



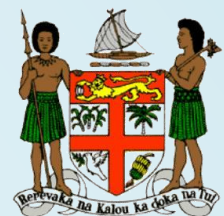
EXCELLENCE IN PUBLIC SECTOR AUDITING

---

# **REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI**

## **Audit Report on Municipal Councils – December 2014**

---





EXCELLENCE IN PUBLIC SECTOR AUDITING

---

# **REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI**

## **Audit Report on Municipal Councils - December 2014**

---





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

**REPUBLIC OF FIJI**  
**OFFICE OF THE AUDITOR GENERAL**

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



**Excellence in Public Sector Auditing**

File: 102

31 December 2014

The Hon. Dr. Jiko Luveni  
Speaker of the Parliament of the Republic of Fiji  
Parliament  
Fiji

Dear Dr. Luveni

---

**AUDIT REPORT ON MUNICIPAL COUNCILS FOR THE YEAR ENDED 31 DECEMBER 2014**

---

In accordance with section 152 (13) of the Constitution, I am pleased to transmit to you my report on the audit of municipal councils for the year ended 31 December 2014.

A copy of the report has been submitted to the Minister of Finance who as required under section 152 (14) of the Constitution will lay the report before Parliament within 30 days of receipt, or if Parliament is not sitting, on the first day after the end of that period.

Tevita Bolanavanua  
**AUDITOR -GENERAL**



## FOREWARD

This report discusses the results of audits of 8 municipal councils that were completed during 2014.

Municipal councils covered in this report include Ba (2013), Lautoka (2012), Nadi (2012), Nausori (2011), Sigatoka (2013), Tavua (2012 & 2013), Savusavu (2009) and Suva (2010).

Out of the 8 municipal councils audited, 3 were issued qualified audit opinions while 5 were issued disclaimer of opinions. The 2012 and 2013 financial statements submitted for audit by Tavua Town Council were both issued disclaimer of opinions. A disclaimer of opinion is issued due to a Council not being able to provide appropriate supporting documents to verify the amounts and disclosure stated in its financial statement or is due to its failure to prepare its financial statement in accordance with the International Financial Reporting Standards as required for general purpose financial statements.

A qualified audit opinion indicates that while the financial statement of a Council is fairly stated, its financial data indicated a failure to follow applicable accounting standards or there are significant uncertainties concerning certain financial data. The status of audit of all municipal councils is tabulated below:

	Municipal Council	Audit Completed	Audit Opinion	Remarks
1	Ba Town Council	2013	Disclaimer of Opinion	Audit of accounts is up to date.
2	Labasa Town Council	2012	Unqualified	2013 audit is in progress.
3	Lami Town Council	2012	Qualified	2013 audit is in progress.
4	Lautoka City Council	2012	Qualified	2013 audit is in progress.
5	Levuka Town Council	2010	Qualified	2011 account not submitted for audit.
6	Nadi Town Council	2012	Qualified	2013 account not submitted for audit.
7	Nasinu Town Council	2007	Qualified	2008 account not submitted for audit.
8	Nausori Town Council	2011	Disclaimer of Opinion	2012 accounts to be audited in 2015.
9	Savusavu Town Council	2009	Qualified	2010 account will be audited in 2015.
10	Sigatoka Town Council	2013	Disclaimer of opinion	Audit of accounts is up to date.
11	Suva City Council	2010	Disclaimer of opinion	2011 accounts to be audited in 2015.
12	Tavua Town Council	2013	Disclaimer of opinion	Audit is up to date.
13	Vaileka Town Council			No account submitted for audit to date.

Only 3 municipal councils have had their financial statements audited up to 2012 whilst others have been audited up to various years from 2007 to 2012. Vaileka Town Council since inception has not submitted any of its accounts for audit.

There is a need for all municipal councils to place more emphasis in the early preparations and audits of their accounts to ensure that important decisions made on behalf of the ratepayers are based upon up to date financial data and accounting information.

## Municipal Councils

---

1. Tavua Town Council
2. Savusavu Town Council
3. Sigatoka Town Council
4. Nadi Town Council
5. Ba Town Council
6. Nausori Town Council
7. Lautoka City Council
8. Suva City Council

## SECTION 1: TAVUA TOWN COUNCIL

### Programme Statement

The Council was established after being declared a town in 1992. Currently it has a total of 253 ratepayers and 217 rateable properties in the town headed by an Administrator and a Chief Executive Officer. The Council is responsible for the provision and maintenance of a wide range of services for the benefit of the ratepayers within the defined town boundaries. Such services are financed through rates, fees and service charges. All capital projects are financed via external loans, which are repaid by the Council using a special loan rate levied onto the ratepayers.

### Table of Contents

<b>SECTION 1: TAVUA TOWN COUNCIL .....</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION .....</b>	<b>1</b>
1.1 Audit Opinion 2012 .....	1
1.2 Abridged Statement of Financial Performance- General Fund.....	2
1.3 Abridged Statement of Financial Position- General Fund .....	2
1.4 Abridged Statement of Financial Performance- Parking Meter .....	3
1.5 Abridged Statement of Financial Position- Parking Meter .....	3
1.6 Abridged Program Information .....	3
1.7 Audit Opinion 2013 .....	4
1.8 Abridged Statement of Financial Performance- General Fund.....	4
1.9 Abridged Statement of Financial Position- General Fund .....	4
1.10 Abridged Statement of Financial Performance- Parking Meter .....	5
1.11 Abridged Statement of Financial Position- Parking Meter .....	5
1.12 Abridged Program Information .....	6
<b>PART B – CONTROL ISSUES 2012 .....</b>	<b>6</b>
1.13 Non – Adoption of International Financial Reporting Standards for Small Medium Entities (IFRS for SMEs).....	6
1.14 Inadequate Insurance Cover .....	6
1.15 Sexennials valuation.....	7
<b>PART C – CONTROL ISSUES 2013 .....</b>	<b>8</b>
1.16 Non – Adoption of International Financial Reporting Standards for Small Medium Entities (IFRS for SMEs).....	8
1.17 Sexennials valuation.....	8

## PART A – FINANCIAL INFORMATION

### 1.1 Audit Opinion 2012

The audit of the financial statements of the Tavua Town Council for the year ended 31 December 2012 resulted in the issue of a disclaimer of opinion. The disclaimer of opinion was given for the following:

- The Council has not transferred the roads, drains and verges to the Fiji Roads Authority (FRA) in accordance with the FRA Amendment Decree 2012. This has resulted in the overstatement of Council's property, plant and equipment in the financial statements.
- The Council did not comply with International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs) in preparing its financial statements for year ended 31 December 2012. Consequently, the financial statements did not include any adjustments which may have been necessary if financial statements were prepared under IFRS for SMEs.

## 1.2 Abridged Statement of Financial Performance- General Fund

As at 31 December	2012 (\$)	2011 (\$)
<b>Income</b>		
Rates	37,301	53,229
Fees, rents and charges	186,157	171,699
Other revenue	30,908	29,056
<b>Total Income</b>	<b>254,366</b>	<b>253,984</b>
<b>Expenditure</b>		
Administration	107,937	98,928
Building health & safety	92,798	99,095
Market	16,346	12,987
Park & beautification	27,816	25,453
Depreciation	428,482	427,439
Others	52,792	24,986
<b>Total Expenditure</b>	<b>726,171</b>	<b>688,888</b>
<b>Result for the year from operating activities</b>	<b>(442,669)</b>	<b>(434,904)</b>

The deficit in the General Fund Account increased by 1.8% in 2012 compared to 2011. This was due to the increase in administration costs and a decline in rates income and other revenue.

## 1.3 Abridged Statement of Financial Position- General Fund

As at 31 December	2012 (\$)	2011 (\$)
<b>Assets</b>		
Cash at bank and on hand	39,768	71,116
Receivables	13,866	21,831
Prepayments and refundable deposits	5,603	4,706
Deferred Interest	2,804	4,949
Non-current assets	3,169,513	3,597,735
<b>Total Assets</b>	<b>3,231,554</b>	<b>3,700,337</b>
<b>Liabilities</b>		
Accounts payable and accruals	22,542	17,529
VAT payable	12,592	7,440
Finance lease	14,307	21,450
<b>Total Liabilities</b>	<b>49,441</b>	<b>46,419</b>
<b>Net Assets</b>	<b>3,182,113</b>	<b>3,653,918</b>
<b>Accumulated Fund</b>		
General fund	(1,150,941)	(689,284)
Street light Service	67,909	78,057
Asset revaluation reserve	4,334,500	4,334,500
Prior year adjustment	(69,355)	(69,355)
<b>Net Accumulated Funds</b>	<b>3,182,113</b>	<b>3,653,918</b>

Net assets declined by \$471,805 or 13% in 2012 compared to 2011. This was due to the decline in property, plant and equipment by \$428,222 or 12% which was depreciated by \$428,482.



### 1.4 Abridged Statement of Financial Performance- Parking Meter

As at 31 December	2012 (\$)	2011 (\$)
<b>Income</b>		
Tolls	4,713	6,827
Infringement fines	3,933	5,943
Others	3,928	2,921
<b>Total Income</b>	<b>12,574</b>	<b>15,691</b>
<b>Expenditure</b>		
Salaries and wages	5,828	6,331
Repairs & maintenance	-	64
Others	6,066	9,690
<b>Total Expenditure</b>	<b>11,894</b>	<b>16,085</b>
<b>Result for the year from operating activities</b>	<b>680</b>	<b>(394)</b>

The surplus balance realised was due to the reduction in total expenditure by 26% in 2013.

### 1.5 Abridged Statement of Financial Position- Parking Meter

As at 31 December	2012 (\$)	2011 (\$)
<b>Assets</b>		
Cash at bank	107	3,252
Receivables	1,179	146
Non-current assets	3,009	5,806
<b>Total assets</b>	<b>4,295</b>	<b>9,204</b>
<b>Liabilities</b>		
Accounts payable & accruals	8	150
VAT payable	2,152	1,610
Term Loan	6,984	9,996
Non-current liabilities	1,284	4,261
<b>Total liabilities</b>	<b>10,428</b>	<b>16,017</b>
<b>Net Assets</b>	<b>(6,133)</b>	<b>(6,813)</b>
<b>Municipal Funds</b>		
Accumulated losses	(8,350)	(9,030)
Asset revaluation reserves	2,217	2,217
<b>Net Accumulated Funds</b>	<b>(6,133)</b>	<b>(6,813)</b>

There is a slight improvement in the net assets deficit balance in 2013. This was the result in the reduction of total liabilities by 35%.

### 1.6 Abridged Program Information

Year ended 31 December	2012			2011
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	253,378	697,033	(461,657)	(434,904)
Light Service Account	18,988	29,136	(10,148)	(5,006)
Parking Meter Account	12,574	11,894	680	(394)
<b>Total</b>	<b>284,940</b>	<b>738,063</b>	<b>(453,125)</b>	<b>(440,304)</b>



## 1.7 Audit Opinion 2013

The audit of the financial statements of the Council for the year ended 31 December 2013 resulted in the issue of a disclaimer of opinion. The disclaimer of opinion was given as the Council is a Municipal Council and its financial statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs<sup>2</sup>). The council is yet to comply with IFRS for SMEs as required for general purpose financial statements.

## 1.8 Abridged Statement of Financial Performance- General Fund

As at 31 December	2013 (\$)	2012 (\$)
<b>Income</b>		
Rates	48,591	56,289
Fees, rents and charges	195,451	186,157
Other revenue	51,671	11,920
<b>Total Income</b>	<b>295,713</b>	<b>254,366</b>
<b>Expenditure</b>		
Administration	93,838	107,937
Building health & safety	89,652	92,798
Market	21,237	16,346
Park & beautification	35,270	27,816
Depreciation	43,436	428,482
Others	28,206	52,792
<b>Total Expenditure</b>	<b>311,639</b>	<b>726,171</b>
<b>Result for the year from operating activities</b>	<b>(15,926)</b>	<b>(471,805)</b>

The deficit in the General Fund Account decreased by \$455,879 or 97 % in 2013 compared to 2012. The improvement in the deficit position was mainly attributed to the decrease in depreciation costs as a result of transfer of roads, footpaths and drains to the Fiji Roads Authority.

## 1.9 Abridged Statement of Financial Position- General Fund

As at 31 December	2013 (\$)	2012 (\$)
<b>Assets</b>		
Cash at bank and on hand	93,181	39,768
Receivables	14,618	13,866
Prepayments and refundable deposits	11,072	5,603
Deferred Interest	0	2,804
Non-current assets	1,233,740	3,169,513
<b>Total Assets</b>	<b>1,352,611</b>	<b>3,231,554</b>
<b>Liabilities</b>		
Accounts payable and accruals	13,699	22,542
VAT payable	13,006	12,592
Deferred income	60,315	0
Finance lease	0	14,307
<b>Total Liabilities</b>	<b>87,020</b>	<b>49,441</b>
<b>Net Assets</b>	<b>1,265,591</b>	<b>3,182,113</b>
<b>Accumulated Fund</b>		
Accumulated losses	(1,168,313)	(1,152,387)
Asset revaluation reserve	2,433,904	4,334,500

As at 31 December	2013 (\$)	2012 (\$)
<b>Net Accumulated Funds</b>	<b>1,265,591</b>	<b>3,182,113</b>

Net assets declined by \$1,916,522 or 60% in 2013 compared to 2012. This was due to a significant decline in property, plant and equipment by \$1,935,773 or 61% as a result of the transfer of roads to Fiji Roads Authority.

### 1.10 Abridged Statement of Financial Performance- Parking Meter

As at 31 December	2013 (\$)	2012 (\$)
<b>Income</b>		
Tolls	4,406	4,713
Infringement fines	6,566	3,933
Others	2,489	3,928
<b>Total Income</b>	<b>13,461</b>	<b>12,574</b>
<b>Expenditure</b>		
Salaries and wages	6,015	5,828
Others	5,462	6,066
<b>Total Expenditure</b>	<b>11,477</b>	<b>11,894</b>
<b>Result for the year from operating activities</b>	<b>1,984</b>	<b>680</b>

The surplus in the Parking Meter Fund Account increased by \$1,282 or 188 % in 2013 compared to 2012 due to the increase in revenue from infringement fines by \$2,633 or 66%.

### 1.11 Abridged Statement of Financial Position- Parking Meter

As at 31 December	2013 (\$)	2012 (\$)
<b>Assets</b>		
Cash at bank	1,910	107
Receivables	1,179	1,179
Non-current assets	212	3,009
<b>Total assets</b>	<b>3,301</b>	<b>4,295</b>
<b>Liabilities</b>		
Accounts payable & accruals	5,759	8
VAT payable	1,713	2,152
Term Loan	0	8,268
<b>Total liabilities</b>	<b>7,472</b>	<b>10,428</b>
<b>Net Deficiency in Assets</b>	<b>(4,171)</b>	<b>(6,133)</b>
<b>Accumulated Funds</b>		
Accumulated losses	(6,388)	(8,350)
Asset revaluation reserves	2,217	2,217
<b>Net Accumulated Funds</b>	<b>(4,171)</b>	<b>(6,133)</b>

The Statement of Financial Position – Parking Meter net asset amount improved by \$1,962 or 32% 2013 compared to 2012 due to the decline in total liabilities by 28%.

## 1.12 Abridged Program Information

Year ended 31 December	2013			2012
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	278,598	293,221	(14,623)	(461,657)
Light Service Account	17,115	18,418	(1,303)	(10,148)
Parking Meter Account	13,461	11,477	1,984	680
<b>Total</b>	<b>309,174</b>	<b>323,116</b>	<b>(13,942)</b>	<b>471,125</b>

## PART B – CONTROL ISSUES 2012

### 1.13 Non – Adoption of International Financial Reporting Standards for Small Medium Entities (IFRS for SMEs)

Every Council shall keep proper accounts and records which shall be kept in accordance with the accounting standards approved by the Fiji Institute of Accountants.<sup>1</sup>

Smaller accounting entities will, following FIA's adoption of the IFRS for SME Standard from 1st January 2011, need to comply with that Standard. The old Fiji Accounting Standards (FASs) have been withdrawn.<sup>2</sup>

The audit noted that the Council failed to prepare its annual financial statements under IFRS for SME. Thus, the annual financial statements prepared are contrary to the instruction stipulated in section 47 of the Local Government Act.

#### **Recommendation**

**The Council should work towards the adoption of IFRS for SMEs in preparing the financial statements.**

#### **Council's Comments**

*Your comments have been noted. Council has already started to work towards the adoption of IFRS for SMES in preparation of the statement.*

### 1.14 Inadequate Insurance Cover

The Council's activities require the following areas for consideration: property insurance against earthquake, fire and hurricane damages, motor vehicle accident and liability to others involved in accident, workmen's compensation, insurance against theft and burglary, liability to others through acts of council's members and employees<sup>3</sup> On the other hand, if the value for insurance was below the proper value the company will argue that it is only responsible for a part of the loss, a proportion that insured value bears to the full value.<sup>4</sup>

Council's properties are insured with New India Assurance for the period 20<sup>th</sup> March 2012 to 20<sup>th</sup> March 2013. Our verification of the insurance records revealed that the Council's properties are not

<sup>1</sup> Local Government Act, Cap 125 – Section 47(2)

<sup>2</sup> Fiji Institute of Accountants Annual Report for 2011 – page 14

<sup>3</sup> Manual of Accounts for Municipal Councils in Fiji Appendix 6.5

<sup>4</sup> Manual of Accounts for Municipal Council in Fiji Paragraph 15.3

adequately covered for insurance relating to material damage and motor vehicle. Refer to Table 1.1 for details:

**Table 1.1: Details of inadequate insurance cover**

Particulars	Amount insured (\$)	Written down value (\$)	Variance (\$)
Market - Building	150,000.00	454,637.50	(304,637.50)
Plant & Machinery	10,000.00	10,224.41	(224.41)
Furniture & Equipment	20,000.00	6,416.06	13,582.94
Garvey Park	5,000.00	252,280.00	(247,280.00)
Motor Vehicle	-	15,304.80	(15,304.80)
Building (Others)	-	219,792.74	(219,792.74)

We also noted that furniture and equipment are excessively covered as the written down value of it is well below the sum insured.

Excessive insurance cover indicates that the Council is not reviewing its insurance premiums on a progressive basis and therefore is paying higher insurance premium unnecessarily.

There is also a risk that if properties of the Council are damaged by unexpected events such as accident or natural disasters during the period, the Council will not be able to recover the full amount.

### **Recommendations**

#### **The Council should:**

- ensure that the sum insured for property, plant and equipment are at its replacement cost.
- ensure that all properties registered under the Council are adequately insured.
- review insured amount for furniture and equipment and consider revising the sum insured in line with the replacement cost of the furniture and equipment.

### **Council's Comments**

*Your comment is noted. Council will see that adequate insurance cover is in place for its properties.*

## **1.15 Sexennials valuation**

For the purpose of ascertaining and determining the unimproved value of rateable land, every Council shall cause a valuation hereinafter called a general valuation, of all such land to be made at least once in every six years.<sup>5</sup>

Audit noted that the last valuation on rateable land and building was done in 2002. As at the date of audit<sup>6</sup>, the Council is yet to carry out a valuation of rateable land and building.

The above anomaly indicates that the rateable land and buildings does not reflect its true value. Consequently, the Council may be charging lower land rates thus Council's revenues are not maximized.

<sup>5</sup> Local Government Act – Section 64 (1)

<sup>6</sup> 08.11.13

**Recommendation**

**The Council should ensure that Section 64 of the Local Government Act is complied with.**

**Council's Comments**

*Your comments are noted. Sexennial valuation will be done as soon as possible.*

**PART C – CONTROL ISSUES 2013****1.16 Non – Adoption of International Financial Reporting Standards for Small Medium Entities (IFRS for SMEs)**

Every Council shall keep proper accounts and records which shall be kept in accordance with the accounting standards approved by the Fiji Institute of Accountants.<sup>7</sup>

Smaller accounting entities will, following FIA's adoption of the IFRS for SME Standard from 1st January 2011, need to comply with that Standard. The old Fiji Accounting Standards (FASs) have been withdrawn.<sup>8</sup>

The audit noted that the Council failed to prepare its annual financial statements under IFRS for SME. Thus, the annual financial statements prepared are contrary to the instruction stipulated in section 47 of the Local Government Act.

**Recommendation**

**The Council should work towards the adoption of IFRS for SMEs in preparing the financial statements.**

**Council's Comments**

*Council will see that it works towards adapting the new standards approved by F.I.A. as soon as possible.*

**1.17 Sexennials valuation**

For the purpose of ascertaining and determining the unimproved value of rateable land, every Council shall cause a valuation hereinafter called a general valuation, of all such land to be made at least once in every six years.<sup>9</sup>

The noted that the last valuation on rateable land and building was done in 2002. As at the date of audit<sup>10</sup>, the Council is yet to carry out a valuation of rateable land and building.

The above anomaly indicates that the rateable land and buildings does not reflect its true value. Consequently, the Council may be charging lower land rates thus Council's revenues are not maximized.

---

<sup>7</sup> Local Government Act, Cap 125 – Section 47(2)

<sup>8</sup> Fiji Institute of Accountants Annual Report for 2011 – page 14

<sup>9</sup> Local Government Act – Section 64 (1)

<sup>10</sup> 18.07.14

**Recommendation**

**The Council should ensure that Section 64 of the Local Government Act is complied with.**

**Council's Comments**

*Your comments are noted. Council will be carrying out the valuation next year*

## SECTION 2: SAVUSAVU TOWN COUNCIL

### Programme Statement

The Council was established after being declared a town in 1972. Currently, it has a total of 273 ratepayers and 495 rateable properties. The Council is responsible for the provision and maintenance of a wide range of services for the benefit of the ratepayers within the defined town boundaries. Such services are financed through rates, fees and service charges. All capital projects are financed via external loans, which are repaid by the Council using a special loan rate. Apart from these services required from the Local Government Act, the Council also provides other services such as collection of rubbish, cleaning of streets and Council drains and maintenance of streetlights.

### Table of Contents

<b>SECTION 2: SAVUSAVU TOWN COUNCIL .....</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION .....</b>	<b>1</b>
2.1 Audit Opinion 2009 .....	1
2.2 Abridged Statement of Financial Performance – General Fund .....	2
2.3 Abridged Statement of Financial Position- General Fund .....	3
2.4 Abridged Program Information .....	3
<b>PART B – CONTROL ISSUES.....</b>	<b>3</b>
2.5 Failure to produce documents for audit .....	3
2.6 Declining working capital .....	4
2.7 No approval to use funds from land dealings account.....	5
2.8 Variance in rate debtors listing and reconciliation .....	5
2.9 Un-alienated native land rates not adjusted .....	7
2.10 Variance in revenue as per financial statements and VAT lodgements .....	7
2.11 No interest charged on outstanding rates.....	8
2.12 Failure to exercise due diligence in selecting contractors .....	8

## PART A – FINANCIAL INFORMATION

### 2.1 Audit Opinion 2009

The audit of the financial statements of the Savusavu Town Council for the year ended 31 December 2009 resulted in the issue of a qualified audit report. The issues qualified are as follows:

- Included in the current liabilities are un-identified land sales deposits amounting to \$427,456. The Council failed to provide records, listing or reconciliations to substantiate these deposits. The audit was also not able to verify these deposits with any other alternative procedures. It was also not able to verify the existence and accuracy of these deposits. Accordingly, the Auditor General was not able to satisfy himself if current liabilities are fairly stated in the financial statements.
- Included in the rate debtor's amount (Note 3) is Native Land Trust Board (NLTB) rates of \$64,341. A letter dated 30 June 2005 from the Ministry of Local Government, Housing, Squatter Settlement and Environment to all the Town Clerks required that all rates outstanding in relation to NLTB be waived. The directive was given following the amendments made to Local Government Act and specifically with reference to section 60(1) (a) "Rateable land" which exempts NLTB land not leased or licensed from paying general rates. The Council has not made any adjustment to its rate debtors account to comply with the directive of the Ministry.



Additionally the Council failed to provide documentary evidence to substantiate accounts receivable from tenants of \$32,006 and sundry debtors of \$16,327. Accordingly, the Auditor General was not able to satisfy himself if the total receivable of \$293,064 is fairly stated in the financial statements.

- The Council has not provided any provision for doubtful debts for its rates debtors totaling \$293,064. If a charge of doubtful debts was recorded, it would result in a decrease of net surplus in the Statement of Income and Expenditure of General Fund. Accordingly, the Auditor General was not able to satisfy himself if the receivables and net surplus amounting to \$293,064 and \$59,216 respectively are fairly stated in the financial statements.

## 2.2 Abridged Statement of Financial Performance – General Fund

Year Ended 31 December	2009 (\$)	2008 (\$)
<b>Revenue</b>		
Rates	274,239	264,627
Building fees	2,498	4,745
Business trading and other licenses	39,083	34,257
Garbage dump charges	11,365	9,514
Interest	19,915	16,861
Market fees and charges	89,128	88,236
Marker kiosk rent	16,049	15,384
Taxi bus and carrier stand fees	25,533	23,232
Others	81,745	43,064
<b>Total Revenue</b>	<b>559,555</b>	<b>499,920</b>
<b>Expenditure</b>		
Salaries wages and allowances	191,686	198,979
Garbage services	8,690	18,734
Finance charges	5,223	6,601
Depreciation	38,827	37,842
Office equipment maintenance	3,379	11,597
Office and market-maintenance	4,865	7,608
Roads and drains-maintenance	6,354	2,826
Street light charges and maintenance	11,889	13,907
Utilities	28,171	37,616
Others	144,960	236,470
<b>Total Expenditure</b>	<b>444,044</b>	<b>572,180</b>
<b>Result For The Year From Ordinary Activities</b>	<b>115,511</b>	<b>(72,260)</b>

The Council recorded a surplus of \$115,511 in 2009 compared to a deficit of \$72,260 in 2008. This was due to the increase in revenue by 12% and effective control exercised over expenditure which resulted in a decline in expenditure by 22%.

## 2.3 Abridged Statement of Financial Position- General Fund

As at 31 December	2009 (\$)	2008 (\$)
<b>Assets</b>		
Cash	52,352	28,365
Receivables	293,064	337,404
Non-current assets	665,016	613,354
<b>Total Assets</b>	<b>1,010,432</b>	<b>979,123</b>
<b>Liabilities</b>		
Creditors and other accruals	736,446	751,629
Deferred income	122,520	88,733
Loans	91,616	115,121
<b>Total Liabilities</b>	<b>950,582</b>	<b>955,483</b>
<b>Net Assets</b>	<b>59,850</b>	<b>23,640</b>
<b>Municipal Funds</b>		
Accumulated Funds	(175,791)	(212,001)
Reserves	235,641	235,641
<b>Net Accumulated Funds</b>	<b>59,850</b>	<b>23,640</b>

The net assets recorded by the Council in 2009 increased by \$36,210 or 153% compared to 2008. This was mainly due to the increase in property, plant and equipment by \$51,662 or 8% in 2009.

## 2.4 Abridged Program Information

Year Ended 31 December	2009			2008
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	486,148	426,932	59,216	(124,144)
Loan Rate Fund	73,407	5,223	68,184	65,791
Street Light Account	-	11,889	(11,889)	(13,907)
<b>Total</b>	<b>559,555</b>	<b>444,044</b>	<b>115,511</b>	<b>(72,260)</b>

## PART B – CONTROL ISSUES

### 2.5 Failure to produce documents for audit

For the purpose of any audit, an auditor may by notice in writing require any person holding or accountable for any books, records, accounts, vouchers, deeds, contracts or other documents which he may require for the purpose of such audit or examination to appear before him at the time and place specified in the notice and to produce any such document as aforesaid for his inspection.<sup>1</sup>

The Council failed to produce some important documents and records for audit. Refer to Table 2.1 for details:

<sup>1</sup> Local Government Act Cap.25 Rev. 1985 - Section 52(1)

**Table 2.1: Missing documents and records**

Account	Amount (\$)	Documents and records not provided
Nakama Tenants	31,943	Register and reconciliation
Navaqiqi Tenants	15,769	Register and reconciliation
Sundry Debtors	15,487	Register and reconciliation
Land sales deposits	447,357	Register and reconciliation
Other loan	9,500	Register and reconciliation
Rent Arrears	1,438	Register and reconciliation

Also the Council did not prepare any employee leave listing to record and recognise leave.

The non-existence of records to support the amount questions the accuracy of the items as reported in the financial statements.

### **Recommendation**

**The Council should ensure that all figures in the financial statement are supported with the relevant documents.**

### **Council's Comments**

*With the recommendation of the audit, Council is now maintaining records in proper registers and reconciling accordingly. Note. Land Sale deposits the Council had submitted the submission to the Ministry Of Local Government for the waving since there were no records to substantiate the figure.*

## **2.6 Declining working capital**

It is imperative for any organisation to have a positive working capital for meeting short term financial commitments.

As at 31 December 2009, the Council's current liabilities exceeded its current assets by \$420,058 and increase by \$5,170 from \$414,888 as at 31 December 2008. Refer to Table 2.2 below for the working capital deficiency.

**Table 2.2: Trend of working capital deficiency for the past five years**

Financial Year	Current Assets	Current Liabilities	Working Capital	Change
31/12/05	450,940	864,347	(413,407)	-
31/12/06	384,840	685,196	(300,356)	(113,051)
31/12/07	366,302	659,816	(293,514)	6,842
31/12/08	365,769	780,657	(414,888)	(121,374)
31/12/09	345,416	765,474	(420,058)	(5,170)

Continuous poor working capital will expose the Council to risk of going concern. Additionally, the Council may face difficulties in settling its debts as and when they fall due.

### **Recommendation**

**The Council should consider ways to improve its working capital.**

**Council's Comments**

*To ensure improvement in working capital Council carried out its asset valuation in year 2011 with a registered valuer.*

**2.7 No approval to use funds from land dealings account**

The Council may, with the approval of the Minister, from time to time transfer to the general account any cash surplus remaining to the credit of any separate account which the Council is obliged or authorised by law to keep shown the money's accruing from any public works or trading undertakings executed, maintained or carried on by the Council or may transfer the whole or any part of such surplus to a separate account for the maintenance or renewal of such works.<sup>2</sup>

Review of movement in land dealing account revealed that \$10,000 was withdrawn through cheque number 223 and paid to Public Works Department for construction of Shiu Chand Road. The audit was however not provided with the approval from the Ministry of Local Government allowing the Council to use this fund for the road upgrade.

The anomaly implies that the Council has breached the Local Government Act undermining the authority of the line Ministry.

Unauthorised use of the cash from land dealings account increases the risk of abuse of funds of a special purpose account.

**Recommendation**

**The Council should ensure that the approval to use the funds is obtained from the Ministry of Local Government.**

**Council's Comments**

*Approval from Ministry is only required in circumstances whereby there is a transfer accounts from to another, however if it could be noted that the transaction of \$10,000.00 was not a transfer but a payment to contractor for projects undertaken as resolved by Council*

**Further OAG Comments**

**Audit is concerned that funds from the Council's main account was not used to upgrade the Shiu Chand road. Instead \$10,000 from the land dealings account which was specifically for land development was used for which the Council did not obtain approval from the Ministry.**

**2.8 Variance in rate debtors listing and reconciliation**

If accrual basis of accounting is used, the amounts due, paid and unpaid at the end of the period will be reflected by the ledger accounts for the general rate and special rates and these figures should be agreed with the reconciliation statement. Under both, accrual and cash basis of accounting, the total amount of outstanding rates should be agreed with the detailed list of arrears of rates at the end of the period.<sup>3</sup>

<sup>2</sup> Local Government Act Cap 125, section 49

<sup>3</sup> Manual of accounts for Municipal Councils in Fiji – Forms Rate Reconciliation Statement

Our review of the Aged Debtors listing and reconciliation of debtors revealed a variance of \$4,493. Refer to Table 2.3 for details.

**Table 2.3: Variance between rate debtors' reconciliation and listing**

As per reconciliation	Aged Debtors listing	Variance
226,083	221,590	4,493

A re-performance procedure carried out by audit on a sample ratepayers revealed that the amount in the debtors reconciliation differs from the amount recorded in the reconciliation prepared in excel. Refer to Table 2.4 for details.

**Table 2.4: Summary of sample ratepayers variance**

Name	Ass #	As per reconciliation	As per aged debtors listing	Variance
Abid Hussein	261	4,830.46	1,824.29	3,006.17
Bertie Brown	269	5,414.44	5,220.06	194.38
NLTB	185/1	31,896.01	31,805.08	90.93
NLTB	195	11,643.62	8,945.59	2,698.03
Honson Holding	189	8,247.84	6,787.69	1,460.15
Honson Holding	191	7,202.15	5,827.63	1,374.52
Honson Holding	192	5,641.75	3,726.97	1,914.78
Latu's Engineering	260	7,034.65	6,288.24	746.41
Asha Prasad	233/19	4,806.84	169.29	4,637.55
Savusavu Bay Investment	98/11	6,282.80	5,327.41	955.39
<b>Total</b>		<b>93,000.56</b>	<b>75,922.25</b>	<b>17,078.31</b>

The above variances imply that there is poor record keeping in the rates section. Thus the balance of receivables in the financial statement may be misstated.

### **Recommendation**

**The Council should ensure that all reconciliations are accurate and that amounts or balances recorded agree with the other records and the financial statement.**

### **Council's Comments**

*The existing software used for maintaining rates records is not viable hence not showing interests accumulated timely in the respective financial periods therefore the Council has now employed a qualified IT Officer to ensure accuracy in software.*

## 2.9 Un-alienated native land rates not adjusted

Native Land Trust Board (NLTB) rates on Un-alienated land should be waived<sup>4</sup>

A letter dated 30 June 2005 from the Ministry of Local Government, Housing, Squatter Settlement and Environment was sent to all the Town Clerks advising them that all rates outstanding in relation to unalienated land administered by NLTB be waived.

The review of the rate receivable listing revealed that the Council has not made any provisions in its rate debtors to account for this adjustment. The total rates levied in this instance was \$64,631 which is very significant compared to the total rates receivable of \$222,233.

The receivable of \$293,064 may not be fairly stated in the statement of financial position.

### **Recommendation**

**The Council should make necessary adjustments in relation to the waiver of NLTB rates.**

### **Council Comments**

*The Council failed to make the adjustments since Council had requested NLTB to pay in every Ministry of Local Government consultative forum, however upon the final decision of the Lands Minister, Council carried out the waiver.*

## 2.10 Variance in revenue as per financial statements and VAT lodgements

Where, but for this subsection, a supply of goods and services would be charged with tax under subsection (1) of this section, any such supply shall be charged at the rate of zero per cent where that supply is a zero-rated supply.<sup>5</sup>

Our review of Value Added Tax of the Council revealed a variance of \$37,008 in VAT revenue between the financial statements and the VAT lodgements. Refer to Table 2.5 for details:

**Table 2.5: Details of VAT variance**

Particulars	Amount (\$)
VEP revenue in the financial statements	508,932
VEP revenue as per VAT lodgements	471,924
Variance	37,008

The variance either indicates that the Council has not disclosed all revenue subject to VAT in the VAT lodgement or the Council has overstated the revenue in the financial statements.

The VAT declared on the income may be misstated as at balance date.

<sup>4</sup> Letter from Ministry of Local Government dated 30 June 2005

<sup>5</sup> VAT Decree 1991-Revised 28 Feb 09 Section 15 (2)

**Recommendation**

**The Council should investigate the variance above and ensure that all VAT related transactions are identified and accounted properly.**

**Council's Comments**

*Councils financial reporting is such that the current financial periods (monthly VAT Returns) is done in the following month and therefore the revenue for December is lodged in January in the following year.*

**2.11 No interest charged on outstanding rates**

Any rates which are overdue shall bear interest at the rate of 11% per cent per annum and such interest charges shall be included in the expression "rates"; the Minister may by order vary the rate of interest.<sup>6</sup>

Audit noted that no interest was charged on outstanding rates on the following ratepayers. 11% interest is supposed to be charged on the balance at the end of the year. Refer to Table 2.6 for details:

**Table 2.6: Interest not charged**

Assessment Number	Balance 31.12.09	Interest at 11%
189	7,430.49	817.35
191	6,488.42	713.73
192	5,082.66	559.09
260	6,337.52	697.13
233	4,330.49	476.35
<b>Total</b>	<b>29,699.58</b>	<b>3,236.65</b>

The Council has not complied with the Manual of Accounts. Additionally, not charging of interest deprives the Council of receiving additional cash flow.

**Recommendation**

**The Council should ensure that interest is charged to all outstanding rates**

**Council's Comments**

*Majority of the ratepayers makes arrangements to make payments in instalments and therefore the Council does not charge interest. However interest is charged on the non-payments of long overdue accounts.*

**2.12 Failure to exercise due diligence in selecting contractors**

Officer must act in due diligence and care during the course of employment in any public office.

The audit noted that the Council failed to properly assess bidder's information in awarding the streetlight contract during the financial year.

<sup>6</sup> Local Government Act Cap 125 - Section 78 (2) Amended by Marie Chan to 14 February 2007



In 2009 the contract for streetlight repairs was awarded to Xpro Electrical Works. Upon signing the contract the Council noted that Xpro Electrical Works employees were neither authorised nor competent to access the FEA pole and did not possess a workman's compensation policy.

In addition the audit noted that following issues after review of the tender and contractors files:

- the second bidder to the contract was only rejected since it was geographically not located in Savusavu;
- the Contractor failed to clean streetlights as stated in the Contract;
- the Contractor failed to attend to requests on time;
- and the Contractor did not comply with OHS requirements.

Failure to properly assess bidders for contractual work could result in inefficient delivery of services to the Council. Additionally, the Council may incur additional costs and time to align loop holes in the contractual agreement.

### **Recommendation**

**Any future contract of the Councils services should be properly performed and all relevant procedures to be taken to prevent losses or inefficiency in providing services to rate payers.**

### **Council's Comments**

*Council has now its own set of SOP (Standard Operating Procedures) which all officers shall abide by and follow as a guide.*

## SECTION 3: SIGATOKA TOWN COUNCIL

### Programme Statement

The Sigatoka Town Council was established in 1972 under the Local Government Act which provides for the constitution of the town council and the manner in which it may function, levy and collect rates, exercise powers and expand funds.

The services provided by the Council include the issuance of business licenses, cleaning, maintenance and upgrading of infrastructure, sanitation services, lighting, drainage and maintenance of parks and gardens.

Revenue generated by rates, issuance of business license and rents received from Council's properties are used to finance the above services as well as the administrative expenses of the Council.

### Table of Content

<b>SECTION 3: SIGATOKA TOWN COUNCIL .....</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION .....</b>	<b>1</b>
3.1 Audit Opinion .....	1
3.2 Abridged Statement of Financial Performance- General Fund .....	2
3.3 Abridged Statement of Financial Position- General Fund .....	2
3.4 Abridged Statement of Financial Performance- Parking Meter Fund .....	3
3.5 Abridged Statement of Financial Position - Parking Meter .....	3
3.6 Abridged Program Information .....	4
<b>PART B – CONTROL ISSUES .....</b>	<b>4</b>
3.7 Non-Adoption of International Financial Reporting Standards for Small Medium Enterprises .....	4
3.8 Lack of Separation of Duties .....	4
3.9 Journal vouchers not supported .....	5
3.10 General Ledger .....	6
3.11 Tender Documents Not Available .....	8
3.12 Sundry Deposit .....	9
3.13 Car parking fees and Rental Income Fees .....	9
<b>APPENDICES .....</b>	<b>11</b>
Appendix 3.1: Variance between General Ledger and Financial Statements .....	11

## PART A – FINANCIAL INFORMATION

### 3.1 Audit Opinion

The audit of the financial statements of the Sigatoka Town Council for the year ended 31 December 2013 resulted in the issue of a disclaimer of opinion. The bases for the disclaimer of opinion are as follow:

- The Council was unable to provide any supporting documentation to substantiate the existence of sundry deposits amounting to \$57,817 as stated in the Statement of Financial Position. Accordingly, the Auditor General was not able to satisfy himself if the sundry deposits balance is fairly stated in the Statement of Financial Position.
- Sigatoka Town Council is a Municipal Council and the Financial Statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs). The Council is yet to comply with IFRS for SMEs as required for general purpose financial statements.

Accordingly, the audit was unable to determine the impact on the financial statements of the Council if any, adjustment which may be necessary if the financial statements were prepared under IFRS for SMEs.

### 3.2 Abridged Statement of Financial Performance- General Fund

Year Ended 31 December	2013 (\$)	2012 (\$)
<b>Revenue</b>		
Rates	341,114	295,164
Interest	16,536	7,533
Bus Stand Charges	11,375	11,323
Business License	113,029	113,543
Market Fees	246,224	232,142
Garbage Fees	125,277	153,662
Taxi Stand Fees	55,951	62,990
Others	285,111	231,725
<b>Total Revenue</b>	<b>1,194,617</b>	<b>1,108,082</b>
<b>Expenditure</b>		
Salaries, Wages & Related Payments	440,806	399,957
Finance Costs	137,752	138,800
Garbage Services	39,619	39,043
Roads, Drains, Paths and Verges	178,616	125,138
Street Lights	58,766	2,043
Market Expenses	24,915	39,763
Depreciation	69,306	61,867
Upgrading- Administration Building	3,823	1,792
Footpath, Road Marking/Patching	1,815	18,564
General Maintenance	5,801	19,704
Others	739,075	439,831
<b>Total Expenditure</b>	<b>1,700,294</b>	<b>1,286,502</b>
<b>Result For The Year From Ordinary Activities</b>	<b>(505,677)</b>	<b>(178,420)</b>

The Council recorded a deficit of \$505,677 in 2013; an increase of \$327,257 or 183% compared to the amount reported in 2012. This was mainly attributed to the increase in other expenditure by \$299,244 or 68%.

### 3.3 Abridged Statement of Financial Position- General Fund

As at 31 December	2013 (\$)	2012 (\$)
<b>Assets</b>		
Cash at Bank and on Hand	152,810	663,050
Term Deposits	60,000	-
Debtors	98,900	98,960
Others	61,527	15,132
Non-Current Assets	1,287,243	1,337,945
<b>Total Assets</b>	<b>1,660,480</b>	<b>2,115,087</b>
<b>Liabilities</b>		

As at 31 December	2013 (\$)	2012 (\$)
Creditors & Accruals	226,273	162,179
Income Received in Advance and Deferred Income	135,260	114,778
Sundry Deposits	57,817	57,817
Loan and Lease Liability	1,355,944	1,389,450
<b>Total Liabilities</b>	<b>1,775,294</b>	<b>1,724,224</b>
<b>Net Assets</b>	<b>(114,814)</b>	<b>390,863</b>
<b>Accumulated (Losses)/Funds</b>	<b>(114,814)</b>	<b>390,863</b>

The Council recorded negative net assets of \$114,814 in 2013 compared to a positive net asset of \$390,863 in 2012. The occurrence of a negative net asset is attributed to the huge reduction in cash at bank by \$510,240 or 77% due to a payment of \$409,970 made to the Fiji Roads Authority.

### 3.4 Abridged Statement of Financial Performance- Parking Meter Fund

Year Ended 31 December	2013 (\$)	2012 (\$)
<b>Revenue</b>		
Tolls	42,749	47,432
Fines	6,138	9,774
Other	3,433	3,529
<b>Total Revenue</b>	<b>52,320</b>	<b>60,735</b>
<b>Expenditure</b>		
Salaries, Wages and Related Payments	46,481	30,881
Others	30,318	21,233
<b>Total Expenditure</b>	<b>76,799</b>	<b>52,114</b>
<b>Result For The Year From Ordinary Activities</b>	<b>(24,479)</b>	<b>8,621</b>

The Council recorded a deficit of \$24,479 in 2013 compared to a surplus of \$8,621 in 2012. The occurrence of the deficit was due to a decline in toll and fines revenue collected by \$4,683 or 10% and \$3,636 or 37% respectively.

### 3.5 Abridged Statement of Financial Position - Parking Meter

As at 31 December	2013 (\$)	2012 (\$)
<b>Assets</b>		
Cash at Bank	17,553	39,523
Non-Current Assets	12,957	15,306
<b>Total Assets</b>	<b>30,510</b>	<b>54,829</b>
<b>Liabilities</b>		
Creditors and Accruals	1,108	948
<b>Total Liabilities</b>	<b>1,108</b>	<b>948</b>
<b>Net Assets</b>	<b>29,402</b>	<b>53,881</b>
<b>Net Accumulated Funds</b>	<b>29,402</b>	<b>53,881</b>

Net assets declined by \$24,479 or 45% in 2013 in comparison to the amount reported in 2012. The reduction in the amount is mainly attributed to the decrease in cash at bank by \$21,970 or 55%.

### 3.6 Abridged Program Information

Year Ended 31 December	2013			2012
	Revenue	Expenses	Net Cost of Services	Net Cost of Services
	(\$)	(\$)	(\$)	(\$)
General and Special Rate Fund	1,194,617	1,700,294	(505,677)	(178,420)
Parking Meter Fund	52,320	76,799	(24,479)	8,621
<b>Total</b>	<b>1,246,937</b>	<b>1,777,093</b>	<b>(530,156)</b>	<b>(169,799)</b>

## PART B – CONTROL ISSUES

### 3.7 Non-Adoption of International Financial Reporting Standards for Small Medium Enterprises

Every Council shall keep proper accounts and records which shall be kept in accordance with the accounting standards approved by the Fiji Institute of Accountants.<sup>1</sup>

Smaller Accounting entities will, following FIA's adoption of the IFRS for SME Standard from 1st January 2011, need to comply with that Standard. The old Fiji Accounting Standards (FASs) have been withdrawn.<sup>2</sup>

The audit noted that the Council failed to prepare its annual financial statements under IFRS for SMEs. Thus, the annual financial statements prepared are contrary to the instruction stipulated in section 47 of the Local Government Act.

#### Recommendation

**The Council should work towards the adoption of IFRS for SMEs in preparing the financial statements.**

#### Council's Comments

*Council will ensure to work towards the adoption of IFRS for SMEs in preparing the financial statements.*

### 3.8 Lack of Separation of Duties

Separation of duties is an important form of internal control. Its objective is to ensure that duties are assigned to individuals in a manner such that no one individual can control a process from start to finish. It provides a complementary check by another individual by allowing an opportunity for someone to catch error before a transaction is fully executed and/or before a decision is made based on potentially erroneous data. In addition, having adequate separation of duties reduces the 'opportunity' factors that might encourage an employee to commit fraud or to embezzle.

<sup>1</sup> Local Government Act, Cap 125 – Section 47(2)

<sup>2</sup> Fiji Institute of Accountants Annual Report for 2011 – page 14

When the duties cannot be sufficiently segregated due to the small size of a unit, it is important that mitigation controls, such as detailed supervisory review of the activities, be put in place to reduce risks.

The audit noted that the payments clerk/cashier is responsible for cash receipting, preparation of banking, writing of cheques, preparing payment voucher, maintaining and updating creditors and debtors' subsidiary ledger, and maintaining and updating of cash book. From the review of duties performed by the accounts officer, it was revealed that there is no separation of duties in the area of receipting and banking. Furthermore, no evidence existed that the officer's work was being reviewed and checked by an independent authorised officer.

The anomaly poses a risk in that cash could easily be mismanaged and concealed without being detected.

### **Recommendations**

**The Council should:**

- **separate the duties of receipting and banking and writing of cheques and preparation of payments voucher;**
- **ensure that there is supervisory checks and reviews in the handling of cash.**

### **Council's Comments**

*Council will ensure to separate the duties of receipting and banking, and writing of cheques and preparation of payments voucher, and will ensure that there is supervisory check effective from November 2014.*

## **3.9 Journal vouchers not supported**

Journal voucher system is an important internal control measure to record and report all accounting adjustments and transactions of non-cash in nature. All general journals must be adequately supported with supporting documents.

The Council passed general journal entries in the general ledger during the year. However, audit was not able to sight supporting documentation for general journals that was selected for inspection. Further review of general journals revealed that the council does not maintain journal voucher system for documenting and approval of the journal.

Non preparation of supporting documents for journal vouchers increases the risk of unauthorized or fraudulent entries passed in the general ledger to conceal fraud.

### **Recommendations**

**The Council should ensure that:**

- **a journal voucher system is implemented to record all non-cash transactions and accounting adjustments made during the year.**
- **journal vouchers are supported with supporting documents.**
- **journal vouchers are reviewed and approved by a senior officer and evidence of such approval stated on the vouchers.**

### **Council's Comment**

*Council will certainly incorporate implementing journal voucher system to record all non cash transactions and accounting adjustment and will get it supported with documents effective from year 2014.*

### **3.10 General Ledger**

The book of the final entry is the ledger. Depending on the extent of mechanisation or computerisation the ledgers may be handwritten or machines produced or even a mixture of the both. It is not unusual to come across a general ledger kept by hand by one person and personal or debtors and creditors ledgers produced by another person on a machine. Where such subsidiary ledgers are kept, it is important to have control accounts in the general ledger.<sup>3</sup> However books of final entry such as ledgers and rate registers and also the minute book should be retained indefinitely.<sup>4</sup>

The accounting general ledger is a report that provides a detailed description of every general ledger account and the transactions that make up the balance in that account. The general ledger holds all the financial information used to create the income statement and balance sheet reports, and serves several main purposes in the financial operation of the business.

The review of the general ledger revealed the following anomalies:

- Variances were noted between some revenue accounts as per financial statements and the general ledger. Refer to Annexure 1 for details. The audit was informed by the Manager Finance that listing was used to post entries in the financial statements. Audit was further advised by Manager Finance that it is a past practice to prepare financial statements in this manner.
- Some debtors balance recorded in the debtors' listings were paid off during the financial year but were not updated. Refer to Table 3.1 for details.

**Table 3.1: Details of debtors paid off during the financial year which were not update**

Debtor	Type of debtor	Amount (\$)	Comments
Patel Garments Limited	Business Licence	444.00	The amount was paid on 27/11/2013
Ravinesh Reddy	Mini Van Operator Fee	2,204.15	The amount was paid on 17/09/2013

- A variance of \$1,800 was noted between the monetary contribution balance reported in the financial statements and the balance as per listing and general ledger. Refer to Table 3.2 for details:

**Table 3.2: Monetary Contribution Balance Variance**

Debtor Name	Balance as per Ledger/Listing	Balance as per Financial Statements	Variance (\$)
Monetary Contribution	4,050	2,250	1,800

- Variances were also noted between the opening balance of some debtor accounts in the general ledger and closing balance as per the 2012 audited accounts. Refer to Table 3.3 for details:

<sup>3</sup> Manual of Accounts – Section 5.4

<sup>4</sup> Manual of Accounts – Section 5.5



**Table 3.3: Opening Balance Variance**

Debtor Type	Opening balance of 2013 as per general ledger (\$)	Closing balance as per 2012 audited accounts (\$)	Variance (\$)	Comments
Fiji Sugar Corporation	4,556	0	4,556	There was no amount due from the Fiji Sugar Corporation in 2012. However, the general ledger noted an opening balance of \$4,556.
WAF/Education/Labour	0	7,172	7,172	No general ledger account for WAF/Education/Labour was maintained by the Council.
Taxi, Carrier, Mini Van, others	36,293	0	36,293	There was no amount due from the Taxi, Carrier, Mini Van, others in 2012. However, the general ledger noted an opening balance of \$36,293.
DISMAC	0	27,318	27,318	No general ledger account for DISMAC was noted in the general ledger.

- The Council recorded transactions relating to dishonoured cheques in two accounts in the general ledger, a debit to a debtors' ledger and a debit to sundry advance account.
- Council was not able to provide evidence as how amount owed by DISMAC in 2012 of \$27,318 was adjusted to nil balance in 2013. Audit did not cite any receipt of payment from DISMAC or any approval for write off, of this debtor in 2013.
- Review of Council's property, plant and equipment (PPE) revealed that the Council has no general ledger for (PPE). The audit further noted that posting to the financial statement is done from the fixed assets schedule.

From the above anomalies the audit is of the view that the Manager Finance lacks the basic knowledge in accounting. The errors and omissions from the general ledger for significant accounts increase the risk of incorrect financial accounting.

The above finding increases the risk of the Financial Statements being materially misstated. Furthermore, lack of proper audit trail may result in manipulation of accounting data posted to the financial statements.

### **Recommendations**

**The Council should ensure that:**

- **an accounting system is put in place where transactions and events are reliably processed and summarised. Accounts debits and credits, journals, general ledger and trial balance should be properly prepared.**
- **the Finance staff is adequately trained to carry out accounting tasks.**
- **proper reconciliation of debtors should be carried out by the Council so that variances between records and financial statements are identified and addressed on a timely basis.**
- **it carries out its own inspection individual debtor's records on a regular basis so that any anomalies are addressed on a timely manner.**

- **internal control procedures in the Accounts and Rate Collection division, specifically supervisory checks is strengthened to avoid above discrepancies.**

### **Council's Comments**

*Council will ensure that an accounting system is in place where transactions and events are reliably processed and summarized. Finance staffs will be sent for trainings on accounting tasks and internal control procedures in accounts division specifically supervisory checks will be strengthen.*

## **3.11 Tender Documents Not Available**

It is imperative that the Council maintains at all times safe custody of tender documents and documents relating to the awarding of the tenders for transparency.

A tender advertisement was published in the Fiji Sun Newspaper on 8 December 2012 for the contract of various works required by the Council with the amount to be tendered being the lump sum payment for 5 years.

As per the Tender Committee meeting minutes dated 31 December 2012, The Council received four official tenders. Refer to Table 3.4 for details:

**Table 3.4: Details of bids made**

<b>Name of Company</b>	<b>Tender Amount (\$)</b>
Pacific Safety & Risk Management (5 years)	3,190,343.65
Pacific Safety & Risk Management (5 years)	1,596,521.83
Mohammed Yunus, Korotogo Sigatoka (1 year)	275,000.00
Sudesh Transport & Co. (1 year)	219,500.00

The audit found that the contract was awarded to Sudesh Transport & Co. However, the file containing the tender documents was not provided for verification. The audit was informed by the Manager Finance that the tender documents file was stolen from the Special Administrator's Office. Hence, audit was not able to verify the necessary tender documentation and the transparency in the awarding of the tender and the work of the tender committee relating to the Contract to Sudesh Transport & Co.

In the absence of tender document file the transparency of the tender process is highly questionable.

### **Recommendation**

**The Council should ensure that in future any tender documents are properly kept in a safe place to avoid such incidents.**

### **Council Comments**

*Council will ensure that in future all tender documents are properly kept in safe place to avoid any incidents.*

### 3.12 Sundry Deposit

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Sundry deposits of the Council are made up of deposits paid by the tenants and contractors to the Council.

The audit was unable to substantiate deposits received amounting to \$57,817 due to lack of appropriate supporting documents. Refer to Table 3.5 for details.

**Table 3.5: No Listing Maintained for the Sundry Deposit**

Particulars	Amount (\$)
Car park development	34,007
Council properties/shop -security	20,193
Security deposit	1,747
Nomination fee	1,240
Market stall	500
Unknown deposit	100
Ticket booth	30
<b>Total</b>	<b>57,817</b>

The Council may not be in a position to refund accurately the deposits as and when the payment falls due.

Additionally, in absence of supporting documents the sundry deposits balance may not be fairly reflected in the balance sheet.

#### **Recommendation**

**Proper ledgers and documentation for sundry deposits should be maintained and to support amounts reported in the financial statement.**

#### **Council's Comments**

*Note that the Council will not be able to provide the supporting documentation for Sundry Deposit as this balance is carried forward prior to 2000. Council doesn't have documentation for that period.*

### 3.13 Car parking fees and Rental Income Fees

It is essential that revenues are earned from properties which are properly owned by the Council.

The audit noted from the review of revenue accounts that the Council earned car parking fees amounting to \$11,743 from general public and car park rental fees amounting to \$4,048.20 from Kasabias, from a land which is owned by Carpenters Fiji Limited. The audit further noted that there was no written agreement between the Council and Carpenters Fiji Limited or any approval from Carpenters Fiji Limited authorizing the Council to use its properties to earn rental income.

In the absence of a proper agreement or authorization by Carpenters Fiji Limited, the Council is

exposed to legal action.

**Recommendation**

**The Council should enter into an agreement with Carpenters Fiji Limited for the use of the land.**

**Council Comments**

*The Council is in a legal battle with Carpenters Fiji Limited over the ownership of the subject land. With the case before the Court, the Council is not in a position to enter into any agreement, which may jeopardize the judgment.*

## APPENDICES

### Appendix 3.1: Variance between General Ledger and Financial Statements

GENERAL FUND	FINANCIAL	GENERAL LEDGER	VARIANCE
General rates	119,433	105,596.23	13,836.77
General rates on state land	2,577	-	2,577.00
Local Rates	28,616	28,439.52	176.48
Interest on Overdue Accounts	16,536	12,721.20	3,814.80
<b>Fees and Charges</b>			
Business License	113,029	112,602.77	426.23
Bus Stand Charges	11,375	13,349.93	(1,974.93)
Commercial Vehicle	8,424	9,743.35	(1,319.35)
Taxi	55,951	90,919.69	(34,968.69)
Garbage	125,277	135,112.10	(9,835.10)
Interest Others	5,659	5,232.74	426.26
Rental Properties	64,322	64,338.09	(16.09)
Loading and Unloading Zone	8,456	8,304.87	151.13
Mini Van	15,799	19,659.05	(3,860.05)
FSC Grass Cutting	4,556	4,335.51	220.49
Revenue Others [new taxis, carrier,			-
* Garbage Fees Outsiders	16,731	16,731.10	-
*Taxi	28,710	-	28,709.98
*Carrier	1,870	-	1,869.55
*Mini Van	5,713	-	5,713.37
Income Realised	4,256	-	4,256.00
<b>Total</b>	<b>637,290.00</b>	<b>627,086.15</b>	<b>10,203.85</b>

LOAN RATE	FINANCIALS	GENERAL LEDGER	VARIANCE
Special Loan Rates	179,594	165,499	14,095
Special Loan Rates on Stateland	10,894	-	10,894
<b>Total</b>	<b>190,488</b>	<b>165,499</b>	<b>24,989</b>

## SECTION 4: NADI TOWN COUNCIL

### Programme Statement

The Nadi Town Council was established under the Local Government Act (Cap 125 Rev. 1985) and section 5 of the Subsidiary Legislation.

The Nadi Town Council is divided into three wards, Namaka, Martintar and Nadi. The Councils daily operations are administered by the Special Administrator appointed by the Ministry of Local Government.

The services provided by the Council are issuance of business licenses, cleaning, maintenance and upgrading of infrastructure, sanitation services, lighting, drainage and maintenance of parks and gardens. Revenue generated by rates levied, issuance of licences, rents received from Council properties and miscellaneous revenue are used to finance the above services as well as to meet the administration expenses of the Council.

## Table of Contents

<b>SECTION 4: NADI TOWN COUNCIL</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION</b>	<b>1</b>
4.1 Audit Opinion - 2012	1
4.2 Abridged Statement of Financial Performance- General Fund	2
4.3 Abridged Statement of Financial Performance – Parking Meter	3
4.4 Abridged Statement of Financial Position – General Fund	4
4.5 Abridged Statement of Financial Position – Parking Meter	4
4.6 Abridged Program Information	4
<b>PART B – CONTROL ISSUES</b>	<b>5</b>
4.7 Roads, Drains and Footpaths not transferred to Fiji Roads Authority	5
4.8 Bank Reconciliation	5
4.9 Variance between Bank Reconciliation and General Ledger	6
4.10 Anomalies in Value Added Tax	7
4.11 Discrepancies in debtors record	8
4.12 General rates revenue	9
4.13 Rental Income	9
4.14 General Ledger	10
4.15 Sewerage Service Fund Account	11
4.16 FEA security deposit	11
4.17 Discrepancies noted in property, plant and equipment reporting	12
4.18 Sundry deposit	13
<b>APPENDIX 4.1: DETAILS OF CREDITORS OMITTED FROM THE LISTINGS</b>	<b>.....ERROR! BOOKMARK NOT DEFINED.</b>

## PART A – FINANCIAL INFORMATION

### 4.1 Audit Opinion - 2012

The audit of the financial statements of the Nadi Town Council for the year ended 31 December 2012 resulted in the issue of a qualified audit report. The issues qualified are as follows:

1. Included in property, plant and equipment (Note 4) are roads and footpaths with written down value of \$14,909,315 as at 31 December 2012. All Municipal roads have been transferred to the Fiji Roads Authority (FRA) in accordance with the FRA Amendment Decree 2012. Consequently,

property, plant and equipment are overstated in the financial statements.

2. Appropriate reconciliations and records were not provided to substantiate miscellaneous debtors of \$81,562 as at 31 December 2012. Additionally, there is an un-reconciled variance of \$212,042 between VAT receivable general ledger and Statement of VAT account from FRCA. Accordingly, the audit was not able to satisfy itself about the valuation and completeness of the receivables of \$1,754,484 as presented in the financial statements. Therefore, the audit was not able to confirm if the accounts receivable balance is fairly stated in the Statement of Financial Position.
3. There is an un-reconciled variance amounting to \$6,418 between the cash at bank as per the general ledger and the bank reconciliation statement for general fund account. Additionally, cash at bank balance as per financial statement of \$115,440 was not supported by general ledger. Accordingly, the audit was not able to satisfy itself if the cash at bank is fairly stated in the Statement of Financial Position.
4. Included in current liability (note 7) are sundry deposits of \$706,930 as at 31 December 2012. The Council failed to provide a detailed listing for these deposits. Consequently, the audit was not able to perform necessary audit procedures or any other alternative audit procedures to verify its existence and valuation. Accordingly, the audit was not able to satisfy itself if current liabilities of \$1,270,385 are fairly stated in the statement of financial position.
5. Un-reconciled variance of \$722,823 exists between the Council's rates listing and the income statement in respect to general rates. Additionally, appropriate listings and reconciliations were not prepared for Council's other revenues such as Business and trading fees, Rental income and taxi and carrier charges. Consequently, the audit was unable to satisfy itself regarding the completeness and accuracy of these revenue accounts in the general ledger. Accordingly, the audit was unable to satisfy itself if total income of \$2,436,301 is fairly stated in the statement of income and expenditure for general fund.

Without further qualifying the audit opinion, attention is drawn to the following matters:

- The value of parking meters has not been incorporated in the Statement of Financial Position as at 31 December 2012. The audit was not to ascertain the value of these items due to lack of supporting documentations.
- Included in the Statement of Financial Position under Receivables is an account, Enforcement, & Parking Meter Infringement amounting to \$43,717. The Council has not successfully obtained the legal rights over the receipts of the infringement fines which are collected by Land Transport Authority. The Council is still negotiating with LTA relating to this matter.
- Included in Statement of Financial Position under Parking Meter Fund is Cash at bank amounting to \$62,471. The Council records this balance through a book entry by adding the opening accumulated funds to the surplus made by Parking Meter Account. The total is then subtracted from the General Fund Bank account to determine Parking Meter cash at bank balance. The Council does not maintain a separate cash book for this account.

## 4.2 Abridged Statement of Financial Performance- General Fund

As at 31 December	2012 (\$)	2011 (\$)
<b>Revenue</b>		
Rates	1,036,407	1,174,911
Interest	57,162	101,193



As at 31 December	2012 (\$)	2011 (\$)
Bus Stand Charges	38,346	32,670
Business License	376,718	215,053
Market Fees	408,555	468,553
Park Fees	68,332	41,496
Taxi and Carrier Stand Fees	116,751	94,495
Rent from Council Properties	435,352	429,754
Others	522,466	454,379
<b>Total Revenue</b>	<b>3,060,089</b>	<b>3,012,504</b>
<b>Expenditure</b>		
Salaries, Wages & Related Payments	1,267,948	1,262,847
Interest and bank charges	210,502	218,337
Garbage Services	343,602	340,626
Maintenance of Buildings	25,783	27,157
Maintenance of Parks & Gardens	51,065	639
Maintenance of Roads, Drains, Paths and Verges	114,047	78,067
Street Lights	151,532	137,546
Market Expenses	4,117	-
Depreciation	364,267	361,230
Upgrading and Improvement to Roads, Footpaths & Verges	11,764	5,824
Others	854,968	666,451
<b>Total Expenditure</b>	<b>3,399,595</b>	<b>3,098,724</b>
<b>Result For The Year From Ordinary Activities</b>	<b>(339,506)</b>	<b>(86,220)</b>

The Council again recorded a deficit of \$339,506 on its General Fund Account in 2012; an increase of \$253,286 or 294% compared to the deficit recorded in 2011. The increase in the deficit amount was mainly attributed to increase in miscellaneous and contingency expenditures by \$173,193 and \$82,076 respectively.

### 4.3 Abridged Statement of Financial Performance – Parking Meter

As at 31 December	2012 (\$)	2011 (\$)
<b>Revenue</b>		
Tolls	75,623	104,206
Fines	99,644	64,250
<b>Total Revenue</b>	<b>175,267</b>	<b>168,456</b>
<b>Expenditure</b>		
Salaries, Wages and Related Payments	134,701	125,620
Maintenance of Parking Meter and Bays	25,293	28,212
Others	135,826	21,318
<b>Total Expenditure</b>	<b>295,820</b>	<b>175,150</b>
<b>Result For The Year From Ordinary Activities</b>	<b>(120,553)</b>	<b>(6,694)</b>

The Council also recorded a deficit on its Parking Meter Account in 2012. The deficit increased by \$113,859 compared to the amount reported in 2011. The increase in the deficit amount was mainly attributed to the increase in other expenditure by \$114,508.

#### 4.4 Abridged Statement of Financial Position – General Fund

As at 31 December	2012 (\$)	2011 (\$)
<b>Assets</b>		
Cash at bank and on hand	286,167	42,526
Trade and other receivables	1,760,706	2,340,382
Non-Current Assets	32,228,513	32,567,085
<b>Total Assets</b>	<b>34,275,386</b>	<b>34,949,993</b>
<b>Liabilities</b>		
Creditors, accruals and provision	283,326	504,428
Sundry deposits	706,930	706,930
Deferred income	188,601	194,911
Loan	2,627,573	2,735,262
<b>Total Liabilities</b>	<b>3,806,430</b>	<b>4,141,531</b>
<b>Net Assets</b>	<b>30,468,956</b>	<b>30,808,462</b>
<b>Accumulated Funds</b>		
General	24,948,642	25,708,658
Loan repayment	5,460,614	5,040,104
Sewerage	59,700	59,700
<b>Net Accumulated Funds</b>	<b>30,468,956</b>	<b>30,808,462</b>

Net assets decreased by \$339,506 or 1% in 2012 compared to 2011. The decrease was mostly attributed to the decrease in property, plant and equipment by \$338,572 or 1%.

#### 4.5 Abridged Statement of Financial Position – Parking Meter

As at 31 December	2012 (\$)	2011 (\$)
Cash at Bank	62,471	183,024
<b>Total Assets</b>	<b>62,471</b>	<b>183,024</b>
<b>Net Accumulated Funds</b>	<b>62,471</b>	<b>183,024</b>

The Parking Meter Account recorded cash at bank of \$62,471; an increase of \$120,553 or 66% in comparison to the amount reported in 2011. No liability was recorded in the account in 2012.

#### 4.6 Abridged Program Information

Year Ended 31 December	2012			2011
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	436,301	3,196,317	(760,016)	(361,376)
Special Rate Fund	623,788	203,278	420,510	275,156
Parking Meter Fund	175,267	295,820	(120,553)	(6,694)
<b>Total</b>	<b>3,235,356</b>	<b>3,695,415</b>	<b>(460,059)</b>	<b>(92,914)</b>

## PART B – CONTROL ISSUES

### 4.7 Roads, Drains and Footpaths not transferred to Fiji Roads Authority

Effective from 14 May 2012 all assets, interests, privileges, liabilities and obligation of Municipal Councils in relation to municipal roads shall be immediately transferred to and shall vest in the Authority without conveyance, assignment or transfer.<sup>1</sup>

The audit noted from the review of Council's property, plant and equipment that the Council has not transferred the roads, drains and verges to Fiji Roads Authority (FRA) as at 31 December 2012. The carrying amount of these assets is \$14,909,315.

The Council has not complied with the Fiji Roads Authority (amendment decree) 2012. Consequently, value of property, plant and equipment is overstated by \$14,909,315 in Council's the statement of financial position.

#### **Recommendation**

**The Council should comply with the Fiji Roads Authority (Amended Decree) 2012 and transfer all assets in relation to municipal roads to FRA. Additionally, the Council should make necessary adjustments to its financial records after the transfer.**

#### **Council's Comments**

*Council has done the necessary adjustments in the 2013 audit.*

### 4.8 Bank Reconciliation

The bank reconciliation should be checked by the supervisor to determine its timely preparation and that it contains no unusual entries requiring further investigation.<sup>2</sup>

All cheques written by the Council and not presented to the bank after 6 months becomes stale and should be written back.

Despite having the bank reconciliation prepared and presented during the monthly meeting, the audit noted the following anomalies in bank reconciliation:

- Independent reconciliation carried out noted that there was a variance of \$4,474 between cash book reconciliation and bank reconciliation. Refer to Table 4.1 for details

**Table 4.1: Details of Variance between Cash Book and Bank Reconciliation**

Particulars	Balance as per Cash Book (\$)	Balance as per Bank Reconciliation (\$)	Variance (\$)
Cash	109,022	104,548	4,474

- Monthly bank reconciliations for the months of March and July were not signed by the Treasurer and Chief Executive Officer for the preparation and verification of the balances.

<sup>1</sup> Fiji Road Authority (amendment decree) 2012, paragraph 7 (b)

<sup>2</sup> Manual of Accounts for Municipal Council in Fiji – Appendix 3 – Section 9 Paragraph 5

- Bank reconciliation for Westpac account number 9803171579 was not prepared. The account had a balance of \$170,714

The above findings indicate ineffective control over the preparation and review of bank reconciliation. This may result in incorrect financial reporting and mismanagement of Council funds.

### **Recommendations**

- **Bank reconciliations for each bank account should be checked, reviewed and certified correct by the supervising officer.**
- **Bank reconciliation of all bank accounts should be prepared on a regular basis**

### **Council's Comments**

*No comments received on the issue.*

## **4.9 Variance between Bank Reconciliation and General Ledger**

It is necessary to have the cash book balance reconciled with the balance shown in the General Ledger. This should be done at least once a month. Any continuing items causing a difference between the two records should be investigated and resolved.<sup>3</sup>

The audit noted a variance of \$116,345 between the cash book balance and the general ledger. Refer to Table 4.2 for details.

**Table 4.2: Variance between bank reconciliation and general ledger**

Account name	Balance as per bank reconciliation (\$)	Balance as per General Ledger (\$)	Variance (\$)
Cash/(Overdraft)	104,548	(11,797)	116,345

Similarly, a variance of \$127,237 was noted between the general ledger and the financial statements. Refer to Table 4.3 for details.

**Table 4.3: Variance between the financial statements and general ledger**

Account name	Balance as per Financial Statements (\$)	Balance as per General Ledger (\$)	Variance (\$)
Cash	115,440	-	115,440
Overdraft	-	(11,797)	11,797
<b>Total</b>	<b>115,440</b>	<b>(11,797)</b>	<b>127,237</b>

The audit further noted that there was a variance of \$10,982 between the bank reconciliation and the Financial Statements. Refer to Table 4.4 for details.

<sup>3</sup> Manual of Accounts for the Municipal Councils in Fiji – Section 6.5

**Table 4.4: Variance between the financial statements and bank reconciliation**

Account name	Balance as per Financial Statements (\$)	Balance as per Bank Reconciliation (\$)	Variance (\$)
Cash	115,440	104,548	10,982

The findings indicate that cash at bank balance reflected in the financial statement is subject to errors and misstatements. Additionally cash at bank may not be fairly stated.

### **Recommendations**

- After the preparation of monthly bank reconciliation, all irregularities identified should be adjusted accordingly to avoid large amount of variance between the bank statement and the council's records.
- The internal control procedures in the Accounts Section, specifically supervisory checks be strengthened to avoid the above discrepancies

### **Council's Comments**

*No comments received on the issue.*

## **4.10 Anomalies in Value Added Tax**

The net amount receivable or payable in respect of VAT should be included as part of accounts receivable or payable. Assets should be recorded net of VAT if the tax is recoverable.<sup>4</sup>

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

The review of the VAT revealed the following anomalies;

- Variance amounting to \$212,042.21 was noted between the General Ledger and the independent reconciliation carried out by audit with the Statement of VAT account received from FRCA. Refer to Table 4.5 for details;

**Table 4.5: Variance in VAT**

Particulars	Amount (\$)
VAT Payable as per VAT Reconciliation	30,681.79
VAT Payable as per Financial Statements	242,724.03
Variance	212,042.21

- Monthly VAT reconciliations were not prepared by the Council for 2012.
- The Council failed to lodge and pay the VAT on time for January 2012. Consequently, the Council incurred late lodgement penalty of \$13,512.03 from FRCA.

<sup>4</sup> Fiji Accounting Standard 103 section 7

The above findings indicate that VAT is overstated in the financial statements. It also indicates lack of proper audit trail can result in manipulation of accounting data posted to the financial statements.

The additional penalties could have been avoided if VAT lodgements had been made on time.

### **Recommendations**

- **Monthly VAT reconciliations should be prepared between the Council records and FRCA's statement of VAT account and any variance arising thereon should be properly investigated and resolved.**
- **The Council should ensure that the VAT is paid to FRCA on time to avoid late payment penalties.**
- **Adequate supervision should be carried out by senior officer preferably Manager Finance to ensure that VAT lodgements and payments are done in a timely manner.**

### **Council's Comments**

*All the payments are now done before or on the due date, to avoid paying penalties*

## **4.11 Discrepancies in debtors record**

Every Council shall keep proper accounts and records which shall be kept in such manner as may be directed by the Minister.<sup>5</sup>

The following discrepancies were noted in the Accounts receivable balance amounting to \$1,760,706 reflected in the Financial Statement for the year ended 31 December 2012.

- Included in Statement of Financial Position under Receivable is an account namely Enforcement and Parking Meter Infringement amounting to \$43,717. The Council has not successfully obtained the legal rights over the receipts of the infringement fines which are collected by Land Transport Authority. The Council is still negotiating with LTA relating to this matter.
- Miscellaneous debtors amounting to \$81,562 was not supported with documentary evidence. According to the Manager Finance, this balance has been brought forward from previous years. In addition, the audit noted that a general journal amounting to \$29,457.81 was passed to reverse the 2011 creditors. The journal vouchers and the supporting documents were not provided for audit verifications.
- The review of the ratepayers' statement revealed that some ratepayers have credit balances while some have large outstanding balances.
- The copy of the rate notices for 2012 sent out to the ratepayers was not filed in the ratepayers files.
- Rent debtors increased by \$36,881 or 134% in 2012, hence indicating that the Council policy for debt collection is ineffective

Lack of appropriate documentary records for enforcement and parking meter infringement and miscellaneous debtors account may result in inaccurate financial reporting. Furthermore, the Council may find it difficult to recover these deposit amounts in future.

---

<sup>5</sup> Local Government Act Cap – Section 47 (2)

**Recommendations**

- All relevant documents should be produced for audit verification to substantiate the figures reported in the Financial Statement.
- The internal control procedures in the Accounts and Rate Collection division, specifically supervisory checks should be strengthened to avoid above discrepancies.
- The Council should ensure that any correspondence between the ratepayer and Council is filed in the ratepayers file.

**Council's Comment**

*Council has started filing all the correspondence by the ratepayers into their individual files. The new Manager Finance has designed the new journal voucher and a copy of the journal is filed in the journal file and is also filed to the respective rate payers file. The yearly invoices are also filed in separate rate payers file in the year 2013. Each rate payer will have relevant documents in their file.*

**4.12 General rates revenue**

It is important internal control measure that the Council reconciles its system generated rates revenue with general ledger. This will ensure that rates revenue in the general ledger is completely recorded.

Review of rates revenue revealed a variance of \$722,823 between general ledger and rates listing. Refer to Table 4.6 for details

**Table 4.6: Details of Variance between analytical review and financial statements**

Particulars	Balance as per Financial Statements	Balance as per analytical review	Variance
General Rates	412,619	1,135,442	722,823

Additionally, it was noted that the Council had used the new unimproved capital value amount in 2012, however the revenue collected from general rates had decreased by \$283,551 or 40% in 2012 as compared to 2011.

Large variances between analytical reviews and actual amounts are indications of erroneous amounts being recorded by an entity.

**Recommendation**

**The Council should ensure that revenues are recorded at accurate amounts.**

**Council's Comments**

*Manager Finance has started working on the rates database, which will take into account the different type of rate and to ensure a proper report will be obtain at any time.*

**4.13 Rental Income**

It is important internal control measure that the Council reconciles its rental revenue with general ledger. This will ensure that rental revenue in the general ledger is completely recorded.

The audit noted that there was a variance of \$139,386.20 in the rent revenue amount between the financial statements and the amount derived by audit as per the analytical review. Refer to Table 4.7 for details.

**Table 4.7: Details of Variance between analytical review and financial statements**

Particulars	Balance as per Financial Statements	Balance as per analytical review	Variance
Rent	435,352	574,738.20	139,386.20

The anomaly indicates that the amount may be incorrectly reported in the financial statement.

### **Recommendation**

**The Council should ensure that revenues are recorded at accurate amounts.**

### **Council's Comments**

*No comments received on the issue.*

## **4.14 General Ledger**

The book of the final entry is the ledger. Depending on the extent of mechanisation or computerisation the ledgers may be handwritten or machines produced or even a mixture of the both. It is not unusual to come across a general ledger kept by hand by one person and personal or debtors and creditors ledgers produced by another person on a machine. Where such subsidiary ledgers are kept, it is important to have control accounts in the general ledger.<sup>6</sup>

However books of final entry such as ledgers and rate registers and also the minute book should be retained indefinitely.<sup>7</sup>

The general ledger is a cumulative (year to date) book that contains the individual accounts maintained by the business and shows the balances in each account. Financial statements (balance sheet and income statement) are prepared using the account balances from the general ledger.

The audit noted that the Council discontinued maintaining a general ledger from 2006 till 13/12/13. The absence of general ledger indicates that the Council has not maintained proper accounting records during the year. Additionally, lack of general ledger exposes high risk of concealing fraudulent transactions.

### **Recommendation**

**The Council should immediately implement a general ledger system.**

### **Council's Comments**

*No comments received on the issue.*

<sup>6</sup> Manual of Accounts – Section 5.4

<sup>7</sup> Manual of Accounts – Section 5.5



## 4.15 Sewerage Service Fund Account

Every Council shall keep proper accounts and records which shall be kept in such manner as may be directed by the Minister.<sup>8</sup>

As at balance date, Sewerage Service Fund Account had a balance of \$59,700. However, the Council failed to provide Sewerage Service Fund Account records to substantiate the amount. The Manager Finance revealed that the balance has been brought forward from previous years and the Council has no records to validate the above balance.

Lack of appropriate written documentary records for Sewerage Service Fund Account may result in inaccurate financial reporting.

### **Recommendations**

- **The Council should ensure that proper records are kept for Sewerage Service Fund Account.**
- **The internal control procedures in the Accounts Section, specifically supervisory checks should be strengthened to avoid such discrepancies.**
- **The Council should immediately investigate and reconcile the Sewerage Service Fund Account.**

### **Council's Comments**

*No comments received on the issue.*

## 4.16 FEA security deposit

Every Council shall keep proper accounts and records which shall be kept in such manner as may be directed by the Minister.<sup>9</sup>

Audit noted that as at balance date, FEA Deposits account had a balance of \$16,790.89. However, the Council failed to provide appropriate and sufficient records to substantiate the existence of this amount.

Lack of appropriate documentary records for FEA Deposit account may result in inaccurate financial reporting. Furthermore, the Council may find it difficult to recover these deposit amounts in future.

### **Recommendations**

- **The Council should ensure that proper records are kept for FEA Deposits.**
- **The Council should investigate and obtain relevant information and supporting documents for the amounts reported as other deposits.**
- **The Manager Finance should check progressively that all balance sheet items are supported with full details and are accurate with future realization of the assets intact.**

### **Council's Comments**

*We are currently working on this.*

---

<sup>8</sup> Local Government Act Cap 125 – Section 47 (2)

<sup>9</sup> Local Government Act Cap – Section 47 (2)

#### 4.17 Discrepancies noted in property, plant and equipment reporting

Apart from surveys carried out for disposal of surplus or obsolete items there is also the need to have stock take at least once in a year to confirm that equipment, stores and materials shown in the records do in fact exist. Such stock take should be done by the officers working together.<sup>10</sup>

The following discrepancies were noted in the property, plant and equipment reporting:

- The audit was not provided with any report on physical verifications of registered assets. The audit gathered that survey report was not prepared after the survey was carried out during the year.
- The depreciation rate charged by the Council for office equipment, furniture and fittings, plant & machinery, motor vehicle was not consistent with Accounting policy, note 1 (e) – Depreciation<sup>11</sup> of the Council. Refer to Table 4.8 for details.

**Table 4.8: Rate as per FAR and Note 1 (e) – Depreciation in the financial statement**

Fixed Asset Type	Rate as per Fixed Assets Register (%)	Rate as per Note 1 (e) – Depreciation of the Financial Statement (%)
Office Equipment	7% per annum	10 % per annum
Furniture & Fitting	7 % per annum	10 % per annum
Plant & Machinery	7% per annum	10 to 20 % per annum
Motor Vehicle	15% per annum	20% per annum

The above anomaly suggests that the Council has not complied with its accounting policy stated in its financial statements, hence making the financial statement's Note 1(e) misleading.

- The Council does not have an asset capitalization policy in place.
- Physical verifications carried out by audit of the assets owned by the Council revealed that assets were not properly tagged hence it was difficult to identify the assets in the Fixed Asset Register.
- The value of Parking Meters has not been incorporated in the Statement of Financial Position of the Council as at 31 December 2012. The Council has 335 parking meters in its municipality.

Lack of appropriate documentary records for property, plant and equipment account may result in inaccurate financial reporting. In addition, assets are prone to mismanagement or theft in the absence of an effective internal control system.

#### **Recommendations**

- **The Council should ensure that a board of survey report is prepared at the completion of the board of survey. Additionally, reconciliation should be performed between the physically verified assets listed in the Fixed Asset Register**
- **The Council should ensure that the rates charged for depreciation of specific class of assets are consistent with its policy as stated in the financial statement.**

<sup>10</sup> Manual of Accounts – Section 16.7

<sup>11</sup> Refer to the Financial Statement – Notes on Accounting Policy

- **The Council should have a capitalization policy in order to ensure that items falling under the definition of fixed assets are properly disclosed in the financial statement.**
- **The Manager Finance should check progressively that all balance sheet items are supported with full details and are accurate with future realization of the assets intact.**

#### **Council's Comments**

*We are almost completed with the board of survey, verifying individual asset, and each assets bears a fixed asset tag which correctly identifies the type of asset and the Number allocated for the fixed assets.*

### **4.18 Sundry deposit**

It is imperative that supporting schedules, listings and reconciliations should be prepared to support items in the balance sheet.

Included in the Statement of Financial Position – General Fund under current liabilities is sundry deposits amounting to \$706,930. Our review of sundry deposits revealed that no listing was maintained by the Council to substantiate the opening balance of sundry deposit as at 01/01/2012 amounting to \$706,930. Refer to Table 4.9 for details.

**Table 4.9: Listing maintained for the opening balance of sundry deposit**

<b>Particulars</b>	<b>Amount (\$)</b>
Contributions – Public Car Park	182,604
Curio Vendors	126,685
Tender Deposits	186,916
Rates Prepaid	32,893
Contribution for Works	84,880
Miscellaneous	92,952
<b>Total for opening balance</b>	<b>706,930</b>

Non maintenance of appropriate sundry deposit listing increases risk of incorrect and untimely payment to the beneficiaries.

There is a possibility that the Council may have settled the accounts relating to these deposit but failed to adjust it in the financial statements.

#### **Recommendation**

**A detail listing of all sundry deposits should be maintained and updated on a timely basis.**

#### **Council's Comment**

*We are currently working on this.*

## SECTION 5: BA TOWN COUNCIL

### Programme Statement

Ba Town Council was established under the Local Government Act (Cap 125 Rev 1985) and section 5 of the Subsidiary Legislation.

The services provided by the Council are issuance of business licenses, cleaning, maintenance and upgrading of infrastructure, sanitation services, lighting, drainage and maintenance of parks and gardens. Revenue generated by rates levied issuance of business licenses, rents received from Council properties and miscellaneous are used to finance the above services as well as to meet the administration expenses of the Council.

### Table of Contents

<b>SECTION 5: BA TOWN COUNCIL .....</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION .....</b>	<b>1</b>
5.1 Audit Opinion - 2013 .....	1
5.2 Abridged Statement of Financial Performance- General Fund.....	2
5.3 Abridged Statement of Financial Position- General Fund .....	3
5.4 Abridged Statement of Financial Performance- Parking Meter Fund .....	3
5.5 Abridged Statement of Financial Performance- Parking Meter .....	4
5.6 Abridged Program Information .....	4
<b>PART B – CONTROL ISSUES.....</b>	<b>4</b>
5.7 Non – Adoption of International Financial Reporting Standards for Small Medium Entities (IFRS for SMEs).....	4
5.8 Non-Transfer of Loan to Fiji Roads Authority .....	5
5.9 Failure to recover advance to parking meter .....	5
5.10 Tavua and Ba end museum projects.....	6
5.11 Anomalies in property, plant and equipment .....	6
5.12 Breach in FNPF Loan .....	8
5.13 Value Added Tax .....	9

## PART A – FINANCIAL INFORMATION

### 5.1 Audit Opinion - 2013

The audit of the financial statements of the Ba Town Council for the year ended 31 December 2013 resulted in the issue of a disclaimer of opinion as follows:

- The Council is a municipal council and its financial statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs). The Council is yet to comply with IFRS for SMEs as required for general purpose financial statements.
- Accordingly, the Auditor General is unable to determine the impact on the financial statements of the Council if any, adjustment which may be necessary if the financial statements were prepared under IFRS for SMEs.
- Included in the Statement of Financial Position for General Fund and Parking Meter Fund are VAT payable amount totaling \$110,529. However, there is an un-reconciled variance between

the general ledger and VAT reconciliation of Statement of VAT account amounting to \$100,388. Due to the variance the Auditor General is not able to satisfy himself if the VAT payable amount is correctly stated in the financial statements.

- Included in the Statement of Financial Position is term loan of \$2,632,926. As per the Fiji Roads Authority (FRA) Decree 2012, all loans taken by the Council for road purposes should be transferred to the FRA. Included in the term loan balance is loan amount of \$236,310 which the Council took specifically for construction and maintenance of roads in Ba. As at 31 December 2013, the Council has not transferred this loan balance to FRA. Consequently, the term loan balance of \$2,632,926 is not fairly stated in the financial statements.

Management attention is also drawn on the Council's loan with Fiji National Provident Fund of \$2,302,855. As at 31 December 2013, the Council defaulted on its loan repayment which is in arrears of \$324,822.

## 5.2 Abridged Statement of Financial Performance- General Fund

Year Ended 31 December	2013 (\$)	2012 (\$)
<b>Revenue</b>		
Rates	486,497	562,376
Interest	51,913	11,982
Bus stand charges	29,522	28,023
Business trading and other licenses	150,157	157,160
Market fees	301,083	268,824
Municipal car park fees	177,567	170,382
Rent from Council properties	536,755	617,965
Others	244,649	351,463
<b>Total Revenue</b>	<b>1,978,143</b>	<b>2,168,175</b>
<b>Expenditure</b>		
Administration expenses	221,347	291,900
Public works	371,380	526,069
Health & building	261,081	221,405
Interest on loan	240,367	211,960
Market expenses	100,933	94,693
Depreciation and amortisation	245,928	515,192
Municipal car park	64,464	58,732
Property expense	73,222	89,386
Parks and gardens	86,112	81,590
Streetlights	72,930	155,495
Others	160,271	157,294
<b>Total Expenditure</b>	<b>1,898,035</b>	<b>2,403,716</b>
<b>Result For The Year From Ordinary Activities</b>	<b>80,108</b>	<b>(235,541)</b>

The Council recorded a surplus of \$80,108 compared to a deficit of \$235,541 in 2012. The surplus was attributed to a major decline in depreciation and amortization expense by \$269,264 or 52% in 2013.

### 5.3 Abridged Statement of Financial Position- General Fund

As at 31 December	2013 (\$)	2012 (\$)
<b>Assets</b>		
Cash and cash equivalents	90,822	70,505
Receivables	569,637	563,692
Other assets	175,721	189,276
Property, plant and equipment	16,971,775	18,116,704
<b>Total Assets</b>	<b>17,807,955</b>	<b>18,940,177</b>
<b>Liabilities</b>		
Creditors & borrowings	468,633	479,314
Provisions	19,595	16,630
Term Loans	2,632,926	2,595,764
<b>Total Liabilities</b>	<b>3,121,154</b>	<b>3,091,708</b>
<b>Net Assets</b>	<b>14,686,801</b>	<b>15,848,469</b>
<b>Accumulated Funds</b>		
General Fund	4,331,694	4,374,735
Loan Repayment Account	571,016	457,116
Reserves	9,784,091	11,016,618
<b>Net Accumulated Funds</b>	<b>14,686,801</b>	<b>15,848,469</b>

The net assets of the Council declined by \$1,161,668 or 7% in 2013 due to the decrease in property, plant and equipment by \$1,144,929 as the roads, footpaths and the drains were transferred to Fiji Roads Authority.

### 5.4 Abridged Statement of Financial Performance- Parking Meter Fund

Year Ended 31 December	2013 (\$)	2012 (\$)
<b>Revenue</b>		
Tolls	15,973	21,682
Fines	4,843	8,321
Others	5,127	8,939
<b>Total Revenue</b>	<b>25,943</b>	<b>38,942</b>
<b>Expenditure</b>		
Salaries, Wages and Related Payments	11,142	22,576
Meter maintenance	3,102	-
Others	11,022	15,115
<b>Total Expenditure</b>	<b>25,266</b>	<b>37,691</b>
<b>Result For The Year From Ordinary Activities</b>	<b>677</b>	<b>1,251</b>

The Council recorded a decline in surplus by \$574 in 2013 as compared to the amount recorded in 2012 in its parking meter account. The reduction in the amount is attributed to the reduction in revenue received by \$12,999 or 33% and the incurrence of meter maintenance expense of \$3,102 in 2013.

## 5.5 Abridged Statement of Financial Performance- Parking Meter

As at 31 December	2013 (\$)	2012 (\$)
<b>Assets</b>		
Cash at Bank	8,394	8,195
Non-Current Assets	184	3,146
<b>Total Assets</b>	<b>8,578</b>	<b>11,341</b>
<b>Liabilities</b>		
Creditors and accruals	159,668	161,833
Vat Payable	146	892
Provisions	639	1,168
<b>Total Liabilities</b>	<b>160,453</b>	<b>163,893</b>
<b>Net deficiency in Assets</b>	<b>(151,875)</b>	<b>(152,552)</b>
<b>Net Accumulated Losses</b>	<b>(151,875)</b>	<b>(152,552)</b>

A negative net asset of \$151,875 was again recorded by the Council in 2013 compared to \$152,552 recorded in 2012 for the Parking Meter Account.

## 5.6 Abridged Program Information

Year Ended 31 December	2013			2012
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	1,838,213	1,872,005	(33,792)	(377,571)
Special Rate Fund	139,930	26,030	113,900	142,030
Parking Meter Fund	25,943	25,266	677	1,251
<b>Total</b>	<b>2,004,086</b>	<b>1,923,301</b>	<b>80,785</b>	<b>(234,290)</b>

## PART B – CONTROL ISSUES

### 5.7 Non – Adoption of International Financial Reporting Standards for Small Medium Entities (IFRS for SMEs)

Every Council shall keep proper accounts and records which shall be kept in accordance with the accounting standards approved by the Fiji Institute of Accountants.<sup>1</sup>

Smaller accounting entities will, following FIA's adoption of the IFRS for SME Standard from 1st January 2011, need to comply with that Standard. The old Fiji Accounting Standards (FASs) have been withdrawn.<sup>2</sup>

Audit noted that the Council failed to prepare its annual financial statements under IFRS for SME. Thus, the annual financial statements prepared are contrary to the instruction stipulated in section 47 of the Local Government Act.

<sup>1</sup> Local Government Act, Cap 125 – Section 47(2)

<sup>2</sup> Fiji Institute of Accountants Annual Report for 2011 – page 14

**Recommendation**

**The Council should work towards the adoption of IFRS for SMEs in preparing the financial statements.**

**Management Comment**

*Noted.*

**5.8 Non-Transfer of Loan to Fiji Roads Authority**

All loans taken in relation to construction or maintenance of roads by the Council will be transferred to Fiji Roads Authority<sup>3</sup>.

The Council has recorded a total term loan of \$2,632,926 in its financial statements. Including in that loan is loan balance of \$236,310 which was specifically taken for the construction and maintenance of roads. The Council has failed to transfer this loan balance to the Authority as at 31 December 2013.

The Council has not complied with FRA decree 2012. Additionally, term loan in the financial statements is not fairly stated.

**Recommendation**

**The Council should liaise with FRA and transfer the loan balance to the Authority.**

**Management Comment**

*The delay was from FRA hence transaction took place in early 2014.*

**5.9 Failure to recover advance to parking meter**

The Council should make all effort to recover money advanced to Parking Meter Fund account. This will assist the Council in its operations.

Audit noted that stated in the statement of financial position is the amount totalling \$156,616 which constitutes a receivable from Parking Meter Fund. However, the Council made no effort to recover this amount from Parking Meter. Instead receipts from parking meter which are accidentally banked in the General fund are offset against this receivable.

The above anomaly poses doubt on the existence and valuation of the amount reported as advance to Parking Meter.

**Recommendation**

**The Council should ensure that the amounts owed internally are cleared.**

---

<sup>3</sup> Fiji Roads Authority (FRA) Decree 2012



### **Management Comment**

*Comments Noted. The advance given from the General Fund for the installation of the parking meters was basically to have a controlled traffic flow in town. However, Council will now have a target to deposit certain amount of money monthly to clear the advances made to Parking Meter.*

## **5.10 Tavua and Ba end museum projects**

The ledger account of each expenditure item or code should show the total budget approved by the Council at any time. The normal progression is initial budget at the beginning of the year, subsequent increases for additional needs and decreases for funds wired to other programmes.<sup>4</sup> It is also imperative that proper planning is carried out before execution of any project.

The audit noted the following with respect to the creation of outdoor museums at both ends of the town entrance from the Kings Highway.

- There was no evidence of approval noted in the minutes of the Council to carry out this project.
- There was no feasibility study carried out prior to carrying out this project. Consequently, the Council had to remove the museum constructed at Tavua end as it was built on top of a sewer line and obstructed the railways for locomotive trains transporting sugar cane to the Rarawai Mill.
- No approval was obtained from Fiji Roads Authority, Water Authority of Fiji and Fiji Sugar Corporation (for Tavua end) for access, right of way and site permit for construction.
- Improper records were kept by the Council for the cost of the construction for audit verification. Discussion with the Accountant revealed that most materials used in the project were provided by the general community of Ba free of costs. The Council in turn supplied the labour and construction ideas from its workforce. However no evidence existed to substantiate these arrangements.

The above anomalies indicate improper planning by the Council in the construction of the Museum.

### **Recommendation**

**The Council should ensure that it plans adequately and obtain all necessary approvals for any future projects.**

### **Management Comment**

*Comments noted. Council admits that no feasibility study was done but reiterates that most of the items were donated by the public and the ideas and construction works were carried out by the Council Workforce. These projects were solely administered and supervised by the then Special Administrator and the Council followed the instructions given by him.*

## **5.11 Anomalies in property, plant and equipment**

There should be periodical survey or stock-take, at least once a year, to determine the existence of the assets and their physical condition. At such surveys opportunity should be taken to report on

---

<sup>4</sup> Manual of Municipal Councils Appendix 8

deteriorating condition of any item and the provision made for proper maintenance, or even disposal to save further loss<sup>5</sup>

Depreciation expense should be allocated to the asset across the year. Additionally, all negative written down values of the property, plant and equipment should be investigated and appropriate adjustment taken to adjust the difference.

The audit noted the following anomalies in the audit of property, plant and equipment;

- The Council did not carry out a board of survey for its assets as required by the Manual of Accounts for Municipal Council of Fiji.
- Some items of plant and equipment were not charged depreciation for the whole year. Refer to Table 5.1 for details.

**Table 5.1: Items not allocated depreciation**

Asset	WDV (\$)
Table for Sushil	228.28
3 office tables	504.34
2 office chair	253.92
4 x Maroon Euro Visitors Chair	473.32
1x Red Typist Chair - Health	98.84
1x Grey Typist Chair	145.77
1 Piece (Grey) Curtain Blinds	399.99
2 Piece (Grey) Curtain Blinds	(45.46)
1 View Sonic set	1,092.59
1 Computer set	1,551.38
APC - UPS	159.26
1 set computer - health	1,347.15
1 Finger Machine- time clock	653.62
HL-2030 PRINTER-CASHIER	150.73
BROTHER-MFC-J6510DW-HEALTH	572.46
2 x TH48 Kawasaki Brush Cutter	1,401.62
2 x TH48 Kawasaki Brush Cutter	1,390.14
2 x TH48 Kawasaki Brush Cutter	1,459.24
2 x TH48 china brand	508.70
2 Water Pump - Diesel	1,409.85
Bosch hammer Drill	674.08
Makita Angle Grinder	122.71
1 Makita Drop Saw	700.44
Plate Compactor Machine 80kg	508.70
Sid chrome Socket set tool for Kato	1,439.42
Combination Pliers 2 - electrical	188.41
Maxton Hot Water URN	226.43
Maxton Chest Freezer	729.62
Toshiba Torch	56.52

- No depreciation was allocated against the costs of tractor and trailer during the year. As at balance date, the tractor recorded a written down values of \$10,000 while the trailer recorded \$5,000.
- Some items of property, plant and equipment had negative written down value. Refer to Table 5.2 for details.

<sup>5</sup> Manual of accounts for Municipal Councils in Fiji, section 19.3

**Table 5.2: Items with negative written down values**

<b>Asset</b>	<b>WDV (\$)</b>
Complete Sound System Set	(725.35)
4 Drawer Steel Cabinet	(8.50)
1 x 2 Drawer Steel Cabinet	(6.25)
2 x 4 Drawer Steel Cabinet	(8.50)
1 x 2 Drawer Steel Cabinet	(6.25)
4 x 4 Drawer Steel Cabinet	(8.50)
1 x 4 Drawer Steel Cabinet	(8.50)
2 x 4 Drawer Steel Cabinet	(8.50)
Burn Site Small Steel Safe	(11.25)
Crown Steel Safe	(5.00)
Ceiling Fan	(2.00)
Ceiling Fan	(2.00)
Ceiling Fan	(2.00)
Power Mate Rotating Ceiling Fan	(3.75)
	<b>(806.35)</b>

- The amount for property plant and equipment recorded in the financial statements was more by \$4,778 when compared to the amount calculated from the fixed asset register.

This implies that the amount disclosed for property plant and equipment in the accounts is incorrect.

### **Recommendations**

#### **The Council should:**

- ensure that annual Board of Survey is conducted at least once a year and a report prepared about the conditions of its assets;
- depreciation is allocated against all the assets available for used during the year;
- reverse the depreciation on assets which have zero written down value;
- carry out reconciliation between the Fixed Asset Register and the balance of the property plant and equipment recorded in the accounts; and
- resolve any difference noted between the fixed asset register and the amount for property plant and equipment recorded in the financial statements.

### **Management Comment**

*Comments noted and ensures that Board of Survey be conducted before financial year ends.*

## **5.12 Breach in FNPF Loan**

The charge created by this Deed shall become enforceable if the mortgagor fails to pay any part of the secured moneys on the due date of the payment thereof.<sup>6</sup>

The audit noted that the Council made four monthly loan repayments during the year instead of twelve. Consequently, a confirmation dated 30 June 2014 from the Fiji National Provident Fund to audit stated that the Council had breached the term of the mortgage by not meeting its repayment schedule. As at

<sup>6</sup>Deed of Debenture between Ba Town Council and Fiji National Provident Fund dated 2/4/2004- Paragraph 7.1(a)

31 December 2013 the loan was in arrears of \$324,882.30 which incurred accrued interest charge amounting to \$199,423.

The Council has not complied with the loan agreement and would find difficulty in obtaining any further financing assistance from the Fund in future. Additionally, the Council could lose its assets pledged as securities if it continues to default on the loan repayments.

### **Recommendation**

**The Council should give upmost priority to the required repayment agreement with FNPF and make monthly loan repayments on time.**

### **Management Comment**

*Comments noted. Council's revenue for that property is less than the repayment per month since lot of space is vacant. At present Council is not in a position to pay the full repayment, but is making every effort to have the whole area rented out to pay the arrears. Since then Council had meetings with FNPF and other financiers and has finally decided to refinance its loans by the Bank of the South Pacific whose interest rate is 4.5% annually which Council can repay.*

## **5.13 Value Added Tax**

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

Our review of Council's VAT revealed a variance amounting to \$100,388 between the general ledger and the independent reconciliation carried out by audit with the statement of VAT account received from FRCA. Refer to Table 5.3 for details:

**Table 5.3: Variance in VAT**

Particulars	Amount (\$)
VAT payable as per SVA reconciliation	10,141
VAT payable as per financial statements	110,529
Variance	100,388

The above variance indicates that no reconciliation was prepared during the year between the general ledger and the statement of VAT account. Consequently, VAT in the financial statements is incorrectly reported.

### **Recommendation**

**Monthly VAT reconciliations should be prepared between the Council's records and FRCA's statement of VAT account and any variance arising thereon should be properly investigated and resolved.**

**Management Comment**

*The Council does monthly Vat reconciliation. The Council does not pay VAT on rates which are not collected. As we collect rates, Vat is paid accordingly.*

## SECTION 6: NAUSORI TOWN COUNCIL

### Programme Statement

The Nausori Town Council was established under the Local Government Act (Cap 125 Rev 1985) and Section 5 of the Subsidiary Legislation.

Currently the Council has a total of 2,855 ratepayers and 1,109 rateable properties in the Town. The Council's daily operations are administered by the Special Administrator appointed by the Ministry of Local Government.

The services provided by the Council are issuance of business licenses, cleaning, maintenance and upgrading of infrastructure, sanitation services, lighting, drainage and maintenance of parks and gardens. Revenue generated by rates levied, issuance of licences, rents received from Council properties and miscellaneous revenue are used to finance the above services as well as to meet the administration expenses of the Council.

### Table of Contents

<b>SECTION 6: NAUSORI TOWN COUNCIL</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION</b>	<b>2</b>
6.1 Audit Opinion 2011	2
6.2 Abridged Statement of Financial Performance – General Fund	3
6.3 Abridged Statement of Financial Position – General Fund	3
6.4 Abridged Statement of Financial Performance – Parking Meter Fund	4
6.5 Abridged Statement of Financial Position – Parking Meter Fund	4
6.6 Abridged Program Information	5
<b>PART B – CONTROL ISSUES</b>	<b>5</b>
6.7 Non – adoption of International Financial Reporting Standards for Small Medium Enterprises	5
6.8 Failure to carry out bank reconciliation	6
6.9 General fund bank reconciliations	6
6.10 Cash on Hand	7
6.11 Risk of debts becoming uncollectible	8
6.12 Discrepancies in the debtors records	8
6.13 Variance between general ledger and sundry creditors listing	9
6.14 Value Added Tax	10
6.15 Anomalies in the annual leave	11
6.16 Payments made to Abilesh Deo	12
6.17 Late submission of financial statements	14
6.18 Loan Rate & Street Light Account	14
6.19 Fire Service Account	15
6.20 Anomalies in accounting for property, plant and equipment	16
6.21 Sundry deposits	17
6.22 Tenancy agreement	18

## PART A – FINANCIAL INFORMATION

### 6.1 Audit Opinion 2011

The audit of the financial statements of the Council for the year ended 31 December 2011 resulted in the issue of a disclaimer of opinion. The basis for the disclaimer of opinion are as follows:

- Nausori Town Council is a municipal council and its financial statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs). The Council is yet to comply with IFRS for SMEs as required for general purpose financial statements.

Accordingly, the Auditor General was unable to determine the impact on the financial statements of the Council if any, adjustment which may be necessary if the financial statements were prepared under IFRS for SMEs.

- The Council failed to provide a detailed Fixed Assets Register for audit. Consequently, the audit was not able to perform necessary audit procedures to substantiate the value and existence of property, plant and equipment (PPE). Accordingly, the Auditor General was not able to confirm if PPE of \$6,975,293 and the relevant depreciation charge of \$166,103 are fairly stated in the financial statements.
- The Council's WINBIZ Rate System has not generated separate reports from 2007. As a result, special loan rates and street light rates were not appropriately disclosed in their respective accounts but included with general rates income in the General Fund Account contrary to section 47(2)(b) of Local Government Act.
- Included in the Statement of Financial Position – General Fund is cash on hand amounting to \$15,022. Reconciliation or supporting documents were not provided to substantiate the existence of this amount at balance date. Accordingly, the Auditor General was not able to satisfy himself if cash on hand is fairly reported in the financial statements.
- Un-reconciled difference of \$143,217 existed for sundry creditors and accrual (note 7) between the general ledger and subsidiary listing. Additionally, un-reconciled variance of \$96,954 also exists between the general ledger for VAT and independent reconciliations of Statement of VAT account. The audit was not able to resolve these variances through any other alternative audit procedures. Accordingly, the Auditor General was not able to satisfy himself if the creditors and accruals of \$759,733 are fairly stated in the statement of financial position.
- Included as part of current liability is sundry deposits of \$163,196 (Note 9). The Council failed to provide detailed listings or supporting documentation to substantiate the existence and valuation of these deposits. Thus, the Auditor General was unable to satisfy himself whether the sundry deposit of \$163,196 is fairly stated in the financial statements.
- Stale cheques of \$30,860 were not written back to cash at bank general ledger. The Auditor General was not able to make the necessary adjustments to the account due to unavailability of appropriate supporting documents. Consequently, Bank Overdraft of \$86,808 is not fairly stated in the Financial Statements.

- The Council failed to provide any reconciliation or listing for the general rates revenue of \$1,220,886. Therefore, the Auditor General was unable to confirm if the general rates is fairly stated in the statement of income and expenditure.

## 6.2 Abridged Statement of Financial Performance – General Fund

Year ended 31 December	2011 (\$)	2010 (\$)
<b>Income</b>		
Rates	1,220,886	608,357
Interest	-	14,935
Fees charges and rent	768,806	918,988
Business and trading licenses	128,562	90,507
Garbage fees	6,630	1,527
Others	113,153	186,391
<b>Total Income</b>	<b>2,238,037</b>	<b>1,820,705</b>
<b>Expenditure</b>		
Administration	924,155	752,292
Garbage services	258,466	221,312
Operation and maintenance of plant, equipment and vehicles	62,140	69,228
Operation and maintenance of properties	155,803	161,165
Depreciation	159,729	267,290
Street lights	172,971	121,301
Street cleaning and grass cutting services	185,766	100,121
Insurance	38,943	37,185
Roads, footpaths, drains, verges and bridges	66,955	28,780
Rent on land	36,406	24,000
Others	254,239	232,698
<b>Total Expenditure</b>	<b>2,315,573</b>	<b>2,015,372</b>
<b>Net Deficit For The Year From Ordinary Activities</b>	<b>(77,536)</b>	<b>(194,667)</b>

Council operation realised a deficit of \$77,536 in 2011 compared to a deficit of \$194,667 in 2010. The improvement was mainly attributed to the increase in revenue from rates by \$612,529 (101%) in 2011 compared to 2010.

## 6.3 Abridged Statement of Financial Position – General Fund

As at 31 December	2011 (\$)	2010 (\$)
<b>Assets</b>		
Cash on hand	15,022	16,364
Fund	6,376	8,743
Receivables	2,363,427	2,283,726
Investments	107,225	265,705
Deposits	1,031	1,031
Property, plant and equipment	6,975,293	6,761,886
<b>Total Assets</b>	<b>9,468,374</b>	<b>9,337,455</b>
<b>Liabilities</b>		
Bank overdraft	86,808	59,005



As at 31 December	2011 (\$)	2010 (\$)
Creditors, accruals & provisions	778,673	525,752
Sundry deposits	163,196	163,196
Term loans	194,654	239,522
Deferred income	318,226	345,626
<b>Total Liabilities</b>	<b>1,541,557</b>	<b>1,333,101</b>
<b>Net Assets</b>	<b>7,926,817</b>	<b>8,004,354</b>
<b>Municipal Funds</b>		
Accumulated funds	1,911,292	1,988,829
Reserves	6,015,525	6,015,525
<b>Total Municipal Funds</b>	<b>7,926,817</b>	<b>8,004,354</b>

Council's net assets decreased by \$77,537 or 1 % in 2011 compared to 2010. This was mainly attributed to the increase in trade creditors, accruals and provisions by \$252,921 and a decline in investments by \$158,480 during the year.

#### 6.4 Abridged Statement of Financial Performance – Parking Meter Fund

Year ended 31 December	2011 (\$)	2010 (\$)
<b>Income</b>		
Meter tolls and towings	52,493	56,563
Fines	24,869	4,825
<b>Total Income</b>	<b>77,362</b>	<b>61,388</b>
<b>Expenditure</b>		
Salaries, wages and related payments	-	25,650
Meter maintenance	58	1,533
Depreciation	6,374	5,089
Others	19,109	17,698
<b>Total Expenditure</b>	<b>25,541</b>	<b>49,970</b>
<b>Net Surplus for the Year</b>	<b>51,821</b>	<b>11,418</b>

There was an improvement in the Council parking meter fund account in 2011. Net surplus increased by \$40,403 or 353.9% in 2011 compared to 2010. This was mainly attributed to a significant increase in parking meter fines collected during the year in 2011 compared to 2010. Moreover, salaries and wages decreased by \$25,650 or 100% in 2011.

#### 6.5 Abridged Statement of Financial Position – Parking Meter Fund

As at 31 December	2011 (\$)	2010 (\$)
<b>Assets</b>		
Cash at bank	6,177	11,731
Receivables	77,791	14,429
Non-current assets	57,808	59,291
<b>Total Assets</b>	<b>141,776</b>	<b>85,451</b>
<b>Liabilities</b>		
Creditors and accruals	13,271	8,767
<b>Total Liabilities</b>	<b>13,271</b>	<b>8,767</b>

As at 31 December	2011 (\$)	2010 (\$)
Net Assets	128,505	76,684
Net Accumulated Funds	128,505	76,684

Net assets for parking meter account increased by \$51,821 or 68% in 2011 compared to 2010. This was mainly attributed to the increase in receivable by \$63,362 in 2011.

## 6.6 Abridged Program Information

Year ended 31 December	2011			2010
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	2,238,037	2,315,573	(77,536)	(194,667)
Parking Meter Fund	77,362	25,541	51,821	11,418
<b>Total</b>	<b>2,315,399</b>	<b>2,341,114</b>	<b>(25,715)</b>	<b>(183,249)</b>

## PART B – CONTROL ISSUES

### 6.7 Non – adoption of International Financial Reporting Standards for Small Medium Enterprises

Every Council shall keep proper accounts and records which shall be kept in accordance with the accounting standards approved by the Fiji Institute of Accountants.<sup>1</sup>

Smaller accounting entities will, following FIA's adoption of the IFRS for SMEs Standard from 1st January 2011, need to comply with that Standard. The old Fiji Accounting Standards (FASs) have been withdrawn.<sup>2</sup>

The audit noted that the Council failed to prepare its annual financial statements under IFRS for SMEs. The annual financial statements prepared are also contrary to the instruction stipulated in section 47 of the Local Government Act.

#### **Recommendation**

**The Council should work towards the adoption of IFRS for SMEs in preparing the financial statements.**

#### **Council's Comments**

*Council has been working towards shifting to IFRS for SMEs from 2012. It is expected that from 2014 accounts shall be IFRS for SMEs adaptable. In 2012, the Treasurer had drawn up a program which had all Council properties valued late in 2012. However, work did not continue in second half 2013 due to management changes and work shall be completed in 2014.*

<sup>1</sup> Local Government Act, Cap 125 – Section 47(2)

<sup>2</sup> Fiji Institute of Accountants Annual Report for 2011 – page 14

## 6.8 Failure to carry out bank reconciliation

It is necessary to have the cash book balance reconciled with the balance shown in the banks records. This should be done at least once a month. Any continuing items causing a difference between the two records should be investigated and resolved.<sup>3</sup>

Audit noted that the bank reconciliations were not carried out for the Garbage fund, Vehicle fund and Labourers fund accounts.

Non preparation of the bank reconciliation is a significant breakdown in internal control over cash at bank. Additionally, balance stated in the balance sheet could be misstated due to errors or omissions not being detected on time.

### **Recommendation**

**The Council should carry out bank reconciliations of all bank accounts.**

### **Council's Comments**

*Council has been receiving Bank Reconciliation statement with cash book balances in its standing Finance Committee meeting from 2012. In 2011, Council management had been working towards reforming the Finance Department which included bringing structural adjustments to improve these areas. We certainly will ensure that on a monthly basis Bank Reconciliations for each bank account are checked, reviewed and certified by the Treasurer and Chief Executive Officer.*

## 6.9 General fund bank reconciliations

The bank reconciliation should be checked by the supervisor to determine its timely preparation and that it contains no unusual entries requiring further investigation.<sup>4</sup>

All cheques written by the Council and not presented to the bank after 6 months becomes stale and should be written back.

The following discrepancies were noted in the bank reconciliation for the General Fund Account for the year ended 31 December 2011:

- Monthly bank reconciliations were not signed by the Treasurer and Chief Executive Officer for the preparation and verification of the balances.
- Amounts appearing in the bank reconciliation for a long period of time relating to deposits not credited \$19,932.35 and bank error \$19,365.41. No valid reasons were provided for these amounts.
- Stale Cheques were not cleared on time, this amounted to \$30,860.09. Failure to write back stale cheques results in understatement of cash at bank general ledger account.

The above findings indicate ineffective control over the bank account records. The Treasurer and Chief Executive Officer have failed to exercise their supervisory duties. .

<sup>3</sup> Manual of accounts for municipal councils in Fiji section 6.5

<sup>4</sup> Manual of Accounts for Municipal Council in Fiji – Appendix 3 – Section 9 Paragraph 5

**Recommendations**

**The Council should ensure that:**

- **bank reconciliations for each bank account are checked, reviewed, and certified correct by the Treasurer and the Chief Executive Officer.**
- **all cheques that remain un-presented for more than 6 months are written back to cash ledger and respective expense or liability accounts. Furthermore, where appropriate, replacement cheques are to be issued for stale cheques after appropriate reconciliations of the payment is carried out.**
- **after the preparation of monthly bank reconciliation, all irregularities identified should be adjusted accordingly to avoid large amount of variance between the bank statement and the Council's records.**

**Council's Comment**

*No comments provided on the issue.*

**6.10 Cash on Hand**

It is necessary to have the cash book balance reconciled with the balance shown in the General Ledger. This should be done at least once a month. Any continuing items causing a difference between the two records should be investigated and resolved.<sup>5</sup>

Verification of the General Ledger and the Financial Statement noted a balance of \$15,022 recorded as Cash on Hand.

The audit noted that no reconciliation was prepared to substantiate this amount. Discussion with the Acting Treasury revealed that the monies were withdrawn from the bank in order to facilitate cash float at Ratu Cakobau Park mainly for sporting events. Though the collections from Ratu Cakobau Park were banked, the Council was not in the position to differentiate the actual collection and the cash float as no reconciliation was performed.

The above practice increases the risk of loss of cash through theft and misappropriation of funds. It also clearly indicates ineffective controls and lack of supervisory checks in the Accounts Section.

**Recommendations**

**The Council should ensure that:**

- **proper records are kept for cash on hand.**
- **the internal control procedures in the Accounts Section, specifically supervisory checks should be strengthened to avoid such discrepancies.**
- **monthly cash on hand reconciliation are prepared and any variances arising should be immediately investigated and accounts reconciled. This matter should be taken as a high priority because of its risky nature.**
- **immediately investigate and reconcile the cash on hand amounting to \$15,022.**

---

<sup>5</sup> Manual of Accounts for the Municipal Councils in Fiji – Section 6.5  
Report of Municipal Councils – December 2014

**Council's Comment**

*The finance department has been withdrawing cash float as per requirements for games at Ratu Cakobau Park. The practice has been withdrawing by cheques which is signed by Council and later banking. We note comments and a policy will be drawn on the same.*

**6.11 Risk of debts becoming uncollectible**

The Council should maintain an effective control on the collection of outstanding debts. This will ensure that the Council debts are timely collected.

The review of the sample of rates receivables revealed that \$164,906.52 or 7.29% of the total rates receivable amount is outstanding for more than 90 days.

The above shows that the Council may have an ineffective debt collecting policy. Additionally, the Council is exposed to doubtful debts.

**Recommendation**

**The Council should ensure that an effective debt collecting measure is taken to ensure all outstanding debts are collected on time.**

**Council comments**

*Rates collection for 2011 had been improving compared to previous years following an introduction of Rates policy guideline. However, Council management noted that engagement of certain solicitors had become a costly exercise and lawyers were claiming high fees for taking cases to court. Emphasis on 2011 and 2013 (first half) has been to improve ratepayers' awareness and collect rates. Defaulting ratepayers from this month, 2014 shall be taken through the legal process and first chance shall be given to solicitors practicing in Nausori. Process of collection shall be strengthened and Local Government Act Cap 125 shall be strictly adhered.*

**6.12 Discrepancies in the debtors records**

Every Council shall keep proper accounts and records which shall be kept in such manner as may be directed by the Minister.<sup>6</sup>

The following discrepancies were noted from the review of Council's Accounts Receivables for the year ended 31 December 2011:

- Debtor's reconciliation for the year was not prepared. Variances were noted between the figures reported in the financial statements and the Council's records. Refer to Table 6.1 for details:

**Table 6.1: Financial statement versus Council's records**

Receivable type	Financial Statement (\$)	Council's record (\$)	Variance
Rate debtors	2,261,131	2,149,991	111,140

<sup>6</sup> Local Government Act Cap – Section 47 (2)

- Debtor's listings were not provided for outstanding rates, fees, charges and rents.
- Other receivables amounting to (\$4,124) was not supported with supporting documents.

The above findings increases risk of incorrect financial reporting of accounts receivable balance.

### **Recommendations**

**The Council should ensure that:**

- proper reconciliation of debtors are carried out by the Council so that variances between records and general ledger are identified and addressed on a timely basis.
- all relevant documents are produced for audit verification in order to ascertain that the figures reported in the Financial Statement are not misstated.
- It carries out its own inspection of individual debtor's records on a regular basis so that any anomalies are addressed on a timely manner.
- the internal control procedures in the Accounts and Rate Collection division, specifically supervisory checks should be strengthened to avoid above discrepancies.

### **Council's Comments**

*Subsidiary and General Debtors reconciliation shall commence from August, 2014.*

## **6.13 Variance between general ledger and sundry creditors listing**

It is the best practice to reconcile the Creditors listing to the general ledger reports and prepare a ledger reconciliation statement.

Audit noted that the Sundry Creditors listing provided by the Council did not match with the General Ledger. Refer to Table 6.2 for details.

**Table 6.2: Details of variance between general ledger and sundry creditors listings**

Liabilities	General Ledger	Sundry Creditors Listings	Variance (\$)
Sundry Creditors & Accruals	477,264	334,047	143,217

Variance in general ledger and sundry creditors listing increases risk of incorrect financial reporting.

### **Recommendations**

**The Council should ensure that its internal control procedures in the Accounts Section, specifically supervisory checks should be strengthened to avoid such discrepancies.**

### **Council's Comments**

*During the month of August and September, 2014 subsidiary and General Ledger construction and reconciliation works shall be strengthened.*

## 6.14 Value Added Tax

Every registered person shall, on or before the last day of the month following the last day of every taxable period, without notice or demand furnish to the Commissioner a VAT return, in such prescribed form as may be approved by the Commissioner.<sup>7</sup>

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

The review of the VAT revealed the following anomalies;

- Variance amounting to \$96,954 was noted between the General Ledger and the independent reconciliation carried out by Audit with the Statement of VAT account received from FRCA. Refer to Table 6.3 for details;

**Table 6.3: Variance in VAT**

Particulars	Amount (\$)
VAT Payable as per VAT Reconciliation	31,725
VAT Payable as per Financial Statements	128,679
Variance	96,954

- Monthly VAT reconciliations were not prepared by the Council in 2011.
- The Council failed to maintain copies of the VAT Lodgement Form for the months of August, October, and December.
- Review of the vat lodgements/returns revealed that the VAT return were not lodged for the months of February, March, April, May and June. In addition, there is no evidence of VAT return being lodged on the VAT return form, as there is no stamped "Received" from Fiji Revenue and Custom Authority on the VAT return form and VAT return form is not properly filled. Refer to Table 6.4 for details.

**Table 6.4: Discrepancies in the VAT returns**

Month	Comments
January	Total normal taxable supplies made for the period and purchases and deductions sections not filled. No stamped "Received" from FRCA.
February	VAT return not lodged
March	VAT return not lodged
April	VAT return not lodged
May	VAT return not lodged
June	VAT return not lodged
July	Total normal taxable supplies made for the period and VAT on local supplies not filled. No stamped "Received" from FRCA.
August	Were not able to obtain VAT return.
September	Total normal taxable supplies made for the period not filled. No stamped "Received" from FRCA.
October	Were not able to obtain VAT return.

<sup>7</sup> Value Added Tax Decree 1991, section 33 (1)

Month	Comments
November	Total normal taxable supplies made for the period not filled. No stamped "Received" from FRCA
December	Were not able to obtain VAT return.

Failure to properly process, account and lodge for VAT may result in incorrect financial reporting and breach of statutory requirements. Furthermore, inaccurate and delay in lodgement of VAT returns could result in unnecessary penalties being imposed by the Fiji Revenue and Customs Authority

### **Recommendations**

**The Council should ensure that:**

- **monthly VAT reconciliations are prepared between the Council records and FRCA's statement of VAT account and any variance arising thereon should be properly investigated and resolved.**
- **the VAT Return Forms are filled properly and accurately, and checked by the Manager Finance.**
- **timely and accurate lodgements of VAT returns are made with adequate supporting details.**

### **Council's Comments**

*Value added tax submission and reconciliation has been upgraded from 2012.*

## **6.15 Anomalies in the annual leave**

A leave schedule in the prescribed form shall be kept in respect of every officer included in the officer's leave file. On the Leave schedule will be entered records of all leave granted to the officer commencing from the date he first joined the service. This leave schedule shall be produced upon demand for inspection by staff of the Public Service Commission, the Auditor General's Officer and Ministry of Finance.<sup>8</sup>

In the event of resignation, termination of appointment on any grounds or death of an officer, he or his representative shall be paid pro-rata compensation for, annual leave due to the officer up to the date of his resignation, termination, or death.<sup>9</sup>

The review of the annual leave records revealed the following anomalies:

- Balance of annual leave days as per leave schedules maintained in the files does not agree with the balance as per annual leave listing. Refer to Table 6.5 for details.

**Table 6.5: Leave Records**

Name	Leave days as per listing	Leave days as per employee's personnel file.	Variance
Vinay Prasad	31	38	7
Chandra Krishna	46.5	48	1.5
Pita T	7	0	7

<sup>8</sup> General Order, Section 725

<sup>9</sup> General Order, Section 703 (a) (i)



- Employees who resigned or were terminated during the year had their annual leave balance compensation calculated for the whole year instead of pro-rata basis. Refer to Table 6.6 for details.

**Table 6.6: Details of overpayment to staffs terminated or resigned during the year 2011**

Officer	Date of termination/resignation	Number of leave days due as at 31/12/2011	Comment
Nilay Singh	15/06/2011	45 days	The 45 days annual leave balance as at 31/12/2011 includes the 15 days annual leave entitlement during the year and 30 days' vacation leave.
Ravinesh Singh	March 2011	15 days	The officer had resigned on 25 February 2011. However, the 15 days annual leave balance as at 31/12/2011 includes the 15 days annual leave entitlement during the year.

The anomaly may result in incorrect leave days used in determining the provision for annual leave liability for the year ended thus increasing the risk of overpayment of annual leave compensation to staffs.

### **Recommendations**

- **The Council should ensure that annual leave schedule is updated immediately after the leave has been approved.**
- **The Council should ensure that calculations for annual leave provisions are supported with actual leave days earned but not utilised at balance date.**

### **Council's Comments**

*Human Resource Manager a new established position has been given the responsibility to reconcile and maintain subsidiary leave details which shall quarterly be matched with Finance section.*

## **6.16 Payments made to Abilesh Deo**

Once it becomes apparent or is determined that supply of a particular item of stores or service will exceed a certain limit approved by the Council (\$10,000 is reasonable amount in the present circumstance), a contract for the year or specific supply should be considered<sup>10</sup>.

Every contract and every instrument in documents which a council is lawfully empowered to execute shall be deemed to be duly executed by or on behalf of the Council, if signed by the mayor or by the town clerk or by any one or more councillors duly authorised in that behalf by any resolution of the Council.<sup>11</sup>

Audit noted from the review of payment vouchers revealed that the Council engaged Abilesh Deo for:

- chamber cleaning,
- post cleaning and painting,
- drain cleaning

<sup>10</sup> Manual of accounts for Municipal Councils in Fiji - Section 10.8

<sup>11</sup> Manual of accounts for Municipal Councils in Fiji – Appendix 6 Part 6

- sweeping of Rewa Bridge
- road patching
- cutting grass

The following discrepancies were noted during the review of payments made to Abilesh Deo:

- the Council failed to obtain three competitive quotations nor a tender was called prior to the engagement of Abilesh Deo for the work carried out
- The Council engaged Abilesh Deo without any agreement and paid \$33,703.37. It was also noted that the Council wrote a several cheques amounting to \$14,411 to Abilesh Deo and the remaining \$19,292.37 to Abilesh Deo Maintenance.

The above anomalies increase high risk of fraudulent activities relating to procurement of goods and services.

### **Recommendation**

**The Council should ensure that competitive quotations are obtained in accordance with the Manual for Municipal Accounts in Fiji to ensure that goods and services are obtained from most economical suppliers.**

### **Council's Comments**

*This business is a small scale enterprise all round contractor, introduced to Council in early 2010 by the then Technical Officer.*

*In 2011, the business due to its availability had been given a few ad hoc works to improve services to ratepayers. Jobs given were on a temporary basis and discontinued from 2012. Ad hoc job scope included:*

*1) Grass cutting and drain cleaning in town and Davuilevu ward.*

*Existing contract signed by Council in 2008 for the two Wards had noted that in cases where signed contractors were in default then Council will hire a contractor and pay the dues as per contract in between Council and the two contractors. This temporary contractor was hired on a piece meal based on the same.*

*2) Rewa Bridge cleaning and Highway Verges*

*Director National Roads had been funding for cleaning services and had demanded that Rewa Bridge be properly cleaned including chambers (which had silt coverage to road level) due to non-cleaning from previous years.*

*3) Post Cleaning and Painting*

*Post cleaning and painting of parking meters was carried under the supervision of the Parking Meter Supervisor after receiving quotations.*

*Records including requisition have been maintained by the Technical Section with briefs on activities presented in weekly Monday meetings.*

*Contractors' issues from 2012 have been improved upon and by September 2014 we plan to have list of approved suppliers. Total supervisory control by Chief Executive Officer over procurements shall be activated from immediately.*

## 6.17 Late submission of financial statements

An annual statement showing the financial position as regards the general and special accounts of municipal fund in a form approved by the Minister shall be prepared by the Council on or before 31 May in every year showing that assets and liabilities of the Council on 31 December immediately preceding year.<sup>12</sup> The annual statements prepared by the Council shall be audited.<sup>13</sup>

The Council did not meet the statutory deadline required under the Local Government Act for the submission of the 2012 draft annual financial statements for audit. The draft Financial Statement was received on 5 June 2013.

Delay in the submission of the draft annual financial statement for audit is a breach of the Local Government Act. Additionally, late submission of annual accounts for audit purposes indicate that the accounts are not prepared on a timely basis hence losing its relevance.

### **Recommendation**

**The Council must ensure that the draft annual financial statement is submitted to the Auditor General for audit on or before 31 May every year.**

### **Council's Comments**

*Management is working out a plan where all attempts are being made to have accounts audit brought at par before 31<sup>st</sup> December, 2014.*

## 6.18 Loan Rate & Street Light Account

A Council may make and levy special rates in all or any part of the municipality for the purpose of undertaking any works or services which may be lawfully undertaken by the Council or for the payment of interest and sinking fund of any loan raised by the Council for such purposes.<sup>14</sup> Moneys raised on a special rate shall be accounted for separately in the books of the council and such moneys shall not be used for any other purpose than that for which the rate is imposed.<sup>15</sup>

Section 47(2) (b) of the Local Government Act also requires that Councils should keep separate accounts of all monies raised as levied or appropriated or allocated to or held for any special purpose.

Review of Loan rate and Street Light account revealed the following anomalies;

- The Loan Rate account had a carried forward balance of \$393,555 from 2007. It was noted that the Council was receiving monies from the ratepayers however the same was not disclosed in the Statement of Income and Expenditure for the Loan Rate Fund Account. There was no movement in the account since 2007.

Discussion with the Acting Treasurer during the audit revealed that since 2007 the Council could not generate separate reports for general and special rates. Thus, the amount for Special Loan Rate is not separately disclosed in the accounts.

<sup>12</sup> Local Government Act – Section 57(1)

<sup>13</sup> Local Government Act – Section 57(2)

<sup>14</sup> Local Government Act – Section 59(1)

<sup>15</sup> Local Government Act – Section 59(1)

- Council's street light fund account has a carried forward balance of \$371,196 as at 31 December 2011. It was noted that the Council was receiving monies from the ratepayers however the same was not disclosed in the Statement of Income and Expenditure for Street Light Account

The above is contrary to Section 47(2) of the Local Government Act.

### **Recommendation**

**The Council should make an effort to account for Loan rate and streetlight rates separately in the financial statements**

### **Council's Comment**

*Proper separate accounts from August, 2014 shall be presented in Monthly Finance Standing Committee meetings.*

## **6.19 Fire Service Account**

Section 10 of the National Fire Service Act states that on the date of its commencement all real and personal property of every fire brigade nested in the Board of Fire Commissioners of Suva and all Municipal Councils shall vest in the Authority without conveyance or assignment, subject to all charges, encumbrances, contracts, engagements, debts, liabilities, and powers of the Board of Fire Commissioners of Suva and Municipal Councils.

According to the legal opinion issued by the Solicitor General and Secretary for Justice on 3<sup>rd</sup> February 1997 National Fire Authority should be receiving all fire services levy collected by the Council since 1995.

Audit noted that the Council's Fire Service Account had a balance of \$32,791. According to the Acting Treasurer, the Fire service rate was collected by the Council prior to 1995, and is yet to be transferred to the General Account. However, audit could not substantiate whether the balance was in fact being carried forward from 1994 due to lack of appropriate documentary evidence.

Council may not be complying with the directive by the Solicitor General and Secretary for Justice.

### **Recommendations**

- **The Council should reconcile the Fire service account and seek approval from the Minister for Local Government and transfer the funds to the General Account.**
- **The Council should return the Fire service levy to National Fire Authority for any levies received since 1995.**

### **Council's Comments**

*As per Finance comments from 1995 Council did not strike Fire rates, thus no funds have been collected from 1995. Reconciliation will be made and Hon. Minister requested to transfer from special to General fund account.*

## 6.20 Anomalies in accounting for property, plant and equipment

There should be periodical survey or stock-take, at least once a year, to determine the existence of the assets and their physical condition. At such surveys opportunity should be taken to report on deteriorating condition of any item and the provision made for proper maintenance, or even disposal to save further loss<sup>16</sup>

While the ledger account for an asset will show its current balance, it is not convenient to include full identification details, and break-downs for each item making up the ledger account. As an example, for motor vehicles the ledger balance will show the total value of the asset but no information about individual vehicle. A further subsidiary record, called register of assets has been devised to record such additional information. For each item of fixed asset the register should show the date of acquisition, certificate of title, lease or registration number, make, model and serial or engine number, and other identification as applicable to the particular item, initial cost, additions, disposals and the balance. For any periodical revaluation the relevant evidence should be quoted in the register. It should also show the accumulated provision for depreciation for the item.<sup>17</sup>

Depreciation means diminution in value. In accounting it is decrease in value of fixed assets resulting from wear and tear caused by their usage or effluxion of time. When an asset is purchased and used up in the organization for a number of accounting periods its cost is spread among such accounting periods. To do so a method is adopted so that the total cost less disposal value in the end is charged to the revenue over the period.<sup>18</sup>

The following discrepancies were noted in the Fixed Asset records;

- The Council failed to maintain a Fixed Assets Register for its fixed assets.
- Due to insufficient documents provided, audit was not able to determine the total costs of Parking Meter assets.
- Depreciation expenses for the parking meter assets were calculated using the carrying amount instead of the total costs.
- Fixed assets purchased during the financial year were not depreciated, including some fixed assets purchased in prior years

The anomalies indicate ineffective control and lack of supervisory checks in the Account and administration section. This increases the risk that fixed assets may not be properly recorded and accounted for. Also, in the absence of proper annual board of survey and Fixed Assets Register the Councils' fixed assets are at risk of misappropriations.

### **Recommendations**

**The Council should:**

- **open a fixed assets register; and**
- **depreciate all assets from the time they are purchased.**

### **Council's Comments**

*No comments on the issue.*

---

<sup>16</sup> Manual of accounts for Municipal Councils in Fiji, section 19.3

<sup>17</sup> Manual of accounts for Municipal Councils in Fiji, section 19.3

<sup>18</sup> Manual of accounts of Municipal Councils in Fiji, section 19.4

## 6.21 Sundry deposits

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.<sup>19</sup>

Sundry deposits of the Council are made up of deposits paid by tenants occupying Council properties, Bus, Taxi, Carrier and Mini Bus stands. Refer to Table 6.7 for details.

**Table 6.7: Deposits received from different types of tenant as at 31/12/11**

Deposit Type	2011 Balances (\$)
Kiosk Deposit	6,196
Other Deposit	53,790
Election Deposit	280
Shopping Complex	5,830
Car Park	90,760
Building Deposits	6,340
<b>Total</b>	<b>163,196</b>

The following anomalies were noted in the recording of Sundry Deposits:

- Breakdown of deposits received from tenants were not provided for audit examination. Hence, the above deposits could not be substantiated.
- The Council failed to maintain individual Tenant files hence details of individual Tenants could not be substantiated as majority of the Tenants are operating within Council properties for many years.
- Car park deposit included interest and bank charges totalling \$10,045.58 and \$35.47 respectively for which no justification was provided for audit. Refer to Table 6.8 for details.

**Table 6.8: Car park deposit in the following year including interests and bank charges**

Year	Particulars	Amount (\$)
1992	Bank Charges	(8.40)
1993	Bank Charges	(10.37)
1995	Bank Charges	(16.70)
<b>Total</b>		<b>35.47</b>
1995	Interest	2,327.26
1996	Interest	1,727.84
1997	Interest	1,653.00
1998	Interest	1,144.99
1999	Interest	1,578.49
2001	Interest	1,614.00
<b>Total</b>		<b>10,045.58</b>

Failure to maintain proper sundry deposit records may lead to dispute between the Council and tenants during the time of refunding deposits. Poor record keeping can also lead to poor decisions making.

<sup>19</sup> IFRS for SME – Section 2.15(b)

**Recommendations**

- The Council should ensure that proper records are maintained for all sundry deposits and individual files are open for each tenant so that all the relevant documentation for each tenant could easily be provided for audit.
- The Council should ensure that its internal control procedures in the Accounts and Administration Section, specifically supervisory checks are strengthened to avoid such discrepancies.

**Council's Comments**

*All tenants file shall be upgraded during the month of August, 2014.*

**6.22 Tenancy agreement**

The basis of any tenancy arrangement will be the agreement between the landlord and the tenant. This agreement or lease should be in writing, complete and all embracing. The responsibilities of the landlord and tenant should be clearly set out.<sup>20</sup>

Audit was not provided with a copy of valid tenancy agreement for most of the Council's properties that was given for lease. Refer to Table 6.9 for details.

**Table 6.9: Details of Council's properties given for lease with no valid agreement**

Commercial Property (Kiosk)		
#	Name	Remarks
1	Sunbeam Transport	No contract sighted as this was not produced for audit verification
2	Goloka Vegetarian	
3	Keshni Lata	
4	Vallabhai & Co	
5	Hirday Ram	
6	Suriya Ali - Gulams Dairy	
7	Station Bookshop	
8	Mahendra Patel	
9	Irene Investment	
10	Newman Ltd	
11	Farmers Top Up	
12	Vatukoula Express	
13	Reginald Singh	
Shopping Complex		
1	Bank of Baroda	Ok
2	Colonial Bank	No contract sighted as this was not produced for audit verification
3	Delta Timber	
4	Deoji & Sons	No contract sighted as this was not produced for audit verification
5	Dr Reddy	
6	Grants Waterhouse	
7	Lovers Point	

<sup>20</sup> Manual of Accounts for Municipal Councils – Section 7.5

Commercial Property (Kiosk)		
#	Name	Remarks
8	Razak Optometrist	
9	Yummy Meals	
10	Tebara Studio	
11	Wishbone & Pizza King	
12	Saniz Fashion	

Discussion with the Assistant Treasurer revealed that the agreements have expired and the Council has given the file to solicitors for preparation of the new agreements.

In case of losses or damages to the properties, the Council may face the risk of bearing the full cost of the losses.

### **Recommendations**

- The Council should ensure that the agreement between the Council and Tenants are properly vetted to ensure that they are current and rent paid by tenants should reconcile with rent amount specified in the agreement.
- The Council should ensure that once an agreement is about to expire proper planning should be made so that a new extension of agreement is already drawn up and ready for signing by both parties.
- The Council should also carry out progressive review of its rental rates and where there is an indication of a lower rent being charged, rent can be increased during the renewal of the tenancy agreement.

### **Council's Comment**

*Tenancy agreements and proper upkeep shall be maintained by the Finance department from August, 2014. is practice has commenced from 2012.*



## SECTION 7: LAUTOKA CITY COUNCIL

### Programme Statement

The Lautoka City Council is established under the Local Government Act which provides for the constitution of the city council and for the manner in which it may function, levy and collect rates, exercise powers and expend funds.

It is responsible for the provision and maintenance of a wide range of services for the benefit of ratepayers within the city. Key services provided by the Council include:

- a. Provision and maintenance of transport related facilities, including roads, streets and footpaths, car parks and parking meters, street names;
- b. Provision and maintenance of recreational facilities, including street cleaning, garbage removal, mosquito control, upkeep of public convenience and stray dog control;
- c. Maintenance and regulation of the Lautoka Market and Bus Station; and
- d. Other various matters including overseeing of building and subdivision, issuance of business, trading and other licenses.

The city boundaries are defined under the Act, which also set out four wards comprising the city namely Veitari, Waiyavi, Simla and Tavakubu.

### Table of Contents

<b>SECTION 7: LAUTOKA CITY COUNCIL</b>	<b>1</b>
<b>PART A - FINANCIAL INFORMATION</b>	<b>1</b>
7.1 Audit Opinion 2012	1
7.2 Abridged Statement of Income and Expenditure – General Fund	2
7.3 Abridged Statement of Financial Position – General Fund	2
<b>PART B – CONTROL ISSUES</b>	<b>3</b>
7.4 Roads, drains and footpaths not transferred to Fiji Roads Authority	3
7.5 General journal entries	4
7.6 Provision for doubtful debts	4
7.7 Increase in rate debtors	5
7.8 Debtors with significant balance	6
7.9 Variance between general ledger and debtors listing	7
7.10 Accumulated leave	7
7.11 Re-financing of interest bearings borrowings	9

## PART A - FINANCIAL INFORMATION

### 7.1 Audit Opinion 2012

The audit of the financial statements of Lautoka City Council for the year ended 31 December 2012 resulted in the issue of a qualified audit report. The qualification issues were as follows;

- The Council made several adjustments to the income and expense accounts amounting to \$1,481,148 and \$714,976 respectively through general journal entries. The Council failed to provide supporting documents for these journals for verification. Consequently, the Auditor General was unable to satisfy himself if these adjustments were correctly taken up in the general ledger and whether income and expenditure is correctly stated in the financial statements.

- Un-reconciled variance of \$643,428 exists between the rate debtors' listing and general ledger. Consequently, the Auditor General was unable to satisfy himself if receivable of \$4,550,547 is fairly stated in the financial statements.
- Included in property, plant and equipment (Note 10) are roads, drains and footpaths with written down value of \$45,898,723 as at 31 December 2012. All Municipal roads have been transferred to the Fiji Roads Authority (FRA) in accordance with the FRA Amendment Decree 2012. Consequently, property, plant and equipment are overstated in the financial statements.
- Un-reconciled variance of \$727,745 exists between the PAYE annual summary and the general ledger for salaries and wages. Consequently, the Auditor General was unable to satisfy himself if salaries and wages of \$1,385,533 are correctly stated in the financial statements.

## 7.2 Abridged Statement of Income and Expenditure – General Fund

As at 31 December	2012 (\$)	2011 (\$)
<b>Revenue</b>		
Rates	4,156,938	3,717,372
Fees, charges and rent	3,722,126	3,605,617
Other Revenue	1,087,405	1,164,220
<b>Total Revenue</b>	<b>8,966,469</b>	<b>8,487,209</b>
<b>Expenditure</b>		
Salaries, wages and related payments	1,385,533	1,262,103
Depreciation	732,263	721,625
Maintenance costs	1,263,106	1,068,346
Finance costs	578,518	656,543
Other expenses	3,996,103	3,715,604
<b>Total Expenditure</b>	<b>7,955,523</b>	<b>7,424,221</b>
<b>Net Surplus for the Year</b>	<b>1,010,946</b>	<b>1,062,988</b>

The Council's net surplus decreased by \$52,042 or 5% in 2012 compared to 2011 due to the increase in maintenance cost and salaries, wages and related payments by \$194,757 or 18% and \$123,430 or 10% respectively. The increase in these expenses was due to the increase in general maintenance undertaken for the parks and gardens, streetlight and street maintenance brought about by the impact of Cyclone Evans.

## 7.3 Abridged Statement of Financial Position – General Fund

As at 31 December	2012 (\$)	2011 (\$)
<b>Assets</b>		
Cash at bank and on hand	1,193,671	786,133
Term Deposit	1,346,120	1,496,385
Receivables	4,619,487	4,240,650
Property, Plant & Equipment	55,882,389	55,943,382
Inventories	22,567	40,588
<b>Total Assets</b>	<b>63,064,234</b>	<b>62,507,138</b>
<b>Liabilities</b>		
Creditors & Borrowings	795,074	798,390
Provisions	198,266	186,552
Term Loans	8,741,974	9,228,992
Capital grant in Aid	497,016	548,246

As at 31 December	2012 (\$)	2011 (\$)
<b>Total Liabilities</b>	<b>10,232,330</b>	<b>10,762,180</b>
<b>Net Assets</b>	<b>52,831,904</b>	<b>51,744,958</b>
<b>Accumulated Funds</b>		
General Fund	3,129,078	2,136,274
Parking Meter Fund	470,415	452,273
Car Park Fund	304,832	228,832
Reserves	48,927,579	48,927,579
<b>Net Accumulated Fund</b>	<b>52,831,904</b>	<b>51,744,958</b>

There was an improvement in the Council's net assets in 2012. Net assets increased by \$1,086,946 or 2% in 2012 compared to 2011. The increase in net asset is mainly attributed to the increase in the cash at bank and on hand by \$407,538 or 52% and the decline in term Loan by \$487,018 or 5%.

## PART B – CONTROL ISSUES

### 7.4 Roads, drains and footpaths not transferred to Fiji Roads Authority

Effective from 14 May 2012 all assets, interests, privileges, liabilities and obligation of Municipal Councils in relation to municipal roads shall be immediately transferred to and shall vest in the Authority without conveyance, assignment or transfer.<sup>1</sup>

The audit noted from the review of Council's property, plant and equipment that the Council has not transferred the roads, drains and verges to Fiji Roads Authority (FRA) as at 31 December 2012. The carrying amount of these assets is \$45,898,723.

The Council has not complied with the Fiji Roads Authority (amendment decree) 2012. Consequently, value of property, plant and equipment is overstated by \$45,898,723 in Council's statement of financial position.

#### **Recommendation**

**The Council should comply with the Fiji Roads Authority (amended decree) 2012 and transfer all assets in relation to municipal roads to FRA. Additionally, in respect of the transfer the Council should make necessary adjustments to its financial records.**

#### **Council's comments**

*After the promulgation of FRA decree in 2012 the council continued to maintain the roads, drains and footpaths and the understanding was that the asset would be transferred after MOU was signed off. The MOU was signed in January 2014.*

#### **Further OAG Comments**

**Although the Memorandum of Understanding was signed in January 2014, the Fiji Roads (Amendment) Decree 2012, clearly states that effective from 14 May 2012 all assets, interests, privileges, liabilities and obligation of Municipal Councils in relation to municipal roads shall be immediately transferred to and shall vest in the Authority.**

**Additionally, the MOU was signed after the date of the financial statements hence the Council had sufficient time to adjust its financial statements.**

<sup>1</sup> Fiji Road Authority (amendment decree) 2012, paragraph 7 (b)

## 7.5 General journal entries

To be reliable, information must represent faithfully the transaction and other events it either purports to represent or could reasonably be expected to represent.

Journal voucher system is an important internal control measure to record and report all accounting adjustments and transactions of non-cash in nature. All general journals raised as at balance date should be numbered, authorized, must contain narrations and supporting documentations to support the journal entries of non-cash nature.

The audit was not provided with supporting documents to substantiate the journal vouchers raised during the year. Consequently, audit was not able to verify if journal vouchers posted to the general ledgers were properly authorized and was accurate.

The above practice increases the risk of unauthorized or fraudulent entries passed in the general ledger.

### **Recommendation**

**The Council should ensure that any journal vouchers raised are fully supported with supporting documents and it should be checked and authorised by independent supervisors.**

### **Council's comment**

*The Council has adopted Journal Vouchers. The journal voucher will pass through the check procedures before being posted to the General Ledger.*

### **Further OAG Comments**

**The Council did not explain the reason the journal voucher was raised which is important for the reviewer of the JV. Though the Council has implemented the system of JVs narration should be provided to explain why the JV is being raised.**

## 7.6 Provision for doubtful debts

The certainty that applies to cash in hand does not apply to the amount owing by debtors. Accordingly it will show a true and fair position if there is a doubt in the value of the debtors. This position can be countered by making a reserve to provide for any doubtful debtors.<sup>2</sup>

The review of provision for doubtful debts noted that estimates have been used in calculating provision for doubtful debts recorded in the statement of financial position amounting to \$1,000,000. However, no listing of the amount or the method used in calculating allowance for un-collectability was provided for audit verification to evaluate the reliability and accuracy of the method used to estimate the provision.

The above increases the risk of incorrect financial reporting of allowance for un-collectability in the Financial Statements.

### **Recommendation**

**The Council should make a list of doubtful debts to support amount in the general ledger.**

---

<sup>2</sup> Manual of Accounts for Municipal Councils in Fiji, Section 7.1

### **Council's Comments**

*Currently our doubtful debt provision policy is being drafted which will be tabled to the council for adoption as policy which shall then be the basis for our calculations of provisions for doubtful debts.*

## **7.7 Increase in rate debtors**

As soon as the rate has been made and publicly notified, the payment for it becomes due. The next requirement is for the town clerk on behalf of the council to send out a demand notice to each ratepayer.<sup>3</sup> While payment by instalments is for the convenience of the ratepayer, a council could also resolve to give discount for prompt payment. This would mean some loss of rate revenue but at the same time the incentive gives earlier access to cash and saves work for the council on follow up of debtors.<sup>4</sup> A council may also recover rates which have been levied under provisions of this act and payable to the council and payment of which arrear and also the costs of proceedings, if any, for their recovery from a person liable to pay them, by action at the suit of the council in a court of competent jurisdiction.<sup>5</sup>

The review of rates debtors noted that the rate debtors have significantly increased by 7.5% during the financial year. At the end of the financial year 2012, the Council has a significant amount of rates in arrears. Refer to Table 7.1.

**Table 7.1: Details of rates receivable balance**

	2012 (\$)	2011 (\$)	Increase by (\$)	Percentage increase
Rates Receivable	4,550,547	4,233,385	\$317,162	7.5%

The significant outstanding rates show that the current collection strategy being implemented by the Council may not be effective.

If immediate steps are not taken to recover the arrears, it is possible that these may become irrecoverable and the Council may end up writing off substantial amount of debts.

### **Recommendations**

- **The Council should review its collection strategy and if possible divide the ratepayers between the rate collectors and set a weekly budget for each of the rate collectors for the amount collected.**
- **There should be a consistent follow up action and reminder notices should be sent and legal action taken where necessary.**
- **Concerted efforts should be made to recover the arrear to avoid write-offs.**

### **Council's Comments**

*All efforts are being taken to recover rates owed including legal action. For cases taken to the Small Claims Tribunal or the Magistrate Court, some of the ruling or awards for repayment arrangement made are not sufficient to simultaneously cover arrears and new rates, thus rates arrears keep on compounding.*

<sup>3</sup> Manual of Accounts for Municipal Councils in Fiji, Section 7.2

<sup>4</sup> Manual of accounts for Municipal Councils in Fiji, Section 7.2

<sup>5</sup> Local Government Act, Cap 125, Rev 1985, Section 78 (1)

## 7.8 Debtors with significant balance

It is imperative that long outstanding debtor's balances are investigated and appropriate adjustments to provision for doubtful debt account is made to ensure debtors are fairly reported in the financial statements.

Scrutiny of the rates debtors account noted that some rate payers have significant outstanding balance as at 31 December 2012. Refer to Table 7.2 for details.

**Table 7.2: Details of rates debtors balance with significant outstanding balance**

Assets	Assessment #	Balance as at 31.12.2012
Pac Investments	5787	315,985.67
Dee Cees Property	1644	26,057.25
Housing Authority	6786	116,692.07
Native Land Trust Board	5822	23,785.04

Discussions with the rates officer, Manager Finance and Administration Services, Director Finance and CEO, revealed the following in respect to the above assets;

- Housing Authority - the land is an undeveloped land, and there is some dispute to the land.
- Native Land Trust Board - The land is not given to the Council to develop by the land owners and is an undeveloped land.
- Pac Investment - the land is still with the Lautoka Lands Development.
- Dee Cees Property - the owner has died, and the property is vacant.

It was further noted that all of the above properties are un-developed land. Rates are charged as the properties within the city boundary.

The above indicates that the debts may not be recovered by the Council. This increases the risk of rates debtors balance being over-stated by the rates charged by the Council to the un-developed land.

### **Recommendation**

**The Council should ensure that rates debtors amounts that the Council is unlikely to recover should be written off provided Ministers' approval is obtained.**

### **Council's Comments**

*The Council is taking legal actions to recover outstanding debts and write-off will be the last resort.*

### **Further OAG Comments**

**The audit was not provided with any documentary evidence to indicate that legal actions are being taken for long outstanding rate debtors.**

## 7.9 Variance between general ledger and debtors listing

It is imperative that debtors' ledger is reconciled to the debtors listing to ensure that all debtors have been booked.

The audit noted that the Council did not prepare any reconciliation of receivables during the financial year. Furthermore, audit found that the rate debtors' amount in the rate debtors listing did not agree with the amount in the general ledger. Refer to Table 7.3 for details.

**Table 7.3: Details of Variance between General Ledger and rate Debtors Listings**

Assets	General Ledger	Sundry debtors Listings	Variance (\$)
Rate Debtors	5,113,540	4,470,112	643,428

Un-reconciled rates debtors balance between the general ledger balance and the listing is directly caused by non-preparation of receivable reconciliation.

### Recommendation

**The Council should ensure that monthly reconciliation of rate debtor's general ledger and listing is prepared and any variances arising thereon should be investigated and resolved.**

### Council's Comments

*The variance is for the rates debtors where difference between the individual rates ledger has been carried forward from previous years. The variance was due to discounts given, change in rate of VAT and write-offs that had not been reflected in both ledgers giving rise to difference between the two ledgers. Currently the council is reconciling individual rate accounts from subsidiary ledger to general ledger and final variance will be put forward to the Council for adjustments.*

## 7.10 Accumulated leave

Officers will be eligible for leave at the rate of 15 working days for each completed year of service up to five (5) years and increased to 20 working days for those who have completed continuous service for five years and over, such leave may be accumulated by agreement of the Council.<sup>6</sup>

The audit noted that the Council staff had excessive leave balances as at 31 December 2012. Refer to Table 7.4 for details.

**Table 7.4: Staff with accumulated leave balance more than 10 days**

Name	No. of leave days
Shiva Rajan	31
Salvin Singh	34
Irinale Nabalarua	18.5
Ramendra Sharma	21.5
Sundressan Reddy	59

<sup>6</sup> Agreement between Lautoka City Council and Fiji Local Government Officers Association dated 15/8/2007 – Paragraph No 10 Amendments to Article 7 – Annual Leave and Hours.

Name	No. of leave days
Mukesh Chand	49
Devika Prasad	25
Abdul Mofid	18
Shalendra Dass	40
Jabid Ali	19
Shri Charan	42
Gyneshwar Rao	74.5
Wally Atalifo	48.5
Shalend Prem Singh	39.5
Rouhit Karan Singh	80.5
Mikaele Bai	31
Rukshana Janif	40.5
Shailendra Kumar Shiu	20.5
Abdul Khan	34
John Rao	79
Epeli Ratabacaca	17
Daniel Chand	19.5
Rajneel Kumar	45.5
Sachin Mani	19.5
Sanjesh Narayan	28.5
Eseroma Sivo	17

The audit is of the view that such a significant amount of leave balance has arisen due to the poor leave administration which allowed staffs to accumulate their leave balance.

Audit further noted that the Council paid leave compensation to some of the officers upon resigning from the Council. Refer to Table 7.5 for details.

**Table 7.5: Sample of leave compensated**

Name	Type of Leave	No. balance due		Amount Compensated (\$)
		Hours	A/ Leave	
Jeremaia Marawa	Annual Leave	239	30	5,355.77
Amal Prasad	Annual Leave	575	41.5	14,317.93
<b>Total</b>				<b>19,673.77</b>

Poor administration of leave would allow staffs to accumulate leave balances resulting in un-necessary compensation of annual leave at a higher rate in future.

### **Recommendation**

**Administration of leave should be improved and that staffs should be encouraged to utilise their leave when due.**

### **Council's Comment**

*The Council has implemented a leave plan where all staffs will utilize their leave by June 2014.*



## 7.11 Re-financing of interest bearings borrowings

A council may from time to time raise loans for such purposes, in such amounts and on such terms and conditions as shall be approved by the Minister responsible for finance<sup>7</sup>.

As at 1 January 2012, the Council had a total of ten loan accounts of which:

- four loan accounts are with Westpac Banking Corporation,
- three loan accounts are with Bank of South Pacific Life (Fiji) Ltd; and
- three loan accounts are with Bank of the South Pacific.

On 13 April 2012, the Council refinanced the loan accounts balances with Westpac Banking Corporation and Bank of South Pacific Life (Fiji) Ltd amounting to \$5,693,422.92 and \$2,164,979.23, and transferred the balance of three loan accounts with Bank of South Pacific amounting to \$1,113,328.70 to the new loan account with Bank of South Pacific.

The audit noted that the Council failed to seek approval from the Minister for Local Government, Housing and Urban Development for the refinancing of the seven loan accounts.

Discussions with the Chief Executive Officer and the Director Administration and Finance revealed that Minister's consent was obtained for Westpac Bank loans when they were uplifted in the year of the original loan. Audit was advised that there was no need for the Minister's consent for the transfer of loan from Westpac Banking Corporation to Bank of South Pacific as they are existing loans.

The review of the new loan account statement revealed that two bank cheques were payable to Westpac Banking Corporation and BSP Life (Fiji) Ltd to settle the two existing loan accounts. Hence, audit is of the view that the loan balances with Westpac Banking Corporation and BSP Life (Fiji) Ltd was not transferred to the new loan accounts; instead, the accounts were settled through refinancing. Thus, the Council should have obtained the Minister's approval for the refinancing of the loan accounts with Westpac Banking Corporation and BSP Life (Fiji) Ltd.

Without obtaining Ministers approval, the Council is seen to breach the requirements of section 41 of the Local Government Act.

### **Recommendation**

**The Council should ensure that Section 41 of the Local Government Act is complied with when raising a loan to finance Council's activities.**

### **Council's Comments**

*The above has been reported to the Minister during the Minister's forum in 2012 however we will follow up with a letter for ratification and records.*

---

<sup>7</sup> Local Government Act – Section 41

## SECTION 8: SUVA CITY COUNCIL

### Programme Statement

The Suva City Council was established under the Local Government Act (Cap 125 Rev 2007) and Section 5 of the Subsidiary Legislation.

The Council is headed by a Chief Executive Officer who reports to the Special Administrator. The Special Administrator is an appointee of the Ministry of Local Government, Urban Development, Housing and Environment.

The services provided by the Council are issuance of business licenses, cleaning, maintenance and upgrading of infrastructure, sanitation services, lighting, drainage and maintenance of parks and gardens. The revenue generated by rates levied, issuance of business licences and rents received from Council properties are used to finance the above services as well as the administration expenses of the Council.

### Table of Content

<b>SECTION 8: SUVA CITY COUNCIL .....</b>	<b>1</b>
<b>PART A – FINANCIAL INFORMATION .....</b>	<b>2</b>
8.1 Audit Opinion 2010 .....	2
8.2 Abridged Statement of Financial Performance - General Fund .....	3
8.3 Abridged Statement of Financial Performance – Parking Meter Fund .....	3
8.4 Abridged Statement of Financial Position – Consolidated Funds .....	4
8.5 Abridged Program Information .....	4
<b>PART B – CONTROL ISSUES .....</b>	<b>5</b>
8.6 Incorrect Opening Balances .....	5
8.7 Balancing Figure in Statement of Movement in Funds .....	6
8.8 Amounts Posted Manually in the Financial Statements .....	6
8.9 Cash Flow Statement .....	7
8.10 Variance between Amounts in Trial Balance and the Financial Statements .....	7
8.11 Cash at bank .....	8
8.12 Trade Receivables .....	9
8.13 Rates Arrears Write-off .....	9
8.14 Doubtful Debts .....	10
8.15 Anomalies in Property, Plant and Equipment .....	11
8.16 Variances between the General Ledger (GL) and Fixed Asset Register (FAR) .....	11
8.17 Investment Properties .....	12
8.18 Annual Board of Survey .....	13
8.19 Physical Stock Count Not Carried Out .....	13
8.20 Discrepancies in Accruals .....	14
8.21 No Records Provided by Council for Sundry Deposits .....	15
8.22 Anomalies in Lease Liability .....	16
8.23 Liabilities and Expenses Understated by the Council .....	16
8.24 Held to Maturity Investment .....	17
8.25 Interest on Overdue Rates .....	18
8.26 Variance in Business License Levy .....	19
8.27 Property Valuation .....	19
8.28 Anomalies in Rates Charged .....	20
8.29 Poor Maintenance of Accounting Records .....	21
8.30 Construction of Kiosk at the Suva Bus Stand .....	22
8.31 Civic Tower Repainting .....	23
8.32 Repair and Painting of Suva Olympic Pool .....	24
8.33 Refurbishment of Suva Civic Centre .....	25
8.34 Tender not Called for Contracts Exceeding \$10,000 .....	27

8.35	Garbage and Refuse Collection, Grass Cutting and Drain Cleaning .....	27
8.36	Purchase Order issued after Procurement of Goods and Services .....	29

## PART A – FINANCIAL INFORMATION

### 8.1 Audit Opinion 2010

The audit of the financial statements of the Suva City Council for the year ended 31 December 2010 resulted in the issue of a disclaimer report. The bases for the disclaimer opinion are as follows:

1. A variance of \$401,275 was noted between the audited closing balance for the year 2009 and the Council's opening balance for the year 2010 in the Investment Property Account. The Council did not provide any reason for the change in the opening balance. As a result the closing balance for Investment Property Account was understated by the same amount for the year ended 31 December 2010.
2. The Council included an adjustment of \$437,479 in the Statement of Movement in Funds as "Effect of Change in Previous Years" which reduced the total Municipal Council's Fund balance by the same amount. The Council did not have any supporting document relating to this adjustment which was used to balance the account. As a result the audit was not able to ascertain the accuracy of the Municipal Council Fund balance.
3. The Council recorded Administration and Operating Costs of \$6,760,172 in the Statement of Comprehensive Income. However the Council had Administration and Operating Costs balance of \$8,753,734 in the general ledger.

A variance of \$1,993,562 was noted between the two records. The Council did not provide any explanation for the variance. As a result the audit was not able to ascertain the accuracy of the Administration and Operating Costs recorded in the Statement of Comprehensive Income.

4. The Council had Trade and Other Receivables balance of \$6,785,880 as stated in Note 6. The audit was not able to verify the existence, completeness and accuracy of debtors balance amounting to \$1,948,287 which comprised of business license, bus debtors, engineering debtors, health debtors, staff debtors, parking meter debtors as subsidiary listings for these debtors were not provided by the Council. As a result the audit was not able to ascertain whether Trade and Other Receivables balance of \$6,785,880 in Note 6 are fairly stated.
5. The Council had Inventories balance of \$466,636 as stated in Note 5. The audit was not able to verify the existence and valuation of the Inventory as no stocktake was carried out by the Council. As a result the audit was not able to ascertain whether the Inventory balance of \$466,636 is fairly stated in the Statement of Financial Position.
6. The Council made adjustments of \$16,229,810 to Investment Property balance. As a result the Investment Property balance decreased to \$11,457,774. The Council did not provide details of this adjustment. The audit was not able to substantiate the correctness of Investment Properties balance totalling \$11,457,774 stated in the Statement of Financial Position.
7. The Council was not able to provide details of Accruals of \$2,416,194 (included in Trade and Other Payables) and Sundry Deposits of \$1,416,115. As a result the audit was not able to

verify the existence, completeness and accuracy of Trade and Other Payables balance of \$3,080,440 and the Sundry Deposits of \$1,416,115 stated in the Statement Financial Position.

8. The Council had a VAT Receivable balance of \$934,211 which was netted off against Accounts Payables. This is a departure from International Accounting Standard 1 section 32 which states that assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a standard or an interpretation.
9. The Council recorded Interest on Overdue Rates totalling \$1,772,541 in the General Rate Fund – Operating Statements. The details of the Interest on Overdue Rates are maintained in Property Wise System. The audit was not able to trace Interest on Overdue Rates details from Property Wise System to the Navision Accounting System which maintains Council accounting records.

As a result the audit was not able to ascertain whether the Interest on Overdue Rates totalling \$1,772,541 have been accurately accounted for and disclosed in the financial statements.

10. The Council did not provide payment vouchers and appropriate supporting documents totalling \$1,237,597 for the year ended 31 December 2010 for audit verification. As a result the audit was not able to ascertain whether the expenses totalling \$19,021,410 have been accurately accounted for and disclosed in the financial statements for the year ended 31 December.

## 8.2 Abridged Statement of Financial Performance - General Fund

Year ended 31 December	2010 (\$)	2009 (\$)
<b>Revenue</b>		
Rates	11,957,043	12,029,850
Interest	1,934,334	129,953
Other Income	6,926,983	6,733,385
<b>Total Revenue</b>	<b>20,818,360</b>	<b>18,893,188</b>
<b>Expenditure</b>		
Administrative & Operating Costs	6,785,414	3,642,915
Doubtful Debts	1,531,578	1,791,797
Bad Debts written off	219,876	-
Depreciation	1,365,509	1,242,105
Rate Payer Services	1,993,562	2,272,442
User Maintenance Costs	5,966,987	8,404,712
Street Light Operating Costs	527,905	170,311
Interest on Long Term Borrowings	630,579	687,709
<b>Total Expenditure</b>	<b>19,021,410</b>	<b>18,211,991</b>
<b>Result for the Year from Ordinary Activities</b>	<b>1,796,950</b>	<b>681,197</b>

The Council recorded a surplus of \$1,796,950 in 2010 compared to \$681,197 in 2009. The increase in operating result is the result of significant increase in interest income and decrease in user maintenance costs.

## 8.3 Abridged Statement of Financial Performance – Parking Meter Fund

Year ended 31 December	2010 (\$)	2009 (\$)
<b>Revenue</b>		
Parking Meter Collections	420,839	506,909

Year ended 31 December	2010 (\$)	2009 (\$)
Fines & Court Fees	114,687	153,446
Other Income	20,067	21,478
<b>Total Revenue</b>	<b>555,593</b>	<b>681,833</b>
<b>Expenditure</b>		
Salaries & Wages	157,835	213,666
Management Expenses	175,966	43,763
Others	69,606	20,929
<b>Total Expenditure</b>	<b>403,407</b>	<b>278,358</b>
<b>Result for the Year from Ordinary Activity</b>	<b>152,186</b>	<b>403,475</b>

The Council's operating surplus decreased to \$152,186 for its Parking Meter Fund in 2010 compared to \$403,475 in 2009. The decrease in operating surplus was due to decrease in parking meter collections and increase in management expenses.

#### 8.4 Abridged Statement of Financial Position – Consolidated Funds

At 31 December	2010 (\$)	2009 (\$)
<b>Assets</b>		
Cash & Cash Equivalents	2,816,445	2,319,976
Receivables	6,785,884	5,488,972
Inventory	466,636	322,265
Property, Plant and Equipment	43,402,815	43,982,812
Loan Receivable	5,354,887	5,393,095
<b>Total Assets</b>	<b>58,826,667</b>	<b>57,507,120</b>
<b>Liabilities</b>		
Sundry Deposits	1,416,115	1,406,269
Creditors & Accruals	3,080,440	2,409,605
Provisions	459,602	422,850
Interest Bearing Borrowings	6,333,643	7,255,933
Other Non Current Liabilities	215,315	235,666
<b>Total Liabilities</b>	<b>11,505,115</b>	<b>11,730,323</b>
<b>Net Assets</b>	<b>47,321,552</b>	<b>45,776,797</b>
<b>Accumulated Funds</b>		
General	43,809,136	42,449,664
Parking Meter Fund	2,861,252	2,709,066
Car Park Fund	581,152	548,054
Tugi Fund	63,603	63,604
Lami Dump Rehabilitation	6,409	6,409
<b>Net Accumulated Funds</b>	<b>47,321,552</b>	<b>45,776,797</b>

The net assets of the Council improved by \$1,544,755 or 3.4% in 2010 compared to 2009. This was due to increase in the total assets by \$1,319,547 or 2.3% in 2010.

#### 8.5 Abridged Program Information

Year Ended 31 December	2010		2009	
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
General Fund	13,111,849	17,862,925	(4,751,076)	(6,151,508)
Loan Rate Fund	6,649,190	630,579	6,018,611	5,984,690
Street Light Fund	1,057,321	527,905	529,416	848,015

Year Ended 31 December	2010		2009	
	Revenue (\$)	Expenses (\$)	Net Cost of Services (\$)	Net Cost of Services (\$)
Parking Meter Fund	555,593	403,407	152,186	403,475
Car Park Fund	33,099	-	33,099	44,132
<b>Total</b>	<b>21,407,052</b>	<b>19,424,816</b>	<b>1,982,236</b>	<b>1,128,804</b>

## PART B – CONTROL ISSUES

### 8.6 Incorrect Opening Balances

All amounts stated in the current financial statements should have audited opening balances. The movements in each account during the year should be included in the current year's calculations.

The audit noted that the Council did not include the audited opening balances for the Aid Granted Assets and Investment Properties in the financial statements for the year 2010. In addition the Council did not include the movements in the Aid Grant Assets in the 2010 financial statements. Refer to Table 8.1 below for details.

**Table 8.1: Variances between Audited and Council's Opening Balances**

Account	Audited Opening Balance (\$)	Council's Opening Balance (\$)	Variance (\$)
<b>Aid Granted Assets</b>			
<i>Depreciation and impairment</i>			
Opening Balance	1,208,401	1,177,268	31,133
Depreciation (not posted by Council)	26,394	57,527	(31,133)
Closing Balance	1,234,795	1,234,795	-
<b>Investment Properties</b>			
<i>Depreciation and impairment</i>			
Opening Balance	4,944,675	4,543,400	401,275

It was further noted that the amounts for the Aid Granted Assets and Investment Properties stated in Note 11 of the financial statements did not match with the amounts stated in the Fixed Asset Register. The amounts in Note 11 of the financial statements were from the general ledger.

The variances indicate that general ledger balance for Grant Aid Assets and Investment Properties were not reconciled with fixed assets register and the audited opening balances were not used for the calculation.

### **Recommendations**

**The Council should ensure that:**

- audited opening balance for Grant Aid Assets are used to determine the current year balance; and
- all movements during the year are reflected in the financial statements.

**Council's Comments**

*The Council has noted the discrepancy in opening balances of the assets and the absence of proper postings in the fixed assets. The Council will look into the issue and will take appropriate steps to rectify the discrepancy.*

**8.7 Balancing Figure in Statement of Movement in Funds**

The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.<sup>1</sup>

The Council included an amount of (\$437,479) in the Statement of Movement in Funds as the effect of change in previous years. The Council did not provide supporting documents relating to the amount. The Council also did not provide disclosure notes in the financial statements for the amount of (\$437,479) stated in the Statement of Movement in Funds.

The finding indicates that the amount stated in Statement of Movement in Funds is an amount used by the Council to balance its financial statements.

In the absence of supporting documents and disclosure notes relating to the amount of \$437,479 the audit could not ascertain the accuracy of the Statement of Movement in Funds.

**Recommendations****The Council should:**

- ensure that appropriate supporting documents are maintained;
- ensure to provide appropriate disclosure notes in the financial statements as required by the IFRS; and
- avoid posting unsubstantiated amounts to balance the financial statements.

**Council's Comments**

*The Council has noted the amount of (\$437,479) and will further investigate the breakdown and relevance of the amount in the statement of movement of Funds.*

**8.8 Amounts Posted Manually in the Financial Statements**

All figures in the financial statements are derived from the general ledger which is taken up in the Trial Balance. The Trial Balance is then used to prepare the annual financial statements.

The Council posted figures manually in the financial statements which did not appear in the Councils trial balance. As a result, the audit could not ascertain the accuracy of the amounts reported in the financial statements for Administrative and Operating Costs totalling \$6,760,172 and Health Services Department totalling \$428,420. Refer to Table 8.2 for details.

<sup>1</sup> International Accounting Standard Section 1.15

**Table 8.2: Details of Figures Posted Manually in the Financial Statements**

Account	Amount As Per Trial Balance	Amounts Posted Manually In The Financial Statements	Amount Reported in the Financial Statements
	(\$)	(\$)	(\$)
Administrative and Operating Costs	8,753,734	(1,993,561.79)	6,760,172
Health Services Department	296,760.28	131,659.72	428,420

The finding indicates that the amounts reported in the two expenditure accounts were deliberately posted manually to balance the financial statements. Thus, the amounts reflected in the financial statements are incorrect.

### **Recommendation**

**The Council should ensure that correct amounts are reflected in the financial statements.**

### **Council's Comments**

*The Council will ensure that correct amounts are posted in the general ledger and consequently the financial statements drawn from the trial balance. The Council notes the seriousness and magnitude of the incorrect posting and will investigate on the figures.*

## **8.9 Cash Flow Statement**

It is essential that cash flow worksheets and reconciliations are prepared to form the basis of amounts stated in the cash flow statements.

The Council did not prepare a cash flow worksheet for the amounts reported in the cash flow statement. In addition the Council did not prepare a detailed reconciliation of operating activities.

As a result the audit could not substantiate the amounts stated in the cash flow statement submitted by the Council for the year 2010.

### **Recommendation**

**The Council should ensure that cash flow worksheet and detailed reconciliation of operating activities are prepared when preparing cash flow statement.**

### **Council's Comments**

*The recommendation has been noted and the Council will ensure that this is immediately implemented.*

## **8.10 Variance between Amounts in Trial Balance and the Financial Statements**

Annual financial statements are prepared from the system generated trial balance. All the amounts appearing in the trial balance are to be correctly stated in the financial statements.



A review of the Council's 2010 financial statements revealed variances between the amounts appearing in the trial balance and the amounts stated in the financial statements. Refer to Table 8.3 for details.

**Table 8.3: Details of Variance between the Council's Trial Balance and the Financial Statements**

Account Name	Amount as per Trial Balance (\$)	Amount as per Financial Statements (\$)	Variance (\$)
Administrative and Operating Costs	6,734,930.45	6,760,172.00	25,241.55
User Maintenance Costs	5,835,327.00	5,966,987.00	131,660.00
Brush Cutter and Motor Mower Expenses	5,858.77	5,698.00	160.77
Cartage and Plant Hire	58,096.28	57,919.00	177.28
Wages and Allowances	3,974,323.00	3,974,336.00	13.00
Trade Creditors	725,593.87	725,213.00	380.87
<b>Total</b>			<b>157,633.47</b>

As a result, the audit could not substantiate if the amounts were fairly stated in the Council's financial statements.

The Council may be over/under reporting its liabilities and expenses.

### **Recommendation**

**The Council should ensure that correct amounts are posted from the trial balance to the financial statements.**

### **Council's Comments**

*The recommendation has been noted. The Council will ensure that the financial statements reflect correct amounts which are derived from the trial balance.*

## **8.11 Cash at bank**

Monthly receipts and payments amounts in the general ledger should reconcile with the cash book and bank statements.

The Council uses Navision accounting software to prepare its daily bank reconciliations.

The audit could not verify the monthly receipts and payments total in the general ledger due to unavailability of the cash receipts journals or subsidiary ledgers. According to the Acting Revenue Accountant, Ms. Archana Singh the general ledger and the cash receipts journal and cash book modules of the Navision accounting software were not inter-graded.

As a result the audit could not establish the total receipts and total payments for the year 2010 taken up in the Councils cash book reconciliation were correctly stated.

### **Recommendation**

**The Council should ensure that subsidiary records in the Navision accounting software are linked to the general ledger.**

**Council's Comments**

*The Council will meet with the Software supplier and discuss on ways to rectify the issue.*

**8.12 Trade Receivables**

Supporting evidence is to be maintained for accounting entries. Subsidiary ledgers are to be updated as final records for all accounts including debtors.<sup>2</sup> The standard procedure is to keep a control account for debtors as well as an account for each debtor.<sup>3</sup>

The balance of the debtor's control account must equal the total of the debtors' list, which represents the amounts owed by the individual debtors.

The Council did not to provide details of individual balances in the subsidiary ledger for each debtor. Therefore, the audit failed to ascertain the accuracy and completeness of the following balances appearing in the debtors control account. Refer to Table 8.4 for details.

**Table 8.4: Debtors Subsidiary Listings not provided**

Debtors Control Account	Amount (\$)
Bus Debtors	1,688
Rental Debtors	156,076
Engineering Debtors	289,274
Health Debtors	93,269
Staff Debtors	2,735
Parking meter Debtors	159,788
Business License Debtors	1,245,457
<b>Total</b>	<b>1,948,287</b>

This indicates that proper and timely debtors' reconciliations have not been performed. In the absence of proper reconciliation, the accuracy of debtors balance in the debtors control accounts cannot be ascertained.

**Recommendation**

**The Council should reconcile the general ledger control accounts to the subsidiary listings in a timely manner and resolve all variances arising on a timely basis.**

**Council's Comments**

*The Council will look into the reconciliations of general ledger control and subsidiary ledger of debtors' and ensure that a listing is maintained.*

**8.13 Rates Arrears Write-off**

A Council may, in case of hardship, with the approval of the Minister write off rates which have been levied and any interest payable thereon in respect of rateable property, payment of which rates or interest is in arrears.<sup>4</sup>

<sup>2</sup> Manual of Accounts for Municipal Councils in Fiji, Appendix 1

<sup>3</sup> Manual of Accounts for Municipal Councils in Fiji, Appendix 3 Paragraph 10

<sup>4</sup> Local Government Act CAP 125, Section 80.

The Council wrote off arrears of rate amounting to \$219,876 in 2010.

The Council failed to produce the approval from the Minister for Local Government to write off rates arrears amounting to \$219,876 for audit verification.

Hence the audit could not ascertain whether the writing off of the rates arrears was approved by the Minister for Local Government.

### **Recommendation**

**The Council should ensure important accounting records such as approvals and Ministerial correspondences are maintained for audit verification.**

### **Council's Comments**

*The Council will ensure that proper records of approvals and Ministerial correspondences are kept.*

## **8.14 Doubtful Debts**

Doubtful debts should be provided for debtors who are highly likely to default payment of their accounts and become bad in a near future.

The Council provided provision for doubtful debt of \$1,532,578 in 2010 compared to \$1,791,797 in 2009.

The audit noted that the Council failed to provide a list of debtors for which provisions were made. In addition, the audit noted that the Council did not have any policy on providing for provisions for doubtful debts.

Furthermore, the audit noted that the Council did not consult the Minister for Local Government on the amount and arbitrarily decided \$1,532,578 to be provided for doubtful debts.

The finding indicates that proper process was not followed before creating the provision of \$1,532,578 in 2010 accounts.

As a result, the audit could not ascertain whether the amount provided for bad and doubtful debts was actually uncollectable.

### **Recommendations**

**The Council should ensure:**

- **that appropriate approval is taken from the Minister for Local Government to be provided for doubtful debts;**
- **to identify which specific accounts or customers to be included in the provision for doubtful debts of \$1,532,578; and**
- **to develop a policy of providing for provision for doubtful debts.**

### **Council's Comments**

*The Council notes the recommendations made and will develop a policy for provision of doubtful debts. It will also seek approval from the Minister of Local Government for any future provisions of doubtful debts.*

## 8.15 Anomalies in Property, Plant and Equipment

Adequate description of all property, plant, and equipment of the Council should be kept on record. References to title numbers, description of the structures and land location and area should be briefly but clearly stated. Serial numbers of plant and equipment should be shown as well as describing them.<sup>5</sup>

The audit noted the following anomalies in fixed assets records:

- The Council disclosed \$797,397 as additions to and \$170,286 as disposals of Property Plant and Equipment. However, the Council failed to provide details and supporting documents for additions and disposals. As a result, the audit could not ascertain the accuracy and completeness of the additions and disposals.
- The Council disclosed \$261,896 as Leasehold Land in the general ledger. The Council failed to provide details of the lease terms hence the amortization rate of Leasehold Land could not be established. In addition, the Council failed to provide details of the annual lease payments as a result the operating lease commitments could not be ascertained.

Based on the above findings, the audit could not ascertain the accuracy and completeness of the value of Leasehold Land and operating lease commitment disclosed in the financial statements.

- The Council made adjustments totaling \$729,865 into the general ledger for Property Plant and Equipment.

However, the Council failed to provide the journal entries and supporting documents for the adjustments made to property, plant, and equipment. Hence, the audit could not substantiate whether the adjustments were properly approved, verified, and accurately made.

The above findings indicate that the property, plant and equipment disclosed in the financial statement may not be correctly stated.

### **Recommendation**

**The Council should ensure that regular supervision is provided by senior officers so that proper supporting documents are maintained.**

### **Council's Comments**

*The concerns raised are duly noted. The Council will look into the discrepancies identified in the fixed asset register and the general ledger.*

## 8.16 Variances between the General Ledger (GL) and Fixed Asset Register (FAR)

All amounts stated in the financial statements should be traced to general ledger balance. The amount for property, plant and equipment in the general ledger should reconcile with the amount in the Fixed Asset register.

---

<sup>5</sup> Manual of Accounts for Municipal Councils in Fiji, Appendix 3 Paragraph 15  
Report of Municipal Councils – December 2014

The audit noted that property, plant and equipment and the accumulated depreciation amounts recorded in the general ledger were not the same as the Council's Fixed Asset Register. Refer to Table 8.5 below for details.

**Table 8.5: Variances between GL/FS and FAR**

<b>Assets</b>	<b>Amount as per GL/FS (\$)</b>	<b>Amount as per FAR (\$)</b>	<b>Variance (\$)</b>
Land	254,117	-	254,117
Building	4,313,203	4,353,902	(40,699)
Infrastructure Assets	22,371,096	22,537,895	(166,799)
Furniture and Fittings	151,247	118,189	33,058
Plant, Equipment, and Machinery	2,390,064	2,560,217	(170,154)
Computer Hardware	141,322	139,066	2,256
Work in progress	1,484,755	1,088,462	396,241
<b>Total</b>	<b>\$ 31,105,804</b>	<b>\$ 30,797,731</b>	<b>\$ 308,073</b>

The variances indicate that general ledger balances for property; plant and equipment are not reconciled with FAR.

### **Recommendations**

#### **The Council should:**

- ensure that all assets are properly recorded in the general ledger and the fixed assets register; and
- the property, plant and equipment balance in the general ledger is reconciled with FAR.

### **Council's Comments**

*The Council will ensure that all assets are properly recorded and fixed asset register is reconciled with the general ledger.*

## **8.17 Investment Properties**

Adequate description of all property, plant, and equipment of the Council should be kept on record. References to title numbers, description of the structures and land location and area should be briefly but clearly stated. Serial numbers of plant and equipment should be shown as well as describing them.<sup>6</sup>

The Council has investment properties of \$11,457,774 disclosed in the financial statement. The review of the general ledger noted the following anomalies:

- The Council made an adjustment on \$16,229,810 to the Investment Property Account.

However, the Council failed to provide the details of the adjustment made in the Investment Property Account. As result, the audit could not ascertain the accuracy and completeness of the Investment Property disclosed into the financial statement.

- A decrease in Investment Properties by \$793,257 was noted in the financial statement.

<sup>6</sup> Manual of Accounts for Municipal Councils in Fiji, Appendix 3 Paragraph 15

However, the Council failed to provide details and supporting documents to substantiate the decrease in the investment properties.

The above findings indicate that the Council failed to maintain proper records and carry out reconciliation for the Investment Properties Account. As a result, the audit failed to substantiate whether investment properties of \$11,457,774 was fairly stated in the financial statement.

### **Recommendation**

**The Council should ensure that reconciliations are carried out for the Investment Properties Account and supporting documents are maintained for the adjustments made.**

### **Council's Comments**

*The Council will look into the amounts mentioned and will also ensure that proper records are kept at all times.*

## **8.18 Annual Board of Survey**

As good practice an annual Board of Survey is carried out to determine whether property, plant, equipment are:

- a) In working condition or serviceable;
- b) Unserviceable or obsolete; and
- c) Surplus to the requirements of that agency.

The audit noted that the Council was yet to complete its Board of Survey for the year 2010.

Without a Board of Survey report, the Council will not be able to ascertain the condition of its property, plant and equipment. In addition, the Council will not be able to detect theft or misuse of its assets.

### **Recommendation**

**The Council should ensure that annual Board of Survey is conducted.**

### **Council's Comments**

*The Council will ensure that the Board of Survey is carried out.*

## **8.19 Physical Stock Count Not Carried Out**

A stock count should be carried out at least once a year to confirm that equipment, stores and materials shown on records do in fact exist.<sup>7</sup>

The Council did not undertake inventory stock count in 2010. As a result the audit was not able to substantiate the inventory balance of \$466,636 as per the general ledger.

The finding indicates that the Council did not have an effective control over its inventory.

---

<sup>7</sup> Manual of Accounts for Municipal Councils in Fiji 1992, Section 16.7

In the absence of a physical stock count, there is a high risk of mismanagement and misappropriation of the Councils' inventory.

### **Recommendation**

**The Council should ensure that yearly inventory stock counts are carried out.**

### **Councils Comments**

*The Council will ensure that yearly stock count is carried out.*

## **8.20 Discrepancies in Accruals**

Continuous and regular review of the accrual balance should be carried out by the accounting staff so that the un-reconciled variance is substantiated.

The Council recorded \$2,355,227.48 as 'Other Payables' in the general ledger. Refer to Table 8.6 for breakdown of the Other Payables.

**Table 8.6: Breakdown of Other Payables**

Account Number	Account Name	Amount (\$)
30015	Accruals	2,416,194.06
30700	Total Payroll Creditors	387,395.41
31020	Provision for B/L levy	125,000.00
32075	Suspense - Rates Refunds	2,301.55
32085	Suspense - BO	367,083.79
36999	Total Income received in Advance	(5,000.00)
32035	Clearing-Bank Rec Receipts	(1,829.50)
30900	Total VAT	(934,211.35)
30720	Withholding Tax	(1,706.48)
<b>Total</b>		<b>2,355,227.48</b>

The Council booked accruals totalling \$2,416,194.06 as part of other payables in the financial statements. However, the audit noted that the Council failed to provide the detailed listings of accruals and their relevant supporting documents for individual accounts that comprise the total accruals of \$2,416,194.06. In addition the Council netted off a VAT receivable balance of \$934,211 against accounts payable. This is a departure from International Accounting Standard 1.

The above indicates that the Council failed to maintain proper accounting records and failed to carry out proper reconciliation.

As a result, the audit was not able to ascertain whether Other Payables balance totaling to \$2,355,227 was fairly stated in the general ledger.

### **Recommendations**

**The Council should ensure:**

- **that accrual listings and all the relevant supporting documents are maintained for audit verification; and**
- **to carry out proper monthly reconciliation of the accruals.**

**Council's Comments**

*The Council will ensure that relevant supporting documents are maintained and that proper reconciliations are carried out for accruals.*

**8.21 No Records Provided by Council for Sundry Deposits**

Proper maintenance of accounting records is fundamental in the compilation of final accounts.<sup>8</sup>

The Council disclosed \$1,416,115 as sundry deposits in the financial statements. The audit noted that the Council failed to provide detailed listings of the deposits held by the Council. Refer to Table 8.7 for details

**Table 8.7: Details of Sundry Deposits**

Deposits	Amount (\$)
Tender	159,839
Library	2,664
Performance Bond	108,950
Hall Hire	111,818
Tenancy	103,847
Building	899,780
Sundry	29,217
<b>Total</b>	<b>1,416,115</b>

Furthermore, the review of refundable deposits cash at bank account noted that the Council does not have adequate funds to refund the deposit held by the Council. As at 31/12/10, the Council had \$151,041 in its refundable deposit bank account which is only 10.7% of the total refundable deposits held by the Council.

Failure by the Council to maintain proper records of the sundry deposits and non-reconciliation to the payments made resulted in a significant variance of the amounts deposited in the refundable deposit account and the general ledger.

The findings indicate that the Council does not have adequate funds to pay for the refundable deposits when such deposits fall due.

**Recommendations**

**The Council must ensure that:**

- **proper records for all Sundry Deposits are maintained; and**
- **adequate funds are available in the refundable deposit accounts to refund deposits held.**

**Council's Comments**

*The Council notes the non-availability of the sundry deposits listing and the cash holding for refunds. The Council will carry out a reconciliation to ascertain the listing for sundry refunds and will look into the cash holding for the deposits.*

<sup>8</sup> Manual of Accounts for Municipal Councils in Fiji, Chapter 3 (3.1)



## 8.22 Anomalies in Lease Liability

It is essential for every organisation to perform reconciliations of all loans accounts and effectively reconcile variances arising.

A lease agreement is one where a lessee makes lease payments to the lessor for the use of property, plant and equipment. A finance lease effectively transfers all the risk and rewards to the lessee over the lease period. The lessee obtains the ownership rights to the asset after the lease period.

The Council entered in a Finance Lease agreement with Westpac Banking Corporation for the purchase of several vehicles. These vehicles were used by the Council in its daily operations.

An un-reconciled variance of \$52,983 was noted between the Council's lease liability reconciliation and the bank's confirmation balance. Refer to Table 8.8 for details.

**Table 8.8: Details of Variance in the Lease Liability Account**

Particulars	Amount (\$)
Bank Confirmation as at 31/12/10	130,667.00
Balance as per Council's Reconciliations	77,684.00
<b>Variance</b>	<b>52,983.00</b>

The finding indicates that the Accounting Head did not reconcile the Council's records to the banks record. Failure of the Accounting Head to carry out proper reconciliation may result in under/overstatement of lease liability.

### **Recommendation**

**The Accounting Head must investigate and rectify the variance noted.**

### **Council's Comments**

*The Council will investigate and rectify the variance identified in the lease liability account.*

## 8.23 Liabilities and Expenses Understated by the Council

An obligating event is an event that creates a legal or constructive obligation and, therefore, results in an entity having no realistic alternative but to settle the obligation.<sup>9</sup>

The audit noted that year end creditor's balance recorded in the general ledger were not the same as the balances provided in the creditor's statement. Refer to Table 8.9 for details.

**Table 8.9: Details of Variance between Vendor Aged Summary and Suppliers Statement**

Supplier	Balance as per Vendor Aged Summary (\$)	Balance as per Supplier Statement (\$)	Variance (\$)
Sigatoka Electric Limited	3,701.10	4,879.15	1,178.05
Technix Bitumen Pacific Limited	35,075.40	40,520.64	5,445.24
Austec Electrical Fiji Ltd	30.55	2,520.18	2,489.69

<sup>9</sup> International Accounting Standards Section 37.10

Supplier	Balance as per Vendor Aged Summary (\$)	Balance as per Supplier Statement (\$)	Variance (\$)
Metromix Concrete Fiji	1,280.25	10,154.78	8,874.53
Office 2000 Ltd	198.00	998.00	800.00
Rapco Tyres and Automotive Supplies	3,952.50	38,030.00	34,077.50
S K Davey Limited	3,450	3,585	135.00
Unique Rubber Stamp	5,992.50	7,315.00	1,322.50
Suva Bookshop	75.00	1,667.25	1,572.25

The variances indicate that general ledger balance for creditors are not reconciled with the statements provided by the creditors.

### **Recommendation**

**The Council should ensure that all creditors are properly recorded in the general ledger and reconciled to the statements provided by the creditors.**

### **Council's Comments**

*The Council will ensure that creditors' balances are reconciled with their statements and the general ledger is updated accordingly.*

## **8.24 Held to Maturity Investment**

The Local Government Act empowers Councils, with the consent of the Minister, to invest funds under their control in stocks, bonds, debentures or other securities.<sup>10</sup>

The Council invested the sum of \$874,069.24 as term deposit at Merchant Finance in the year 2010. The audit noted that the Council failed to obtain approval from the Minister of Local Government to invest in Merchant Finance. Refer to Table 8.10 below for details.

**Table 8.10: Details of Investment**

Certificate Number	Date Invested	Maturity Date	Interest Rate	Principal Sum (\$)
010494	04/06/10	04/06/11	7.25%	874,069.24

Furthermore, the audit noted a variance of \$56,755 between the interest revenue reconciliation carried out by audit and the general ledger. Refer to Table 8.11 below for details.

**Table 8.11: Details of Variance**

Short Term Deposits Invested with	Deposit Date	No. of Days	Maturity Date	Interest Rate %	Amount (\$)	Interest Accrued as at 31/12/12 (\$)
ANZ – 1517	27/05/09	146	27/05/10	7	500,000	14,000.00
Colonial - 7351190	13/11/09	132	05/12/10	7	328,000	8,303.34
Merchant Finance - 10494	06/04/10	210	06/04/11	7.25	874,069	36,459.46
Total						58,762.80

<sup>10</sup> Manual of Accounts for Municipal Councils in Fiji, Section 20

Short Term Deposits Invested with	Deposit Date	No. of Days	Maturity Date	Interest Rate %	Amount (\$)	Interest Accrued as at 31/12/12 (\$)
Balance as per General Ledger						115,517.43
Variance						(56,754.63)

The findings indicate that the Council did not comply with the Local Government Act in obtaining approval for investment undertaken by the Council and failed to carry out proper reconciliations.

In the absence of approval from the Minister of Local Government, the short term investment is unauthorized.

### **Recommendations**

#### **The Council should:**

- **obtain approval from the Minister of Local Government before investing in any Financial Institution; and**
- **reconcile interest revenue recorded in the general ledger with the term deposit statements.**

### **Council's Comments**

*The Council will ensure that appropriate authority is sought from the Minister of Local Government for any future short term deposits. It will also reconcile the interest revenue in the general ledger to the term deposit statement.*

## **8.25 Interest on Overdue Rates**

The Council may charge interest on overdue accounts. The Council had a total of 11,287 rate payers and is the largest municipal Council in Fiji. The interest on overdue rates is applied to all overdue rates account at 11 per cent and on pro rata basis for the respective duration that has lapsed.

The Council disclosed \$1,772,541 as interest on overdue rates in the financial statements for the year ended 31/12/10. The amount in the financial statement is derived from the general ledger which is maintained in the Navision Accounting System.

However, the audit noted that the Council failed to provide detailed listing of the interest on overdue rates from the Property Wise System which maintains records of individual rate payers.

Hence the details of interest on overdue rates maintained in the Property Wise System cannot be traced to the Navision Accounting System.

In the absence of the details listing of the interest on overdue rates from the Property Wise System, the audit could not ascertain the accuracy and completeness of the interest on overdue rates disclosed in the general ledger (Navision Accounting System).

**Recommendation**

**The Council should maintain proper records of interest charged on overdue rates and ensure that the records maintained in the Property Wise System is correctly reflected in the Navision Accounting System.**

**Council's Comments**

*The Council will reconcile the interest charged on overdue rates in the Property Wise System and the Navision Accounting System. It will also ensure that proper records are kept.*

**8.26 Variance in Business License Levy**

The Council is mandated by the Government for granting approval for the operation of businesses in its boundary. In doing so, the Council levies a fee each year for renewal of business licence after inspection of premises and other things being equal and satisfactory.

The Council maintains its business license debtor's records in the Property Wise System. The review of the business license billing in the Property Wise System revealed that a total of \$1,141,032 was billed to business license customers for 2010.

However, the audit noted that the Council only recorded \$823,225 into the general ledgers which is maintained in the Navision Accounting System. The Council failed to reconcile the variance of \$317,807.

The above finding indicates that the Accounting Head failed to carry out reconciliation of accounting records produced by the two systems. (Property Wise and Navision Accounting System).

As a result, the audit was unable to ascertain the accuracy and completeness of the business license balance stated in the general ledger.

**Recommendation**

**The Accounting Head must investigate and rectify the variance noted.**

**Council's Comments**

*The Council will investigate the variance highlighted in the business license levy.*

**8.27 Property Valuation**

The Council had a total of 11,287 rate payers as at 31/12/10. The Council is authorised to charge the rate payers a specified sum for the services rendered by the Council. These charges are calculated on the Unimproved Capital Value (UCV) undertaken by the Council or a tendered evaluator for property valuation. The rates that are charged by the Council are apportioned into General, Loan and Street Light rates on the basis of 40, 51 and 8 per cent respectively.

The audit noted the following anomalies:

- Valuation of all land holdings within the boundaries of municipalities are to be carried out every six years.<sup>11</sup>

The last valuation of all land holdings was carried out in 2005. The Council failed to carry out the revaluation of properties in the Council's boundaries in 2011. The revaluation was carried out in 2012.

In the absence of the timely revaluation, the Council may have forgone potential revenue through increase in rates.

- The unimproved value of land is the basis for rating and the Council may perform valuation due to changes in status of the land.<sup>12</sup>

The audit noted that the Council did not provide a listing of the rateable properties that were amalgamated or sub divided after the 2005 property valuation.

As a result the audit could not ascertain the number of properties amalgamated or sub divided from the Council's overall rate payer listing.

The finding shows that there is lack of monitoring by the Council on the maintenance of proper ratepayer records.

### **Recommendations**

**The Council should ensure that:**

- **revaluations are carried out every six years; and**
- **details of amalgamation and sub division of properties are properly maintained.**

### **Council's Comments**

*The Council will ensure that UCV valuation is done every 6 years and details of amalgamation of properties are properly maintained.*

## **8.28 Anomalies in Rates Charged**

The Council had a total of 11,287 rate payers as at 31/12/10. The Council is authorised to charge the rate payers a specified sum for the services rendered by the Council. These charges are calculated on the Unimproved Capital Value (UCV) undertaken by the Council or a tendered evaluator for property valuation. The rates that are charged by the Council are apportioned into General, Loan and Street light rates on the basis of 40, 51 and 8 per cent respectively.

The Council failed to prepare UCV reconciliation for the general rates, loan rates and street light rate for 2010. The audit carried out an independent UCV reconciliation and noted variances in rates recorded in the general ledger. Refer to Table 8.12 for details.

<sup>11</sup> Manual of Accounts for Municipal Councils in Fiji, Section 7.2

<sup>12</sup> Manual of Accounts for Municipal Councils in Fiji, Section 7.2

**Table 8.12: Details of Variance in Rates**

Particulars	General Rate (\$)	Loan Rate (\$)	Street Light (\$)
Rates Collection as per General Leger	5,165,899	6,649,190	1,057,321
Audit Calculation	4,617,879	7,122,014	1,132,507
Variance	(548,010)	472,824	75,186

The Council was not able to substantiate the above variances. This was due to the Council failing to prepare unimproved capital value reconciliations.

As a result, the audit was not able to ascertain if the general ledger balance of general rate, loan rate and street lights rate were fairly stated.

### **Recommendation**

**The Council should ensure that UCV reconciliations are carried out and agree to the balances stated in the general ledger.**

### **Councils Comments**

*The Council will ensure that UCV reconciliations are carried out and agree to the balances in the general ledger.*

## **8.29 Poor Maintenance of Accounting Records**

The Director Finance should be responsible for the safekeeping and proper maintenance of all accounting records or documents.

The audit noted several instances where payment vouchers and appropriate supporting documents were missing and could not be located for audit verifications. As a result the audit could not ascertain the accuracy and completeness of several payments made by the Council. Refer to Table 8.13 for examples of missing vouchers.

**Table 8.13: Examples of Missing Payment Vouchers**

Cheque Number	Payee	Amount (\$)
795129	Special Administrator - Chandu Umaria	4,475.48
793419	Mr. Vuli Tukana	1,747.91
794031	Petty Cash	1,382.50
794642	Safeway Electronics	10,261.08
100609	Safeway Electronics	8,892.94
792705	Pacific Safety & Industrial Supplies	11,492.00
792748	Fiji Revenue & Customs Authority	935,304.06
792989	Fiji Revenue & Customs Authority	150,833.57
793476	Raiwai Grantham Reform Youth	15,286.21
790008	Fiji Electricity Authority	33,913.82
789238	Fiji Electricity Authority	32,585.95
79514	Fiji Electricity Authority	31,421.19
<b>Total</b>		<b>1,237,596.71</b>

The above finding indicates laxity on the part of the Director Finance in ensuring that proper accounting records are maintained.

Without payment vouchers and sufficient supporting documentation, there is a risk of items not delivered, misappropriation of funds and items purchased without immediate need.

### **Recommendations**

**The Council should:**

- **ensure that all payment vouchers are properly filed and kept in secured place; and**
- **investigate and take disciplinary action against responsible officers for not performing their duties diligently.**

### **Council's Comments**

*The Council will ensure that all payment vouchers are properly filed and kept in a secured place. Furthermore, the Council will take staff responsible to task for not performing their duties diligently.*

## **8.30 Construction of Kiosk at the Suva Bus Stand**

While supervision of any kind of construction or service performance is necessary, it assumes particular significance when employing a contractor. It should be made a condition that payments will be subject to the Council's officers being satisfied with the work done. If repeated breach of contract is willfully ignored by the officers it could give adequate ground to the contractor to contend that the terms have changed.<sup>13</sup>

The Suva City Council called a tender on 09/10/10 for the construction of Kiosks at the Suva Bus Stand. A total of 8 companies responded to the tender. The tender evaluation committee in its meeting on 27/10/10 awarded the contract for the construction of 8 kiosks to Sun Maintenance Works amounting to \$99,906.00(VIP).

The review of the Project Files revealed the following anomalies:

- The due date for completion of the said works is ten (10) weeks from date of execution of this agreement.<sup>14</sup>

The audit noted that the agreement did not specify the date of commencement of the project, nor the completion date of the project.

In the absence of an agreed timeline, Sun Maintenance Works will commence and complete the work at its own convenience and the Council would not be able to take action against Sun Maintenance Works for delays in the project.

- The Payment Officer must ensure that the Certificate of Tax Exemption submitted by the contractor is valid before making progressive payments.

<sup>13</sup> Manual of Accounts for Municipal Councils in Fiji, Section 17.3

<sup>14</sup> Clause 6 of the Agreement signed between Suva City Council and Sun Maintenance Works

The Certificate of Tax Exemption submitted by Sun Work Maintenance expired on 31/03/11. The audit noted that the Council did not deduct provisional tax from Sun Maintenance for payment made after 31/03/11. Refer to Table 8.14 below for details.

**Table 8.14: Details of Payments Made After 31/03/11**

Date	Cheque Number	Particulars	Amount Paid (\$)	Provisional Tax To Be Deducted (\$)
05/04/11	980	Progress Payment	7,709.27	1,156.39
13/04/11	984	Progress Payment	5,220.00	783.00
21/04/11	987	Progress Payment	3,287.00	493.05
04/05/11	991	Progress Payment	3,870.00	580.50
06/05/11	996	Progress Payment	2,700.00	405.00
12/05/11	1003	Progress Payment	2,970.00	445.50
24/05/11	1010	Progress Payment	6,812.24	1,021.84
24/06/11	1037	Retention	2,096.75	314.51
08/12/11	1136	Retention	5,383.80	807.57
<b>Total</b>			<b>40,049.06</b>	<b>6,007.36</b>

The above finding indicated that the Council did not comply with Income Tax Act. As a result provisional tax was not deducted and submitted to FRCA by the Council. By not complying with the Income Tax Act, the Council may not pay correct tax to FRCA and may be subject to penalties being imposed by FRCA. In addition the Council may not be able to hold the contractor liable for delays in the project.

### **Recommendations**

#### **The Council should:**

- ensure that a proper agreement is drawn clearly stating the commencement date and the completion date; and
- ensure that provisional tax is deducted when the contractors fail to submit an exemption certificate.

### **Council's Comments**

*The Council will ensure that a proper agreement is drawn which states all relevant details of the project. The Council will also ensure that Income Tax Act requirements are also complied with.*

## **8.31 Civic Tower Repainting**

The Council awarded the contract to Gunac South Pacific Limited for the repainting of Civic Tower. The total contract price for the project was \$76,675.20 (VIP). The work commenced on 24/11/10 for a period of 8 weeks and was to be completed by 19/01/11.

Review of the project files and the contract documents revealed the following anomalies:

- The contractor shall take out public liability insurance for an amount not less than \$100,000.<sup>15</sup>

<sup>15</sup> Contract agreement for the cleaning and painting of the Suva City Council Page 6



However, the Council failed to produce the public liability insurance policy for audit verification. Hence the audit cannot substantiate whether, the contractor had provided the public liability insurance cover for the project.

- The contractor shall take out workers compensation Insurance for an amount not less than \$100,000.<sup>16</sup>

However, the Council failed to produce the workers compensation insurance for audit verification. Hence the audit cannot substantiate whether, the contractor had provided the workers compensation insurance cover for the project.

- Contractor's bond shall be for the sum of \$7,675 or 10% of the contract price.<sup>17</sup>

The audit noted that the Council failed to produce the bond documents for audit verification. Hence audit cannot substantiate whether the contractor provided the bond amounting to \$7,675 before commencing with the project.

This indicates that the Council does not perceive the importance of having the Contractors to provide appropriate insurance cover and performance bond.

Without the insurance cover, Council's interest are not fully protected which may result in substantial loss of public funds. Furthermore in absence of performance bond, the Council will not be able to hold any funds back from the Contractor if he fails to fulfill its obligation under the contract.

### **Recommendations**

#### **The Council should:**

- **ensure that all the requirements are met such as the performance bond and public liability insurance policies before engaging the Contractors for the required works; and**
- **take appropriate disciplinary action against responsible officers.**

### **Council's Comments**

*The Council will ensure that requirements such as the performance bond and public liability insurance policies are met before engaging with the contractors and disciplinary action is taken against responsible officers who had failed to do so.*

## **8.32 Repair and Painting of Suva Olympic Pool**

The Council awarded the contract to Gunac South Pacific Limited on 6/8/09 for repair and painting of Suva Olympic Pool. The total contract price for the project was \$37,500 (VIP). The work commenced on 18/12/09 for a period of 12 weeks and was expected to be completed by 12/03/10. As at 31/12/10, the Council paid \$37,500 or 100% of the contract sum.

Review of the project files and the contract documents revealed the following anomalies:

- A formal contract for the supply of the stores or service should be entered with the supplier who was successful and entered in the contract register.<sup>18</sup>

<sup>16</sup> Contract agreement for the cleaning and painting of the Suva City Council Page 6

<sup>17</sup> Contract agreement for the cleaning and painting of the Suva City Council Page 5

However, the audit noted that the Council failed to provide the signed contract agreement for audit verification. Hence the audit cannot substantiate whether the contract agreement was signed between the Contractor and the Council.

The finding indicates that the Council did not follow proper procedures before engaging with the Contractor.

- The Contractor's Bond shall be for the sum of \$1,875 or 5% of the Contract Price and the sureties for the bond should be from a bank approved by the Principal.<sup>19</sup>

However, the Council failed to produce the bond documents for audit verification. Hence audit cannot substantiate whether the Contractor provided the bond amounting to \$1,875 before commencing with the project.

Such finding indicates the laxity on the part of management in ensuring that the Contractor has provided the performance bond.

- The Contractor shall provide public liability insurance for an amount not less than \$500,000.<sup>20</sup>

However, the Council failed to produce the public liability insurance policy for audit verification. Hence the audit cannot substantiate whether the Contractor had provided the public liability insurance cover for the project.

The finding indicates that the Council failed to obtain the public liability insurance policy before engaging the Contractor for the required works.

The Council did not follow proper procedures which may result in substantial loss of Council's funds should disputes arise.

### **Recommendations**

**The Director Engineering Services should ensure that:**

- **an agreement is entered into for such construction works;**
- **ensure that all the requirements are met such as the performance bond and public liability insurance policies before engaging the Contractors for the required works; and**
- **appropriate disciplinary action is taken against responsible officers.**

### **Council's Comments**

*The Council will ensure that all requirements of the contract are met and disciplinary action is taken against responsible officers.*

## **8.33 Refurbishment of Suva Civic Centre**

The Suva City Council invited written tenders from reputed organizations to undertake the roofing refurbishment works at Suva Civic Centre. The tender was advertised in the Fiji Sun dated 15/10/11. The tender submissions closed on 20/10/11. Refer to Table 8.15 for details of tender applicants and their bids.

<sup>18</sup> Manual of Accounts for Municipal Councils in Fiji, Appendix 6 Part 6

<sup>19</sup> Unsigned contract agreement for the repair and painting of Suva Olympic Pool page 8

<sup>20</sup> Unsigned contract agreement for the repair and painting of Suva Olympic Pool page 10

**Table 8.15: Details of Tender Applicants and their Bids**

Bidders	Amounts (VIP) (\$)
Gam's Maintenance	197,056.42
Gunac South Pacific Limited	193,678.40
Raghwan Construction Limited	478,490.00
Genesis Asset Management Unit	Not Available*

\*The Council did not provide the tender submitted by the vendor.

- A sum of \$1000 must be paid as tender deposits in the form of bank cheque. Tenders submitted without the tender deposits will not be accepted and considered by the Council.

The audit noted that the Council accepted tenders from bidders who did not pay the correct tender deposits. In addition Gunac South Pacific Limited and Rams Maintenance paid a tender deposit of \$200 each instead of \$1,000 as required.

Furthermore the Council in its emergency meeting of 2/11/11 resolved that the tender be awarded to Gunac South Pacific Limited at a total cost of \$193,678.40 (VIP) even though they failed to comply with the tender requirements.

- A contract agreement establishes the terms and conditions the parties have to comply with whilst the agreement is in existence.

The Council failed to prepare a contract agreement with the vendor to undertake the above works.

In the absence of the contract agreement the Council may not be able to hold the vendor liable in case for any wrong doings.

- The Council communicated to Gunac South Pacific Limited on 09/11/11 that they were to provide a bond of 10% of the contract sum or \$19,368 and also a valid workers compensation policy.

The audit noted that the Gunac South Pacific Limited failed to provide the bond sum and a valid workers compensation policy. The contractor commenced works on 12/12/11, even though they did not provide a bond sum and a valid workers policy.

The Council did not take any action against the contractor for not providing the above documents.

The findings indicate that the Council did not follow proper procedures for engaging the Contractor, Gunac South Pacific Limited.

### **Recommendations**

**The Council should ensure that:**

- **it only accept and consider tenders that fully comply with the tender requirements;**
- **a contract agreement is entered into before the commencement of the works; and**
- **appropriate disciplinary action is taken against responsible officers.**

### **Council's Comments**

*The Council will ensure that tenders are considered for those that fully meet the requirements of the tender process. Furthermore contract agreements are drawn before the commencement of work.*

### 8.34 Tender not Called for Contracts Exceeding \$10,000

A tender must be called for the procurement of goods, services or works valued at \$10,001 and more.

The Council engaged several contractors for providing goods and services valued more than \$10,001 without calling for tenders. Refer to Table 8.16 for examples.

**Table 8.16: No Tender Called by the Council**

Projects	Contractor	Cost (\$)
Ultramax 45 Robotic Vacuum Cleaner	Metco Industrial Ltd	24,600
Internet Service Provider	Kidanet	28,358.78

The finding shows that the Council did not follow the proper procurement process when awarding the contracts for procurement of goods and services in excess of \$10,001. Hence the selected contractor may not be the best and most economical supplier.

#### **Recommendations**

##### **The Council should:**

- ensure that proper procurement procedures are followed at all times; and
- take appropriate actions against the Officers for not following proper procurement procedures.

#### **Council's Comments**

*The Council will ensure that proper procurement procedures are followed at all times and appropriate disciplinary action is taken against officers who fail to comply.*

### 8.35 Garbage and Refuse Collection, Grass Cutting and Drain Cleaning

The Council awarded the contract for collecting refuse and garbage, grass cutting and drain cleaning to various Contractors in various sectors subject to the stipulated requirements and signing of the contract Agreement. These Contractors were Ravens Contractors, Nadave Transport, Namadai Methodist Church and Raiwai Grantham Reform.

Review of the project file and the contract document revealed the following anomalies.

- A formal contract for the supply of the stores or service should be entered with the supplier who was successful and entered in the contract register.<sup>21</sup>

<sup>21</sup> Manual of Accounts for Municipal Councils in Fiji Section Appendix 6 Part 6  
Report of Municipal Councils – December 2014

Contrary to the above requirement, the Council failed to establish contractual agreements with these vendors for collecting refuse and garbage, grass cutting and drain cleaning. Instead, the Council relied on the acceptance letter of these vendors which was in response to the Councils' offer letter. Refer to Table 8.17 below for details.

**Table 8.17: Contractors Engaged Without any Contractual Agreements**

Contractor	Sector	Payments made in 2010
Raiwai Grantham Youth reform	Muanikau North	151,635.93
Namadai Methodist Church	Tamavua Heights	90,885.98
Ravens Contractors Limited	Tamavua North	269,844.67
Nadave Transport	Tacirua Plains	71,479.95

Such findings indicate that the Council did not follow procedures before engaging with these Contractors.

- As a best practice, the contractual agreement should clearly state the contract price to be paid to the Contractors for carrying out the required works.

However, the audit noted that the Council did not enter into contractual agreement with the Contractors. Instead, the Council gave offer letters to the contractor. Furthermore, the audit noted that the contract price stated in the offer letter was estimated contract price.

Hence, the audit could not ascertain the exact cost for engaging the Contractors. Refer to table 8.18 below for details.

**Table 8.18: Vague Costs as per the Offer Letter**

Contractor	Sector	Cost as per Offer Letter
Raiwai Grantham Youth Reform	Muanikau North	Within the estimated cost of \$462,780 - \$476,640 for 36 months.
Namadai Methodist Church	Tamavua Heights	Within the estimated cost of \$255,096 - \$262,728 for 36 months.
Nadave Transport	Tacirua Plains	Within the estimated cost of \$344,664 - \$354,996 for 36 months

Such finding indicates that the Council failed to engage the Contractors with a fixed contract amount.

- The Council will only be in a position to enter in to an agreement after the Contractor has provided an irrevocable Bank Guarantee for an unspecified period for the sum of 2.5% of the contract value in favor of the Suva City Council.<sup>22</sup>

However, the audit noted that the Council engaged the Contractors to carry out the required works without obtaining the Bank Guarantee (surety) of 2.5% of the contract sum. Refer to Table 8.19 for details.

**Table 8.19: No Performance Bond Provided by the Contractors**

Contractor	Sector	Performance Bond (\$)
Raiwai Grantham Youth reform	Muanikau North	11,569.50
Namadai Methodist Church	Tamavua Heights	6,377.40

<sup>22</sup> Offer Letter of the Contractors

Contractor	Sector	Performance Bond (\$)
Ravens Contractors Limited	Tamavua North	14,365.45
Nadave Transport	Tacirua Plains	8,616.60

The findings indicate that Council's interests are not fully protected which may result in substantial loss of public funds. In absence of a contract agreement, the Council may not be able to take any action against these Contractors if they fail to carry out their work properly. Failures by the Council to obtain the bank guarantee may result in substantial financial loss should the Contractor fail to complete the project properly.

### **Recommendations**

**The Director Engineering Services should ensure that:**

- **an agreement is entered into for such construction works;**
- **ensure that the performance bond is provided by the Contractors before they are engaged;**
- **ensure that the offer letter and the contractual agreement clearly states the actual cost to be paid to the Contractor; and**
- **appropriate disciplinary action is taken against responsible officers.**

### **Council's Comments**

*The Council will ensure that an agreement is entered into with contractors and that the contractors provide a performance bond before they engage in the work. It will also ensure that the costs are clearly stated.*

## **8.36 Purchase Order issued after Procurement of Goods and Services**

The Council shall place its official orders for repairs to street lights in the municipality and the Contractor shall issue invoices directly to the Council for payment as provided in the tender documents.<sup>23</sup>

There were several instances where purchase orders were issued after repairs and maintenance were carried by Southern Electric Limited. The audit also noted that purchase orders were issued by the Council to regularise the procurement process and make payments to Southern Electric Limited. Refer to Table 8.20 for details.

**Table 8.20: Details of Purchase Orders Issued after Repairs and Maintenance was Carried Out**

Purchase Order Details			Invoice Details		
Date	Number	Amount (\$)	Date	Number	Amount (\$)
03/03/10	203809	2,220.50	28/02/10	19672	2,220.50
01/04/10	204298	5,161.70	31/03/10	91824	5,161.70
06/01/10	202741	9,594.00	31/12/09	19612	9,594.00
06/01/10	202740	9,442.50	31/12/09	07507	9,442.50
06/01/10	202739	2,280.00	31/12/09	07506	2,280.00

<sup>23</sup> Agreement – Repairs & Maintenance of Street Lights 2008-2011 Clause 2.07

The finding shows that proper procurement procedures were not followed by the Council. In addition, there was lack of supervisory check for procurement of goods and services. Hence goods and services were procured without purchase orders.

### **Recommendations**

**The Council should:**

- **ensure that the Directors/Section Heads issue purchase orders for procurement goods and services and all relevant details are filled in the purchase order; and**
- **take appropriate disciplinary action against Officers who did not issue purchase orders for purchases of goods and services.**

### **Council's Comments**

*The recommendation is noted. The Council will ensure that purchase orders are issued and details filed. Appropriate disciplinary action will be taken on the officers who fail to comply.*

