view on the screen all the Bill of Ladings of the manifest to ensure the accountability of all cargo. Any queries, the officer shall raise and finalize it with the shipping company/cargo agent. The officer shall fill in the inward cargo manifest folder quoting on the folder the Automatic Generated Manifest Number. In the folder the Officer shall file the ships inward papers, application to amend manifest, applications for pre-release and documents raised by manifest officer such as the CE135, CE137, CE219 etc. it shall then be dispatched to Ships Accounts Division.<sup>18</sup>

After duty on the goods have been paid and released, manifests are checked against the entries at Ships Accounts Section and follow ups are made with Cargo Clearance Section of FIRCA and Agents on any discrepancies.

Audit noted that there are significant numbers of manifests that are yet to be received by Ships Accounts Section as per the Manifest Register maintained at Ships Account Division.

Furthermore, a considerable number of manifests for 2008 are yet to be jerqued by Ships Account due to staff shortage and non submission of manifests on time by the Wharf Section.

Moreover, it was noted that Temporary Relieving Officers (TRCO's) are jerquing the manifests instead of the experienced Customs Officers. This has also been attributed to staff shortage according to OIC Ships Accounts.

Failure to receive manifests on time increases the risks of manifests being misplaced or unaccounted for by FIRCA while non-jerqued manifest may increase the possibility of loss in revenue collection for the government. Jerqueing of manifests by TRCO's poses risks of unidentified leakage of revenue as experienced custom skill and knowledge is required.

### **Recommendations**

- **The Accounts Section should ensure that all manifests are received and checked against the entries and proactive steps should be taken to ensure that all manifests are received from Cargo and Air Freight Section.**
- **The Authority should ensure that adequate staffs are posted to the section for timely jerquing of manifests.**

### **Authority's Comments**

*Comments are noted. The Border Control Section has now set timeframes for compiling and timely submission of Manifests to Ships Accounts Section. The issue regarding staff resources are currently being considered by Management. Further a Rotation Register is in place to report and monitor outstanding manifest location.*

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<sup>17</sup> Customs Act 1986, Part V, Section 18 (1)

<sup>18</sup> Cargo Clearance Procedure Manual, Section 5.12

### 8.7.3 Wharf

#### 8.7.3.1 Pre-Release of Goods Other than Perishable Items

As part of normal operations, privileges are afforded to traders to “pre-release” certain goods (that is released before duty is paid) on the grounds of safety, security hygiene and in special circumstances trade facilitation.<sup>19</sup> The stipulated time for the payment of duty on pre-release is 48 hours.<sup>20</sup> An importer who contravenes an undertaking given under subsection (2) is guilty of an offence and is liable to a fine not exceeding \$1000 and the goods in respect of which the undertaking was given are liable to forfeiture.<sup>21</sup>

Audit noted that some approval for pre-release of goods were for goods which were neither perishable nor dangerous and for which there did not seem to be any urgency in their release. Refer the followings for examples:

Folio	Date	Vessel	Owner	Description	Sticker No.	Receipt No.
08/086	10/06/08	Captain Wallis	Owner 1	1 FCL STC Essence Cooler tank	511873-80 074569-74	C 27120 A 28114
08/101	03/07/03	Captain Wallis V.219	Owner 2	1 palley (52 catridges)	514089-91 076044-46	A 30003 R 13348 C 29218
272	24/12/08	Papuan Gulf V.78	Owner 3	25 plts pieces of metal, 27 plts pieces of metal	527141-44 084517-19	A 60765 C 60542 R 26502
246	19/11/08	Forum Samoa	Owner 4	Paper Rolls	-	A 53454 R 23296 C 53249
247	19/11/08	Forum Samoa	Owner 4	Spare parts	-	A 53754 R 23420 C 53150
08/159	05/09/08	MV Cape Spencer	Owner 5	Cement Clinker in Bulk	518660 518661-63	A 41584 R 19466 C 40050
230	18/11/08	Maersk Fuji	Owner 6	Building products	ASYCUDA Breakdown	A 53523 R 23258
231	18/11/08	Maersk Fuji	Owner 6	Building products	ASYCUDA Breakdown	A 53517 R 23258
232	18/11/08	Maersk Fuji	Owner 7	Used parts	-	C 53306 A 53640 R 23303
233	18/11/08	Maersk Fuji	Owner 7	Used parts	-	C 53301 A 53617 R 23302
236	18/11/08	Forum Samoa VB5	Owner 8	Tissue products	-	A 53099 R 23243
238	18/11/08	Maersk Fuji 839	Owner 9	Textiles	-	ASYCUDA Shutdown

A contributing factor to this is the phrasing of the Customs Act which leaves the approval of pre-release to the Comptroller’s discretion and the lack of specific criteria in place for the proper officer to

<sup>19</sup> Customs Act 1986 Part VII (31) (2)

<sup>20</sup> Customs Act 1986 Part VII (31)

<sup>21</sup> Customs Act 1986 Part VII (31)(3)



adhere to in approving for pre-release of goods. Another factor is the ASYCUDA breakdown which allows for all goods to be released whether perishable or not.

As such, this leaves room and provides opportunity for the manipulation of the Customs Act to suit one's own agenda and from which officers may also seek to gain financially.

### **Recommendations**

- **The Authority should ensure that approval for pre-release are given only for those item specifically stated in Customs Act 1986 Part VII (31) (2).**
- **Also paragraph (f) of Customs Act 1986 Part VII (31) (2) to be reviewed by the Authority to specifically state a criteria to which proper officers can refer to in approving pre-release of goods.**

### **Authority's Comments**

*Recommendations are acknowledged. It is stipulated under section 31 (2) that the proper officer may permit the unloading and delivery to the importer of*

- (a) goods of dangerous goods or inflammable nature ;*
- (b) bullion, currency notes or coin;*
- (c) perishable goods;*
- (d) bulk goods or*
- (e) any other goods authorized by the Comptroller*

*without entry subject to an undertaking being given by the importer to the Customs that the necessary entry will be provided within 48 hours from the time of delivery.*

*The time limit of 48 hours concerns the delivery of the entry of goods which was pre-released and it is not the time line for the payment of duty. Some very urgently needed consignments of imported goods were pre-released because of the ASYCUDA break down.*

*The current policy is MBC/NMBC/GMC approves the pre-release of perishable goods and other goods prescribed under section 31(2) (a) to (e). The responsibilities are delegated to the Team Leader Wharf in the absence of MBC/NMBC/GMC.*

## **8.7.4 Cargo Freight Stations (CFS)**

### **8.7.4.1 Uncleared Cargo**

Within the 10<sup>th</sup> day from the date of arrival of the cargo, the shipping agent/cargo agent shall prepare and submit to the Manifest Officer a list of uncleared cargo not yet cleared from their manifest. On the Uncleared Cargo List (UCL) the agent shall clearly specify the Bill of Lading numbers, description of goods, marks and numbers and other necessary particulars of the consignment.<sup>22</sup>

After 21 days of storage from the date the goods becomes uncleared, the shipping agent/cargo agent shall submit to the Manifest Officer the remaining list of uncleared cargoes overdue for auction.<sup>23</sup>

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<sup>22</sup> Cargo Clearance Procedures, Section 5.5.1

<sup>23</sup> Cargo Clearance Procedures, Section 5.5.1

Uncleared Cargo surpassing the 21 day storage period at various Cargo Freight Stations, have not been forwarded for auction. Refer to **Appendix 6** for details.

Furthermore, the custom officers at these particular stations have not updated their uncleared cargo listing overdue for auction. This shows laxity of the officers in clearing these goods, particularly items that are dangerous in nature.

Storing items for longer period demands unnecessary resources in terms of space, security and could result in potential loss of revenue.

### **Recommendations**

- **The Authority should ensure that all un-cleared cargos are auctioned as per the stipulated time frame.**
- **Dangerous items and pharmaceutical goods are to be handled with care and disposed rationally.**

### **Authority's Comments**

*Recommendations are acknowledged and stringent measures are provided for to ensure uncleared cargoes are auctioned within the prescribed time frame.*

## **8.7.5 Warehouse**

### **8.7.5.1 Physical Records not matching with Stock-take**

The stock check and reconciliation for goods deposited in Customs Warehouse shall be done as and when it is directed by the manager/senior manager. The CWK shall physically check the goods against the balances shown in various registers and the stock report generated by ASYCUDA System for normal warehoused goods. The CWK shall carry out thorough check of the stocks and any discrepancies found shall be noted. After the completion of the task, CWK shall prepare the report of all the discrepancies and submit it to the manager/senior manager. Upon receipt of the report, the manager/senior manager shall scrutinise it carefully, carry out investigation and then follow it up with necessary action.<sup>24</sup>

The inventory listing provided by the ASYCUDA System for the Western Wreckers, Autoworld and Palas bonded warehouses did not reconcile with the physical stock-take of the vehicles.

There were seven more vehicles at Western Wreckers warehouse compared to its inventory listing. Moreover, Palas warehouse had 55 vehicles as per the physical stock-take compared to its inventory listing of 30 and Autoworld's physical stock-take had 43 vehicles compared to 21 as per inventory listing.

The above indicates the laxity of the warehouse officer in not monitoring the activities at each warehouse resulting in the discrepancies. The above also poses questions on the credibility of information extracted from ASYCUDA System.

### **Recommendations**

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<sup>24</sup> Warehouse Manual Procedure, Section 9.4.0

**The Authority should ensure that:**

- **warehoused items are cross checked regularly against stock report generated by Asycuda system.**
- **The CWK should carry out thorough check of the vehicles and any discrepancies found to be noted.**

**Authority's Comments**

*We agree with the recommendation and now the management has put in place that regular check of stock in Bonded Warehouse is audited through a stock report generated by ASYCUDA and the actual stock in the bond on the monthly basis.*

*We have put in place a provision where Customs Warehouse to carry out thorough checks on any goods that are bonded and any discrepancies found are to be referred to Team Leader Warehouse for further actions.*

*Further, an internal Circular has been released to enforce penalties that are to be imposed on Warehouse Keepers for anomalies identified by Customs Officials.*

**8.7.5.2 Deteriorating Items in the Warehouse**

While scrutiny of the application to operate a warehouse, if the Manager is satisfied that everything is in order he/she shall write and inform the applicant that the following Customs requirements has to be fulfilled before the application shall be approved:-

- The premises shall not be situated to a private yard (unless approved by the Comptroller) as it shall be accepted as suitable area for bonded warehouse,
- An approved plan for the warehouse shall be submitted to Customs,
- Ensure the warehouse is constructed of substantial material to the satisfaction of the comptroller,
- The doors of the warehouse must open into a street or public thoroughfare and
- All doors and windows are properly secured (burglar bars, fire and burglar alarms etc) and the doors have strong secured locks.<sup>25</sup>

Conditions of bonded vehicles stored in 3 motor vehicle bonded warehouses are deteriorating considerably due to extreme weather conditions the vehicles are exposed to since the bonds are open bond – without an enclosed building. The vehicles have rusted while some are covered in dusts. Refer the followings for examples:

Warehouse	Product Code	Condition of the Vehicle
Warehouse 1	575B	rusting and in bad condition
Warehouse 2	147F	rusting and in bad condition

Moreover, there is no burglar or fire alarms at the warehouses for the safety and security of the vehicles, especially when the warehouses are situated by the roadside and are susceptible to fire and burglary.

The third warehouse (Warehouse 3) bond also resembles a junk yard by the deteriorating conditions of vehicles in it and as most have had parts removed or cannibalized making it difficult for Customs to sell the vehicles at the applicable duty rate. Such vehicles would only be sold for a reduced rate of duty.

<sup>25</sup> Warehouse Section Procedure 5.1.3

It appears that the bond keeper is aware of this and is deliberately removing parts to bid the vehicles in the auction at the reduced rate of duty.

Despite being highlighted in the previous audit report, the Authority continues to allow the storage of vehicles in these bonds.

The above indicates a lack of commitment by the Authority in following up on goods which have deteriorated and in maintaining a safe and viable bond. The lack of monitoring over the warehouses is resulting in the leakage of Customs revenue as warehouse keepers are manipulating the system to defraud Government.

### **Recommendations**

**The Authority should ensure that:**

- **Storage of vehicles in Warehouse 3 bond to cease until the successful completion of the auction of the vehicles to recover the duties.**
- **Rusted Vehicles to be removed immediately and auctioned accordingly.**
- **Warehouse keepers are not allowed to bid in the auction and auction proceeds in excess of the customs duty and other costs are to be refunded to the importer as per section 63(4) of the Customs Act.**
- **Vehicles deteriorated beyond the extent of recovery of duty as per section 63(3) of the Customs Act to be disposed in accordance with section 63(5) of the Customs Act.**

### **Authority's Comments**

*A letter has been written by CEO informing Warehouse 3 for closure of bond and that all goods are duty paid are cleared. All vehicles have been transferred to Warehouse in Nakasi for Auction. Warehouse keepers have been informed not to bid in the Public Auction. The vehicles were put up for auction as per Section 63 (3) per the provision of Customs Act but however due to deterioration of the vehicles no sale were made. The vehicles are now being disposed in accordance with provision of Section 63 (5) of the Customs Act.*

#### **8.7.5.3 Missing Vehicle Parts**

If at any time after any goods have been warehoused and before they are lawfully removed from a warehouse, the goods are found to be missing or deficient, and it is not shown to the satisfaction of the Comptroller that their absence or deficiency can be accounted for by natural waste or other legitimate cause then, without prejudice to any penalty of forfeiture incurred under any other provisions of the Customs law, the Comptroller may require the warehouse keeper to pay immediately the duty on the missing goods or on the whole or any part of the deficiency, as the Comptroller sees fit.<sup>26</sup>

Audit noted that nearly all the vehicles stored in the 3 bonded warehouse have been cannibalized or had parts such as, tyres, doors, door handles, radios, glasses of windows, windscreens, indicator, roof rack, petrol tank lid and lights removed. Refer to the followings for examples:

Warehouse	Product Code	Missing Parts
Warehouse 1	649E	Rear tyre, side mirror
Warehouse 1	Not marked	Side mirror, rear tyre

<sup>26</sup> Customs act 1986, Section 45

Warehouse	Product Code	Missing Parts
Warehouse 1	564B	Front indicator
Warehouse 1	575B	Rust forming
Warehouse 1	AT192 0066190	Front indicators, mirror
Warehouse 2	507F	Break lights
Warehouse 2	467R	Windscreen-rear
Warehouse 2	410E	Indicator
Warehouse 2	787E	Side mirrors, door handle, side windows not working
Warehouse 2	147F	Rust forming

Bond-keepers are not properly monitored and penalised according to the Customs Act for cannibalizing and removing vehicle parts and this has given them the incentive to continue with such fraudulent behaviour.

Such activity also contributes to leakage in customs revenue whereby the importers are intentionally defrauding the Government.

### **Recommendation**

**The Authority should ensure that severe action is taken against warehouse owners for cannibalizing or illegally removing parts from vehicles maintained at the warehouse as per section 26 or section 139 of the Customs Act.**

### **Authority's Comments**

*Risk based audits of bonded warehouses are being conducted by Customs Compliance. For any illegal removal of parts or discrepancies identified, the bonded warehouse owners are notified to immediately pay the duty and remove the goods or action as per provision Section 26 or Section 139 of Customs Act are to be dealt immediately.*

*Further we have removed the bond warehouse keys for Warehouse 2 and we will be doing it for Warehouse 1.*

### **8.7.5.4 Damaged Vehicles**

The Customs shall not be liable for the loss of or damage to any goods subject to their control unless such loss or damage shall have been occasioned by the wilful or negligent act of any officer.<sup>27</sup> Goods subject to customs control include all imported goods, including goods imported through the Post Office, from the time of importation until removal for home consumption or until exportation, whichever first happens.<sup>28</sup>

The windscreen of one of the vehicles with product code 467R in Warehouse 2 was damaged when a stone was thrown at it. The Warehouse 2 bond is an open bond without enclosed roof. The Authority continues to approve the storage of vehicle in this warehouse despite the risk implied in the previous audits.

Moreover, precedence shows that warehouse keepers are usually reluctant to pay duty on the damaged vehicles resulting in loss and burden on the Authority in selling the vehicle in auctions. (Authority's Comments for audit report 2007 paragraph 8.5.1). This indicates the laxity of Customs Section in

<sup>27</sup> Customs Act 1986, Section 8 (1)

<sup>28</sup> Customs Act 1986, Section 8 (2) (a)

collecting duty and exercising Section 8 of the Customs Act and is in violation of the warehouse procedures.

Despite this being highlighted in previous audit reports, the gross violation of warehouse procedures continues under Customs control. Loss of customs revenue may also occur in the case of fire to the open bonds.

### **Recommendations**

- **The Authority should ensure that all imports are strictly adhered to as per Section 8 of the Customs Act.**
- **Warehousing of Vehicles in the open – bond should cease immediately and the Authority to enforce the use of closed bonds.**

### **Authority's Comments**

*We note the concern raised and the Management has now ensured that all imports are adhering to Section 8 of the Customs Act. For any future approval for Bonded Warehouse Customs will enforce use of closed bonds. In the meantime, Management has advised the existing open bonded warehouse owners to have enclosed bonds. Further in addition to existing Bond requirements the renewal shall be subject to the above requirement.*

## **8.7.6 Customs Investigation branch**

### **8.7.6.1 Duration of Cases**

Officers should aim to complete investigations within 3 months. However, it is anticipated that some top priority investigations will be larger and more complex than other cases. Inquiries are expected to be more limited in scope and should be completed or terminated within 3 months.<sup>29</sup>

The following pending cases since 2001 to 2007 are still open and have not been terminated.

File Number	Reason	Remarks
CIB/V/01/01	Undervaluation	Company has wound up and write off of duty. Forwarded to Legal: 04/10/01
CIB/V/01/14	Undervaluation	File has been transferred to LO Tima for legal advice. Forwarded to Legal: 06/10/08
CIB/W/02/02	Undervaluation	Case with Legal section for recovery action, matter before court.
CIB/G/04/05	Removal of Vehicle from the wharf without proper duty being paid.	Pending with legal Section, Forwarded to Legal: 07/04/07
CIB/G/07/06	Incorrect tariff classification and importation without import license.	Matter before Court, duty pending of \$224,079.
CIB/G/08/02	Duty unpaid on pre-release goods	MCIB correspond to W&G regarding the copy of the pre-release as customs copy is missing.

Furthermore some of the investigations took more than a year to complete. Refer the following for examples:

<sup>29</sup> Investigation Manual 6.3.3.5

Date Investigation Started	Case Number	Date Investigation Ended	Investigation Period
15/08/06	Case 1	30/06/08	1 year 9 months
15/06/07	Case 2	17/10/08	1 year 4 months
04/10/06	Case 3	24/01/08	1 year 2 months
09/11/05	Case 4	24/01/08	2 years 1 month
25/08/2006	Case 5	22/12/08	2 years 4 months

The delay in the finalization of these cases is mainly attributed to cases pending with court, cases with legal section; or cases still under investigation. Resources are allocated to an investigation and if such investigation is incomplete, it will waste resources and can lead to backlogs of cases.

Prolonged cases raise the risk of short paid duties to bad debt due to unforeseen circumstances such as migration, death, bankruptcy or insanity of the importer or dissolution of the business. Moreover, witness cross-examination in lawsuit can be compromised in recalling events way back in the past.

### **Recommendations**

- **The investigation matter should be examined and prioritized before an investigation begins and open cases should not be displaced in the work program unless the new case is of top priority.**
- **Periodically, the priority is to be reassessed and the review should take into account the worth of continuing the investigation and the appropriateness of the resources devoted to the case.**
- **The Authority should ensure that cases are completed within a reasonable time so that short paid duties can be collected in a timely manner and importers are penalised to serve as future deterrence to other importers.**

### **Authority's Comments**

*Please note that all cases cannot be completed within 3 months or terminated. Complex cases may take a longer period to complete depending on the gravity of the offence. We agree that the cases listed in the above matrix have been pending for some time, however FIRCA does not have jurisdiction on those that are before the Courts. As for the rest we have reassessed and taken appropriate action. Also, majority of the investigations are completed within a reasonable timeframe but the recovery process takes time based on the offender's ability to pay and other factors such as securing loans etc.*

### **8.7.6.2 Lack of resources at Investigation Section**

The Investigation Unit of FIRCA was set up to identify activities, persons and vessels and to evaluate their intentions, capabilities, limitations and vulnerabilities with activities which are deemed to be carried out in contravention of Customs legislation.<sup>30</sup>

The FIRCA Investigation Unit lacks investigating equipment such as a notebook, voice recorder digital camera, and a fire proof safe to carry out its activities. Refer the followings for details.

Description of Item	Qty	Total Estimated Cost \$	Comments
Notebook	1	5,000	Outdoor Operation, assist in interviews and statement and reduce downtime.
Voice Recorder	1	500	Assist in Interviews.
Digital Camera	1	1,500	Capture photos.
Software for Networking Electronic Data		To be negotiated	Timely alerts and actions.
Fire Proof Safe	1	5,000	Safe keeping of exhibits and documents.
Computer Set	1	3,500	In line with the proposed structure that at present is vacant.
<b>Total Estimated Cost</b>		<b>15,500</b>	

The Section often raid client premises and seizes documents of interest for investigation which should be locked in fire proof cabinets to avoid loss of such documents. Voice recorders would enhance the investigation and could be played as and when required and therefore would substantiate interview evidence in relation to investigations. The equipments will add value to the investigations being carried out and reduce unnecessary downtime.

Moreover, the Section is also lacking human resources. Out of the 10 approved staff as per the structure, there are only 3 officers in the section, which is under-resourced by 70%. This could be one of the reasons for the delays in the finalization of the investigation, with cases dating to 2001 and the non-destruction prohibited imports.

The lack of human resources and equipment will render the section to ineffectiveness and ultimately the Authority's ability to identify and evaluate activities, persons and vessels in breach of Customs Laws.

### **Recommendation**

**The Authority should equip the Investigation Unit with all equipment and adequate staff as per the structure to carry out its duties in the most effective and efficient manner.**

### **Authority's Comments**

*The capital budget was reduced from 2006 and the equipment for CIB is currently on hold. However the restructure process should take care of the HR issues. Further has recently got the items outlined above. These include cameras, scanners and photocopiers. We are currently in the final stage of negotiation with AFP to secure its case management intelligence system. With respect to notebook, all customs investigation personnel were assigned with computer desktop each.*

<sup>30</sup> FIRCA Annual Report 2005.



### 8.7.6.3 Substantial Write off of Customs Duty

The correct amount of any duty charge or fee due and payable under Customs Act:

- (a) maybe demanded by the Comptroller at any time within one year from the date when such duty, charge or fee should have been paid;
- (b) shall constitute a debt payable to the Government;
- (c) is payable by the importer or exporter as the case maybe;
- (d) is recoverable in a court of competent jurisdiction in the name of the Comptroller.<sup>31</sup>

A total of \$3.2m is being subject to write off in customs duty as the companies owing this debt had either wound up, been sold, delayed in prosecution or the Directors/Owners have absconded the country. Refer to the following for details:

Importer/Company	Amount (\$)	Comment
Importer A	2,745,391.47	Abscondment
Importer B	1,893.58	Wound up
Importer C	243,734.04	Abscondment and lack of Jurisdiction
Importer D	187,415.77	Delay in Prosecution and lack of physical evidence.
<b>Total</b>	<b>3,178,434.86</b>	<b>To be Written Off</b>

Furthermore, the following anomalies could also be attributed to the non-recovery of the substantial debts:

#### Importer A

The investigation against the company was initiated on 16/03/05 and forwarded to Legal Section for recovery on 06/12/05, after a lapse of 9 months. Following the sale of their business and assets, the directors absconded to Canada. On 24/02/07, after 1 year 2 months, legal section advised on the non-existent of the company and therefore cannot be prosecuted in court. Had the Authority kept surveillance on the movement of the Directors and affairs of the company, the abscondment could have been prevented or the duty would have been recovered from the sale of their assets. Also, the abscondment from the country was likely as there was \$2.8m in revenue at stake.

#### Importer C

A raid was conducted on the 14<sup>th</sup> and 15<sup>th</sup> of November 2003 and goods valued \$273,734.04 in excise duty was detained at D.N.Patel Building. Out of the total value of the detained items, \$909 (2 cartons and 25 bottles of assorted liquor) worth of liquor in excise duty was stolen on 18/08/04 while \$198,189.85 worth of liquor in excise duty was stolen on 17/03/2005. Despite these thefts at separate occasions and the pending duty owed due to theft and detention, the Authority failed to call for the collection of the outstanding bond deposit which amounts to \$70,000. Also, the Directors absconded without FIRCA's knowledge.

As per legal section correspondence on 26/09/07, the duty owed by Importer C could not be recovered as there is no jurisdiction in the Customs Act to recover the outstanding duty from the Directors or owners of the importing company. Moreover, the bond security given for the Excise Factory was only \$30,000 compared to the \$100,000 bond as per the regulation

<sup>31</sup> Customs Act 1986, Section 95

with the balance to be provided once the excise factory was in full operation. This bond security covers only 11% of the duty that is owed by the company.

Despite knowing the fact that duty implication from the operation of such liquor processing companies are risky and that FIRCA has no jurisdiction to recover duties from the Directors and owners of a company, the Authority settled for a lesser amount for the bond security.

### **Importer D**

The above case was initiated by the Investigation Section in 2002 upon receipt of information that under bond export liquor of 755 cartons consisting of local rum, whisky and gin, bound for Tonga from Lautoka was diverted in the domestic market with only two cartons of gin later retrieved in Tonga. The investigation was conducted and charges were laid at the Nasinu Magistrate Court on 11/11/2005. The investigation file was received in June 2007 and informs on closure of legal file on 05/11/2007 due to delay in prosecution, lack of evidence and failure to contact the witness or that cross-examination of witness in court could be compromised as the events occurred way back in the past, almost 5 years ago. Also, charges against the three Customs Officers were withdrawn and they were reinstated.

Due to delays in the prosecuting of the case, the State now has to forgo \$187,000 in revenue with the perpetrators not disciplined for defrauding the Authority. The delay in the case could be seen as deliberate, thus raising questions on how vigorous the Authority dealt with the case.

The above cases show gross violation of customs regulations whereby certain class of people have manipulated Customs controls to defraud the Authority by evading customs taxes. Also, the officers and the Authority have failed by not conducting an efficient and effective investigation and prosecution to bring such perpetrators to task.

Had the Authority been vigilant and cautious, the write off of such a substantial amount could have been avoided or minimized.

### **Recommendations**

**The Authority should ensure that:**

- **Investigation and prosecutions are conducted within a reasonable time while the evidences and details of the case are fresh;**
- **Surveillance on company's and directors to be kept with substantial amount of duty owed or those that are under investigation.**
- **Bond Security per excise factory to be determined rationally so that defiance to Customs provision is adequate to the duty owed;**
- **Transfer of under bond goods to be accompanied with a Customs Officer and any diversion to be penalised as soon as practical.**

### **Authority's Comments**

*Recommendations are noted and comments as below:*

### **Importer A**

*At the time the above company was investigated, there were no provisions in place that could prevent the directors from travelling abroad. However amendments have now been made to the Customs Act, where Departure Prohibition Orders (DPO) may be issued to importers who have duty liabilities. The effect of the DPO is that importers cannot leave Fiji unless full settlement of duty is made or security arrangement to the*

satisfaction of the Comptroller is provided by the importer. Again it is to be noted that issuance of DPO can only be made if there is a likelihood of importers absconding.

Two of the Importer A directors have returned to Fiji and were prevented from leaving the country.

### **Importer C**

As in the case of Importer A the directors absconded and recovery action for the duty liability could not be pursued against them. Given that Customs is a creature of statute, enforcement options available is confined only to what the legislation permits. FIRCA in its endeavour to ensure that past mistakes are not repeated have amended the Customs Act to include Section 143C of the Customs Act, Cap 196 as amended by Promulgation 14 of 2007 whereby Departure Prohibition Orders are issued to importers who are likely to abscond.

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### **Importer D**

#### **Introduction**

This report is being prepared in response to the Auditor General queries in regards to the above mentioned case.

Please note that the proceedings brought against the accused persons were before the criminal courts. It was not a civil proceeding for recovery of the sum defrauded. If the accused persons had been found guilty the court could have imprisoned or fined the accused persons, but they would not be able to order them to pay the amount defrauded which was in excess of \$180,000.

#### **History of Proceedings**

##### **Magistrate Court (Valelevu)**

In October 2005 the writer received the arch lever folder marked CIB/G/03/11 from the Investigating Officer and was briefed by himself on the nature of the case and the need to prepare an advice on the evidence. The facts disclosed, in a nutshell that a group of people had conspired with each other to defraud the State of excise revenue to the value of \$187,415.77. Section 54(d) of the Excise Act provides for the offence of Evasion of Excise Duty. It also provided for the offence of Abuse of Authority pursuant to section 58(b).

However, crucially section 65 of the Excise Act places a time limit on when such charges may be laid. **The limit is 3 years.** A quick perusal of the facts revealed that the alleged offending took place on or about the **12<sup>th</sup> of November 2002**. Therefore, the limitation period would have expired in a matter of weeks. The writer was therefore unable to provide a detail written advice on the evidence but instead proceeded to read and discuss the evidence with the investigating officer. In this case the evidence is inextricably linked with the procedures and practice of Customs which can be quite unfamiliar and perplexing to a first timer (such as myself) dealing with such a case. It required the experience and guidance of the investigating officer, a career Customs Officer, to explain the processes and relate it to the evidence, especially the documentary proof.

The writer following careful reading of the evidence advised the CEO that charges would be laid against the six people implicated in the scam. The charges were filed on the **11<sup>th</sup> of November 2005** and the matter was called on the **14<sup>th</sup> of December 2005** before the Magistrate. First phase disclosures were provided on that day.

The matter was adjourned and again called on the **19<sup>th</sup> of January 2006**. Second phase disclosures were provided on that day.

The matter was again called on the **20<sup>th</sup> of February 2006**. Served further disclosures on that day. Also indicated to the court that the charges against the three Customs Officer would be withdrawn shortly and that they would be facing internal disciplinary charges.

*The matter was again called on the 7<sup>th</sup> of March 2006. On that day, I made an application to withdraw the charges against the three Customs Officers. Amended charges were filed against the three civilians remaining.*

*The matter was again called on the 18<sup>th</sup> of April 2006 and the matter was fixed for hearing on the 22<sup>nd</sup> and 23<sup>rd</sup> of August 2006 against Importer 4.*

*On the 10<sup>th</sup> of August 2006 the writer wrote a letter to the Magistrate Court indicating that we would be unable to proceed to hearing on the 22<sup>nd</sup> and 23<sup>rd</sup> of August 2006 due to the fact that the FIRCA Disciplinary Tribunals had not yet concluded. The said hearing dates were vacated. It should be noted that the writer had been faced with the difficulty of having to complete 3 FIRCA Disciplinary Tribunal cases which involved essentially the same evidence, before he could attempt to even commence the Magistrate Court hearing.*

*The matter was called again on the 12th of September 2006 and the charges were withdrawn against MF since he had voluntarily given a witness statement to us and had acknowledged his involvement in the scam and that of the others. We would utilize MF's evidence against the remaining accused person and also in the disciplinary tribunal. (The history of MF's cooperation with us is contained in my memo to CEO dated 24th of July 2006 and is summarized separately below). Amended charges were filed on that day against the remaining two accused persons.*

*The matter was adjourned to the 25th of September 2006, however, the writer missed the court appearance date due to entering the date in his diary as the 26th. A letter of apology dated the 27th of September was written to the Court explaining the mistake.*

*On the 18th of October 2006 the matter was called again and further disclosures were provided to the defendants. Matter was adjourned to the 29th of November 2006 to fix a hearing date and await the arrival of new court diaries for next year. The Court was unable to fix dates for 2007 at this point due to the non-availability of the 2007 court diaries.*

*The matter was called on the 29th of November 2006 and the matter was assigned hearing dates on the 10th, 11th and 12th of April 2007. Only AC and JP are facing charges in this proceeding.*

*On the 12th of December the case was allocated to our Legal Officer since the writer was departing for overseas studies in January 2007.*

*Upon the writer's return to Fiji in January 2008, the writer was informed that the Magistrate Court case was withdrawn. The following is an extract of the explanations provided by the Manager Legislation:*

- 1) The case file was allocated to Manager Legislation in 2007 by the then NM [Legal][SK] after the writer had left for further studies.*
- 2) The then GMDS sought Manager Legislation's opinion on whether to proceed with the prosecution filed at the Nasinu Magistrate Court No. 1 and to enable her to give him one, she had to [see below].*
- 3) Manager Legislation further reviewed the case file and spoke with the Investigating Officer now of [OCO] who undertook the investigation at the time..*
- 4) By this time too, the Customs Officers before the Disciplinary Tribunal had been acquitted (NS was acquitted after a full hearing and re-instated; JK and NC had their charges withdrawn and were reinstated).*
- 5) Manager Legislation's advise to GMDS was, to "withdraw the charges filed at the Nasinu Magistrate court" for the following reasons among others:*
  - according to investigating officer, most if not all the witnesses, had either migrated, were too sick to continue as witnesses in this case or had forgotten most of the facts;*
  - the physical evidence being, the "actual container" had been dispersed as, the "contents of the container [cartons of spirit]" had been sold in the West and Suva;*

- *there was delay in prosecuting the case in court which in itself contributed adversely to “bullets 1 and 2” above.*
- 6) *On that note, the then GMDS directed Manager Legislation to “carry on with the withdrawal of the charges” from the Nasinu Magistrate court.*
- 7) *This was done and the Authority paid costs in the sum of \$500 to one of the defendants. The reason for the cost as argued in court by the counsel for this particular defendant was as a result of hardship encountered because he had become unemployed at some stage.*
- 8) *The case file was closed and returned to RMU.*

*The above is an entire history of the proceedings in the Magistrate Court. It should be noted that the investigation was an on-going one and the following is an excerpt of a memo that the writer wrote in respect of the procurement of a witness statement from one of the accused, MF.*

## **2. MF**

*The above mentioned had assisted AC(who was the mastermind of the entire scam) in the commission of the fraud. MF in early 2006 notwithstanding that he was facing charges under the Excise Act, in the Nasinu Magistrate Court, decided unconditionally to offer evidence which may have assisted us in the prosecution of the Magistrate Court matter and also our FIRCA Disciplinary tribunal matters. MF was handled with extreme care and no promises were made to him during our meeting early 2006. This meeting was also attended by an inspector from the Central Police Station to ensure the integrity of the meeting and the discussions that took place.*

*MF was informed from the outset that he was free to engage a lawyer to guide him in these matters and to seek legal advice. These steps were taken by me in order to ensure that MF felt under no compulsion to give a witness statement or the need to co-operate with us. MF chose to waive his right to a lawyer and engaged in direct discussions with the investigating officer and myself. MF was made aware by me that he was free to give a witness statement to FIRCA but this statement would not be in return for anything, i.e. withdrawal of charges in the Magistrates Court.*

*He was informed that if he gave a witness statement and if we were satisfied that the statement would be of some use in the tribunal; we may call him as a witness in those proceedings. I had also informed him that depending on the quality of the evidence he gave during the tribunals, we would carefully reconsider his case in the Magistrate Court; however, the final decision would rest with the CEO of FIRCA. It was also made clear to him that should we decide not to withdraw the Magistrate Court charges against him, we would not make any use of the witness statement he may give to us. In other words, we would not use his witness statement against him to prove our case.*

*Once we had received MF signed witness statement dated 27<sup>th</sup> of April 2006 I carefully evaluated his evidence and decided that his evidence would be of great use against AC, JP, NS and JK. As far as NC's case was concerned I had my doubts as to its usefulness. Unfortunately, NC had already been charged on the 1<sup>st</sup> of March 2006, which was before we had received MF's statement.*

*The writer had the opportunity to thoroughly test the genuineness of MF's evidence and his willingness to co-operate with the Authority during NS's tribunal hearing and the writer was quite satisfied with the quality of his evidence. His credibility was also not shaken under cross-examination considering the fact that he is an accomplice. He was willing to give evidence in the remaining tribunal(s) and also in the Magistrate Court against his fellow colleagues. The writer was of the view that MF was genuine about his desire to co-operate with the authority and he had also accepted that his actions in 2002 were unlawful.*

*In order to further strengthen our case in the Magistrate Court I was of the firm view that we ought to drop the charges against MF and instead use him as a witness for FIRCA. What made this option even more viable was that another witness, SP, who is a labourer and was not implicated in any actual wrongdoing, corroborated MF's evidence. It ought to be remembered that under the law of*

*evidence accomplice's evidence must be carefully scrutinized since the question of what weight it should be given must take into consideration the fact that he is an accomplice and may have an "axe to grind" so to speak. Therefore corroboration from independent sources was necessary. SP, who also gave evidence during the NS tribunal hearing, strongly corroborated the evidence of MF.*

*Therefore, based on the writer's recommendation the Authority withdrew the Magistrate Court charges against MF.*

### **3. Additional Comments**

*It should be noted that the decision to withdraw the cases against Mr. AC and JP was not made by the writer. The decision was made by Manager Legislation and approved by our former National Manager Legal Services and General Manager Development Services. While the writer respects their decision, the writer in his legal opinion does not necessarily agree with the decision (or the basis used for making that decision) taken during his absence from Fiji (while on study leave). However, the decision, whether right or wrong, had been made and the charges were indeed withdrawn. It would not be possible to re-charge the two accused persons now as it would be unfair and cause great hardship and suffering, especially when considering that they have already been subjected to prosecution once already.*

### **Recommendations**

*One of the problems with this case was that the Legal Division only received the investigation file one month before the time limits for prosecution was to expire. It put enormous strain on the writer, who was already loaded with other pressing work. Furthermore, the evidence in the file were such that it needed a great deal of Customs practice and procedure knowledge to prosecute successfully such a case. The writer at that time did not have such knowledge and had to rely on the investigating officer to assist him in understanding the case and the revenue lost implications as a result of the fraud.*

*Secondly, another difficulty was when the former GMDS requested that the Customs Officers, being FIRCA staffs be dealt with internally rather than externally (i.e. through the Magistrates Court). This created complications as the writer now had 4 cases (1 magistrate court case and 3 FIRCA Disciplinary cases) to deal with. It would not have been possible to run the cases simultaneously. The intention was to complete all disciplinary cases first, recollect the evidence used in the tribunal and then re-present them in the Magistrate Court for the hearing. A lot of co-ordination was required and a lot depended on how quickly the Disciplinary cases could be completed.*

*In future, FIRCA should run just one case, as it would be much easier to manage, especially considering the limited resources available to the Legal Division, in terms of man-power. Apart from myself, there was no one else in the Legal Division with practical criminal prosecution experience. My study leave (on an Ausaid scholarship to study Master of Taxation at the University of Sydney) unfortunately compounded this problem. There is a serious need for the Legal Division to do more prosecution cases in order to bring up the skills levels of all the lawyers. Too few and rarely are criminal cases brought to the Legal Division by Customs and IRS. Smaller test cases are a good starting point, in order to expose the lawyers to real criminal court experience.*

*(comments by : BS (Acting National Manager Legal)*

## **8.7.7 Ethical Standards Unit (ESU)**

### **8.7.7.1 Un-authenticated Investigation (FIRCA v ESU/FICS/01/08)**

The Chief Executive Officer may cause an investigation to be carried out into any suspected or alleged misconduct by an employee.<sup>32</sup>

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<sup>32</sup> FIRCA Conduct and Discipline Regulations, Section 8 (1)

Amongst numerous anonymous allegation in investigation file ESU/FICS/01/08 against the defendant for abuse of office, there were allegations of smuggling that were serious in nature. It was alleged that the drug was smuggled giving special clearance to a Mexican lady whereby she was cleared without her bags being checked in the X-ray machine at the baggage hall, a routine to clear passengers.

Moreover, there was also allegation of smuggling of 5 boxes of cigarettes from the duty free shop.

Despite these critical allegations, the Authority's investigation failed to highlight on the outcome of the smuggling allegation. Preliminary investigations show that only the personal secretary of the alleged officer was interviewed. Based on the statement of the secretary, the investigation report concluded that there were "some merit to the allegations against the staff concerned" and thus, the defendant was transferred to Tariff and Trade in Suva.

As such it is presumed that no effort was made to investigate the smuggling allegation or the verification to the approval of Special Clearance as alleged.

Matters of such nature infringe border security and make a mockery of all the effort by the Authority to be a safer border management agency in the region. Also, transfers without substantiating allegations from anonymous letters could be viewed by the public as a mean to take out a personal grudge against an officer despite it being malicious.

### **Recommendations**

**The Authority should ensure that:**

- **allegations of smuggling are investigated;**
- **investigation reports to cover all allegations with emphasis on the more serious ones;**
- **transfer of capable officers to be effected only after allegations have been proven or dealt with in accordance to the FIRCA Conduct and Discipline Regulation or as per management decision.**

### **Authority's Comments**

*Comments are noted. Please note that this case was discussed at length with the auditors of OAG at the time of audit and the situation was fully explained to them. We understand that all allegations need to be investigated based on authenticity of the allegation. In this particular case all events that occurred at Nadi Airport was reported under the defendant's name via anonymous letter of allegations.*

*We agree that the above events did occur in Nadi but that does not mean that the defendant was responsible. Various allegations were investigated separately under different file references, which were properly advised to the auditors during audit.*

*Furthermore, the cigarette smuggling case was investigated by the Police, which revealed that another officer was involved rather than the defendant as alleged. This other officer was investigated. (Ref Case file no. ESU/FICS/30/07).*

*The issue of clearance of Mexican Lady by the defendant has no merit because this case was investigated by Police and the drug was found in her possession at one of the hotels in Nadi. The shift supervisor was not the defendant in which the said lady was cleared at Nadi Airport on arrival.*

*The Authority's preliminary report acknowledged that there was some merit to the allegation of attendance and performance but it did not say that the defendant was implicated on smuggling cases. The manner in which this audit report was raised is questionable. The auditors have twisted the report to say that the allegations were not fully investigated at all.*

*The issue in relation to transfer of employees rest with the Authority under the provisions of the Collective Agreement and the CEO has powers to do so. In this case the officer was posted to Nadi and has been there for more than ten years. The officer's transfer was not a disciplinary transfer as conferred by the auditors.*

*Furthermore, there was no special clearance and the x-ray machine was fully controlled by Quarantine officers which failed to detect discrepancies.*

### **Further OAG Comments**

*The audit report is that, of the numerous allegations only the issue of abuse of office was investigated. The defendant was Manager at that time and rather in-charge of the port as a whole. Allegations against officers need to be fully investigated and if acquitted restored to their post. Transfer of officer pursuant to the allegation on the anonymous letter is rather self conclusive and could be seen as a way to removing an officer of integrity from their positions through such malicious anonymous letters.*

*Moreover, the investigation of separate allegations through separate files was not mentioned to audit, but rather was advised that a report on the special clearance will be provided, but to date this is still pending.*

### **8.7.7.2 Superfluous Investigation (ESU/IRS/03/08 v FIRCA)**

The Chief Executive Officer may cause an investigation to be carried out into any suspected or alleged misconduct by an employee.<sup>33</sup>

A complaint against the defendant was received from Fiji Public Service Association (FPSA) on 9 January 2008 for misuse of FIRCA IT infrastructure – through the e-mailing of materials against the association. An investigation was carried out with the idea of being fair and non-discriminatory with previous cases of similar nature. As such the defendant was suspended with full pay effective from 16<sup>th</sup> January 2008.

The above case is a minor offence and officers are usually re-instated with a warning letter. (Precedent case: FIRCA v ESU/FICS/0014 and FIRCA v ESU/IRS/06/08). However, the Authority failed to look at the precedent decision and carried out the investigation with the end result being the re-instatement of the officer with a warning letter to be in conformance with the precedent decision. As a result it cost the Authority \$3,303 in unproductive salary payment.

Had the Authority followed the precedent decision upon receiving the complaint, that is, reinstatement with warning letter, the resources in terms of salary payment could have been avoided. Also, investigation time and officers could have been allocated to other major cases.

### **Recommendation**

**The Authority should ensure that precedents are applied upon receiving complaints for cases that are similar in nature and that which are minor.**

### **Authority's Comment**

*Comments are noted. The enforcement of precedent will only apply if the affected officer willingly admits to the allegations or complaints raised against him/her.*

### **8.7.7.3 Unproductive Salary payouts due to Reinstatement of Officers**

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<sup>33</sup> FIRCA Conduct and Discipline Regulations, Section 8(1)



The Chief Executive Officer may cause an investigation to be carried out into any suspected or alleged misconduct by an employee.<sup>34</sup>

There has been substantial payout in unproductive salary for the suspension and interdiction period of officers as a result of their reinstatement. Refer the followings for examples:

Investigation Number	File	Salary \$	Tribunal Cost \$	Fraud & Evasion Cost \$	Payout \$
ESU/2006/00012		23,900	---	---	23,900
DF2007/00304		11,091	5,200	---	16,291
ESU/IRS/17/07		13,187	5,200	---	18,387
CIB/G/03/11		59,761	---	---	59,761
ESU/IRS/34/07		52,097	15,007	8,291	75,395

Moreover, the following anomalies were noted in the above officer's disciplinary cases instigated by the Authority:

### **FIRCA v ESU/2006/00012**

The Tribunal ruling indicated that:

- Of the 6 batches that were referred to in the charges, the defendant only assigned and assessed two batches.
- Both the batches had payable and refund returns in them.
- Other witnesses together with the checker confirmed that there was nothing neither fraudulent nor wrong with the assessments.
- Proper procedures were followed by the defendant for lodging the returns at the Customer Enquiry Centre (CEC) and were according to the standard practice and requirement.
- All evidence heard together with Computer printout confirms that the returns were indeed lodged at the CEC.
- No evidence before the Tribunal as to the actual process for assigning returns for assessment. In the absence of such crucial evidence, the charges of personally assessing returns not assigned to the defendant cannot stand.
- The practice of assigning and assessing returns personally is a common occurrence and is not a one of act by the defendant alone.
- The defendant's continuous access to the assessment of Vat returns negates any pleading of not being authorised to assess the returns by the Authority.
- Based on the Authority to the computer access granted the defendant, the defendant was entitled to believe that the defendant had the required authority to assess the returns and that the defendant acted within her job specifications.
- One week of lodgement to the date of batching is not urgent and that the element of "urgent" processing has no basis against the defendant.

The above ruling raises a lot of questions on how the investigation was carried out with the above valid points to the investigation not being considered.

In addition, the investigation was carried out by skilled investigators who had been with the Authority for years. Despite this, charges against the defendant were laid without any consideration on the standard practise and requirements within the Authority.

<sup>34</sup> FIRCA Conduct and Discipline Regulations, Section 8 (1)

Moreover, the Tribunal highlighted witnesses being contacted, coerced and threatened to give evidence against the defendant and the contention that witness statements were prepared by the Ethical Standards Unit (ESU) and later signed by witnesses as their own.

Such allegations compromise the credibility with which the investigations were carried out and thus compromise the presumption of innocence which is “innocent until proven guilty”.

#### **FIRCA v DF2007/00304**

The defendant from the Debt Management Unit was suspended on 7<sup>th</sup> August 2007 on allegation of leaking taxpayer information to the media. Despite the National Manager Legal Services (NMLS), memorandum to the CEO on 1<sup>st</sup> November 2007 that charges against the defendant cannot be sustained for prosecution before the Tribunal, the Authority went ahead with the appointment of the Tribunal on 20<sup>th</sup> November 2007 which later recommended the re-instatement of the officer on 30<sup>th</sup> January 2008.

Had the Authority acted on the National Manager Legal Service’s advice, the unnecessary Tribunal Hearing could have been avoided saving the Authority \$11,800 in salary payout and the Tribunal cost.

While the Authority had tried to implement a fairer and transparent disciplinary process, the rule of sufficient evidence in prosecution should be adhered to at all times.

#### **FIRCA v ESU/IRS/34/07**

The defendant was suspended three times with two of the suspension ending with the Tribunal and acquitted of all charges while the other charge (threatening team leader Ethical Standards Unit) was withdrawn due to it being minor.

Summarized below is the Tribunal decision of the charges laid against the defendant that could not be proven due to lack of evidence or that proper procedures within his job description were followed.

<u>Charges</u>	<u>Tribunal Decision</u>
<b><u>Allegation 1</u></b>	
<b><u>Charge 1</u></b> <ul style="list-style-type: none"> <li>Behaved with dishonesty by informing members of his staff that the defendant would be in the conference room for a meeting and that the defendant was not to be disturbed when in actual fact the defendant was not in the conference room having a meeting but was rather at someone’s residence having an extra marital affair with his wife.</li> <li>After lunch at 2.00pm that day a colleague saw the employee come to the office. The defendant accused to have had two puncture like marks on the forehead and the side of the face bruised.</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient evidence to sustain the allegations under charge 1.</li> <li>There is no evidence before the Tribunal to show that the defendant did not have such a meeting.</li> <li>No independent evidence to show that the employee was having an extra marital relationship.</li> <li>The defendant had some sort of injury on the face after lunch but evidence of how and when the defendant acquired the injuries was not before the Tribunal.</li> </ul>
<b><u>Charge 2</u></b> <ul style="list-style-type: none"> <li>Provided false information to the authority regarding the rental income.</li> </ul>	<ul style="list-style-type: none"> <li>Charge 2 as it stands against the defendant cannot be sustained. The description of the property is incorrect and the defendant has shown that the defendant was prima facie entitled to Split Returns with the wife on the rental income.</li> <li>Reliance was placed purely on documentary evidence</li> </ul>

Charges	Tribunal Decision
	<p>including the defendant's Income Tax Return, the interview conducted and bank statements.</p> <ul style="list-style-type: none"> <li>No evidence to show that the non-disclosure of rental income of property belonging to the defendant.</li> <li>The defendant did not own the property, but the defendant's parents did.</li> </ul>
<p><b>Charge 3</b></p> <ul style="list-style-type: none"> <li>Failed to take reasonable steps to ensure that the defendant's spouse lodge the Income Tax Returns.</li> <li>The defendant's spouse had not filed a single return despite being in paid employment.</li> </ul>	<ul style="list-style-type: none"> <li>Charge no. 3 cannot be sustained against the defendant and the defendant is entitled to the benefit of the doubt raised about the defendant's culpability under his charge.</li> <li>It is correct to say that the defendant failed to include the spouse's TIN in lodging its own income returns. Furthermore, by ticking Box Zero for question No. 15 the defendant was indicating that the spouse lodged separate returns.</li> <li>It was not proper for the Authority to prosecute the defendant for the failures of the spouse.</li> </ul>
<p><b>Charge 4</b></p> <ul style="list-style-type: none"> <li>Behaved with dishonesty by informing its Financier that a third party was the defendant's spouse and that the third party was employed by the authority when third party was in fact not an employee of the Authority. It was further alleged that the third party was someone the defendant have been having an extra marital affair with.</li> </ul>	<ul style="list-style-type: none"> <li>Charge No. 4 cannot be sustained against the defendant.</li> <li>Not proved.</li> <li>The defendant spouse name is not quoted wrongly. How the quoted name came to be on the form is not in evidence.</li> </ul>
<b>Allegation 2</b>	
<p><b>Charge No. 1</b></p> <ul style="list-style-type: none"> <li>Failure to act with care and diligence in authorizing by signing the issuance of the tax Certificate of exemption (COE) with issue to taxpayer.</li> </ul>	<ul style="list-style-type: none"> <li>Authority's allegation was not substantiated.</li> </ul>
<p><b>Charge No. 2</b></p> <ul style="list-style-type: none"> <li>Failure to make proper use of your status and authority as Team Leader (SPT) to seek to gain advantage for another.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority may have a chance of success on count 2.</li> </ul>
<p><b>Charge No. 3</b></p> <ul style="list-style-type: none"> <li>Failure to use the Authority's resources and assets in a proper way when you instructed the secretary to type the COE for the taxpayer.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority had summoned AT to give evidence, but she did not attend the session. So the tribunal did not see any reason of pursuing this count, therefore was withdrawn.</li> </ul>
<p><b>Charge No. 4</b></p> <ul style="list-style-type: none"> <li>Failure to act with care and diligence when you authorized by signing, the issuance of a tax clearance certificate with number S263/2007 to taxpayer giving your approval in the Fiji Integrated Tax System that the source of funds for the tax clearance was from FNPF and salary savings.</li> </ul>	<ul style="list-style-type: none"> <li>Witness (MJ) given instruction by the defendant to prepare the tax clearance for signing.</li> <li>This instruction missing from FIRCA's Disclosures.</li> <li>Nothing wrong when the tax clearance was given since the taxpayer was not under audit.</li> <li>Tax clearance was revoked on 13/09/07 when the tax payers file was sent to income matching unit for audit.</li> <li>Nothing wrong with the source of funds.</li> <li>Tax clearances can be revoked at anytime provided the funds have not been remitted.</li> </ul>
<p><b>Charge No. 5</b></p> <ul style="list-style-type: none"> <li>Failure to behave honestly and with integrity in the course of employment for approving as true and correct an untrue statement of events as there were no such withdrawals from the FNPF or Salary Savings belonging to the taxpayer.</li> </ul>	
<p><b>Charge No. 6</b></p> <ul style="list-style-type: none"> <li>Failure to act with care and diligence by issuing tax</li> </ul>	<ul style="list-style-type: none"> <li>This charge was withdrawn, as the witness stated that tax matters were not an issue, Revenue Collection</li> </ul>

Charges	Tribunal Decision
clearance certificate of \$10,000 to a taxpayer who has not lodged tax return from 2004.	Division was debating on the tax affairs of the taxpayer and that there was nothing wrong with the issuance of tax clearance.
<u><b>Charge No. 7</b></u> <ul style="list-style-type: none"> <li>Failure to make proper use of your status and authority as Chief Auditor by approving a non Special Projects Team clearance case.</li> </ul>	<ul style="list-style-type: none"> <li>Given that the defendant had powers to issue tax clearances and blanket tax clearance, in general, the Authority's charge lacks merits. This charge was withdrawn on 9th of April, 2008.</li> <li>This letter did not form part of the investigation exhibits.</li> <li>CEO, TB though summoned to the Tribunal Hearing, did not appear to give evidence on delegation of powers and Special Project Jurisdiction.</li> </ul>
<u><b>Charge No. 8</b></u> <ul style="list-style-type: none"> <li>Failure to disclose and take reasonable steps to avoid any conflict of interest for instructing a team member, to create tax clearance certificate knowing there was outstanding tax issues regarding the tax affairs of a taxpayer.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue Collection was debating on the tax issue, no final decision was reached at that time; therefore it was not an issue then. As such the defendant was right in issuing tax clearance.</li> </ul>
<u><b>Charge No. 9</b></u> <ul style="list-style-type: none"> <li>Failure to comply with lawful and reasonable directions by approving the manual journal for the withdrawal of take on balance when the lawful authority to approve withdrawals of late payment penalties (LPP) was not delegated for the SPT.</li> </ul>	<ul style="list-style-type: none"> <li>Manager DMU and Case managers have the power to withdraw LPP.</li> <li>The defendant as Chief Auditor had the power to withdraw LPP as well.</li> <li>When the defendant moved to SPT, the defendant kept the responsibilities as Chief auditor.</li> <li>The defendant could do other tasks under the Chief Auditors responsibilities despite having priority for the SPT.</li> <li>No written notice to the defendant to state that the other functions as Chief Auditor were revoked and that the defendant was to do SPT matters only.</li> <li>There was no change in job description.</li> <li>CEO, TB was not present to give evidence on the delegation of powers to SPT.</li> </ul>
<u><b>Charge No. 10</b></u> <ul style="list-style-type: none"> <li>Failure to properly utilize your status and Authority in the course of your employment with the Authority by approving the manual journal for the withdrawal of take on balance that was not part of the SPT's audit.</li> </ul>	<ul style="list-style-type: none"> <li>Witness for the authority stated that as a Chief Auditor, the defendant had the authority to withdraw arbitrary assessments and late payment penalties and saw nothing wrong with it.</li> </ul>
<u><b>Charge No. 11</b></u> <ul style="list-style-type: none"> <li>Failure to make proper use of your status and authority in the course of your employment with the authority by improperly utilizing your status and authority as Team Leader(SPT) to approve tax refund for a non SPT case despite being alerted by the FITS dialogue warning that the said case had outstanding tax returns from 1998-2005.</li> </ul>	<ul style="list-style-type: none"> <li>A document stating that the said taxpayer did not lodge the tax returns because the taxpayer was employed as a barmaid and was earning less than \$100/week and as such PAYE was not deducted. From 2003-2004, MH employed her as a casual worker and therefore did not lodge tax returns. The document was not part of the Authority's disclosures.</li> </ul>
<u><b>Charge No. 12</b></u> <ul style="list-style-type: none"> <li>Failure to comply with lawful and reasonable directions: Contrary to regulations 3(5) of the Fiji Islands Revenue &amp; Customs Authority (Conduct &amp; Discipline) Regulations 2002, the defendant failed to comply with the lawful and reasonable direction and approval issued by the then Acting General Manager Risk and Compliance division which was that the defendant was to issue refund approvals for SPT</li> </ul>	<ul style="list-style-type: none"> <li>The defendant kept all the functions as Chief Auditor and could issue refund approvals for non-SPT cases also.</li> </ul>

Charges	Tribunal Decision
cases only.	
<b>Charge No. 13</b> <ul style="list-style-type: none"> <li>Failure to comply with all lawful and reasonable directions by approving tax refund for a non-SPT case despite being lawfully and reasonably directed that the defendant was authorized to issue tax refund approvals for SPT cases only.</li> </ul>	<ul style="list-style-type: none"> <li>The defendant kept all the functions as Chief Auditor and could issue refund approvals for non-SPT cases also.</li> <li>The then Acting General Manager was not available to give evidence on instructions given to the defendant.</li> </ul>
<b>Charge No. 14</b> <ul style="list-style-type: none"> <li>Failure to behave honestly and with integrity in the course of employment by approving a tax refund for non-SPT case despite knowing that the authorization granted to you was only for SPT cases.</li> </ul>	<ul style="list-style-type: none"> <li>SPT would have priority but the defendant could do other tasks under his functions as Chief Auditor.</li> <li>No change in the defendants job descriptions.</li> </ul>
<b>Charge No. 15</b> <ul style="list-style-type: none"> <li>Failure to comply with lawful and reasonable directions for checking and processing the amended tax return for the taxpayer without lawful authority to make amendments to tax returns.</li> </ul>	<ul style="list-style-type: none"> <li>Witnesses confirmed that being a Chief Auditor, the defendant had the Authority to amend tax returns.</li> </ul>
<b>Charge No. 16</b> <ul style="list-style-type: none"> <li>Failure to make proper use of your status and authority in the course of your employment with the authority for improper use of status and authority as Team Leader SPT instructing withdrawal of arbitrary assessment raised against a taxpayer when you did not have the lawful authority to amend tax returns.</li> </ul>	<ul style="list-style-type: none"> <li>The defendant as Chief Auditor had the Authority to withdraw arbitrary assessments.</li> <li>At times arbitrary assessments should be withdrawn as assessments are baseless and bloat debt that has to be collected.</li> <li>Arbitrary assessments are only done to raise a debit and to bring a taxpayer into the system.</li> <li>Arbitrary assessments are wrong at times and do not correctly reflect the taxpayers liability.</li> <li>All auditors have the Authority to withdraw arbitrary assessment.</li> </ul>

The above Tribunal decision questions the qualities with which the investigation was carried out.

### ***Allegation 1:***

Of all the four charges against the defendant, none of the charges could be sustained in the Tribunal due to it being unsubstantiated with sufficient evidence.

Investigations ought to be fair, transparent and supported for any charges to be successful. Despite the Authority's investigation lacking evidence, charges were laid which raises questions on the reliability of the whole investigation.

Furthermore, finer details such as exact location of property (**Charge 2**) need to be correct and petty and personal issues such as extra marital affairs without sufficient evidence (**Charge 1**) has to be avoided and not generalized when laying charges of such nature.

### ***Allegation 2:***

Of the all the 16 charges against the defendant, none could be proven in the Tribunal proceedings. There were documents crucial to the investigation, such as the authority to issue tax clearances and tax payer explanation for the non-lodgement of tax returns from 1998-2005 were withheld from the Legal section and were only discovered when the Tribunal proceedings began.

Concealment of documents to an investigation is seen as a malicious act to discipline an officer questioning the integrity of an investigation.

Furthermore, the following employees, former chief executive officer Mr. TB, AT and JL who were witnesses to the investigation did not appear to give evidence in the Tribunal hearing.

In addition to this, witnesses that gave sworn evidence at the Tribunal indicated that the defendant performed his duties according to the practice and procedures within the Authority and did not act in violation of the FIRCA code of conduct thus, discrediting the charges.

In total, the defendant was away from work for 8 months. Audit questions why the investigation process was not able to eliminate non- genuine allegations. Also why the crucial document to the investigation – authority to issue Certificate of Exemption (COE) and the defendant's role and responsibilities as Chief Auditor were not considered or verified during investigation.

Furthermore, the Fraud and Evasion Teams investigation process took 107 days to complete the investigation into the third allegation costing \$8,291 while the total investigation case costs the Authority \$75,395.

From the above cases, the rule of a fair investigation with sufficient evidence to lay charges was not maintained and the presumption of “innocent until proven guilty” had not been adhered to. Threatening to give witness statements and concealment of crucial documents indicates that the officers have been presumed guilty since the inception of the investigation.

Keeping productive employees away from work for unsubstantiated charges could create faction within the Authority and affect service delivery within the Authority. Charges without merit also discredit the whole concept of the investigatory process within the Authority and have resulted in wastage of resources of the Authority.

### **Recommendations**

**The Authority should ensure that:**

- **Investigations are thorough and sufficient evidence is collected and analyzed before charges are laid to determine the success of a case in the Tribunal;**
- **Charges made on non credible evidence are avoided since it is becoming costly to the Authority and could raise question regarding the integrity of its investigations.**
- **The independence and integrity of investigating officers in conducting the investigation is analyzed and the Concealment of Documents by officers pertinent to an investigation to be investigated and disciplined;**
- **Investigatory process is fair and transparent and weakness are refined for future improvement into investigations;**
- **Coercement and threatening of staff to give witness statements are investigated;**
- **Witnesses who are employees of the Authority summoned to Tribunal Hearing to be present and non-attendance to such hearings are disciplined;**

### **Authority's Comments**

*Comments are noted. The management of cases by ESU has been revised, which now includes preliminary investigations to assess the evidence gathered so that decisions can be made on whether to proceed with full investigation and disciplinary proceedings under the Conduct and Discipline Regulations.*

*Investigations proposed by the Auditors are noted, and necessary actions will be taken.*

*The Authority only has powers to summon existing staff, and not after they leave FIRCA.*

## **8.8 Lautoka Customs**

### **8.8.1 Ship Accounts**

#### **8.8.1.1 Analytical Review of Fuel concessions to Bus Companies**

Fuel concessions to bus companies are a Government policy aimed at achieving objectives of enhancing social services granted under section 10 of the Customs Act by the Minister of Finance, National Planning, Public Enterprise and Sugar Industry.<sup>35</sup>

Audit of the Analytical Review of fuel concessions to bus companies monthly noted that analytical review is prepared in relation to the litres of fuel consumed per month and the refunds paid to each respective bus operators. However, the analytical review does not provide any reason to support the sudden increase and fall in fuel consumption by the bus operators.

The financial impacts of not monitoring the reasons for the increase in fuel consumption by the bus operators can lead to the possibility of manipulation of figures for the fuel consumption by bus operators. Moreover, this could result in increased amount of litres of fuel consumed per month in the course of providing transportation to the public.

#### **Recommendations**

- **Reasons for the increase in fuel consumption and claims by bus operators need to be monitored.**
- **Random check on bus companies are to be made that consume above average litres of fuel.**
- **Random checks on bus routes are to be made to estimate litres of fuel consumed as per the submission by the bus companies to determine compliance rate by bus companies.**

#### **Authority's Comments**

*Comments are noted. Measures will be taken to enhance current returns to ensure verification of fuel consumption is accurately determined. Consultations with the Land Transport Authority will be undertaken in this process.*

- 1) *Reasons for fuel increase. Additional trips during school season from February to November. Additional buses are utilized on a particular route due to demand from the travelling public.*

*However, fuel consumption and usage are currently monitored on a monthly basis. The monitoring of fuel consumption is analysed and a substantial increase in consumption warrants an audit of the relevant bus company. A number of companies were audited last year.*

- 2) *Attempts are being made for random checks on the bus companies by conducting surprise checks. Bus companies which have own fuel tanks are dipped to ascertain the accuracy of fuel records.*

*Lautoka Customs made two checks last year on all bus companies in the west. One visit was made on 8<sup>th</sup> August 2008 and the other visit was made on 4<sup>th</sup> November 2008.*

- 3) *Monthly returns are prepared and a copy is forwarded to Manager Revenue at the end of the month for his analysis and scrutiny.*

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<sup>35</sup> Ministry of Finance Circular dated 12/03/07

### **8.8.1.2 Outstanding Refunds to Bus Companies**

Refunds of tax, duty, or other receipts collected shall be dealt with in accordance with the Governments Finance Instruction.<sup>36</sup> Accepted refund liabilities for the Authority are to be paid within the terms and conditions of any contract or legislative requirement; however, liabilities outstanding at the end of a financial year should be paid, where possible within 15 days of the end of the year.<sup>37</sup> Accepted refund liabilities for taxes and customs duties are to be processed promptly within the Governments prescribed maximum period.<sup>38</sup> Where no due date is specified, payments must be settled within 30 days from the date of the invoice.<sup>39</sup>

Audit of the Bus Claims register noted that there are unpaid refunds totalling \$514,838 to be paid to the Bus Companies. Refer the followings for details.

Number of Claims	Bus Company	Refund Due \$
16	Company 1	30,785.40
18	Company 1(11)	32,154.97
17	Company 2	19,405.76
20	Company 3	17,610.73
11	Company 4	7,308.51
4	Company 5	3,544.30
13	Company 6	12,150.85
18	Company 7	30,655.98
18	Company 8	29,736.28
2	Company 9	972.03
17	Company 10	57,609.30
19	Company 11	28,679.29
19	Company 12	115,736.95
20	Company 13	38,859.05
18	Company 14	55,633.64
2	Company 15	4,544.80
4	Company 16	775.22
16	Company 17	13,754.92
17	Company 18	14,920.22
<b>Total</b>		<b>514,838.20</b>

Delays in processing causes undue pressure from the claimants and challenge the time taken by the Authority in processing such claims.

Moreover, it is noted that outstanding customs rebates/refund is not reflected in the FIRCA's Annual Financial Statement, resulting in the understatement of Government liabilities, thus not reflecting the most accurate information to Government and other related parties.

### **Recommendations**

<sup>36</sup> FIRCA Finance and Accounting Direction, Section 3.6.1

<sup>37</sup> FIRCA Finance and Accounting Direction, Section 5.5.1

<sup>38</sup> FIRCA Finance and Accounting Direction, Section 5.5.2

<sup>39</sup> Finance Instruction 2005, Section 19 (4)



- **The Authority should provide justification in relation to the delays in processing bus claims.**
- **Monthly returns prepared by the respective refunds officer should be thoroughly scrutinized for correctness and completeness by the supervisor or manager.**
- **Outstanding customs rebates/refunds are to be incorporated in the Authority's annual agency financial statement.**

#### **Authority's Comments**

- 1) *The 21.9% revenue rebate depends entirely on the availability of funds from Government.*
- 2) *Our records have established that 2008 fuel claims were processed within a time frame of 4 days except in cases where claims were rejected and re-lodged. All 2008 claims lodged are passed and none of the claims are outstanding.*
- 3) *All bus companies have been informed that they need to lodge the claims before the 7<sup>th</sup> of the following month so that we are able to process and dispatch to Finance Suva before the 15<sup>th</sup> of the month.*
- 4) *Monthly returns are prepared and forwarded to Manager Revenue for his analysis and scrutiny.*

#### **8.8.1.3 Outstanding Drawback Refunds**

Refunds of tax, duty, or other receipts collected shall be dealt with in accordance with the Governments Finance Instruction.<sup>40</sup> Accepted refund liabilities for the Authority are to be paid within the terms and conditions of any contract or legislative requirement; however, liabilities outstanding at the end of a financial year should be paid, where possible within 15 days of the end of the year.<sup>41</sup> Accepted refund liabilities for taxes and customs duties are to be processed promptly within the Governments prescribed maximum period.<sup>42</sup> Where no due date is specified, payments must be settled within 30 days from the date of the invoice.<sup>43</sup>

Audit of the Drawback Claims Register noted that there are unpaid refunds totalling \$57,878 to be paid by the Authority. Refer the followings for details.

Claim No.	Owner	Amount \$
122	Owner 1	5,333.06
17	Owner 2	17,059.61
2	Owner 3	410.40
1	Owner 4	28,774.20
3	Owner 5	6,301.11
Total Outstanding		57,878.38

Delays in processing causes undue pressure from the claimants and challenge the time taken by the Authority in processing such claims.

<sup>40</sup> FIRCA Finance and Accounting Direction, section 3.6.1

<sup>41</sup> FIRCA Finance and Accounting Direction, section 5.5.1

<sup>42</sup> FIRCA Finance and Accounting Direction, section 5.5.2

<sup>43</sup> Finance Instruction 2005, Section 19(4)

Moreover, it is noted that outstanding customs rebates/refund is not reflected in the FIRCA's Annual Financial Statement, resulting in the understatement of Government liabilities, thus not reflecting the most accurate information to Government and other related parties.

### **Recommendations**

- **The Authority should provide justification in relation to the delays in processing bus claims.**
- **Monthly returns prepared by the respective refunds officer should be thoroughly scrutinized for correctness and completeness by the supervisor or manager.**
- **Outstanding customs rebates/refunds are to be incorporated in the Authority's annual agency financial statement.**

### **Authority's Comments**

1) *The following reasons contribute to the delay in processing the drawback claims:*

- *Rejection of drawback claims due to non compliance for various reasons.*
- *Delays in receiving stamped "Entered on Manifest" copy SAD from port of export. (This issue has been rectified now and we have seen a steady progress in receiving stamped copy of SAD from the Port of Loading)*

*Out of a total 335 drawback Claim in 2008, only 19 drawback claims are outstanding as these were rejected. These rejected drawback claims are yet to be received from the claimants. A table below shows the rejected claims and its status;*

D/B Claim No.	Claimant	Amount \$	Remarks
L08/DB/005	Claimant 1	115.29	Rejected
L08/DB/070	Claimant 2	429.94	Rejected
L08/DB/078	Claimant 1	867.45	Rejected
L08/DB/091	Claimant 1	655.05	Rejected
L08/DB/094	Claimant 1	294.33	Rejected
L08/DB/123	Claimant 1	120.69	Rejected
L08/DB/124	Claimant 1	335.7	Rejected
L08/DB/125	Claimant 1	265.41	Rejected
L08/DB/158	Claimant 3	410.4	Rejected
L08/DB/167	Claimant 1	119.85	Rejected
L08/DB/171	Claimant 1	350.79	Rejected
L08/DB/182	Claimant 1	194.7	Rejected
L08/DB/230	Claimant 1	447.6	Rejected
L08/DB/233	Claimant 4	846.82	Rejected
L08/DB/283	Claimant 1	488.45	Rejected
L08/DB/320	Claimant 5	70.87	Rejected
L08/DB/92	Claimant 1	139.05	Rejected
L09/DB/196	Claimant 1	97.35	Rejected
L08/DB/168	Claimant 1	369.9	Rejected
<b>Total</b>		<b>6,619.64</b>	

- 2) *Monthly returns are prepared and forwarded to Manager Revenue for his analysis and scrutiny.*
- 3) *We are of the view that outstanding drawbacks refunds should not be reflected in FIRCA's Financial statements, but in the Notes only as currently practiced.*

### **8.8.2 Intelligence Unit**

### **8.8.2.1 Lautoka Intelligence Section**

All FIRCA vehicles should have the FIRCA logo printed on both sides of the vehicles (except the Customs Intelligence vehicle and vehicles that have been designated via a contract to the Chief Executive Officer, Director General Inland Revenue Services, Director General Custom Services and the Manager Information Technology).<sup>44</sup>

The Intelligence Unit of FIRCA was set up to identify activities, persons and vessels and to evaluate their intentions, capabilities, limitations and vulnerabilities with activities which are deemed to be carried out in contravention of Customs legislation.<sup>45</sup>

Despite reported previously, the FIRCA Intelligence Unit still lacks the investigating equipments, such as a motor vehicle, communication equipments, laptops, interviewing and transcribing machine. Refer the following unapproved budget submission:

Description of Item	Qty	Total Estimated Cost \$
Motor Vehicle	1	50,000
Communication Equipment	6	6,000
Investigation Kit	1	1,300
Laptop	2	4,000
Portable Printer	1	300
Shredder	1	250
Interviewing & Transcribing Machine	1	10,000
Listening Device and Hidden Camera	1	550
Safe Vault	1	600
<b>Total Estimated Cost</b>		<b>73,000</b>

Moreover, the Unit is still utilizing a marked vehicle for its intelligence and investigating work. The above could be attributed to the lack of understanding and acknowledgement on the role that is carried out by the Intelligence Section in achieving the overall aims and objectives of the Authority.

The lack of equipment and resources will render the section to ineffectiveness and ultimately the Authority's ability to identify and evaluate activities, persons and vessels in breach of Customs Laws.

### **Recommendation**

**The Authority should equip the Intelligence Unit with all equipment to carry out its duties in the most effective and efficient manner.**

### **Authority's Comments**

*Comments are noted. Some of the essential equipment for effective intelligence work will be re-considered in the 2010 Capital Budget.*

### **8.8.2.2 Customs Boat for Lautoka Office**

The Authority in its function to facilitate trade and control movements of people, goods and crafts at all our ports of entry and national borders, shall enhance Primary Line and Border Control function.<sup>46</sup>

<sup>44</sup> FIRCA Finance and Accounting Directions

<sup>45</sup> FIRCA Annual Report 2005.

Lautoka Customs is responsible for a vast area from Sigatoka to Rakiraki however there is no Customs boat to patrol its water or shoreline.

Furthermore, there is no set schedule in place for the Customs boat from Suva to make patrol rounds along this area for searches that infringe border control (rummages) and for interceptions in surprise boarding. This is a concern as some of the major hotels and resorts are located in this area where significant revenue was collected in the past. Refer to the following examples for details of patrol checks on the shorelines:

Year	Operation	Objective	Areas Covered	Results
2005	Isa Lei (total cost \$18,183)	Patrol and check yacht papers. Inspect businesses and register new tax payers. Create awareness for communities.	Savusavu, Taveuni, Buca Bay, Kioa, Rabi  Yasawa, Mamanuca and Raki raki.  Kadavu Group	34 yachts sighted and found to be compliant. \$23,965 demand issued for default taxpayers. Met with Rabi & Kioa councils and briefed them on Customs roles and how they could assist us.  One yacht encountered that was cleared for departure 20 days before. \$249,919 in Demand Notices issued.  Registered businesses for tax purposes as well as made awareness for HTT purposes.
2006	Nukuyasi (total cost \$3,800.00)  Lomai (total cost \$5,288.29)	Patrol, and facilitate Yacht Race (Auckland- Lautoka)  Patrol and check yacht papers. Inspect businesses and register new tax payers. Create awareness for communities.	Mamanuca, Yasawa, Lautoka waters  Lomaiviti Group	29 Yachts facilitated, whilst patrolling for non compliance yachts  Checked all resorts and made awareness on HTT as well register non tax compliance businesses Collected \$3,000.00
2007	Vatukatakata (total cost \$ 10,407.89)	PAYE Inspection, information gathering, issue HTT Demands	Beqa Is, Yanuca Is and Lomaiviti Group	Two yachts found not registered with FIMSA – were imported without duty payment. After investigation duty was collected on the two vessels amounting to approximately \$60,000. Yanuca Island Resort not registered since 2003 – of the other 5 resorts/ homestays the following were encountered- outstanding Company, VAT and HTT returns. Also on Koro Island found a tax payer who have been evading IRS for over 10 years and issued a demand amounting to approximately \$10,000.00 for period 1987 to 1991. DMU has yet to calculate duty evaded for period 1991 to date. Total demand issued to Lomaiviti Group amounted to approximately \$20,000.00.

The absence of a patrol boat at the Lautoka Office indicates the lack of commitment by the Authority's to patrol the Sigatoka/Rakiraki waters. There is significant risk of illegal movement of people, goods and craft taking place in and around area.

This is further aggravated by the fact that yachts are common in the area thus increasing the risk of smuggling of firearms, drugs and even human trafficking.

### **Recommendations**

- **The Authority should ensure that a patrol boat is provided for the Lautoka Customs Office to use in the patrol of its shoreline.**
- **In the absence of a patrol boat it should draw up a schedule for the Customs boat from Suva to make patrol rounds in the area.**

### **Authority's Comments**

*Comments are noted. In any event, the purpose of the Customs having the vessel Ai Matai was for interceptions of targeted vessels in carrying out searches on matters infringing Border Control (rummage), and interceptions in surprise boarding. FIRCA has trained a number of Police Officers Fiji-wide to assist Customs in random checking of boarding papers on vessels in remote areas. FIRCA is working closely with the local Yacht and Marina operators in providing regular feedback to Customs Boarding Officers. Their records are freely available for Customs' inspections.*

## **8.8.3 Post Audit**

### **8.8.3.1 Post Audit Backlogs**

Section 114 of the Customs Act of 1986 stipulates that the officers of Fiji Islands Revenue and Customs Authority have the power to inspect, examine, make copies of or take extracts from any documents relating to the exported, imported, warehoused, removed from warehouse or transhipped goods.

The Post Audit Section of the Fiji Islands Revenue and Customs Authority is responsible for the audit of all customs entries. The following anomalies were from the audit of the section:

- The Section has no written set procedure to conduct the audit even though officers are familiar with the checks that needs to be carried out.
- There are only two officers at the post audit section compared to the 20,462 entries processed as at 30/11/08, with an average of 930 entries per month per officer.
- The post audit section as at the date of the audit <sup>47</sup> was auditing the entries for the month of March 2008, which shows that the section is behind by 8 months in auditing compared to the date of entry.

Auditing without adequate staff, audit targets and test programs could worsen the backlog resulting in the possibility of loss of revenue from the un-audited entries.

There is also a significant risk of loss of revenue to Government particularly when desk audits, demand letters and Short Payment Advices (SPA) can only be served for a period of one year or twelve months whereas a full compliance audit warrants investigations for a 5 year period with the issue of demand letters on entries dating back 5 years.

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<sup>47</sup> 30 November 2008

**Recommendations**

- The Authority should ensure that the Post Audit Section set audit targets to achieve and audit programs are developed to ensure that the audit is carried out in a systematic manner.
- Also Post Audit Section should be given reasonable staff resources so that the audit timeliness of entries are not compromised along with the prompt collection of short paid revenue.
- Imposition of penalties should be incorporated in the Customs Act on persistent importers to deter short paid duties in the future or penalties to be imposed under section 143 (General Penalty) of customs act.

**Authority's Comments**

- 1) The Post Audit Section has drawn a plan in targeting number of SADs and Volume SADs to be audited per month, per officer and ensures to reach the targeted goals.
- 2) Imposition of Administrative penalties on self assessed SADs is currently being considered.
- 3) Comments on staffing are noted.

**8.8.3.2 Outstanding Short Payments Advices (SPAs)**

The full settlement of the Short Payment Advice (SPA) amounts should be made within fourteen days of the advice.<sup>48</sup> Any goods at whatever time imported or entered for export shall, while stored in a bonded warehouse or otherwise in the custody of the Customs and belonging to the importer or exporter, be subject to a lien for the said debt and may be detained until that debt is paid.<sup>49</sup>

As at 31/12/08, the outstanding SPAs amounted to \$1,194,164. Refer to **Appendix 7** for details.

This issue has been highlighted in the previous Auditor General's report; however, no appropriate action has been taken by the Authority to rectify this issue.

Long-outstanding SPAs increases the risk where the Authority may have to write off the unrecoverable amounts as bad debts reducing revenue of government.

**Recommendations**

- The Authority should ensure that an officer is assigned for the collection and follow-up of non-timely payment of SPAs separate from the audit staff.
- Section 95 to be imposed on the importers for the non-timely payment of duty.

**Authority's Comments**

140 short payment advices have been accounted for and total dues collected amounted to \$58,288.37. Only the non-payment short advice is under the imposition of Section 95. Below is a table showing the outstanding SPA's.

Year	No. of SPA Outstanding	Amount Due \$
2007	12	23,127.87

<sup>48</sup> Fiji Islands Customs Services Short Payments Advice Form

<sup>49</sup> Customs Act, Section 95 (2)

Year	No. of SPA Outstanding	Amount Due \$
2008	62	1,130,936.83
Total	74	1,154,064.70

*There are some technical issues yet to be resolved however; every effort shall be made to collect all these outstanding SPAs.*

### **8.8.3.3 Short Payment Advice (SPA) Issued after a Year**

The correct amount of any duty, charge or fee due and payable under this Act may be demanded by the Comptroller at any time within one year from the date when such duty, charge, or fee should have been paid.<sup>50</sup>

The audit noted that the some Short Payment Advices (SPAs) amounting to \$357,447 were issued from post audit after a year from the date of entry. Refer below for details.

Owner/Importer	Amount \$
Owner/Importer 1	408.60
Owner/Importer 2	5,430.11
Owner/Importer 3	432.95
Owner/Importer 4	2,564.15
Owner/Importer 5	122.82
Owner/Importer 6	556.39
Owner/Importer 7	341.72
Owner/Importer 8	720.09
Owner/Importer 9	98,707.97
Owner/Importer 10	44,312.97
Owner/Importer 11	203,849.38
Total Outstanding SPA issued after a year	357,447.15

This was a result of the backlog in the audit of the customs entries. Despite this being highlighted in the previous audit, the Authority failed to impose measures for improvement and hence now raises the chances of the SPA being uncollected.

There is also a waste of resources in the audit of the entries should revenue remained uncollected.

### **Recommendations**

**The Authority should ensure that:**

- **the Post Audit Section is equipped with additional staff to avoid such unnecessary leakages in the collection of the revenue;**
- **Officers to be mindful in the Issue of SPA to be within Customs Act Section 95(1).**

### **Authority's Comments**

*1) There were nine SPA's issued after one year period, which exceeded up to fourteen days. This was due to backlog and shortage of human resources. Short payment advices were issued for Importer 9 and Importer 11 for privilege goods which were not exported but disposed locally. Demands for duty short*

<sup>50</sup> Customs Act, Section 95 (1)

*paid will only be issued within the time frame of one year and beyond this will be referred to Compliance/Investigation sections.*

- 2) *Additional staff will be recruited to be responsible for monitoring issues relating to Bonds, Guarantees, Concessions, Diplomatic goods (for example, motor vehicles) for recovery action. This would avoid in further unnecessary leakage in the collection of the revenue and this will strengthen the Post Clearance Audit section.*
- 3) *Comments relating to backlogs are noted.*
- 4) *Issuing of short payment advices in timely manner and then imposing Section 95 of Customs Act on the importers for non-payment of SPA's.*

## **8.8.4 Wharf**

### **8.8.4.1 Pre-Release of Goods with Payment made after 48 hour Period**

As part of normal operations, privileges are afforded to traders to “pre-release” certain goods (that is released before duty is paid) on the grounds of safety, security hygiene and in special circumstances for trade facilitation.<sup>51</sup> The stipulated time for the payment of duty on pre-release is 48 hours.<sup>52</sup> An importer who contravenes an undertaking given under subsection (2) is guilty of an offence and is liable to a fine not exceeding \$1000 and the goods in respect of which the undertaking was given are liable to forfeiture.<sup>53</sup>

The audit noted that some approval for pre-release of goods was for goods which were neither perishable nor dangerous and for which there did not seem to be any urgency in its delivery. Furthermore, the payment of duty for pre-release is yet to be made. Refer to Table below for examples:

Folio No.	Date	Agent	Company	Item	FIRCA Response
102/08	18/11/2008	Lautoka Customs	Company 1	Generator Set	<i>Pre-released because they were urgently needed during power rationing by FEA</i>
103/08	19/11/2008	Lautoka Customs	Company 1	Generator Set	<i>Pre-released because they were urgently needed during power rationing by FEA</i>
104/08	19/11/2008	Lautoka Customs	Company 1	Generator Set	<i>Pre-released because they were urgently needed during power rationing by FEA</i>

There was also no evidence to show that action was taken on importers with late payments of duty on pre-release of goods.

A contributing factor to this is the phrasing of the Customs Act which leaves the approval of pre-release to the Comptroller's discretion and the lack of specific criteria in place for the proper officer to follow in approving for pre-release of goods. This leaves room and provides opportunity for the manipulation of the Customs Act to suit one's own agenda and from which officers may also seek to gain financially.

<sup>51</sup> Customs Act 1986 Part VII (31) (2)

<sup>52</sup> Customs Act 1986 Part VII (31)

<sup>53</sup> Customs Act 1986 Part VII (31)(3)



Despite being highlighted in previous audit, no improvement has been noted in reviewing paragraph Part VIII, Section (31) (2) (f) of Customs Act.

### **Recommendations**

- **The Authority should ensure that approval for pre-release are given only for those item specifically stated in Customs Act 1986 Part VII (31) (2).**
- **Penalties to be imposed on persistent importers in contravention of Section 31, Part VII of the Customs Act.**
- **Paragraph (f) of Customs Act 1986 Part VII (31) (2) to be reviewed by the Authority to specifically state a criteria to which proper officers can refer to in approving pre-release of goods.**

### **Authority's Comments**

*Agree. Goods allowed for pre-release should have been those specifically stated in Section 31 (2) of the Customs Act and paragraph (f) should be reviewed to specifically state criteria in approving pre-release. Previously, only urgent machine parts fall in this category that are urgently ordered from overseas and are sent by Air Freight to keep the machines running in any factory. However, this paragraph is accommodating any kind of importation and should be reviewed once again. Similarly, late payments fine have not been enforced and officers have been informed of this.*

## **8.8.5 Warehouse**

### **8.8.5.1 Hanging Oils Returns**

The Comptroller may, on application, licence any building, enclosure or storage tank as a bonded warehouse for the deposit of goods permitted to be warehoused on first importation without payment of duty, and may attach such conditions to be licence as he may see fit.<sup>54</sup>

Upon the landing of any goods to be warehoused, or as soon as practicable thereafter, the proper officer shall take a particular account of the goods.<sup>55</sup>

The Customs Warehouse Keeper shall physically check the goods against the balances shown in various registers and the stock report generated by the ASYCUDA System for normal warehoused goods.<sup>56</sup>

Reports generated by the ASYCUDA System showed hanging oils entries for three oil companies totalled 24.6 million litres. Refer below for details.

Warehouse Tank Number	Litres Hanging
<b>Oil Company 1</b>	
L022	12,279,266
L023	2,628,037
L024	7,896,497
L025	486,488

<sup>54</sup> Customs Act 1986, Section 38 (1) (a)

<sup>55</sup> Customs Act 1986, Section 48 (1)

<sup>56</sup> Warehouse Procedure Manual, Section 9.4.2

Warehouse Tank Number	Litres Hanging
L027	4,841,917
<b>Oil Company 2</b>	
L049	1,363,249
L018	4
L053	3,562,978
L013	2,052,149
L019	2,065,041
L014	13,202,851.98
L020	8,396,222
L016	6,292,664
L015	704,808
<b>Oil Company 2</b>	
L028	371,683
L029	3,709,612
L030	706,438
L034	9,949,490
L035	4,368,126
L048	1,576,082
L033	190,903
L046	3,705,078
<b>Total Litres</b>	<b>24,577,412</b>

The hanging entries are not supported by any physical stock (oil) in the respective tanks. The hanging entries were the result of change to ASYCUDA System from the previous Customs software.

Moreover, despite the change in name and takeover of Oil Company 4 by Oil Company 1, the customs database has not been up-dated of this change. The delay in regularizing the hanging entries, updating and maintaining proper records indicates a lack of commitment by the Authority.

As such the collection of revenue from these hanging oils entries cannot be substantiated and raises suspicion on the fraudulent clearance of the bonded oils that could have been undetected by Customs.

### **Recommendations**

**The Authority should ensure that:**

- **The hanging entries are identified and traced to the duties paid.**
- **Hanging entries as a result of change in software to be taken up with Information Technology section of the Authority and remedies made accordingly.**
- **Anomalies identified during reconciliations and inspections to be verified instantly rather than awaiting at a later date.**
- **Importer information in customs database to be up-dated to take into account takeovers and mergers of companies.**

### **Authority's Comments**

- 1) *Recommendations noted. Oils officer and Officer in charge ASYCUDA have been tasked to look into this area of stock showing in the ASYCUDA system but physically no stock is there. This is due to Company 1 (using its own TIN) but utilizing Company 4 actual stock.*
- 2) *Further with respect to documentary evidence FIRCA is of the view that despite name change Company 1 will inherit Company 4 debts.*

3) *However, a full and final report will be submitted after the reconciliation.*

### **8.8.5.2 Expired Warehousing Period**

If the owner does not lawfully remove any goods which have been deposited in a bonded warehouse within three years<sup>57</sup> of the date of their deposit in the warehouse, the Comptroller may, after giving one months notice of his intention, proceed to sell the goods in the prescribed manner or otherwise dispose of the goods, and the proceeds of any sale of such goods shall be dealt with in accordance with the provisions of Section 63. Provided that the Comptroller may in his discretion allow such goods to be re-warehoused by the owner for a further period not exceeding two years.<sup>58</sup>

The warehousing periods for the vehicles in the following warehouses have expired with no evidence of re-warehousing.

Importer/Warehouse Keeper	Bond Number	No. of vehicles expired
Warehouse Keeper 1	L051	44
Warehouse Keeper 2	L045	70
Warehouse Keeper 3	L050	102
Total		216

Due to lack of monitoring on the warehousing period of vehicles on a regular basis, a large number of vehicles have now expired and thus demands storage space to bring the vehicles into customs custody.

Moreover, vehicles marked and gazetted for auction have not been brought by Customs for auction and are still stored in the warehouses. This could result in a disagreement or unnecessary lawsuit over the ownership of vehicles between the bond keeper and the Authority.

The non-monitoring of the bonded warehouses could result in loss of revenue during auction as a result of expired estimated life and deterioration of the vehicles.

### **Recommendations**

**The Authority should ensure that:**

- **Regular monitoring on the warehousing period of vehicles to be conducted.**
- **Warehousing period for vehicles to be strictly adhered to as per the Customs Act to minimise loss of revenue as a result of deterioration of vehicles.**
- **An alternative place to be identified to have all the vehicles auctioned and the owner (warehouse keeper) held liable for the expense and risk of bringing the goods at the auction site as per section 58(2) of the Customs Act.**

### **Authority's Comments**

- 1) *Regular monitoring of all bonded warehouses is being carried out and all overdue goods are advertised and sold in auction sales.*
- 2) *No further extensions for motor vehicles are allowed.*
- 3) *Most of the vehicles overdue for removal from bonded warehouses has been accounted for and sold in auction sales at the risk and expense of the warehouse keeper. Some of the vehicles were duty paid and cleared by the importers.*

<sup>57</sup> Three Years applies to these vehicles under the non-amended Customs Act.

<sup>58</sup> Customs Act 1986, Section 52

- 4) *A special team was assigned to conduct stock take resulting in duty payment of some expired vehicles and the rest were disposed off by public auction.*

### **8.8.5.3 Missing Vehicle Parts**

If at any time after any goods have been warehoused and before they are lawfully removed from a warehouse, the goods are found to be missing or deficient, and it is not shown to the satisfaction of the Comptroller that their absence or deficiency can be accounted for by natural waste or other legitimate cause then, without prejudice to any penalty of forfeiture incurred under any other provisions of the Customs law, the Comptroller may require the warehouse keeper to pay immediately the duty on the missing goods or on the whole or any part of the deficiency, as the Comptroller sees fit.<sup>59</sup>

Most of the vehicles stored in Warehouse 3 have missing parts such as tyres, doors, door covers, radios, glasses of windows, indicator and lights whilst parts such as indicator, roof rack, lights, lock and patrol lid are missing from vehicles in Warehouse 2. Refer to **Appendix 8** for details.

Despite the issue of warning letters bonded vehicles continued to be cannibalized and parts removed in certain private warehouses. Bond-keepers are not monitored and penalized by Customs under the Act as such encourages this illegal activity.

Moreover, dismantled parts lying in front of the Warehouse 3 garage raises suspicion that the parts from the bonded vehicle could be utilized in the garage. Refer to **Appendix 9** for details.

Cannibalizing and removing parts from the bonded vehicles contributes to leakage in customs revenue whereby the importers are intentionally defrauding the Authority.

### **Recommendation**

**The Authority should ensure that severe action is taken against warehouse owners for illegal removal of parts from vehicles maintained at the warehouse as per section 26 or section 139 of the customs act.**

### **Authority's Comments**

*Agree with recommendation.*

- 1) *This has been an ongoing problem we have been facing with open bonded warehouses and with lack of security. Warning letters were issued but when parts go missing the owner says that was taken away by thieves who jump the fence at nights.*
- 2) *Vehicles with parts missing from Warehouse 3 and Warehouse 2 have been auctioned already on as is where is basis.*
- 3) *The investigation by Customs Investigation Branch on the recent case highlighted in the newspaper will be completed shortly, and necessary action will be taken accordingly.*

*Warehouse 3 bond goods have been removed and bond licences have been revoked. Furthermore, Customs Services is conducting surprise stock takes and is closely monitoring the operation all warehouse in Fiji*

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<sup>59</sup> Customs act 1986, Section 45

#### **8.8.5.4 Damaged Vehicles**

The Customs shall not be liable for the loss of or damage to any goods subject to their control unless such loss or damage shall have been occasioned by the wilful or negligent act of any officer.<sup>60</sup> Goods subject to customs control include all imported goods, including goods imported through the Post Office, from the time of importation until removal for home consumption or until exportation, whichever first happens.<sup>61</sup>

The windscreen of a Toyota Liteace in Warehouse 2 was damaged by stones thrown at it and two other vehicles had damaged front lights. Refer to **Appendix 10** for details.

Warehouse 2 has an open bond with no enclosed roof. Despite the risk being reported during previous audits, the Authority continues to approve the storage of vehicle in this warehouse. Also the risk of fire in the bond cannot be ruled out as it is an open bond and is located by the roadside.

Moreover, precedence shows that warehouse keepers are usually reluctant to pay duty on the damaged vehicles resulting in loss and burden on the Authority in selling the vehicle in auctions. (Authority's Comments for audit report paragraph 8.5.1)

The above indicates laxity by Customs Section in collecting duty and exercising Section 8 of the Customs Act and is in violation of the warehouse procedures. This has also resulted in potential loss of revenue in form of fiscal and import duty.

#### **Recommendations**

- **The Authority should ensure that all imports are strictly adhered to as per Section 8 of the Customs Act.**
- **Warehousing of Vehicles in the open – bond should cease immediately and the importer to be advised accordingly for an enclosed bond.**
- **An officer should be assigned to improve on the warehouse anomalies as highlighted in this and previous audit reports.**

#### **Authority's Comments**

- 1) *Comments are noted.*
- 2) *Section 2 of Customs Act has been amended, so that new applications for open bond will not be approved.*
- 3) *For renewal of current licences for open bond will take into consideration requirements of Section 2 of the Customs Act.*
- 4) *We agree with the recommendations that warehousing of vehicles in open bonded warehouses, but this would gradually cease.*
- 5) *All efforts are being made to identify the anomalies but lack of resources hinders our performance.*

*All car bonds are required to have roof enclosures.*

#### **8.8.5.5 Deteriorating Items in the Warehouse**

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<sup>60</sup> Customs Act 1986, Section 8(1)

<sup>61</sup> Customs Act 1986, Section 8(2) (a)

While scrutiny of the application to operate a warehouse, if the Manager is satisfied that everything is in order he/she shall write and inform the applicant that the following Customs requirements has to be fulfilled before the application shall be approved:-

- (a) The premises shall not be situated to a private yard (unless approved by the Comptroller) as it shall be accepted as suitable area for bonded warehouse,
- (b) An approved plan for the warehouse shall be submitted to Customs,
- (c) Ensure the warehouse is constructed of substantial material to the satisfaction of the comptroller,
- (d) The doors of the warehouse must open into a street or public thoroughfare and
- (e) All doors and windows are properly secured (burglar bars, fire and burglar alarms etc) and the doors have strong secured locks.<sup>62</sup>

Bonded vehicles stored in the Warehouse 3 and Warehouse 2 warehouses are deteriorating due to exposure to extreme weather conditions since the bonds are open bonds – without an enclosed building. The vehicles are rusting away while some are covered in grass. Refer to *Appendix 11* for details.

Moreover there is no burglar or fire alarms at the warehouse given that the warehouse is by the roadside and is susceptible fire or burglary. The Warehouse 3 bond portrays a car junk yard where vehicles have deteriorated significantly due to exposure to poor weather condition. Parts have also been removed from these vehicles as such it would be difficult for Customs to sell the vehicles at the applicable duty rate. The bond keeper is very much aware of the existing situation and deliberately removes parts in order to bid for the vehicles in auctions at the reduced rate of duty.

Despite being highlighted in the previous audit report, the Authority is allowing the storage of vehicles in these bonds.

There is a lack of commitment by the Authority in following up on goods which have deteriorated and in maintaining a safe and visible bond. Also, lack of monitoring of the warehouse is resulting in the leakage of Customs revenue with warehouse keepers manipulating the system to defraud Customs.

### **Recommendations**

**The Authority should ensure that:**

- **Storage of Vehicles into Warehouse 3 bond to cease until the successful completion of the auction of the vehicles to recover the duties.**
- **Rusted Vehicles to be removed immediately and auctioned accordingly.**
- **Warehouse keepers are not allowed to bid in the auction and auction proceeds in excess of the customs duty and other costs are to be refunded to the importer as per section 63(4) of the customs act.**
- **Vehicles deteriorated beyond the extent of recovery of duty as per section 63(3) of the Customs Act to be disposed in accordance with section 63(5) of the Customs Act.**

### **Authority's Comments**

*Currently, no new warehousing of used vehicles is allowed in Warehouse 3 bond. Most vehicles overdue have been sold in auction sales. Warehouse procedures and penalties to be looked into and proactive approach are to be taken to counter all these problems with uniform procedures at all ports.*

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<sup>62</sup> Warehouse Section Procedure 5.1.3

## 8.9 Nadi Customs

### 8.9.1 Aircrafts Accounts

#### 8.9.1.1 Outstanding Refunds to Bus Companies

Refunds of tax, duty, or other receipts collected shall be dealt with in accordance with the Governments Finance Instruction.<sup>63</sup> Accepted refund liabilities for the Authority are to be paid within the terms and conditions of any contract or legislative requirement; however, liabilities outstanding at the end of a financial year should be paid, where possible within 15 days of the end of the year.<sup>64</sup> Accepted refund liabilities for taxes and customs duties are to be processed promptly within the Governments prescribed maximum period.<sup>65</sup> Where no due date is specified, payments must be settled within 30 days from the date of the invoice.<sup>66</sup>

The audit of the Bus Claims register noted the following unpaid refunds totalling \$68,953 to be paid to the Bus Companies on fuel and tyre rebates.

Date Claim Received	Claim No (Fuel)	Number of Litres used	Refund Due \$
02/01/08	08/01	20656 (10c)	2,065.50
02/01/08	08/03	26494 (10c)	2,649.40
07/01/08	08/07	18869 (18c)	3,396.42
Details Missing		(10c)	1,886.90
14/01/08	08/09	37178.48 (18c)	6,692.15
Details Missing		(10c)	3,717.85
28/01/08	08/10	17900 (18c)	3,222.00
Details Missing		(10c)	1,790.00
15/01/08	11/08	18100 (18c)	3,258.00
Details Missing		(5c)	905.00
03/03/08	12/08	20170 (18c)	3,630.00
01/02/08	13/08	36749.80(18c)	6,614.96
Details Missing		(10c)	3,674.98
31/03/08	14/08	33178.01(18c)	5,972.04
Details Missing		(10c)	3,317.80
17/08/08	62/08	34222.16(18c)	16,159.99
<b>Total Outstanding</b>			<b>68,952.99</b>

Delays in processing will attract undue pressure from the claimants in challenging the time taken by the Authority to process such claims.

#### Recommendations

- The Authority should provide justification in relation to the delays in processing bus claims.
- Monthly returns prepared by the respective refunds officer should be thoroughly scrutinized for correctness and completeness by the supervisor or manager.

<sup>63</sup> FIRCA Finance and Accounting Direction, Section 3.6.1

<sup>64</sup> FIRCA Finance and Accounting Direction, Section 5.5.1

<sup>65</sup> FIRCA Finance and Accounting Direction, Section 5.5.2

<sup>66</sup> Finance Instruction 2005, Section 19 (4)

**Authority's Comments**

*Agreed with the comments. Measures have been put in place to see that all bus claims are processed on time and passed for payment to finance. Monthly returns are scrutinized for correctness by Manager Revenue. Finance Section is informed to submit payment vouchers for writing off our records.*

**8.9.1.2 Outstanding Drawback Refunds**

Refunds of tax, duty, or other receipts collected shall be dealt with in accordance with the Governments Finance Instruction.<sup>67</sup> Accepted refund liabilities for the Authority are to be paid within the terms and conditions of any contract or legislative requirement; however, liabilities outstanding at the end of a financial year should be paid, where possible within 15 days of the end of the year.<sup>68</sup> Accepted refund liabilities for taxes and customs duties are to be processed promptly within the Governments prescribed maximum period.<sup>69</sup> Where no due date is specified, payments must be settled within 30 days from the date of the invoice.<sup>70</sup>

The audit of the Drawback Claims Register noted that there are unpaid refunds totalling \$129,974 to be paid by the Authority to various companies. Refer to **Appendix 12** for details.

Delays in processing causes undue pressure from the claimants and challenge the time taken by the Authority in processing such claims.

**Recommendations**

- **The Authority should provide justification in relation to the delays in processing drawback claims.**
- **Monthly returns prepared by the respective refunds officers should be thoroughly scrutinized for correctness and completeness by the supervisor or manager.**

**Authority's Comments**

*Agreed with the comments. Measures have been put in place to see that all Drawback claims are processed on time and passed for payment to finance. Monthly returns are scrutinized for correctness by Manager Revenue. Finance Section is informed to submit payment vouchers for writing off our records.*

**8.9.2 Air Freight Office****8.9.2.1 Detention requiring Permits**

The examining officer upon examination if finds any dutiable goods will direct the passenger towards the document officer and at the same time inform the officer. The document officer upon discussion with the supervisor will decide whether the goods are to be formally cleared, should be placed on board, to be detained and seizure report raised or duty to be paid.<sup>71</sup>

A wide range of items, namely, Cordless phones, tabua and davuis have been detained from passengers (travellers) who did not have the require permit. Refer to **Appendix 13** for details.

<sup>67</sup> FIRCA Finance and Accounting Direction, Section 3.6.1

<sup>68</sup> FIRCA Finance and Accounting Direction, Section 5.5.1

<sup>69</sup> FIRCA Finance and Accounting Direction, Section 5.5.2

<sup>70</sup> Finance Instruction 2005, Section 19 (4)

<sup>71</sup> Passenger Processing Manual, Section 9.5.3 and 9.5.4



Furthermore, some items were found to have been detained as far back as 2005. The davuis, tabuas and corals are endangered items and therefore detained as per the directive from the Department of Environment to protect these items from extinction whilst detention of Cordless Phones is as per the directive from Telecommunications.

Persistent purchases of the above items indicate that travellers are not aware that permit is required for the above items. As such these items are piling up at Customs bond requiring storage space and care of its safe custody.

### **Recommendations**

- **Procedures for detained goods should be reviewed to allow discharging of such distinct items from the authority's custody.**
- **The Authority in coordination with Department of Environment and Telecommunications should carry out an awareness exercise to inform travelers on the purchase of such items.**

### **Authority's Comments**

*Concerns noted. Shift supervisors have been instructed to monitor such detentions whereby Seizure and Detention report to be raised immediately after interception of such items and the report forwarded to our Risk and Compliance Unit for appraisal and disposal in accordance with the provisions of the Customs Act. Suggestions raised by OAG have been noted. Co- ordination and discussion has been carried out with the Environment Ministry. Progressive discussions to continue.*

### **8.9.2.2 Uncleared Cargo**

Within the 10<sup>th</sup> day from the date of arrival of the cargo, the shipping agent/cargo agent shall prepare and submit to the Manifest Officer a list of uncleared cargo not yet cleared from their manifest. On the Uncleared Cargo List (UCL) the agent shall clearly specify the Bill of Lading numbers, description of goods, marks and numbers and other necessary particulars of the consignment.<sup>72</sup>

After 21 days of storage from the date the goods becomes uncleared, the shipping agent/cargo agent shall submit to the Manifest Officer the remaining list of uncleared cargo overdue for auction.<sup>73</sup>

The audit noted that the following uncleared cargo surpassing the 21 day storage period at various bonds have not been forwarded for auction.

Lot No.	Agent	Aircraft	Date of Arrival	Description of Goods
08/060	Agent 1	NZ54	04/06/08	10 ctn of Furniture
08/061	Agent 2	FJ811	16/05/08	H/Rest Cov.
08/078	Agent 3	FJ910	21/06/08	Documents
08/084	Agent 1	FJ811	23/06/08	2 ctn therapy for diabetes
08/087	Agent 2	NZ58	22/06/08	Parts
08/088	Agent 1	FJ811	16/06/08	1 ctn Water Pump
08/096	Agent 4	FJ910	25/06/08	1 ctn fishing line
08/103	Agent 2	FJ410	02/07/08	Cards
08/104	Agent 2	NZ58	29/06/08	Projector
08/105	Agent 5	FJ910	30/06/08	1 Telephone
08/138	Agent 2	FJ910	17/07/08	Dangerous Goods

<sup>72</sup> Cargo Clearance Procedures, Section 5.5.1

<sup>73</sup> Cargo Clearance Procedures, Section 5.5.1

Lot No.	Agent	Aircraft	Date of Arrival	Description of Goods
08/152	Agent 2	NZ58	27/08/08	Medical Supplies
08/155	Agent 2	FJ910	26/07/08	Mobile Phone Set
08/156	Agent 2	FJ910	26/08/08	Rugby Kit
08/175	Agent 5	FJ910	23/08/08	Materials
08/184	Agent 2	FJ412	09/08/08	Powdered Kava
08/185	Agent 2	KE137	29/08/08	Suction Tube
08/187	Agent 2	KE137	05/09/08	Pharmaceutical Goods

The above items are to be sent to Lautoka for auction. This shows laxity by the Officer in clearing the goods, particularly items that are dangerous in nature.

Storing items for longer period demands unnecessary resources in terms of space, security and accounting and could result in potential loss of revenue due to depreciation in value.

### **Recommendations**

- The Authority should ensure that all un-cleared cargos are auctioned as per the stipulated time frame.
- Dangerous items and pharmaceutical goods are to be handled with care and disposed rationally.

### **Authority's Comments**

*OAG's concerns noted. To be correct the time frame has been reviewed to 4 days from 10 days for goods to be declared as un-cleared cargo and 7 days from 21 days for removal to auction. Nevertheless the Officer In Charge Air Freight has been briefed to closely monitor the provisions of s27 (2) and s 63 (1) of the Customs Act. The concerns raised by OAG on dangerous and pharmaceutical goods has been noted and appropriate approvals would be sought from the relevant agencies (Pharmacy & Poisons Board) before putting for auction or disposal.*

## **8.9.3 Warehouse**

### **8.9.3.1 Product Code Identification for Warehousing**

The warehouse keeper shall be responsible for the proper stacking, storing, marking product codes, and entry lodgement numbers on the packages, securing, opening and closing of the bonded warehouse.<sup>74</sup>

The audit visit to, a private bonded warehouse noted that none of the items in the bond were marked with their product code: Refer to **Appendix 14** for details.

The above clearly indicates that the warehouse keeper is not vigilant in his/her duty in marking the products codes thus failing to make appropriate distinction between products with same commodity code and different packaging or products with same brand with different volume/quantity.

This poses questions as to whether the items stored in the warehouse are actually warehoused items.

### **Recommendation**

<sup>74</sup> Warehouse Manual Procedure, Section 4 ( c )

**The Authority should ensure that all products kept in the bonded warehouse have unique product code assigned to it for identification purposes.**

#### **Authority's Comments**

*Agreed with the Comments/ Recommendations. Officer In charge Warehouse has been instructed to monitor this as a requirement for identification purpose.*

#### **8.9.3.2 Physical Records not matching with Stock-take**

The stock check and reconciliation for goods deposited in Customs Warehouse shall be done as and when it is directed by the manager/senior manager. The CWK physically check the goods against the balances shown in various registers and the stock report generated by ASYCUDA System for normal warehoused goods. The CWK shall carry out through check of the stocks and any discrepancies found shall be noted. After the completion of the task CWK shall prepare the report of all the discrepancies and submit it to the manager/senior manager. Upon receipt of the report, the manager/senior manager shall scrutinise it carefully, carry out investigation and then follow it up with necessary action.<sup>75</sup>

Audit visit to bonded warehouse 2 noted that there were a total of 16 vehicles in the warehouse with the following product codes: 4B96, 4B33, CM40, LN86, CR21, OM09, 3B39, 3B65, 3B51, 4B39, 4B22, 5B20, 3B16, 4B23, 5B07, 4B95.

However, the inventory listing provided by the ASYCUDA System revealed that there should only one vehicle with the product code 4B96.

The above clearly indicates that the warehouse keeper is not vigilant in his/her duty in marking the products in the warehouse thus failing to make appropriate distinction between products with same commodity code and different packaging or products with same brand with different volume/quantity.

It poses questions to whether the items stored in the warehouse are actually warehoused items or otherwise and the creditability of information extracted from ASYCUDA System.

#### **Recommendations**

**The Authority should ensure that:**

- **A unique product code should be assigned to all vehicles stored at the warehouse for identification purposes.**
- **The CWK should physically check the vehicles against the balances shown in various registers and the stock report generated by ASYCUDA System for normal warehoused goods and update accordingly.**
- **The CWK shall carry out through check of the vehicles and any discrepancies found shall be noted.**

#### **Authority's Comments**

*Agreed with the comments. Report from ASYCUDA for remaining vehicles has been verified and it agrees with the stock. Unique product codes are assigned to all vehicles.*

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<sup>75</sup> Warehouse Manual Procedure, Section 9.4.0

### 8.9.4 Longroom

#### 8.9.4.1 Hanging Entries

A fee of \$11.00 per entry is levied if the entries are not cleared or collected within 10 working days.<sup>76</sup>

The audit noted that the duties for a number of entries are outstanding despite goods being already released. The total value of hanging entries for Nadi Port amounted to \$298,586. Refer below for details.

Year	Amount \$	FIRCA Response
2002	32,135.02	Still working with all hanging entries. Data cannot be amended
2003	1,276.54	Post Entry modification done to paid entry
2006	320.28	Post Entry modification done to paid entry
2007	10,534.56	Post Entry modification done to paid entry
2008	254,320.25	Fiji Air case Still not paid Section 95 imposed Post Entry modification done to paid entry- to be rectified Refer to comments below
<b>Total</b>	<b>\$298,586.65</b>	

The above prolonged outstanding entries are due to the laxity of the officers to take the incentive to recover the duties.

#### **Recommendation**

**The Authority should strictly enforce section 47(4) of Customs Regulation to recover the outstanding levy as well as to ensure that a provision of the above regulation is strictly complied with.**

#### **Authority's Comments**

*Agreed with the comments. Hanging entries are monitored closely. Hanging entries are in transition stage after the entry has been passed ready for payment but not paid, hence there will be some still shown as hanging entries. Most of them are paid entries amended through Post entry Modification and System problem. This is now being rectified and to be resolved.*

*Air Fiji had imported two aircrafts;*

- a) *Aircraft ZK-CIF, on SAD 8992 of 5<sup>th</sup> March 2008. Outstanding duty liability is \$179, 205.25 being import VAT.*
- b) *Aircraft ZK-CIE, on SAD 35371 of 13<sup>th</sup> August 2008 cleared. Duty paid on receipt # 21971 dated 10<sup>th</sup> December 2008.*

*SAD C8992 is the only hanging entry for Air Fiji and duty outstanding as at the date of Agreement between FIRCA and Air Fiji i.e. 17th April 2009 was \$179, 205.25.*

*As per the Agreement payments are to be made in 6 installments of \$30,000.00 per installment. Air Fiji has paid its first installment of \$30,000.00 on 20th April 2009 therefore the current duty liability is now \$ \$149,*

<sup>76</sup> Customs Regulation Section 47(4)

205.25. Under the Agreement manual payments will be made by Air Fiji to FIRCA on bank cheque at Suva Customs. The Customs Cashier will deposit the installment amount to the FIRCA operating account held with ANZ. Upon settlement of full duty, FIRCA Finance will then write out a cheque to Customs for the amount of \$179, 205.25 against the Assessment Notice Number A11612 of SAD C8992 which will then clear the hanging entry.

*Please note that this agreement with Air Fiji is only for duration of 6 months effective from 17th April 2009.*

#### **8.9.4.2 Local Disposal by Tax Free Factories**

Products manufactured in a Tax Free Zone and approved for consumption within Fiji shall become liable for duty on the imported articles or raw materials which have been incorporated into such goods at the rate subsisting at the time of disposal of the products.<sup>77</sup>

Tax Free Factories (TFFs) send monthly invoices and costing to products for raw-materials utilised in the production of goods that are disposed locally. Based on this costing, the TFF officer calculates duty that is to be paid for the local disposal.

However, the application of costing to products for raw-materials is not known. Calculation of applicable duty is solely based on the TFF returns that are sent to the Authority. Therefore the correctness of the TFF return for raw-materials utilized and the revenue collected from the local disposal cannot be substantiated.

Moreover, there is no segregation of tasks as only one officer is examining the TFF local disposals and processing monthly applicable duty on the local disposals. This creates an avenue susceptible to collusion between the TFF officer and the Tax Free Factory.

There is a lack of commitment by the Authority to ensure a transparent and accountable revenue collection from local disposals.

#### **Recommendations**

- **Verification of raw-materials to the Job cost sheet should be done during examination on the locally disposed goods to determine the correctness of the end of month TFF return.**
- **Tasks of officer should be segregated to ensure adequate control in the processing of the applicable duty on the monthly local disposals.**

#### **Authority's Comments**

*All disposals are done upon approval on case by case. Verification of raw material is submitted with the letter for approval for verification and calculation of duty. A return is also submitted on monthly basis. This is under control; the Customs Risk & Compliance team conducts the necessary audit on work done.*

#### **8.9.4.3 Duty Suspension Scheme (DSS)**

Duty Suspension Scheme (DSS) means the Customs procedure under which certain goods or materials can be imported into the Fiji Islands conditionally relieved from payment of import duties and taxes, on the basis that the goods or materials are intended for manufacturing or processing and subsequent exportation.<sup>78</sup>

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<sup>77</sup> Customs Tariff Act 1986, Section 17(1)

<sup>78</sup> Customs Duty Suspension Scheme (Amendment) Act 2002, Section 2

The scheme allows importers to import materials and goods up to the value of their credit limit with duty and VAT suspended. The credits can be used as the importer wishes, that is, the importer can use the credit for one or many consignments. On exporting, the appropriate credits are restored to the importers account - the more the export, the more the credits to use for imports. Upon exhaustion of the credit, duty and Vat is applicable.

Audit noted that the Authority does not maintain any record on this credit limit as no monthly reconciliations are carried out to determine that the DSS Company's imports and exports are within their credit limit.

This shows the Authority's lack of commitment in monitoring the DSS companies and therefore could result in large potential loss of revenue that can go undetected, where a company had exceeded its credit limit.

### **Recommendations**

- **The Authority should ensure that monthly reconciliations for imports and exports per DSS companies are carried out to monitor their credit limit.**
- **The credit limit per month should be cross-checked with the DSS Company.**

### **Authority's Comments**

*Agreed with the comments. Management will ensure that resources are acquired to conduct reconciliations, as well as the development of a software to assist in monitoring and auditing. Furthermore, additional staff will be trained on the audit of DSS operators.*

## **8.9.5 Post Audit**

### **8.9.5.1 Outstanding Short Payment Advices**

The full settlement of the Short Payment Advice (SPA) amounts should be made within fourteen days of the advice.<sup>79</sup>

The audit noted that the outstanding SPA at the Nadi Port totaled \$63,939.28. Refer to the table below for details:

SPA No.	Date	Amount \$
<b>Post Audit Section</b>		
18446	11/02/08	6,281.09
22428	11/02/08	5,973.99
10351	12/02/08	4,330.59
18450	11/02/08	6,513.15
18449	11/02/08	8,204.74
18448	11/02/08	918.24
10352	12/02/08	12,253.18
10353	13/02/08	1,940.99
10354	13/02/08	4,129.11
<b>Compliance Section</b>		
7996	09/07/07	247.06

<sup>79</sup> Fiji Islands Customs Services Short Payments Advice Form

SPA No.	Date	Amount \$
7997	09/07/07	476.72
18330	12/06/08	12,670.42
Total Outstanding		\$63,939.28

This shows the Authority's laxity in the non - timely collection of its debts. If the outstanding SPA continues to increase the Authority will face difficulties in collecting them and may have to write these off as bad debts.

### **Recommendations**

**The Authority should ensure that:**

- **Appropriate actions are taken to recover the outstanding SPA.**
- **SPA returns should be submitted to Ministry of Finance for it to be reflected in the Governments account.**

### **Authority's Comments**

*Agreed with the comments. SPA issued was under dispute and was later withdrawn upon advice by Tariff and Trade. Outstanding SPA was shown in arrears of revenue return.*

*The issuance of the Short Payment Advice (SPA) by the post audit officers is based on the information provided on the source documents such as import entry, invoices, catalogue etc.*

*The decision by our audit officers is sometimes disputed by the importer or its agent. Under these circumstances the matter is referred to our central unit Tariff & Trade Section for an independent ruling on tariff classification. If the tariff classification ruling is in the favour of the importer then Customs (Audit Section) has to withdraw the demand (SPA). This dispute settlement process takes considerable time thus showing arrears of revenue in our books of records.*

*This arrears of revenue is reflected on our quarterly returns which in turn is forwarded to the Authority's Finance Division for incorporation in the financial report for submission to MOF.*

### **8.9.5.2 Post Audit Backlog**

Section 114 of the Customs Act of 1986 stipulates that the officers of Fiji Islands Customs Authority have the power to inspect, examine, make copies of or take extracts from any documents relating to the exported, imported, warehoused, removed from warehouse or transhipped goods.

The Post Audit Section of the Fiji Islands Customs Authority is concerned with the audit of all customs entries. Audit noted that the post audit section audits the entries without any targets or any set audit test programs, thus there is no systematic way to conduct the audit.

Furthermore, it was noted that there is only one officer at the post audit section compared to two officers the previous year as one has migrated.

Moreover, there were 69,253 entries processed as at 30/11/08 of which the officer has to audit 6,296 entries per month.

Due to the above anomalies, the post audit section as at the date of the audit<sup>80</sup> was auditing the entries for the month of June 2008, which behind by 5 months compared to the date of entry.

If the Post Audit Section continues to audit without audit targets and test programs along with the inadequate staff resource, there is a risk that the backlog will accumulate and a possible loss of revenue from un-audited entries.

Despite this being highlighted in previous years audit report, there has been no improvement to date.

### **Recommendations**

- **The Authority should ensure that the Post Audit Section set audit targets to achieve and audit programs are developed to ensure that the audit is carried out in a systematic manner.**
- **Also Post Audit Section be given reasonable staff resources so that the audit timeliness of entries are not compromised along with the prompt collection of short paid revenue.**

### **Authority's Comments**

*The comments/recommendations have been noted. There are staff constraint and office space to place adequate officers. However audit of all entries are done on timeliness with monthly returns.*

## **8.9.6 Baggage Hall**

### **8.9.6.1 Duty Free Shop Bond**

All Duty Free shops are warehouses licensed under Part VIII of the Customs Act which places responsibility on the operators of such premises to keep all under-bond goods under their control safely, keep proper records and account for all the goods under their control when called upon Customs to do so.<sup>81</sup>

Duty Free shops are operated at the Arrivals and Departures at the Airport whereby Customs is notified for transfer and receiving of goods in the warehouse and checks done accordingly.

However, the Authority does not maintain an inventory of items in the duty free bond. Upon physical verification, the Authority verifies the stocks from the bond keeper's stock report.

Furthermore, the sales of duty free items at arrivals are not checked to determine that purchases of goods are as per passenger allowance. In addition to this, none of the products in the duty free bonds are marked.

This indicates the Authority's lack of commitment in monitoring the Duty Free Shop sales and bond and therefore could result in non-maximisation of potential base revenue from this Customs services.

### **Recommendations**

**The Authority should ensure that:**

- **An Inventory of bonded duty free items is maintained and amended accordingly upon transfer and receiving of items in the bond.**

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<sup>80</sup> 30 November 2008

<sup>81</sup> Passenger Processing Manual, Section 7.5.1



- Sales invoice per flight to be checked against the number of passenger per flight to determine the approximate sales as per concession allowance.
- Large difference in sales to number of passengers to be investigated and action taken accordingly.
- Month end reconciliation of items in the bond to be undertaken.

#### **Authority's Comments**

*The comments are noted for action. Stock takes will be carried out on weekly basis to control stock checks. All stock receiving are done in the presence of Customs. Bond registers are maintained for stock removal from duty free Bond to Duty free store.*

*There is no correlation between the number of passengers per flight and the sales invoice per flight; hence no reconciliation can be done.*

*Passenger processing covers passenger allowance and excess for duty liability. Large amounts sold to number of passengers once establish are investigated and actioned. Month end reconciliation of all items are undertaken by Warehouse.*

### **8.9.7 Customs Labasa**

#### **8.9.7.1 Surveillance**

The Authority in its function to facilitate trade and control movements of people, goods and crafts at all our ports of entry and national borders, shall enhance Primary Line and Border Control function.<sup>82</sup>

The audit noted that the Customs – Northern (FIRCA) does not have the capability to carry out surveillance and intelligence work on matters infringing border control and other customs regulations. This is mainly due to the lack of resources available to the Authority in the Northern region for these exercises and given the extensive area for which the regional office is responsible for.

The above indicates the lack of commitment shown by the Authority in its strife to strengthen it Border Control and Primary Line function.

Thus, there is high risk that illegal activities involving the movement of people, goods and craft are being carried out in and around the area. This include entries of yachts without calling in at the ports of entries, cruising into areas for which permits have not been granted by the Fijian Affairs Board, sailing out of the country and back without being detected. Furthermore there is the increasing risk of smuggling of firearms, drugs and human trafficking.

#### **Recommendations**

- The Authority should strengthen its Border Control and Primary Line Units to effectively carry out its functions.
- The Authority should work jointly with the Navy, Police etc for the purpose of enhancing boarder control.

#### **Authority's Comments**

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<sup>82</sup> 2007-2009 Corporate Plan

*Recommendations are acknowledged. The Authority is continuously improving the facilitation of the movement of people, cargo, ships and small craft and at the same time prevents illegal activities at Savusavu port and other adjacent areas.*

*The movement of yachts are controlled through the boarding documents and those yachts masters who contravened provisions of the Customs Legislation were compounded under section 155 of the Customs Act. The Cruise Liners are facilitated through granting conditional approval on the Application to proceed to a Sufferance port and one of the conditions is Customs Officer is required to be on board the ship while sailing from a sufferance port to another.*

*In addition a Customs Database has been developed that allows real time monitoring and processing of vessels movements within the Fiji waters, hence allowing Customs to effectively risk assess yachts and take appropriate actions.*

*Furthermore we have conducted training to Police Officers who are stationed at the remote areas of Vanua Levu to carry out Customs basic boarding duties on suspected ships and refer any complex issue to Customs. Currently we are developing the standing operational procedures (SOP) for the Police Officers' guidelines for carrying out the Customs and other Law Enforcement basic boarding duties.*

### **8.9.8 Customs Savusavu**

#### **8.9.8.1 Savusavu - Boarder Control**

The Authority in its function to facilitate trade and control movements of people, goods and crafts at all our ports of entry and national borders, shall enhance Primary Line and Border Control function.<sup>83</sup>

With the vast area for which the Savusavu Customs is responsible, i.e. for the whole of the Northern Division, there is no boat available to FIRCA – Savusavu to patrol its waters and shoreline. This is a cause for concern as Savusavu is an international port of entry into Fiji and also the first port of arrival for yachts sailing from Samoa and Tonga. In addition, the Authority does not have the capability to keep track of yachts once they are issued with cruising permits from the Ministry of Fijian Affairs.

The above indicates the lack of commitment shown by the Authority in strengthening its Border Control Unit and Primary Line functions.

There is a risk that yacht may sail in and out of the country without detection. This increases the risks of illegal activities being carried out in and around this vicinity for example smuggling of firearms, drugs and even human trafficking.

#### **Recommendation**

**The Authority should strengthen its Primary Line and Boarder Control function by equipping the Unit with resources to enable it to carry out its role.**

#### **Authority's Comments**

*Recommendation is acknowledged. The movement of yachts are monitored through the verification of the specified cruising destinations on the boarding documents when the yachts arrive at a port of entry after cruising within Fiji.*

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<sup>83</sup> 2007-2009 Corporate Plan

*Capital Budget for 2010 includes request for purchase of a boat. In the meantime, there are discussions underway with the Police to facilitate requests for Customs Border Management duties.*

#### **8.9.8.2 No SPA issued after Detention of Goods.**

Discrepancies which involve short payment of duty as a result of incorrect tariff classification, valuation or surplus cargo etc, the officer shall calculate and ascertain as to how much duty is involved.<sup>84</sup> Through calculation where the officer finds the short paid duty is less than \$500, he/she shall inform the importer/agent the amount involved and collection as such duty through short payment advice system. If the importer /agent agrees to pay the duty, the officer shall prepare and issue short payment advice to the importer/agent.<sup>85</sup> On computation if the duty exceeds \$500, the detaining officer shall without delay raise a seizure/detention report.<sup>86</sup>

On 4 June 2008, Detention Notice No. 93919 was issued to a resort and a Seizure Report (SR 08/03) was written up for incorrect tariff classification after examination of goods on entry No. C 22451 of 22 May 2008. The total amount of \$15,084.85 of duty was short paid due to incorrect tariff classification. However, it was noted that no Short Payment Advise was issued to the Importer for the duty short paid.

Upon clarification from OIC Savusavu, it was agreed that a Short Payment Advise should have been issued in this case. No reason could be provided by OIC for the non issue of the Short Payment Advice, however an update was going to be provided to audit as the officer issuing the detention notice had been transferred to Suva. This is yet to be provided to audit.

As such, there is no record or advice against which the importer/agent can make payment to settle the short payment of duty. Thus this can pose a risk of Importers/agents not making payment of duties on imports.

#### **Recommendation**

**The Authority should ensure that Short Payment Advices are issued for all short paid duties.**

#### **Authority's Comments**

*The recommendation is acknowledged. The examination was carried out by the Savusavu Customs Officer and after the examination the SR was raised and forwarded to Suva Examination Section through the Acting Manager Border Control for scrutinizing of documents and confirm whether the examination report was correct. The original copy of the SR was some how misplaced. However SPA number 21431 was issued for the duty short paid and the Customs Agents concerned has been instructed to clear outstanding duties within 14 days.*

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<sup>84</sup> Section 5.7.8 – Examination Branch Procedure

<sup>85</sup> Section 5.7.10 – Examination Branch Procedure

<sup>86</sup> Section 5.7.18 – Examination Branch Procedure

**Appendix 1: Outstanding SPA's for 2008**

Summary as per Owner	Amount \$	Remarks From Management
Owners details withheld	17,475.31	Section 95
	566.31	"
	361.21	"
	44.24	"
	6,005.38	"
	22.10	"
	338.82	"
	11.67	"
	40,011.85	"
	534.35	"
	5441.10	"
	10.85	R – 5036 18/03/09
	3,269.45	Section 95
	8.13	"
	3,411.47	"
	176,547.78	"
	357.27	"
	5,256.68	"
	1,055.55	"
	2,572.81	"
	47.32	"
	2,876.50	"
	65.09	"
	852.97	R – 6631 09/04/09
	1,285.62	R – 10524 05/06/09
	63.88	R – 4970 17/03/09
	185.74	R – 2173 03/02/09
	4,630.26	Section 95
	444.35	R – 4975 17/03/09,R – 5152 19/03/09
	1,369.16	Section 95
	1,041.02	"
	217.13	"
	118.28	"
	44.17	"
	162.67	"
	9,776.15	R – 5460 25/03/09
	277,845.88	Section 95
	51.75	"
	7,163.70	"
	239.13	R – 9654 22/05/09
	2,868.99	Section 95
	610.25	R – 2071 30/01/09
	129.46	R – 5448 25/03/09
	5,438.33	
	175.55	
	308.34	Section 95
	1,138.33	R – 23845 25/11/08
	989.90	Section 95
	2,248.63	"
	312.39	"
	39.17	R – 4975 17/03/09

Summary as per Owner	Amount \$	Remarks From Management
Owners details withheld	85.27	Section 95
	3,632.11	"
	1,778.08	"
	22.33	"
	2,156.03	"
	486.20	"
	194.55	R – 2173 19/03/09
	317.15	R – 3161 17/02/09
	68.10	R- 5891 07/04/09
	15.43	R – 5224 19/03/09
	17,316.80	Section 95
	1,034.13	WITHDRAWN
	5,545.13	Section 95
	1,019.45	"
	186.33	R – 4908 24/03/09
	39.28	Section 95
	1,699.59	"
	12,158.95	"
	2,446.60	R – 4476 10/03/09
	1,114.56	Section 95
	4,066.27	"
	75.03	"
	1,615.94	"
	3,082.64	WITHDRAWN 09/02/09
	569.34	Section 95
	40.50	"
	24.38	"
	2,236.17	"
	8,935.78	"
	114.95	R – 4426 16/03/09
Grand Total	658,119.50	

## Appendix 2: Outstanding SPA's from 2007

Summary as per Owner	Amount \$	Remarks From Management
Owners details withheld	681.90	Section 95
	3,444.44	"
	4,013.62	"
	9,319.53	"
	602.3	"
	1,516.92	"
	916.14	"
	686.7	"
	410.76	"
	550.50	R- 10346 03/06/09
	852.74	Section 95
	84.17	R- 7119 17/04/09
	2,020.77	Section 95
	252.53	R- 5152 19/03/09
	127,785.46	Section 95
	976.30	"
	40.85	"

Summary as per Owner	Amount \$	Remarks From Management
Owners details withheld	3,502.39	"
	459.24	"
	3,094.70	"
	35.90	"
	10,168.15	"
	1,875.55	"
	41.54	"
	23,762.59	'
	4,204.59	"
	38.15	"
	152.79	'
	13,415.37	"
	339.88	"
Grand Total	215,246.47	

### Appendix 3: Outstanding Bus Claims for 2008

Summary as per Bus Company	Amount \$
Bus Company details withheld	5,295.87
	294.21
	4,028.94
	52,628.94
	2,650.72
	3,444.37
	827.13
	24,662.06
	1,073.74
	56,770.90
	326.32
	2,416.32
	1,790.84
	14,433.13
	1,311.85
	2,071.44
	8,649.36
	10,427.32
	8,298.70
	5,554.31
	2,860.37
	14,815.26
	53,838.83
	7,037.55
	10,856.44
	2,812.41
	6,466.07
	7,068.03
	502.33
Grand Total	313,213.76

**Appendix 4: Outstanding Diplomatic Fuel Rebates**

Summary as per Organization	Amount \$
Organization details withheld	1,051.46
	137.57
	356.9
	102.32
	106.05
	138.77
	550.15
	1,215.85
	1,053.17
	217.59
	101.51
	16.33
	238.81
	704.82
	1,513.72
<b>Grand Total</b>	<b>7,505.02</b>

**Appendix 5: Detained Items not Written Off**

Detention No.	Date	PNDE No.	Owner	Description	Reason
112653	12/02/08	9182	Owners details withheld	One only silver bullet vibrator	Prohibited goods
112654	19/02/08	9509		One only dildo	Prohibited goods
112655	21/02/08	Unclaim		One set of sex Rhythm modulators	Prohibited goods
112657	27/02/08	9756		One only sunrise vivid girl star vibrator	Prohibited goods
112659	28/04/08	10986		One only dildo	Prohibited goods
112662	01/05/08	10154		One DVD – Sex Therapie	Prohibited goods
112663	12/05/08	11561		1 x dagger	Prohibited import
112664	18/05/08	11823		One only dildo	Prohibited import
112665	04/06/08	-		One only dildo	Prohibited import
112666	18/06/08	11406		Seal love; Sex Movie	Prohibited import
112667	19/07/08	11307		Sex cream CD, Girl Vanc CD, Beverly Haler # 2	Prohibited import
112668	19/07/08	12966		Sex cream CD, Girl Vanc CD, Beverly Haler # 2	Prohibited import
112669	23/07/08	-		Shaped penis	Prohibited import
112673	21/08/08	14745		DVD Sex confession, DVD Black Horny	Prohibited import
112674	26/08/08	14810		Toy gadget	Prohibited import
112676	03/09/08	-		V6 Phone	Prohibited import
112680	17/09/08	15806		12 x 18 capsules of China Vigour	Prohibited import
112681	18/09/08	-		1 x Sienien E.71 1 x shap CED168 M-phones	Prohibited import
112686	22/09/08	15972		I only Samsung phone	Prohibited import
112698	03/10/08	13701		Poker game sex	Notification only
112700	03/10/08	17523		DVD's –Rocky, Debora	Restricted import
107352	07/10/08	16626		Namastey London	Restricted import
107359	29/10/08	-		DVD's Obsession	Censor only

Detention No.	Date	PNDE No.	Owner	Description	Reason
66651	30/10/08	17253		DVD's Kama Sutra	Censor only
66652	03/11/08	17371		1 x Gross Marlboro 100's cigarettes	Restricted import

### Appendix 6: Uncleared cargo listing

Lot No.	Date	Vessel name	Rot No.	Consignee	No. of packages	Description	Remarks From Management
Cargo Shipping Company 1							
240	14/10/08	Captain Saray V. 987	08/1372	Consignee details withheld	87 ctns	Hazardous goods	<i>The duty was paid on Receipt number 2206 Of 3/2/2009</i>
Pacific Agency							
178	28/08/08	Commander V.140829	08/1008		2pcs	Kava Powder	<i>The goods was inspected and recommended By Agriculture Quarantine to be Destroyed</i>
Cargo Shipping Company 2							
194	17/10/08	Forum Samoa V.84	08/1716		21 ctns	Donated garments	<i>The duty was paid on Receipt 2263 of 4/2/009</i>
178	10/11/08	Maersk Fuji	08/1490		2 pkg	Used personal effects	<i>The goods was auctioned on SN 04/009</i>
180	10/11/08	Maersk Fuji	08/1490		12 pkg	Used personal effects	<i>The duty was paid on CDFR 6779 OF 6/2/2009</i>
167	13/10/08	Captain Saray V. 987	08/1372		1 plt	Medical supplies	<i>The duty was paid on Receipt number 2412 of 5/2/009</i>
153	23/09/08	Callao Express	08/1238		24 pkg	Used personal effects	<i>The goods was auctioned on SN 02/2009</i>
Cargo Shipping Company 3							
06/417	15/08/06	Captain Tasman	V.115		2 Pkg	Personal Effects	<i>The goods was transferred to QW on C/Note 219316 of 16/6/2009</i>
07/106	19/02/07	Forum Samoa	V.65		3Pkg	Personal Effects	<i>The goods was transferred to QW on C/Note 219316 of 16/6/2009</i>
07/239	25/04/07	Captain Wallis	V.189		17 Pkg	Yoga mat	<i>The consignment will be added On the List for the next Auction-SN06/09</i>
08/153	11/04/08	Forum Samoa	V.78s		2 ctn	Personal Effects	<i>The will be added On the List for next Auction SN06/09</i>
08/177	13/05/08	Callao Express	V.966		1 crt	Ship spares	<i>The item will be added On the List for the next Auction-SN06/09</i>
08/181	22/05/08	Captain Wallis	V.216		7 pkg	Woodworking machinery	<i>The Duty was paid on Receipt number 9334 of 19/5/2009</i>
08/211	07/07/08	Forum Samoa	V.81		1 pkg	Donation second hand clothing	<i>The goods will be added on the List for next Auction- SN 06/09</i>



Lot No.	Date	Vessel name	Rot No.	Consignee	No. of packages	Description	Remarks From Management
08/235	31/07/08	Captain Tasman	V.126s		1pkg	Personal Effects	<i>The item will be added On the List for the next Auction SN06/09</i>
08/282	22/09/08	Forum Samoa	V.83		2pkg	Sport equipment	<i>The duty was paid on Receipt number 42286 of 4/12/2009</i>
08/292	27/10/08	Captain Wallis	V.227		10 pkg	Shoes	<i>The duty was paid on Receipt number 25754 of 18/12/2009</i>

### Appendix 7: Outstanding SPA's

Owner/Importer	Amount \$
Owner/Importer details withheld	11,670.78
	95.26
	1,918.81
	408.60
	785.66
	930.66
	1,516.86
	1,105.19
	4,131.32
	5,430.11
	432.95
	1,047.57
	13,899.64
	52.31
	1,233.61
	5,135.31
	1,384.75
	783.46
	2,564.15
	69.31
	276.14
	960.07
	594.45
	556.39
	369.69
	4,531.33
	47.65
	194.54
	341.72
	124.75
	720.09
	465.79
	745.06
	752.89
	5,484.99
	543.14
	265.48
	319.54
	199.63

Owner/Importer	Amount \$
Owner/Importer details withheld	730,892.51
	174.91
	13,734.57
	3,321.20
	27,354.87
	4,095.81
	469.22
	7,062.77
	16,043.15
	1,114.48
	5,029.35
	365.23
	778.42
	1,808.25
	1,333.50
	12,518.60
	4,875.13
	154.75
	57,516.67
	57.23
	878.69
	483.06
	203,849.38
	6,957.43
	1,403.76
	4,331.25
	8,477.32
	244.01
	4,269.34
	69.10
	2,410.63
Total Outstanding	1,194,164.24

## **Appendix 8: Vehicles with Missing Parts**

### **Bonded Warehouse 3**



*Figure 1: Tyre Missing*



*Figure 2: Parts Missing-Front Light*



*Figure 3: Back Light Missing*



*Figure 4: Back Window Glass Missing*



*Figure 5: Tyre Missing*



*Figure 6: Passenger Door, Tyre and Front inside Parts Missing.*



*Figure 7: Rusts, steering Cover and Radio Parts missing*



*Figure 8: Parts dismantled and missing in the front.*



*Figure 9: Head Light Missing*



*Figure10: Head Light Missing rusts appearing.*



*Figure 11: Door Parts Missing.*



*Figure12: Back Glass Missing, Grass and plants inside the Vehicle and rusting away.*





*Figure13: Grass and bottle inside the vehicle, Radio Missing.*



*Figure 14: Tyre Missing.*



*Figure 15: Front Light Missing.*



*Figure 16: Front Light Missing Surf in Good Condition.*



*Figure17: indicator missing, front light damaged, and grass piling up.*



*Figure 18: front light missing, vehicle rusting away.*



*Figure 19: Tyre and Front Light Missing, Grass Piling up.*



*Figure 20: Front Lights Missing, Vehicle Rusted.*



*Figure 21: Tyre Missing and Vehicle covered in Grass.*



*Figure 22: Covered in Grass, & Missing Front light*



*Figure 23: Tyre and Front Light Missing.*



*Figure 24: Front light Missing, Rusts*





*Figure 25: Tyre Missing, Vehicle Covered in grass.*



*Figure 26: Tyre Missing.*



*Figure 27: Tyre Missing.*



*Figure 28: Tyre Missing.*

## **Bonded Warehouse 2**



*Figure 29: Rusted Vehicle and Parts missing.*



*Figure 30: Front parts missing.*



*Figure 31: Front Light Missing.*



*Figure 32: Front Side Light missing.*



*Figure 33: Front Part Missing.*



*Figure 34: Front Part Missing.*



*Figure 35: Roof Rack missing.*



*Figure 36: Roof Rack missing.*





*Figure 37: Petrol lid missing.*



*Figure 38: ¼ glass missing.*



*Figure 39: Front Light damaged.*



*Figure 40: Door parts missing.*



*Figure 41: Door Parts missing.*



*Figure 42: Lock missing.*



*Figure 43: indicator missing*



*Figure 44: front part missing – Challenge Eng. Ltd*

## Appendix 9: Dismantled Parts in front of Bonded Warehouse 3



*Figure 45: Dismantled parts*



*Figure 46: Dismantled parts*



*Figure 47: Dismantled Parts*



*Figure 48: Dismantled parts*



*Figure 49: Dismantled parts in front of Warehouse3 .*



*Figure 50: Dismantled parts in front of Warehouse 3*



## Appendix 10: Damaged Vehicles at Bonded Warehouse 2



*Figure 51: Damaged Windscreen.*



*Figure 52: Damaged Windscreen.*



*Figure 53: Front Light Missing.*



*Figure 54: Front Light damaged.*



*Figure 55: Door handle dangling, side mirror damaged.*

## Appendix 11: Deteriorating Items

### Warehouse 3



*Figure 56: Grass Growing in Vehicle.*



*Figure 57: Grass surrounding the vehicles.*



*Figure 58: Tyre Missing, Grass almost climbing over the car*



*Figure 59: Rusts, steering Cover and Radio Parts missing.*



*Figure 60: Grass and bottle inside the vehicle. Radio Missing.*



*Figure 61: Grass Climbing over the Vehicles.*





*Figure 62: Rusts Noted*



*Figure 63: Rusts Noted.*



*Figure 64: Indicator missing, front light damaged*



*Figure 65: Vehicle covered in Grass*



*Figure 66: Vehicle covered in Grass.*



*Figure 67: Vehicle covered in Grass*



*Figure 68: Vehicle covered in Grass.*



*Figure 69: Vehicle covered in Grass.*



## Bonded Warehouse 2



*Figure 70: Rusted Vehicle.*



*Figure 71: Rusted Vehicle.*



*Figure 72: Rusted Vehicle.*



*Figure 73: Rusted Vehicle.*



*Figure 74: Rusted Vehicle.*



*Figure 75: Rusted Vehicle.*



*Figure 76: Rusted Vehicle.*



*Figure 77: Rusted Vehicle.*



*Figure 78: Wipper is rusting away.*



*Figure 79: Deteriorating condition.*

**Appendix 12: Outstanding Drawbacks Claims**

Claim No.	Date Received	Owner	Amount \$
08/01	18/01/08	Owner's information withheld	70.20
08/02	28/01/08		164.05
08/03	04/02/08		1495.80
08/04	31/01/08		390.33
08/05	05/02/08		491.70
08/06	06/02/08		175.00
08/07	06/02/08		117.58
08/08	06/02/08		2149.91
08/09	15/02/08		351.78
08/10	18/02/08		Item is rejected
08/11	19/02/08		8638.00
08/12	26/02/08		563.50
08/13	14/03/08		359..00
08/14	26/03/08		Details missing
08/15	31/03/08		73.32
08/17	08/04/08		165.07
08/18	10/04/08		72.80
08/25	19/05/08		65.13
08/26	26/05/08		229.95
08/37	20/06/08		1266.32
08/69	02/10/08		1543.90
08/70	02/10/08		152.85
08/71	16/10/08		523.55
08/74	29/10/08		180.85
ND – 08/01	03/01/08		522.97
ND – 08/04	08/05/08		1002.24
ND – 08/05	16/05/08		151.71
ND – 08/08	26/09/08		1096.75
ND – 08/09	12/10/08		21951.00
ND – 08/10	12/10/08		19105.00
ND – 08/11	25/11/08		21951.00
ND – 08/12	25/11/08		21951.00
ND – 08/13	25/11/08		21951.00
ND – 08/14	26/11/08		1050.25
Total Outstanding			129,973.51



**Appendix 13: Detained Items requiring Permit**

Date	Detention Notice Number	Item	Reason for Detention
20/02/2008	107878	Uniden Cordless Phone (x1)	Permit Required
20/02/2008	107857	Cordless Phone (x1)	Permit Required
20/02/2008	107856	Cordless Phone (x1)	Permit Required
20/02/2008	107821	Davui	Permit Required
13/03/2008	110996	Tabua (Whales Tooth)	Permit Required
13/03/2008	107935	Uniden Cordless Phone (x1)	Permit Required
15/04/2008	108334	Cordless Phone (x1)	Permit Required
29/04/2008	357990	Davui	Permit Required
29/04/2008	108044	Uniden Cordless Phone (x1)	Permit Required
27/05/2008	108047	Panasonic Cordless Phone (x1)	Permit Required
27/05/2008	108081	Tabua	Permit Required
27/05/2008	108100	Davui	Permit Required
27/05/2008	108113	Tabua	Permit Required
27/05/2008	108163	Doro Digital Cordless Phone (x1)	Permit Required
27/05/2008	108166	Davui	Permit Required
11/06/2008	108211	3 Pcs RT with Base Charger	Permit Required
11/06/2008	108191	Davui	Permit Required
11/06/2008	108178	Davui	Permit Required
24/06/2008	108239	Tabua	Permit Required
11/07/2008	111038	Mobile Phones (50 pcs)	Permit Required
11/07/2008	108219	Shells and Corals (x2)	Permit Required
11/07/2008	108269	Cordless Phone (x2)	Permit Required
11/07/2008	108297	Shells (x5)	Permit Required
11/07/2008	110833	Davui	Permit Required
02/09/2008	109306	Panasonic Cordless Phone (x1)	Permit Required

**Appendix 14: Product Code not marked in Bonded Warehouse.**

Product Code	Expiry Date	Quantity & Unit
0075	27/02/09	7500.00 kg
0112	27/02/09	27.00 kg
0117	27/02/09	171.00 L
0132	27/02/09	45.00 L
0119	27/02/09	1.00 L
0124	27/02/09	60.00 L
0557	27/02/09	9.00 L
0558	27/02/09	9.00 L
0013	27/02/09	36.00 L
T061	27/02/09	745.00 L
T066	27/02/09	36.00 L
T067	27/02/09	180.00 L
T151	27/02/09	135.00 L
T126	27/02/09	630.00 L
T119	27/02/09	696.00 L
T109	27/02/09	1287.00 L
T061	27/02/09	744.48 L
0248	27/02/09	11820.00 L
0559	27/02/09	1367.00 L
0801	27/02/09	204.00 L
0802	27/02/09	801.00 L
5002	27/02/09	31.00 kg
105A	27/02/09	90.00 L
509B	31/07/09	108.00 L
516B	31/07/09	72.00 L
586J	05/08/09	6.00 L
590J	05/08/09	353.00 L
591J	05/08/09	6.00 L
573R	11/12/08	5.00 L
563R	13/12/08	6.00 L
570R	13/12/08	24.00 L
591R	14/12/08	4.00 L
595R	14/12/08	9.00 L
528S	20/12/08	9.00 L
529S	20/12/08	4.00 L
559S	20/12/08	7.00 L
564S	09/01/09	31.50 L
602A	03/01/09	134.00 L
628A	08/01/09	864.00 L
629A	08/01/09	369.00 L
630A	08/01/09	783.00 L
635A	08/01/09	360.00 L
637A	08/01/09	18.00 L
638A	08/01/09	684.00 L
653A	11/01/09	36.00 L
657A	10/01/09	8.00 L
664A	10/01/09	24.00 L
605B	05/02/09	648.00 L
603B	01/02/09	135.00 L
633B	09/02/09	9.00 L
634B	09/02/09	9.00 L

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Product Code	Expiry Date	Quantity & Unit
635B	09/02/09	9.00 L
639B	09/02/09	9.00 L
669B	21/02/09	45.00 L
685B	13/03/09	11.00 L
633C	09/03/09	36.00 L
637C	09/03/09	17.00 L

## SECTION 9: WESTERN DRAINAGE BOARD

The Western Drainage Board was established under the Drainage Act, 1973. The Board is responsible for the maintenance and improvement of drainage of all land within the Western Division drainage area for which it is appointed.

Furthermore, subject to any approval or consent which may be required under the Act, the Board may carry out such works and issue such orders concerning drainage works as it deems necessary for the improvement of drainage within the division.

The Board has powers to make, assess and levy rates required to cover the costs of improving, constructing and maintaining drainage works, the carrying out of any drainage measures and the operating costs of the Board.

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## PART A – FINANCIAL INFORMATION

### 9.1 Audit Opinion

The audit of the financial statements of Western Division Drainage Board for the year ended 31 December 2005 resulted in the issue of a qualified audit report. The qualification is as follows:

- Adequate provision was not made for debts of which recovery of arrears of drainage rates amounting to \$469,073, maybe doubtful.

### 9.2 Abridged Statement of Income and Expenditure

Year Ended 31 December	2005 \$	2004 \$
Drainage Rates Income	226,459	223,512
Other Income	9,007	28,704
<b>Total Income</b>	<b>235,466</b>	<b>252,216</b>
Drainage Maintenance	117,295	69,097
Other Expenditure	421,187	91,635
<b>Total Expenditure</b>	<b>538,482</b>	<b>160,732</b>

Year Ended 31 December	2005 \$	2004 \$
Net (Deficit) / Surplus for the year	(303,016)	91,484

In 2005, the Board recorded a deficit of \$303,016 for the net operating balance. The net deficit which is much lower than the result incurred in the previous year was caused by a significant increase in expenditure and declining revenue. Expenditure increased by 235% on the prior year with costs increasing in drainage maintenance. Doubtful debts were also a major factor in the increase of expenditure.

### 9.3 Abridged Statement of Financial Position

Year Ended 31 December	2005 \$	2004 \$
<b>Assets</b>		
Cash	220,007	320,802
Receivables	172,464	381,888
Long-term investments	100,000	100,000
Property, plant and equipment	62,690	38,307
<b>Total Assets</b>	<b>555,161</b>	<b>840,997</b>
<b>Liabilities</b>		
Creditors and accruals	69,265	58,310
Other liabilities	12,724	6,499
<b>Total Liabilities</b>	<b>81,989</b>	<b>64,809</b>
<b>Net Assets</b>	<b>473,172</b>	<b>776,188</b>
<b>Total Accumulated Funds</b>	<b>473,172</b>	<b>776,188</b>

Net assets decreased by \$303,016 or 39% in 2005 compared to 2004 due to decrease in Cash at Bank and Receivables. Total liabilities increased by \$17,180 or 27% due to increase in Accruals, VAT Payables and Provision for Employee Benefits.

## PART B – CONTROL ISSUES

### 9.4 Provision for Doubtful Debts

Financial statements will not show a true and fair position if there is a doubt in the value of debtors. This position can be countered by making a provision to provide for any doubtful debtors.

Audit tested 100% (\$469,073) of drainage rate debtors for subsequent receipts to the date of audit. It was revealed that only \$24,768 or 5% have subsequently paid (until December 2006) leaving a balance of \$444,305 or 95%. The Board has made provision of only \$298,705, hence understating the provision for doubtful debts by \$145,600.

Debtors are overstated in the books of account, as it is apparent that most of the rate debtors have not paid their outstanding rates for several years and are unlikely to pay.

### **Recommendation**

**The Board should consider making an additional provision for doubtful debts in the books of accounts, as this would ensure that the balance sheet only reflects debtors that are recoverable.**

### **Management Comment**

*No comments provided.*

## **9.5 PAYE Incorrectly Calculated**

Subject to the other provisions of the income tax act there shall be assessed, levied and paid a tax to be known as normal tax for each of assessment on ever dollar of chargeable income of (a) an individual whose total income, in the case, exceeds [\$8,840], or any other person, other than a company, in respect of his chargeable income for the year of assessment [but a resident individual shall be exempt from normal tax to the extent that such normal tax, together with [basic tax] would reduce the balance of his total income to [\$8,840] or less in any year]<sup>1</sup>.

Fiji uses the PAYE (pay as you earn) system of payment of tax on income of employees. Under this method, tax due under the Income Tax Act should be deducted from the salaries and wages paid and remitted to the Commissioner of Inland Revenue. This should be done each month and accompanied by the prescribed return.<sup>2</sup>

Audit noted that PAYE deductions were not made from salaries according to the tax tables in the Income Tax Act. This is a recurring issue.

Incorrect PAYE deductions from employees' salaries and wages will result in incorrect payment of tax to Fiji Islands Revenue Customs Authority.

### **Recommendation**

**The Board should ensure that calculation of PAYE tax allowances for its employees is based on the current allowable amounts as this will assure that amount of PAYE tax is deducted from employees on each pay day.**

### **Management Comment**

*No comments provided.*

## **9.6 Incorrect Calculation of VAT**

Subject to the provisions of this Decree, the tax shall be charged in accordance with the provisions of this Decree at the rate of twelve and a half percent on the supply (but not including an exempt supply)

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<sup>1</sup> Income Tax Act Cap 201 (Revised to 30 June 2006) Section 7 (1)

<sup>2</sup> Manual of Accounts for Municipal Councils in Fiji Section 10.4

in Fiji of goods and services on or after the 1<sup>st</sup> day of July 1992, by a registered person in the course or furtherance of a taxable activity carried on by that person, by reference to the value of that supply.<sup>3</sup>

Audit noted that for Scheme 27, VAT has been incorrectly charged to all farmers. The Board charged 10% VAT instead of 12.5% therefore reducing their income. This is a recurring issue.

Incorrect VAT calculation would result in understated payment of VAT revenue to FIRCA.

### **Recommendation**

**The Board should ensure VAT is correctly calculated for drainage rates. Incorrect computation of VAT leads to breach of VAT Decree and understatement of VAT Output.**

### **Management Comments**

*No comments provided.*

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<sup>3</sup> Value Added Tax Decree 1991 4<sup>th</sup> Edition (Revised to 30 April 2004) Section 15 (1)

## SECTION 10: TRAINING PRODUCTIVITY AUTHORITY OF FIJI

The Training and Productivity Authority of Fiji, [formerly known as the Fiji National Training Council] is a statutory organisation established under Cap 93 of the FNTC Act.

The Authority is the national organisation for technical vocational training in Fiji, and the National Productivity Organisation for the Fiji Islands and acts and performs functions to promote the concept of productivity as a viable economic strategy.

The Authority's principle activity is to develop the national framework and make provision for the registration of training courses or training providers or facilities or qualifications of such category it shall direct.

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## PART A – FINANCIAL INFORMATION

### 10.1 Audit Opinion

The audit of the financial statements of the Training Productivity Authority of Fiji (TPAF) for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.



## 10.2 Abridged Income Statement

Year Ended 31 December	2008 \$'000	2007 \$'000
Revenue	23,105	29,657
Other Operating Revenue	930	1,281
<b>Total Revenue</b>	<b>24,035</b>	<b>30,938</b>
Personnel Expenses	6,347	7,463
Depreciation and Amortisation	896	949
Operating Expenses	3,559	3,040
Other Expenses	8,778	9,358
<b>Total Expenditure</b>	<b>19,580</b>	<b>20,810</b>
<b>Surplus before Income Tax</b>	<b>4,455</b>	<b>10,128</b>
<b>Net Surplus for the year</b>	<b>4,455</b>	<b>10,128</b>

The Authority recorded operating profit before income tax of \$4,455,322 in 2008, a decrease of 56 % compared to 2007. This was due to the decrease in total revenue, specifically income from levy by \$7,680,126 or 37 % in 2008.

## 10.3 Abridged Balance Sheet

As at 31 December	2008 \$'000	2007 \$'000
<b>Current Assets</b>		
Cash at Bank & on Hand	5,292	4,286
Trade & Other Receivables	12,342	9,715
Financial Assets	7,463	6,300
Other Current Assets	130	61
<b>Total Current Assets</b>	<b>25,227</b>	<b>20,362</b>
<b>Non Current Assets</b>		
Property, Plant & Equipment	9,823	11,273
<b>Total Non Current Assets</b>	<b>9,823</b>	<b>11,273</b>
<b>Total Assets</b>	<b>35,050</b>	<b>31,635</b>
<b>Current Liabilities</b>		
Grants Payable	5,843	6,477
Sundry Creditors & Accruals	3,240	3,156
Other Current Liabilities	398	469
<b>Total Current Liabilities</b>	<b>9,481</b>	<b>10,102</b>
<b>Total Liabilities</b>	<b>9,481</b>	<b>10,102</b>
<b>Net Assets</b>	<b>25,569</b>	<b>21,533</b>
<b>Total Authority's Funds</b>	<b>25,569</b>	<b>21,533</b>

Net assets increased by \$4,708,872 or 23% in 2008 compared to the previous year. The Authority's financial position remains strong with the increase in cash at bank, financial assets and trade receivables.

## PART B – CONTROL ISSUES

### 10.4 Payroll

Inland Revenue Services (IRS) requires companies deducting PAYE tax of its employees to file an annual employee certificate summary following the period of the balance date detailing the amount of total wages/salaries declared in the company financials and the total PAYE tax deducted for all the staff employed by the company.<sup>1</sup>

Audit noted the following anomalies in payroll:

- a) A difference of \$11,594 existed between total wages/salaries as per the employee certificate annual summary lodged with Inland Revenue Services and the total wages/salaries declared in the financial statements. Refer to the following Table for details:

Particulars	Amount \$
Balance as per PAYE summary	1,426,080
Balance declared in the Financials	1,437,674
<b>Variance</b>	<b>11,594</b>

The variance noted above could indicate non-compliance with the IRS regulations.

- b) A variance of \$7,549 existed between the FNPF paid and the total FNPF declared in the financial statements. Refer to the following table for details:

Particulars	Amount \$
FNPF paid	536,220
FNPF declared	543,769
<b>Variance</b>	<b>7,549</b>

There is a possibility that the variance noted could be attributed to the non deduction of FNPF contribution on a timely basis. Additionally, the FNPF expenses disclosed in the financial statements could be understated.

- c) There was no segregation of duties in the payroll tasks. The Payroll Clerk was responsible for the following tasks:
- processing wages/salaries,
  - posting journal entries in the WinBiz system;
  - arranging for the salary payouts;
  - performing reconciliations; and

The Payroll Clerk also has access to the system for changing the pay rates for the employees. The above issues have been consistently highlighted by the auditors however, TPAF has yet to take heed of audit recommendations.

<sup>1</sup> Income Tax Act 2006 Section 80

The lack of segregation of duties in high risk arrears such as Payroll reflects poor accounting practices which increase the risk of fraud and error.

### **Recommendations**

- The Authority should properly reconcile the wages and salaries paid with the ‘Annual Employee Certificate Summary’ lodged with IRS.
- The variance in actual FNPF paid and the total declared in the financial should be reconciled
- Payroll functions should be separated to ensure that risk of fraud and mismanagement of fund is reduced or avoided.

### **Management Comments**

*The balance as per PAYE summary is correct and this summary is used to pay tax to FIRCA. The GL account is reconciled and amendments will be reflected in 2009 account.*

*The Senior Accounts Clerk - Payroll is being supervised and checked by the Accountant. With the introduction of Pay Global software, all duties and function will be segregated between HR and Payroll office. HR will have the access to change pay rates and Payroll office will only run the pays.*

## **10.5 Payment of Bonus, Merit and Job Evaluation**

The performance management (PM) process is systematic and cyclical. There are three stages in the PM cycle, which will take place over a 12 month period beginning on January 1<sup>st</sup>.<sup>2</sup>

Our review of the Bonus, Merit and Job Evaluation forms revealed that some staffs that have not completed six months of service were paid these benefits. Refer to the following Table for details:

EDP	Date Joined	2007 Bonus Received \$	2007 Merit Received \$	2007 Job Evaluation \$	Total \$
179	13/07/2007	739.06	308.00	1,058.00	2,105.06
182	02/12/2007	689.50	310.54	933.00	1,933.04
183	13/07/2007	671.15	310.54	872.00	1,853.69
187	13/07/2007	716.07	372.31	1,054.00	2,142.38
193	09/07/2007	831.91	372.31	774.00	1,978.22
194	25/07/2007	569.05	310.54	512.00	1,391.59
195	23/07/2007	399.34	205.62	272.00	876.96
202	07/12/2007	871.09	428.15	82.00	1,381.24
233	16/07/2007	900.61	365.54	2,599.00	3,865.15
247	13/07/2007	2,149.27	982.38	2,647.00	5,778.65
252	13/07/2007	1,717.98	982.38	1,988.00	4,688.36
292	13/07/2007	1,350.13	654.92	1,798.00	3,803.05
331	13/07/2007	1,489.11	-	-	1,489.11
382	13/07/2007	1,415.43	654.92	2,700.00	4,770.35
1070	13/07/2007	443.69	208.15	588.00	1,239.84
<b>TOTAL</b>		<b>14,953.39</b>	<b>6,466.30</b>	<b>17,877.00</b>	<b>39,296.69</b>

<sup>2</sup> TPAF Human Resources Policy Manual – s4 pg .74

When we enquired with the General Manager Corporate, she advised that the assessment period was six (6) months.

The Authority's failure to comply with its procedures may have resulted in an overpayment of \$39,296.69 to employees who do not qualify for such as they do not meet the assessment criteria.

### **Recommendation**

**The Authority should adhere to its procedures and only process bonus and merit payments to those who meet the set criteria.**

### **Management Comments**

*All staff that are entitled to merit and bonus payment are paid accordingly. Staffs that started in July irrespective of the day they start are counted to serve the 6 months period. The HR policy is silent on the consideration of the days in calculating the number of months worked during the year.*

## **10.6 Withholding Tax**

Withholding tax of 15 percent is levied on gross management fees and any Know-How payment paid or credited to a non-resident. A Know-How payment is defined as any payment for scientific, technical, commercial or industrial information, techniques, knowledge or assistance likely to assist in the carrying on of a business.

Audit noted that the Authority did not deduct withholding tax of 15% from the invoice total when payments were made to overseas suppliers. Instead, the Authority charged an additional 15% on the invoice amount as provisional tax and paid this amount to FIRCA. The consequence is that additional expenses are being incurred since the Authority had to pay withholding tax on behalf of their overseas creditors. The same anomaly was also prevalent on some payment made to local entities where withholding tax were not deducted and remitted to FIRCA. Refer to the following Table for examples.

<b>Overseas Payments – Franchise Fees</b>					
<b>Journal Number</b>	<b>Balance as per Invoice</b>	<b>Withholding Tax Included in the invoice total</b>	<b>Amount Paid</b>	<b>Amount Overpaid</b>	<b>Amount Remitted to FIRCA</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
88152	125,337.72	22,118.42	125,337.72	22,118.42	
83775	129,641.29	22,877.87	129,641.29	22,877.87	-
84030	113,708.50	20,066.21	113,708.50	20,066.21	-
83854	214,999.28	37,941.05	214,999.28	37,941.05	-
87535	76,660.32	13,528.29	76,660.32	13,528.29	-
82732	80,817.79	14,261.96	80,817.79	14,261.96	-
84937	119,927.54	21,163.68	119,927.54	21,163.68	-
86371	48,216.01	8,548.75	48,216.01	8,548.75	8,548.75
<b>Total</b>	<b>\$ 909,308.45</b>	<b>\$ 160,506.24</b>	<b>\$ 909,308.45</b>	<b>\$ 160,506.24</b>	<b>\$8,548.75</b>

The Authority failed to take heed of 2007 audit recommendations and is yet to seek clarification from FIRCA on the above issue.

### **Recommendation**

**The Authority should liaise with FIRCA in relation to the withholding tax payments issue and advise their creditors on the implications of the non deduction of withholding tax in order to prevent any misunderstanding in future.**

### **Management Comments**

*All overseas payment goes through FIRCA for tax clearance on a case by case basis. Unless clearances are obtained, Bank does not allow any transaction to go through.*

*Overseas franchise payments are processed on the contracted amount which is fully payable as net sum. Any deduction on the contracted amount would result TPAF breaching the contracted agreement.*

*Departmental General Managers will be advised of the impact of audit findings so that additional expenses are computed in course fee to avoid additional expenditure for course fee.*

## **10.7 Cash at Bank Reconciliation**

The general purpose of carrying out bank reconciliations is to reconcile the bank account balance as per the general ledger with the bank statement balance being adjusted for reconciling items of unrepresented cheques and lodgements not credited<sup>3</sup>.

Our review of the bank reconciliations prepared by the Authority indicated that the closing balances of the Cash Book did not correspond to the opening balances in the subsequent months' reconciliations. Upon discussion with the officer responsible, we were advised that receipts and payments ledgers were not updated or adjusted on a monthly basis.

This implies that the Authority did not follow proper procedures when preparing the reconciliations.

### **Recommendation**

**The Authority should ensure that receipts and payments ledgers are reconciled monthly so that the closing bank balance from the previous months are carried forward as opening balances in subsequent months.**

### **Management Comments**

*All receipts and payments are reconciled on a monthly basis except for the Levy receipts which normally take some time to complete.*

*Previous month Cash at Bank balances are carried forward as opening balances in the subsequent month once all adjustments are done. Upon reconciliation all adjustment entries will be processed on monthly basis.*

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<sup>3</sup> TPAF Finance Policy Manual 2006 - s6.13

## 10.8 Stale Cheques

Bank reconciliations only recognize cheques that are not more than six months old as part of the unrepresented cheque listing. Cheques that appear as outstanding on the bank reconciliation for more than six months should be cancelled and credited to the original account and debiting the bank account.<sup>4</sup>

Audit noted that stale cheques were not cleared on a timely basis. Refer to the following Table for examples:

### Student Stale Cheques

Date	Cheque No.	Amount(\$)
06/02/2008	147870	75.00
04/03/2008	148259	25.00
27/03/2008	148591	20.00
24/04/2008	149111	100.00
03/06/2008	149736	270.00
23/06/2008	149989	115.00
23/06/2008	149991	30.00
<b>Total</b>		<b>635.00</b>

### Staff Stale Cheques

Date	Cheque No.	Amount (\$)
19/03/2008	148484	601.59
19/03/2008	148485	537.94
19/03/2008	148486	633.08
19/03/2008	148487	1,862.84
19/03/2008	148488	411.98
19/03/2008	148489	988.71
19/03/2008	148491	2,368.53
27/03/2008	148595	40.00
29/05/2008	149678	70.00
03/06/2008	149738	60.00
13/06/2008	149886	60.00
23/06/2008	149987	20.00
<b>Total</b>		<b>7,564.67</b>

Scrutiny of the bank reconciliations also revealed that the unrepresented cheque listing contained substantial amounts of stale cheques. Refer to the following Table for details:

Months	Amount (\$)
May	14,251.76
June	22,667.16
October	20,079.94

<sup>4</sup> TPAF Finance and Policy Manual 2006 – s 6.14

Months	Amount (\$)
November	12,637.94
<b>Total</b>	<b>\$69,636.80</b>

Since the respective staffs and students accounts are not credited when their refund cheques become stale, this has led to the understatement of liability accounts.

### **Recommendations**

- **Where possible, the payees should be identified and issued replacement cheques.**
- **The Authority should adhere to the instructions as per the Finance Policy Manual and consistently cancel all cheques which have become stale.**

### **Management Comments**

*All stale cheques are being cancelled and transferred to the stale cheque account (Liability account) on every six months and the end of the end year.*

*Replacement cheques are being issued to Payee who request for replacement.*

*For year 2010 stale cheques are cancelled and transferred to stale cheque account on monthly basis.*

## **10.9 Property, Plant & Equipment**

The financial books and records (including financial information stored electronically) of the Authority are maintained by the MAS and should correctly record and explain the transactions and financial position of the Authority, and allow the operations of the Authority to be conveniently and properly audited in accordance with the requirements of the FNT Act. Accounting records must be also adhering to General Accepted Accounting Principles.<sup>5</sup>

Audit noted the following variances between the detailed Fixed Asset Listing and the Fixed Asset Register Summary:

Descriptions	Balance as per Detailed Fixed Asset Register (\$)	Balance as per Fixed Asset Register Summary (\$)	Variance (\$)
Opening Cost	13,984,842	18,050,930	4,066,088
Opening Accumulated Depreciation	6,808,683	6,705,293	103,390
Opening Written Down Value	7,176,159	11,350,637	4,174,478
2008 Additions	1,223,203	2,478,209	1,255,006
2008 Disposals	63,250	3,109,463	3,046,213
2008 Closing Balance	15,144,794	17,424,676	2,279,882
2008 Depreciation	956,085	896,360	59,725
Closing Accumulated Depreciation	7,764,768	7,601,653	163,115
Closing Written Down Value	7,380,027	9,823,024	2,442,997

<sup>5</sup> TPAF Finance Policy Manual Version 2.0 December 2006 Paragraph 18.3.1

Moreover, the Fixed Asset Register Summary provided for audit did not agree to the balances reflected in the Financial Statements. Refer to the following Table for details:

Descriptions	Balance as per Fixed Asset Register Summary (\$)	Balance as per 2008 Financial Statements (\$)	Variance (\$)
Opening Costs	18,055,930	14,946,466	3,109,464
2008 Additions	2,478,209	2,541,209	63,000
2008 Disposals	3,109,463	63,250	3,046,213
Opening Written Down Value	11,350,637	8,241,174	3,109,463

In addition, a variance of \$13,690 was also noted in the additions recorded under the Equipment Office category between the Fixed Asset Register Summary and the Addition Breakdown. Refer to the following Table for details:

Descriptions	Amount \$
Additions as per Fixed Asset Summary	276,940
Additions as per Addition Breakdown	263,250
Variance	13,690

The variances highlighted above indicate the inconsistencies in the line of reporting for the Property, Plant and Equipment. Consequently, the value of the Property, Plant and Equipment shown in the financial statements may be materially misstated.

### **Recommendations**

- It is recommended that the variances identified above are resolved before the financial statement of the subsequent year is provided for audit.
- A board of survey should be conducted to verify the existence of all fixed assets and accordingly be classified in the Detailed Fixed Assets Register and the General Ledger to ensure that the value of fixed assets under the control of the Authority is correctly disclosed in the financial statements.
- A detailed fixed asset register should be prepared and maintained. Also, the detailed fixed asset register should agree to the fixed asset register summary and the trial balance.

### **Management Comments**

*Variance arises as entry was directly posted to GL rather than the Fixed Asset module in SunSys.*

*We are working with the software supplier in identifying the misallocated Fixed Asset account and reconciling the FA. All adjustment entries will be reflected in 2009 accounts*

## **10.10 Depreciation on Effect of Adopting IFRS**

Classes of Property Plant and Equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses (the cost model), or at a revalued amount less any accumulated depreciation and subsequent accumulated impairment losses (the revaluation model).<sup>6</sup>

<sup>6</sup> International Financial Reporting Standards –IAS 16



As a result of the Authority's first time adoption of International Financial Reporting Standards (IFRS) in which it opted to adopt fair value cost, the 2006 revaluation reserve of \$398,688 was reversed. However, audit noted that the depreciation attached to the revaluation amount of \$398,688 was not reversed.

As a result, Accumulated Funds and Property, Plant & Equipments are understated in the Financial Statements.

### **Recommendation**

**Management should ensure that all necessary adjustments are carried out to ensure that the above accounts correctly reflected in the Financial Statements.**

### **Management Comments**

*No details of the \$398,688 revaluation reserve were obtained thus no depreciation charged.*

## **10.11 Debtors with Credit Balances**

The Debtors aged trial balance is updated at balance date to report on all outstanding debtors.

Audit noted that some debtors' accounts had credit closing balances. Refer to *Appendices 2.1 and 2.2* for details:

Discussions held with the staff concerned revealed that the credit balances were due to the following:

- Payments made by debtors for which corresponding invoices were not raised.
- Amounts owed by the Authority to its students for courses withdrawn.

Adjustments were made during the audit to rightfully reflect the refunds under the liability account and the outstanding invoices were raised to accurately reflect the outstanding debtors balance.

The above anomalies indicate that regular reconciliations were not carried out and hence the credit balances were not cleared from the debtors account.

Scrutiny of the debtor's ledger also revealed that the system is unable to generate an aged trial balance.

The Authority failed to take heed of the 2007 audit recommendations.

### **Recommendations**

- **The Authority should take note of the audit recommendations and carry out regular reconciliations to ensure the accuracy of the balances in the debtors' accounts.**
- **Amounts owed by the Authority should be treated as liabilities and the invoices should be raised when payments are received from the students.**
- **The debtors system should be upgraded to enable it to generate an aged trial balance.**

**Management Comments**

*All debtors account are being reconciled and staff (cashier) are being advised to receipt against an invoice.*

*We are working with our Software Provider to provide us with a debtors report from SunSystem.*

*All adjustment entries will be reflected in 2009 accounts*

*We will also need to improve on monthly reconciliation.*

**10.12 Creditors with Debit Balances**

The Accounts clerk performs purchase order matching and prepares the payment voucher. The Senior Accounts clerk then checks the posting of the invoices and performs journal, thus allocating the postings for payments<sup>7</sup>

Audit noted that some creditor accounts had debit closing balances, which totalled \$117,428 in the creditors listing. Refer to *Appendix 2.3* for the detailed listing.

Adjustments have been passed during the audit to correctly reflect the debit balances under the asset account to avoid misunderstandings.

Even though, the same anomaly was highlighted in the 2007 Audit Memorandum, the Authority failed to address the issue which has resulted in the increase in debit balance by \$80,977.53 as shown in the Table below.

Account	2007 (\$)	2008 (\$)	Increased by (\$)
Creditors with Debit balances	36,450.94	117,428.47	80,977.53

The Authority is yet to determine whether the debit balances were overpayments or they relate to prepayments and the effect is that it understates the creditors if not adjusted on a timely basis.

**Recommendation**

**The Authority should take note of the audit recommendations and carry out Creditor's reconciliations on a monthly basis.**

**Management Comments**

*Issue noted. Creditor's reconciliation had been on-going.*

*All adjustment entries will be reflected in 2009 accounts*

*We will also need to improve on monthly reconciliation.*

<sup>7</sup> TPAF Finance Policy Manual 7.2 ,2006

### 10.13 Accruals

Audit noted that certain expenditures for which purchase orders were raised in December 2008 were not booked as accruals in 2008. Refer to the following Table for examples.

Date	Purchase order #	Issued to	Amount (\$)
06/01/2009	PO-038636	TP	2,231.17
06/01/2009	PO-039470	TP	1,480.10
08/01/2009	PO-039598,039860,039694,039777,039815,039877,039598,039694,039777	BFL	1,870.75
08/01/2009	PO-039501	RT	149.00
08/01/2009	PO-039542	RT	9,359.00
13/03/2009	PO-040242	BC	3,044.72
Total			15,090.02

Expenses and liability accounts are therefore understated due to the Authority's failure to record the accruals at year end.

#### **Recommendation**

**The Authority should account for and record all unpaid purchase orders at year end and draw up an accruals listing.**

#### **Management Comments**

*All current year expenses and liability are accounted for in the year.*

*All committed orders are normally accrued at the end of the year, but in some instances when invoice are received in the following year the expense is not accrued.*

*All adjustment entries will be reflected in 2009 accounts*

### 10.14 Unidentified Deposits

Audit noted that certain revenues associated with student course fees have not been accounted for even though the expenses associated with them have been booked. These revenues are treated as unidentified deposits under the liability account. These deposits have been accruing from 2001 having majority of the deposits relating to student fees which are direct deposits from FNPF.

As compared to 2007 the account has increased by \$22,788.65 in 2008. Refer to the Table below for details:

Account description	2007 (\$)	2008 (\$)	Increased by (\$)
unidentified deposits	341,050.00	363,838.65	22,788.65

The respective revenues are thus not accounted for as these deposits remain untraceable to individual student courses.

### **Recommendation**

**The Authority should liaise with FNPF to resolve the problem of unidentified deposits and reconcile its records to ensure that the Unidentified Deposits are correctly accounted in the financial statements.**

### **Management Comments**

*Most of the unidentified deposits are the direct deposits in the bank account. The ones that do not have any narration are very difficult to allocate in appropriate accounts. Listing of these unidentified deposits are circulated to various departments to assist in verification. These accounts are adjusted when details of payments are provided by students and respective departments.*

*For FNPF deposits, detail is normally submitted but still need to reconcile old records.*

## **10.15 Employer Verification**

The training levy paid in by employers is based on one percent of the total gross payroll of each employer in the levy scope. (FNT Act 10 of 1973(cap 93) and levy order (Legal Notice No 118 of 1973).<sup>8</sup>

The calendar year is divided in two periods for the purposes of levy payment as follows:

- (a) 1<sup>st</sup> half of the year from January to June
- (b) 2<sup>nd</sup> half of the year from July to December

The Levy Collection Officers are required to verify employer records on a regular basis. Under method A, all employer records need to be verified every two years whilst 10% of method B records are to be verified every year.<sup>9</sup>

The total number of employers registered with TPAF under Method A and Method B totalled 120 and 6,132 respectively.

In 2008, only 2% of Method A and 3% of Method B employers registered with the institution were verified. The low number of employers verified was due to lack of resources under the Levy Department.

The Authority failed to take heed of the 2007 audit recommendations.

### **Recommendation**

**As recommended in previous years, the Authority should consider reviewing the resources available to the Levy Department to ensure that it adhere to policies stated in the Finance Policy Manual regarding the verifications of employers registered under Methods A and B.**

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<sup>8</sup> TPAF Finance Policy Manual 8.1,2006

<sup>9</sup> TPAF Finance Policy Manual 8.16,2006

**Management Comments**

*As per recommendation from the 2007 Audit, the Authority had advertised for two positions with the intention of them looking after the Western and Central Division Employers. In 2008, we had only managed to employ one Levy Auditor which she commenced work in mid year.*

*The position for the person responsible for the Central Division has been re-advertised twice in 2009 and we are yet to secure a person for this post.*

*We are committed towards meeting our Financial Requirements and this is very much part of the TPAF Corporate Targets.*

*We are considering reviewing the Financial Policy Manual with regards to the Verification of Employers under Method A and Method B.*

**Appendix 10.1: Credit balances - Students not invoiced**

Student Id	Student Name	2008 \$
2008044671	<ul style="list-style-type: none"><li>Student name withheld.</li></ul>	(3,500)
2008040932		(3,027)
2008046016		(2,272)
2006022327		(2,100)
20059020		(1,750)
20057987		(1,330)
20040250		(530)
2005013918		(530)
20057804		(350)
2006018184		(300)
2008041942		(300)
2008042080		(300)
2008042120		(300)
2008044695		(300)
20043558		(250)
2006016289		(159)
2007030907		(150)
2006017710		(100)
20058983		(54)
2006017711		(50)
2008040759		(8)
2007034770		(300)
20056533		(700)
20040550		(600)
20040814		(570)
20043807		(2,250)
2008044738		(360)
2006018234		(1,590)
2008040540		(107)
Total		(24,137)

**Appendix 10.2: Credit Balances – Students not yet refunded**

Student Id	Student Name	2008 \$
2008042109		(300)
2008046197		(36)
2008039836		(300)
2008041726		(50)
20044800		(80)
2008045861		(1,650)
2007029370		(350)
20057145		(650)
20041841		(700)
20043584		(780)
2008045924		(500)
2007029056		(232)
2008046125		(300)
2008039883		(300)
2007036538		(50)
2008041582		(401)
2007029664		(350)
20058931		(2,229)
2007035311		(3,935)
20040437		(10)
20045397		(385)
20045555		(80)
20045562		(925)
20056864		(200)
20057260		(250)
20058031		(40)
20058897		(5)
20059985		(50)
2005010113		(305)
2005015023		(4)
2005015212		(70)
2006016251		(518)
2006017651		(135)
2006017836		(1,250)
2006017847		(164)
2006018253		(20)
2006018373		(5)
2006018474		(30)
2006018518		(1)
2006019117		(300)
2006019410		(550)

Student Id	Student Name	2008 \$
2006019775		(5)
2006020415		(85)
2006022488		(39)
2006024535		(300)
2006026210		(125)
2006027034		(3)
2007029076		(145)
2007029087		(750)
2007029140		(155)
2007029307		(1)
2007029320		(550)
2007029446		(50)
2007029545		(350)
2007029634		(100)
2007030005		(450)
2007030667		(350)
2007030800		(350)
2007030893		(536)
2007034624		(205)
2007035182		(294)
2007035313		(300)
2007035321		(3,935)
2007036582		(360)
2008039996		(300)
2008040187		(300)
2008040255		(200)
2008040449		(55)
2008040517		(15)
2008040529		(300)
2008040600		(250)
2008040750		(5)
2008040831		(400)
2008041193		(126)
2008041606		(300)
Total		(30,179)



**Appendix 10.3: Creditors with debit balances**

Account Code	Description	Amount \$
Tooffice		13,100
T11115		11,986
Chtechn		10,529
Tontime		6,777
Cnslawy		6,555
T15186f		5,680
T30113b		4,523
Tcfcoll		3,622
T40000i		3,586
T12777		2,909
Cmonf		2,633
T34608j		2,586
T42407b		2,586
T40974		2,555
Tcbtaxi		2,480
T52830g		2,332
Tcbbout		2,326
Cntsa		1,953
Cpsts		1,855
T41883h		1,800
T11089b		1,629
Ceasycat		1,611
Cisscsl		1,360
Tctnetb		1,316
T41996f		1,231
T11616e		1,174
T15025h		1,030
Cmysp		1,020
T12597k		1,015
T15346j		850
T25301		780
T34498b		759
Tlabasa		750
T24645j		750
T23179g		717
T41834j		640
Tcfdebt		513
T14176		500
T50212j		499
Cairp		471
T23030		462

Account Code	Description	Amount \$
Ctueg		459
T25073		378
T31954f		375
Cjrafco		356
T24868a		344
Tc3asys		320
T20899j		308
T34377c		300
Cfabcou		250
Cfchefs		250
T43831f		237
T20383a		220
Tcnhrz		205
Cfilipe		170
Cpsun		166
T14462b		136
Cslodge		133
T21064a		120
Tcehser		120
T12820a		120
Tcjbom		115
Tcslee		111
T40946d		104
T63706h		100
Tcgkids		77
T15455		60
T32627e		53
T52570		51
Cdaltro		44
Tcmstor		33
Csuvacpl		30
Cjmon		29
T14587d		29
Ckinter		28
Cabab		26
Ctafe		25
T41058f		18
T20016f		17
Cwrecyl		14
Tyaqara		13
T43333		10
Ctuegn		8
Cmatrik		8
T44288g		8

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Account Code	Description	Amount \$
T33483i		1
T33483i		1
Total		117,428

## SECTION 11: RA RURAL LOCAL AUTHORITY

The Ra Rural Local Authority is established under section 10 of the Public Health Act.

The Authority is responsible for the provision of sanity services such as garbage collection, the operation of market, community centre and public health projects.

The authority charges garbage fees, market fees, and other charges to meet the costs of these services.

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## PART A – FINANCIAL INFORMATION

### 11.1 Audit Opinion

The audit of the financial statements of the Ra Rural Local Authority for the year ended 31 December 2007 resulted in the issue of a qualified audit report. The qualifications include:

- The Statement of Revenue and Expenditure had been prepared using the cash basis of accounting and did not take into account revenue not received and expenditures not paid at balance date. Similarly, the Statement of Financial Position did not incorporate debtors, prepayments, creditors and accruals and therefore a limited Statement of Financial Position contrary to section 7 (4) of the Public Health (Sanitary Services) Regulations.

### 11.2 Abridged Income Statement

Year Ended 31 December	2007 \$	2006 \$
<b>Revenue</b>		
Market and Garbage Fees	56,358	54,474
Government Grant	15,000	15,000
Other Income	14,621	18,811
<b>Total Revenue</b>	<b>85,979</b>	<b>88,285</b>
<b>Expenditure</b>		
Salaries, Wages and related Payments	55,294	42,146
Garbage Contractor Fee	10,000	9,300

Year Ended 31 December	2007 \$	2006 \$
Administration and General	28,778	29,584
<b>Total Expenditure</b>	<b>94,072</b>	<b>81,030</b>
Net (deficit)/surplus for the year	(8,093)	7,255

The net deficit incurred by the Authority in 2007 was a result of increase in the salaries, wages and related payments by 31 % and a slight reduction in the total revenue by 3%.

### 11.3 Abridged Balance Sheet

As at 31 December	2007 \$	2006 \$
<b>Assets</b>		
Cash at Bank	6,694	14,787
<b>Liabilities</b>		
Vat Payable	394	394
<b>Net Assets</b>	<b>6,300</b>	<b>14,393</b>
<b>Total Accumulated Funds</b>	<b>6,300</b>	<b>14,393</b>

The decline in net assets was due to decrease in cash flows from its operating activities.

## PART B – CONTROL ISSUES

### 11.4 VAT Claimed on Zero-rated Supplies

Subject to the provisions of the VAT Decree, the tax shall be charged in accordance with the provisions of this Decree at the rate of twelve and a half percent on the supply (but not including an exempt supply) in Fiji sale of goods and services on or after the 1st day of July 1992, by a registered person in the course or furtherance of a taxable activity carried on by that person, by reference to the value of that supply.<sup>1</sup>

The supply of transport services relating to the international carriage of passengers and goods from a place in Fiji to a place outside Fiji and the supply by the State of water and sewerage services are zero rated supplies as per the second schedule of the VAT Decree.<sup>2</sup>

The audit noted that the Authority claimed VAT on the cost of supply of water which is exempted from VAT. Refer to the Table below for details:

Date	Payment Voucher no.	Particulars	Invoice amount (\$)	VAT Claimed (\$)
------	------------------------	-------------	------------------------	---------------------

<sup>1</sup> VAT Decree 1991, Section 15 (1)

<sup>2</sup> VAT Decree 1991, Second Schedule, section 2 (10), (23)

Date	Payment Voucher no.	Particulars	Invoice amount (\$)	VAT Claimed (\$)
30/08/07	89228	Payment of water bills	200.00	22.22
20/12/07	118293	Payment of water bills	250.22	27.80
22/11/07	118282	Payment of water bills	400.00	44.44
07/06/07	89189	Payment of water bills	356.02	39.56
09/08/07	89221	Payment of water bills	200.00	22.22
19/07/07	89208	Payment of water bills	500.00	55.56
<b>Total</b>			<b>1,906.24</b>	<b>211.80</b>

The tax refund claimed on exempt items would result in the underpayment of VAT to the Fiji Islands Revenue and Customs Authority (FIRCA).

### **Recommendation**

**The Authority should re-submit VAT Returns to FIRCA to avoid being penalised.**

### **Authority's Comments**

*The Authority is looking into it.*

## **11.5 Non Deduction of Provisional Tax**

The payment of eight hundred dollars monthly is subject to deduction of fifteen percent (15%) provisional tax should the Contractor fail to provide Exemption Certificates from Inland Revenue Department.<sup>3</sup>

The Authority failed to deduct provisional tax from the monthly rental paid to contractor as he failed to provide Certificate of Exemption for the period ending 31/12/07. Refer to the Table below for details:

Month	Particulars	Invoice amount (\$)	Provisional Tax (15%)
January	Garbage Collection-contract	800.00	120.00
February	Garbage Collection-contract	1,120.00	168.00
March	Garbage Collection-contract	800.00	120.00
April	Garbage Collection-contract	1,200.00	180.00
May	Garbage Collection-contract	800.00	120.00
June	Garbage Collection-contract	800.00	120.00
July	Garbage Collection-contract	800.00	120.00
August	Garbage Collection-contract	800.00	120.00
September	Garbage Collection-contract	800.00	120.00
October	Garbage Collection-contract	800.00	120.00
November	Garbage Collection-contract	800.00	120.00
December	Garbage Collection-contract	800.00	120.00
<b>Total</b>		<b>10,320.00</b>	<b>1,548.00</b>

Failure to deduct provisional tax could lead to penalty being imposed by FIRCA.

<sup>3</sup> Agreement – Ra Rural Local Authority & Ram Latchman

**Recommendation**

**The Authority should ensure that provisional tax is deducted if the Garbage Contractor failed to provide an Exemption Certificate.**

**Authority's Comments**

*The Authority is closely monitoring with the Garbage Contractor regarding the Exemption Certificate for 2007, 2008 and 2009.*

## SECTION 12: NATIONAL CENTRE FOR SMALL AND MICRO ENTERPRISES DEVELOPMENT

National Centre for Small and Micro Enterprises Development is domiciled in the Fiji Islands and established under the Small and Micro Enterprises Development Act 2002 enacted by the Parliament of the Fiji Islands.

The Centre has the responsibility to support and promote the establishment of Small and Micro Enterprises especially for the benefit of economically or socially disadvantaged groups including women and young people.

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## PART A – FINANCIAL INFORMATION

### 12.1 Audit Opinion

The audit of the financial statements of the National Centre for Small and Micro Enterprises Development for the year ended 31 December 2007 resulted in the issue of a qualified audit report. The qualifications were as follows:

- Included in the cash and cash equivalent are two bank accounts balance totalling \$1,807,195. No bank reconciliation was prepared to enable me to verify the accuracy and completeness of the cash and cash equivalents balance. Consequently, I am unable to satisfy myself as to the accuracy and the completeness of the cash and cash equivalents balance.
- I was not provided sufficient records to enable me to verify the accuracy and completeness of the balance of deferred revenue of \$1,712,209. The Centre did not provide a proper reconciliation for deferred revenue to enable me to review the amount of funds received, funds utilised and credited to the Income Statement and the remaining balance at year end. Accordingly, I am unable to



satisfy myself as to the accuracy and completeness of deferred revenue in the balance sheet or Government Grant revenue in the Income Statement.

## 12.2 Abridged Income Statement

Year Ended 31 December	2007 \$	2006 \$
<b>Income</b>		
Government grant	743,528	781,577
Workshops and training fees	38,528	90,300
Other income	18,708	110,290
<b>Total Income</b>	<b>800,764</b>	<b>982,167</b>
<b>Expenses</b>		
Depreciation expense	39,635	46,400
Operating expenses	199,263	455,217
Personnel expenses	488,437	509,834
<b>Total Expenses</b>	<b>727,335</b>	<b>1,011,451</b>
<b>Surplus/(Deficit)</b>	<b>73,429</b>	<b>(29,284)</b>

The Centre recorded a net surplus of \$73,429 in 2007 compared to a deficit of \$29,284 in 2006. This was a result in decline in expenditure by 28%.

## 12.3 Abridged Balance Sheet

As at 31 December	2007 \$	2006 \$
<b>Current Assets</b>		
Cash	1,917,100	286,356
Other receivables	19,525	14,655
<b>Total Current Assets</b>	<b>1,936,625</b>	<b>301,011</b>
<b>Non-Current Assets</b>		
Plant and equipment	46,700	66,191
<b>Total Non-Current Assets</b>	<b>46,700</b>	<b>66,191</b>
<b>Total Assets</b>	<b>1,983,325</b>	<b>367,202</b>
<b>Current Liabilities</b>		
Deferred revenue	1,712,209	160,120
Employee entitlements	16,467	11,368
Accruals and other payables	39,293	53,787
<b>Total Current Liabilities</b>	<b>1,767,969</b>	<b>225,275</b>
<b>Total Liabilities</b>	<b>1,767,969</b>	<b>225,275</b>
<b>Net Assets</b>	<b>215,356</b>	<b>141,927</b>
<b>Total Equity</b>	<b>215,356</b>	<b>141,927</b>

Cash increased as a result of grants totalling \$1,712,209 received from government and other donors for various projects that have remained unspent at 31 December 2007.

## **PART B – CONTROL ISSUES**

### **12.4 Variances in payroll expenses**

Audit noted a variance between the payroll expense in the general ledger and the payroll listings for the year ended 31 December 2007. The payroll expense in the general ledger was \$423,916. The payroll costs extracted from the fortnightly payroll listing amounted to \$478,340. Accordingly, there is a variance of \$54,424.

Audit was not provided with a proper reconciliation to explain the factors attributing to this variance.

There is a risk that the payroll expense in the general ledger is understated for the 2007 financial year. This variance could also be attributed in the lack of a proper general ledger system and also the reconciliation process.

#### **Recommendations**

- **The posting of payroll expense to the general ledger should be carried out in a diligent manner.**
- **The staff posting to the general ledger should check that the payroll expense posted to the general ledger agrees to the supporting documents for the payroll calculations. In addition, this process should be reviewed by a senior officer.**
- **Management should ensure that adequate reconciliation procedures are put in place and reconciliation between general ledger and payroll listing is carried out on a regular basis and any variances identified to be investigated and adjusted.**

#### **Management comments**

*No comments provided.*

### **12.5 Computerised accounting system**

The National Centre for Small and Medium Enterprises Development (“the Centre”) currently does not have a computerised accounting information system. The size and nature of the operations of the Centre warrants the purchase of a computerised accounting system as the manual general ledger is considered inefficient and prone to errors.

Currently the general ledger and manual journals are maintained on Microsoft Excel spreadsheets.

A computerised accounting system would also facilitate more effective financial management over cash, deferred revenue, debtors, creditors and plant & equipment.

Having a manual accounting system may hinder the preparation of management reports on a timely basis and limit the management’s ability to manage the business operations effectively.

Moreover, functions performed manually are commonly prone to errors, omissions, manipulation and duplication. This can result in difficulties when reconciling accounts.

### **Recommendation**

**The Centre should consider acquiring an integrated computerised accounting system. A thorough review of the Centre's information and business process needs should be done prior to the selection of a new accounting system. This will enable more timely, accurate and efficient reporting of information.**

### **Management comments**

*No comments provided.*

## **12.6 Financial reports and reconciliations to be properly maintained**

The previous Office Manager had maintained all the accounting records and reports including the trial balance, journal entries and various finance reconciliations. The financial information was maintained on the hard drive of the Office Manager's computer and there was no proper back up or hard copies of these reports and reconciliations.

Audit was informed by management that upon checking the computer hard drive to retrieve the information for audit purposes, the information was not found. Accordingly, significant additional time was spent by the current Office Manager to redo the schedules and reconciliations for audit purpose. This was the major reason for the delays in finalising the audit for the 2007 financial year.

Management was not aware of the reasons as to why the previous Office Manager had not maintained proper back ups of financial reports and reconciliations.

The lack of proper maintenance of financial reports and reconciliations by the Office Manager raises a concern that there may be a high risk of fraudulent and irregular activities occurring and not being detected.

### **Recommendations**

- **The Centre should develop and implement appropriate measures to strengthen the preparation, review and maintenance of financial reports and reconciliations.**
- **Having a computerised accounting package with proper back up procedure could strengthen the finance reporting and reconciliation function.**

### **Management comments**

*No comments provided.*

## **12.7 Finance function to be strengthened**

The finance function during the year ended 31 December 2007 was not adequate and requires strengthening. Audit noted a number of issues which indicate that the finance function was not effective.

There were no bank reconciliations prepared for two bank accounts with significant balances as at 31 December 2007. These include two bank accounts with balances of \$347,765 and \$1,459,430 respectively. Bank reconciliation is a fundamental accounting control. This issue is also significant and has been raised in the auditors' report.

There was no reconciliation prepared for the deferred revenue account disclosed as a liability. The balance of the deferred revenue account was \$1,712,209 as at 31 December 2007. This issue is significant and has been raised in the auditors' report.

The overall general ledger system was not properly maintained during the financial year. Copies of accounting journal entries and general ledger postings were not provided to us during the audit. There is no effective and robust management reporting system in place to provide timely, relevant and accurate financial reports for management.

These issues indicate that the finance function during the 2007 financial year was not adequate and effective. The issues relating to the non-preparation of the bank reconciliations and the deferred revenue reconciliation were significant and have been highlighted in the auditors' report in the financial statements.

Overall, these issues raise a significant risk that certain account balances may be significantly misstated. In addition, errors, anomalies, mis-postings and irregularities may arise but not be detected.

### **Recommendation**

**The finance function at the Centre should be reviewed and strengthened. The processes and procedures over financial reporting, preparation of reconciliation, review of reconciliation and management information system should be strengthened.**

### **Management comments**

*No comments provided.*

## **12.8 Oversight and review process in finance to be strengthened**

The overall oversight and review process in the finance department is not adequate and should be strengthened. The following issues were noted during the audit.

- The postings to the general ledger are not properly reviewed prior to posting. Whilst the Centre does not have a proper general ledger system, it is still important to have a senior officer to review all transactions prior to posting. Audit noted that this process was not effectively performed.
- There was no evidence that the general ledger reconciliations were being prepared on a monthly basis and reviewed by a senior officer. Reconciliation is a fundamental internal control to minimise the risk of errors and mis-postings.
- There was an apparent lack of proper segregation of duties over the cash receipting, cash handling and banking process. Discussions with Centre staff revealed that the cashier received the cash,

receipted the cash, prepared the banking summary and deposit slip and also carried out the banking.

The lack of an effective oversight and review process could result in errors, mis-postings and irregular activities occurring but remaining undetected.

### **Recommendation**

**The Centre should strengthen its oversight and review process over the finance function and the various processes. The financial procedures should be reviewed to ensure that there is proper segregation of duties.**

### **Management comments**

*No comments provided.*

## **12.9 Depreciation expense incorrectly calculated**

Audit note that the depreciation on new assets acquired during the 2007 financial year was not correctly calculated. Consequently, the depreciation expense for the year ended 31 December 2007 was understated by \$5,511.

This indicates that the plant and equipment depreciation schedule was not properly prepared. Also there was no indication of review by a senior officer. The plant and equipment account and depreciation expense were misstated.

### **Recommendation**

**Depreciation charged on newly acquired assets should be accurately calculated and the plant & equipment register should also be checked by a senior officer who should evidence his or her review.**

### **Management comments**

*No comments provided.*

## **12.10 Payment and acquittal processes to be strengthened**

Audit noted instances whereby the procedures over the payment and acquittal processed were not properly followed. These are noted below:

Paid to	Cheque number	Cheque date	Cheque amount (\$)	Comments
Cash – FLEET training activity	2987	23/02/2007	3,565.86	The invoices for the Fleet training activity amounted to \$902.24 but the budget for the trip was \$3,194.26. There was no acquittal form submitted for the trip. There were discrepancies on the budget for the trip -

Paid to	Cheque number	Cheque date	Cheque amount (\$)	Comments
				the budget for stationery expenses was \$474.26 but actual payment was \$250.74. There was no evidence of the reimbursement of the balance. Budget for fuel for private vehicle to be used was \$390, as per supporting documents attached only \$73.50 was used to buy a spare tyre for the vehicle. Thus no proper acquittal form was prepared for this activity.
FTL	3111	18/05/07	1,244.00	No evidence of check on the payment voucher and invoice by the Finance Controller.

The lack of compliance to policies over payment and acquittals could raise a risk of fraudulent activities occurring.

### **Recommendation**

**The policies over payment and acquittals of advances should be properly followed at all times. The Centre should also ensure that acquittal forms are submitted for all advances provided.**

### **Management comments**

*No comments provided.*

## **12.11 Reconciliation for deferred revenue**

Audit noted that the reconciliation for deferred revenue was not prepared for the year ended 31 December 2007. The balance in deferred revenue was \$1,712,209 at year end.

The Centre receives grant from Government and other donors for its daily operations and to fund the activities and training that are administered by the Centre. During the financial year, the Centre received about \$2.6 million.

There is no proper breakdown of the funds received, funds utilised and the fund balance at year end by donor or project.

This issue has been highlighted in the auditors' report for the year ended 31 December 2007.

This indicates that the reconciliation function is not effective and should be improved. There is a risk of errors, mis-postings and irregularities occurring.

### **Recommendation**

**Management should ensure that proper reconciliation is regularly maintained for deferred revenue. The reconciliation should capture the movement in deferred revenue in a given period.**

**Management comments**

*No comments provided.*

**12.12 Verification of receivable from CEO**

Audit noted that an overpayment of salary to the CEO from 2002 to April 2007 of \$6,459. There was a memo on 23 May 2007 advising the CEO to repay the amount overpaid. The CEO subsequently wrote to the Ministry for Commerce for clarification on the matter.

The supporting documents for the overpayment were not available for audit review thus the audit was not able to ascertain the completeness and accuracy of the receivable from CEO.

There is a risk that the Centre is incurring unnecessary expenses.

**Recommendation**

**Management should ensure that proper approval processes are in place in respect of salary as audit trail for all financial transactions.**

**Management comments**

*No comments provided.*

**12.13 Preparation of monthly bank reconciliations**

There was no monthly bank reconciliations prepared for two bank accounts with significant balances as at 31 December 2007. These include two bank accounts with balances of \$347,765 and \$1,459,430 respectively.

Audit was informed that the previous Centre Manager was responsible for finalising the bank reconciliations. Management was not aware if the bank reconciliations were prepared as all financial reconciliations prepared by the previous Centre Manager could not be found. This issue is significant and has been raised in the auditors' report.

Without monthly reconciliations being performed, there is increased risk of errors and irregularities occurring in the general ledger, which may lead to the financial statements being materially misstated.

**Recommendations**

- **Management should ensure that proper reconciliations are performed for all bank accounts on a monthly basis. Unidentified reconciling items should be promptly investigated and resolved on a timely basis.**
- **A senior officer should be responsible for reviewing and signing off on the reconciliations.**

**Management comments**

*No comments provided.*

## SECTION 13: FIJI INDEPENDENT COMMISSION AGAINST CORRUPTION (FICAC)

The Fiji Independent Commission Against Corruption (FICAC) was established on the 4<sup>th</sup> of April 2007 to investigate acts of corruption by Public Officers, employees of government and government – related organisations. The Fiji Independent Commission Against Corruption is governed by the FICAC Promulgation 2007 and to maintain its independence, it reports directly to His Excellency the President.

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## PART A – FINANCIAL INFORMATION

### 13.1 Audit Opinion

The audit of the financial statements of the Fiji Independent Commission Against Corruption for the year ended 31 December 2008 resulted in the issue of an unqualified audit report.

The audit report issued for 2008 is the first for FICAC.

### 13.2 Abridged Statement of Financial Performance

Year Ended 31 December	2008 \$
Government Grants	2,547,284
<b>Total Revenue</b>	<b>2,547,284</b>
<b>Operating expenses</b>	
Salaries and Wages	1,219,422
Legal Fees – Local and Overseas	470,315
Fixed Assets	190,186
Traveling Local and Expatriate	118,745
Other operating expense	399,448
<b>Total Expenditure</b>	<b>2,398,116</b>
<b>Net Surplus for the year</b>	<b>149,168</b>

FICAC's operation is fully funded by the government with salaries and wages making up the major component of the expenditures.



### 13.3 Abridged Statement of Financial Position

As at 31 December	2008 \$
<b>Current Assets</b>	
Cash at bank	112,590
Receivables	82,310
<b>Total Current Assets</b>	<b>194,900</b>
<b>Current Liabilities</b>	
Creditors and other accruals	45,732
<b>Total Liabilities</b>	<b>45,732</b>
<b>Net Assets</b>	<b>149,168</b>
<b>Net Accumulated Fund</b>	<b>149,168</b>

In 2008, FICAC had sufficient capacity to meet its short-term obligation.

## PART B – CONTROL ISSUES

### 13.4 Value Added Tax

Output VAT is payable to the Commissioner of Inland Revenue for the supply of all goods and services with the exception of zero rated and exempted supplies. Payments effected by government departments for goods and services are thus subjected to VAT.<sup>1</sup>

Government processes the grant payment to FICAC exclusive of VAT and similarly, the Commission does not book VAT output when they receive the grant. However, the Commission records in the General Ledger VAT input on expenditures. The consequence is that the Commission has been recording a VAT refund in their books since they lodged their first VAT Return for the month of April 2008.

Audit noted that all VAT payable to the Commission in 2008 were reversed by the VAT Office in the first quarter of 2009 and in the process they have requested that FICAC disclose to FIRCA revenue the Commission received through government grant in 2008.

In September 2009, audit sought clarifications with the National Manager Revenue Collections at the VAT Office on whether FICAC should be registered for VAT after considering the following factors:

- FICAC does not have a taxable activity; and
- there is no other source of revenue for them apart from the government grant which in itself is VAT exclusive from government, the donor.

<sup>1</sup> Finance Circular No 9/95

The National Manager Revenue Collections (VAT Office) then requested that FICAC provide them with the following information before they can make a decision:

- Agreement between FICAC and Ministry of Finance for 2008 and 2009
- Budget for 2008 and 2009

These documents have subsequently been forwarded by FICAC to the VAT Unit. Pending FIRCA's decision on the matter, audit is of the view that a Provision for VAT liability be made.

### **Recommendations**

- **It is recommended that FICAC follow up with FIRCA to ascertain whether the Commission should be paying VAT on the grants it receive from Government.**
- **The Commission should provide for VAT Liability pending FIRCA's decision on above matter.**

### **Management Comments**

*The on going saga between FICAC and FIRCA is yet to be resolved. Correspondence between Ministry of Finance, FIRCA and FICAC took place and according to FIRCA, FICAC is in VAT arrears amounting to \$887,301.94 for the years 2008/2009. In fact FICAC funds were given via Grant and nothing in the contract between FICAC and the Government of Fiji states whether it was VAT inclusive or exclusive. On this understanding provision for VAT was not in FICAC budget.*

*On 18 February 2010 FICAC wrote to the Ministry of Finance seeking their assistance in paying for the 2008/2009 VAT for FICAC as this was not budgeted for and thus FICAC does not have surplus funds to settle VAT issue. FICAC is still waiting for the Ministry of Finance reply before taking any further actions. This issue will be dealt in due course.*

## **13.5 Overpayment of Salaries**

The Commissioner shall maintain proper accounts of such expenditure by the Commission as the President may require.<sup>2</sup>

Scrutiny of payroll records revealed that there were a number of overpayments made upon termination and resignation of staffs. Refer to the Table below for details:

Officer's Initial	Amount (\$)	Comments
SS	4,000.38	Additional 3 weeks pay (23/9/08 - 13/10/08) after termination and one day overpayment on Pay 19/08.
AC	2,154.10	Additional 3 weeks pay (23/9/08 - 13/10/08) after termination and one day overpayment on Pay 19/08.
SL	57.40	Officer paid for extra 3.4 hours which she did not earn.
TV	57.58	Officer overpaid by one day on termination.
DK	96.38	Overpayment of one day
SS (2)	92.30	Commission failed to recover payments for 21/10/08.

<sup>2</sup> FICAC Promulgation No. 11 of 2007 s.15 (1)

The overpayment made to SS is quite substantial as it included pay for the weeks she did not attend work.

The incorrect payments of salaries imply that supervisory checks were not adequately performed.

### **Recommendations**

- **The Commission should take appropriate actions to recover the overpaid salaries from the above officers.**
- **It is recommended that supervisory checks in the Accounts Section be improved to avoid any overpayments.**

### **Management Comments**

*(Refer to Appendix C)*

Name: Ms. SS  
Current Status: Terminated on 19/09/2008

*As per the audit report, the above named person was overpaid the amount of \$4000.38 as a gross salary via payment voucher, Cheque number 631 net amounting to \$2876.83 dated 23/09/2008 period from 23/09/2008 to 13/10/2008.*

*To justify, these transactions were incurred as an additional 3 weeks pay together with 4.5 days of Annual Leave. The officer was also paid as normal salary in Pay # 19 – 2008 periods from 10/09/2008 via payroll.*

*Ms. SS held a crucial position (Senior Legal Officer) in FICAC and given her immediate termination, it was at FICAC's interest that Sofia be paid her leave balance as opposed to granting her leave whereby she would still have access to FICAC premises and the security of our legal documents would be at risk.*

Name: Mr. AC  
Current Status: Terminated on 19/09/2008

*The CNB Cheque # dated 23/09/2008 amounting to \$2,599.47 was raised to pay the above named Officer. The same procedure (ref: Sofia's case) was followed to calculate the exiting payments for the Officer but due to some incongruities found in clearance form, the payment was withheld and later the actual Cheque was cancelled. The copy of cancelled Cheque and payment voucher is attached for substantiation. This was explained to the auditor thus included in this report. No overpayment has been made to AC.*

Name: Mrs. SL  
Current Status: Resigned on 13/05/2008

*As per calculation FICAC admits an overpayment of \$26.51. The amount stated in the report amounting to \$57.40 is incorrect. A copy of payroll and resignation letter has been attached for your perusal. A recovery process will be implemented.*

Name: Mr TV  
Current Status: Terminated on 10/11/2008

*The payment due and paid to the above named officer as per payroll spreadsheet identifies the amount of \$288.46. According to the termination letter and dates as stated above, there has been an overpayment of \$57.68 (288.46 – 230.77). This has been verified and recovery measures will be taken.*

Name: Ms. DK  
Current Status: Resigned on 23/07/2008

*There has been an overpayment of salaries to the above officer amounting to \$96.38. This overpayment amount has been taken into consideration and further recovery actions will be taken by FICAC.*

*Name: Mr SS  
Current Status: Resigned on 17/10/2008*

*According to the payroll records the above named officer has been paid for 10 days salary amounting to \$923.08 period from 08/10/08 to 21/10/08. The officers last date at work was on 17/10/08, where 8 days pay should have been paid. Further recovery action will be taken by FICAC.*

### 13.6 Qualification Certificates

Appointments for employments with FICAC are based on qualifications for the specific appointments. Investigators from the Police Force will be considered for side transfer to FICAC because of their special investigative skills. The minimum pre-requisite for any staff recruitment to FICAC is three years work related experience on his/her speciality.<sup>3</sup> Staff will be recruited based on the qualifications suited for the purpose of achieving the objectives of FICAC.<sup>4</sup>

Although most positions at FICAC do not have documented minimum educational qualification requirements, audit could not substantiate the qualifications of some officers currently holding senior positions. Their educational qualifications certificates were not maintained in their personal files. Refer to the Table below for examples:

Officer	Position	Assumed Qualification	Annual Salary \$
AM	Manager Finance	BA in Management and Public Administration	42,000
VE	Manager Administration	BA Law	42,000

Good employment practices would require that certificates or confirmations of an applicant's qualification and work experiences are obtained before an officer is recruited for employment.

### **Recommendations**

- **The certificates or confirmations to substantiate the qualifications of the above officers should be provided for audit purposes.**
- **To ensure transparency in the recruitment of officers, it is recommended that the Commission document the minimum qualification requirements for each position.**

### **Management Comments**

*The recommendations provided above are noted. However, the assumed qualification provided in the Auditor's report is incorrect. Firstly, a copy of the Manager Finance certificates (including the Bachelor of Arts Degree) has always been in his Personal File. The above details are clearly provided in the individual Officer's personal file which the auditor has on numerous occasions reviewed the files over 3-4 times but failed to identify this.*

*The Manager Administration does not hold a BA Law but was pursuing a Bachelor of Law Degree. Her study was on hold given the workload and pressure placed on her to start up an organization from scratch.*

<sup>3</sup> FICAC SOP s 2.3

<sup>4</sup> FICAC SOP s 6.2

*In respect of the Audit comments 'Good employment practices would require that certificates or confirmations of an applicant's qualification and work experiences are obtained before an officer is recruited for employment' it seems a misunderstanding has occurred whereby the Auditor General's Office does not comprehend the struggle FICAC encountered during its initial setup.*

*Although the above system is already in place and the Audit recommendation is noted, we wish to comment on the fact that given the nature of our work, we were more focused on competency, work experience and loyalty of individual officer. When FICAC was first established, recruitment of officers was difficult as people did not wish to risk joining such organization. Therefore, only certain positions such as Financial Investigators, Lawyers etc required qualification, experience.*

*We wish to further comment on the second recommendation by the Auditors on 'To ensure transparency in the recruitment of officers, it is recommended that the Commission document in the minimum qualification requirements for each position'. Transparency not only lies in the minimum qualification required for a position but it is also based on the selection criteria and caliber of people employed. This would ensure officers are employed on merit and no officer employed should be related to another within the same department.*

## SECTION 14: KOROVOU RURAL LOCAL AUTHORITY

The Korovou Rural Local Authority is established under section 10 of the Public Health Act.

The Authority is responsible for the provision of sanitary services such as garbage collection, the operation of market, community centre and public health projects.

The authority charges garbage fees, market fees, and other charges to meet the costs of these services.

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## PART A – FINANCIAL INFORMATION

### 14.1 Audit Opinion

The audit of the financial statements of the Korovou Rural Local Authority for the year ended 31 December 2007 resulted in the issue of a qualified audit report. The qualifications include:

- The Statement of Revenue and Expenditure of the Authority as at 31 December 2007 has been prepared using the cash basis of accounting and does not take into account revenue not received and expenditures not paid at balance date; and
- The Statement of Financial Position does not incorporate debtors, prepayments, creditors and accruals and is therefore a limited Statement of Financial Position contrary to Section 7 (4) of the Public Health (Sanitary Services) Regulations.

### 14.2 Abridged Income Statement

Year Ended 31 December	2007 \$	2006 \$
Revenue		
Market Fees	13,653	11,712
CBH Grant	15,000	15,000
Garbage Services	2,825	4,190
Base Fees	1,848	720
Other Income	3,705	309

Year Ended 31 December	2007 \$	2006 \$
Total Revenue	37,031	31,931
Recurrent Expenditure		
Sanitary Services	22,718	14,228
Market Services	14,304	7,439
Administration and General	2,063	2,125
Total Expenditure	39,085	23,792
Result for the year from Ordinary Activities	(2,054)	8,139

The Authority recorded a deficit of \$2,054 in 2007 compared to a surplus of \$8,139 in 2006 as the result of the construction and maintenance of public toilets in 2007 which is disclosed under market and sanitary expenses.

### 14.3 Abridged Balance Sheet

As at 31 December	2007 \$	2006 \$
Current Assets		
Cash at Bank	8,060	10,114
Total Assets	8,060	10,114
Accumulated Funds		
Opening Balance	10,114	1,975
Net Surplus/(Deficit)	(2,054)	8,139
Total Accumulated Funds	8,060	10,114

The decrease in total assets was due to decrease in cash flows from its operating activities.

## PART B – CONTROL ISSUES

### 14.4 Submission of Accounts

Section 7(4) of the Public Health Act states that the Authority shall deliver to the Auditor General a statement of account showing all monies received and expended together with a Balance Sheet.

Audit noted that the accounts sent by the Authority contained discrepancies such as omissions, calculation errors, opening balances did not match with the 2006 audited figures, and the amounts in the financial statement were not matching to the source documents.

In addition, the Authority failed to prepare the bank reconciliations for 2007.

As such, lot of audit time were used in verification, validation and confirmation of the amounts in the financial statement.

Delays in audit could result in management not able use the financial statements for effective and efficient decision making.

### **Recommendations**

- **The Authority must ensure that all records are well maintained and figures correctly recorded in the financial statements.**
- **The Authority should ensure that monthly bank reconciliations are prepared**

### **Authority's Comment**

*The Local Authority would ensure the recommendations and findings done by your office on the Financial Statements for 2007 would be adhered to.*

## **14.5 Basis of Accounting and Disclosure of Assets and Liabilities**

Property, Plant and Equipment are tangible assets that are held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period.<sup>1</sup>

In addition, an item of property, plant and equipment should be recognized as an asset when it is probable that the future economic benefits associated with the asset will flow to the enterprise and the cost of the asset to the enterprise can be measured reliably.<sup>2</sup>

The Authority adopted the cash basis of accounting for financial reporting. The Authority failed to recognize the properties, equipments, debtors, creditors and prepayments into the Statement of Financial Position.

Furthermore, the Statement of Revenue and Expenditure failed to account revenue not yet received, prepayments and expenditure not paid at balance date.

Thus the financial statement for the year ended 31 December 2007, does not truly reflect the true financial position of the Authority.

### **Recommendations**

- **The Authority should adhere to the Public Health Act and the Fiji Accounting Standard requirements while preparing the financial statement**
- **The Authority should adapt the accrual basis of accounting in order to fairly reflect the financial operations during the financial period.**

### **Authority's Comment**

*The Local Authority would ensure the recommendations and findings done by your office on the Financial Statements for 2007 would be adhered to.*

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<sup>1</sup> Fiji Accounting Standards 16 (6)

<sup>2</sup> Fiji Accounting Standards 16 (7)



