



STANDING COMMITTEE ON PUBLIC ACCOUNTS REPORT NO. 2

Report of the Public Accounts Committee on the Audits of Government Commercial Companies and Commercial Statutory Authorities 2009-2013 Volume One



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Chair's Foreword

This is my first report as Chair of the Public Accounts Committee, and I welcome the opportunity to showcase the progress that entities continue to make on behalf of Fiji. There is no doubt this is a positive story of governance improvement over the past decade across all commercial entities. Problems did exist, and were many, but in 2016 the vast majority of these internal accounting issues have been addressed, with systems developed to maximise transparency and accuracy.

Clearing the backlog of Audit reports from 2009 is an important exercise for the Parliament. However, it should be remembered these reports reflect on a culture up to seven years ago in Fiji's development. As growth and improvement has been occurring so quickly, this means many issues appear in these reports that no longer exist and have long been resolved.

Still, with these issues, the lessons learnt a long time ago by particular entities, can be shared as part of this process, and the positive story of governance improvement can be seen by all when comparing 2009 to 2016. This makes clearing the back-log of reports a worthwhile exercise for the Parliament of Fiji.

While several recommendations are attached to this report, the message is broadly a positive one from PAC members to all entities – keep going! The reform zeal on display in many entities is very encouraging and should have the Parliament of Fiji excited about the future of public administration within the Islands.

Audit is an important part of improvement in public administration. It is not something to be feared, but encouraged and welcomed. The CEO of Airports Fiji Limited captured this sentiment well when he stated in his public submission;

"Audit is very necessary in order to ensure state-owned enterprises and the funds of Government, which is taxpayers money, is spent well...I make a general observation...in many instances audit is treated as creating fear in people where the one mistake out of a hundred is focused upon so much that executives in state-owned enterprises or the government sector stop making any decisions at all with that fear factor ... State-owned enterprises must grow and develop in accordance with the Government's vision, but it is important to understand that it is not perfect, it is never going to be perfect, as long as mistakes are picked out rightfully by the Auditor General's Office and your Committee and then they are not repeated."¹

Within each of the commercial statutory entities reviewed, PAC found no outstanding issues needing referral to investigative bodies such as FICAC, and the relationship between most entities and the Audit Office seemed to be one of open, healthy dialogue. While some were of a higher standard than others, the PAC can assure the Parliament that the Audit Office has successfully audited the attached

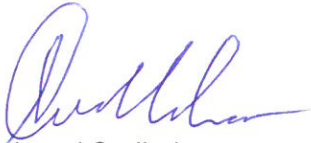
¹ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

entities from 2009-2014, and that recommendations made by the OAG are being pursued and clarified.

I would like to thank the representatives of each entity covered by this report. Particularly at the time of the public hearings held by PAC, some entities received short notice, and most responded in a very positive way. It gave PAC further confidence in the entities through their willingness to engage.

I also thank fellow committee members. This clearing of the back-log is a time consuming process, and can, at times, be a 'dry' audit process. Members from both the Government and Opposition engaged in this process in a constructive manner and this is appreciated. I particularly thank Deputy Chair Mohammed Dean for filling in as Acting Chair on several occasions where competing demands meant I was elsewhere.

This report contains 14 recommendations. These are made in good faith, and we urge the relevant party for which the recommendation is made, to consider and respond.



Ashneel Sudhakar

Chair

Recommendations:

Recommendation 1: The Higher Salaries Commission, with the Ministry for Public Enterprises, clarify legislative coverage in relation to General Manager positions at AFL, as well as any other entities where the structure of the entity raises concerns, doubts, or confusion on legislative requirements.

Recommendation 2: All relevant authorities and communities assist AFL, Fiji Link, and others, in the preliminary process of locating a space large enough and flat enough and without impediment to allow for progress on an airport for the North.

Recommendation 3: All relevant Ministries and entities assist the Ministry of Lands to finalise land acquisitions for the Nausori Airport Upgrade in order to allow AFL to move into the planning phase of the airport upgrade and expansion.

Recommendation 4: Where relevant, all Commercial Statutory Entities should review their investment portfolios and strategies, and ensure a clear investment policy, or at the least investment guidelines, are in place in order to risk manage current and future investment decisions.

Recommendation 5: Internal audit strategies are an important part of governance. The Ministry of Public Enterprise should do an assessment of the internal audit systems of each Commercial Statutory Authority in Fiji, and where deemed inadequate, to assist that entity in building stronger systems.

Recommendation 6: The Ministry of Public Enterprise to assess the Board make-up of each Commercial Statutory Authority in Fiji to ensure the minimum number of Board members are in place.

Recommendation 7: All entities are to report as per International Financial Reporting Standards and the Ministry for Public Enterprise should confirm this with all entities. Any policy interpretation or confusion should be clarified between the Ministry and the entity.

Recommendation 8: The Reserve Bank of Fiji should review its policy to ensure all requests of all entities are in line with the International Financial Reporting Standards. This should be done in consultation with entities like the Housing Authority who have followed the Reserve Bank of Fiji Guidelines, yet fail to meet IFRS, and receive qualified Audit reports as a consequence.

Recommendation 9: When recommendations are made toward an entity from the Office of the Auditor-General, the entity should treat these recommendations as a priority issue to respond to with a full and explicit answer, as well as implement the relevant changes where agreed.

Recommendation 10: the responsible Ministry (Education) outlined the status of Fiji Higher Education commission as an independent reporting entity, as officers presenting, and the audit office, were unclear of the financial duties and responsibilities of the entity itself.

Recommendation 11: There still remains a backlog of financials that have yet to make it to the Audit Office from some entities for up to five years. This is unacceptable. PAC flags the importance of submitting all outstanding financials to the OAG as the priority issue for all entities. The expectation then is to have an annual financial statement for each year to OAG by March of the following year, in accordance with International Financial Reporting Standards.

Recommendation 12: There are still signs of inadequate internal audit procedures within several entities. PAC flags the importance of internal audit for good governance and encourages all entities to reflect on their internal audit policies and procedures and to strengthen them where necessary.

Recommendation 13: Staffing challenges remain within many entities. This appears in various forms. The staff to work ratio does appear to be a challenge in several entities, as does the skills and capacity to perform duties. This also appears at senior levels within some entities. Whether it is the minimum number of board members actually being appointed, or having separation of duties as per governance standards (for example Chair and CEO would ideally be separate). PAC encourages reflection from each entity on this issue of staffing in order to lift performance to another level.

Recommendation 14: Special projects. It remains a disappointment that examples of infrastructure or project failure continue to appear in the audits of various entities. While these examples seem to be reducing quite quickly over the past decade, PAC requests all entities to be vigilant in ensuring taxpayers dollars are spent wisely and efficiently.

Committee Members

The Standing Orders of the Parliament of Fiji Islands was revised on 11th February 2016 which resulted in a change in the chairmanship of the Public Accounts Committee and also a majority of its members. On 28th April 2016, the Hon. Speaker announced a reshuffle of Government Members serving on the Standing Committees which lead to the appointment of the following to serve as Members of the Standing Committee on Public Accounts:

Hon. Ashneel Sudhakar MP, Chairman
Hon. Mohammed Abe Dean MP, Deputy Chairman
Hon. Alex O'Connor MP (Member)
Hon. Aseri Radrodro MP (Member)
Hon. Ratu Sela Nanovo MP (Member)

The following Alternate Members were also requested to sit in during the absence of the substantive Members:

Hon. Balmindar Singh MP
Hon. Samuela Vunivalu MP
Hon. Mikaele Leawere MP
Hon. Ratu Suliano Matanitobua MP
Hon. Jilila Kumar MP

Resource Persons

The Committee was also fortunate to be assisted by officials from the Auditor General's Office and the Ministry of Public Enterprises during public hearings held in the Parliament precincts. The officials were:

| | |
|---------------------------------|---|
| Office of the Auditor General: | Mr Sairusi Dukuno, Director Corporate Service Group Ms Finau Nagera, Director Audit Mr Dineshwar Prasad, Acting Audit Director Mr Esala Niubalavu, Audit Manager Mr Moshin Ali, Audit Manager |
| Ministry of Public Enterprises: | Mr David Kolutagane, PS Public Enterprises Ms Laisa Bolalevu, Acting Director Monitoring Ms Salote Lalabalavu Mr Faizal Khan |
| Consultant | Mr Robert Oakeshott |

CHAPTER 1: INTRODUCTION

1.1 Background

The Fiji Public Accounts Committee (PAC) has been established under the Parliament of Fiji Standing Orders 109(2)(d) to examine the accounts of government in respect of each financial year and the reports of the Auditor-General and any related body or activity which the Committee sees fit to review. Also, in accordance with Standing Orders 112(1)(a), Standing Committees have the power to “*summon any person to appear before it to give evidence or provide information*”.

New Members were appointed by the Hon. Speaker on 28th April 2016 to be members of the Public Accounts Committee. The Committee met on 12th May 2016 to appoint a new Chairman and Deputy Chairman in accordance with the revised Standing Order 117(3). During its deliberations the Committee felt the need to familiarize itself with the role and functions of institutions that would have close links with the work of the Committee, before undertaking its duties to examine the accounts of Government and reports of the Auditor-General. In doing so, the Committee called upon officials of the following institutions for general briefings on their respective roles and functions:

- Reserve Bank of Fiji (RBF)
- Office of the Auditor General
- Ministry of Finance
- Ministry of Public Enterprises
- Fiji Revenue and Customs Authority (FIRCA)
- Fiji Independent Commission Against Corruption (FICAC)
- Fiji Institute of Accountants

The PAC is currently scrutinizing the reports of the Office of the Auditor-General on Government Commercial Companies, Commercial Statutory Authorities, Off-Budget State Entities and Majority-Owned Entities for the years 2009 to 2013, which were tabled in Parliament on 30th May 2016.

Copies of the relevant Auditor-General's reports are available for perusal on the Parliament website www.parliament.gov.fj under “*Parliament Business*”.

Due to the large number of entities whose audit were spread over the years and the short timeframe available, the Committee has chosen to split their reporting obligations into several volumes. Volume One contains the findings of the Committee on fourteen (14) Government Commercial Companies, Commercial Statutory Authorities, and Government Ministries. The remaining entities are yet to be examined by the Committee and the findings will be contained in future volumes.

In conducting the above task, the Committee sought reference from the Performance Audit work of the Audit Office of December 2014, titled *"Follow-up Audit on the Monitoring of Government Entities"*.

The organisations which appeared before the Public Accounts Committee and are part of this report, are as follows:

| | COMPANY NAME | GOVERNMENT INTEREST (SHARES) | AUDIT PERIOD |
|-----|---|------------------------------|---------------------------|
| | GOVERNMENT COMMERCIAL COMPANIES | | |
| 1. | Airports Fiji Limited | 100% | 2008-2012 |
| 2. | Fiji Broadcasting Corporation | 100% | 2008-2009 |
| 3. | Fiji Ports Corporation Limited | 100% | 2009 |
| 4. | Fiji Ships and Heavy Industries Limited | 100% - (subsidiary of FPCL) | 2009 |
| 5. | Ports Terminal Limited | 49% - (subsidiary of FPCL) | 2009 |
| 6. | Fiji Public Trustee Corporation Ltd | 100% | 2007, 2009-2011 |
| 7. | Post Fiji Limited | 100% | 2009-2010 |
| 8. | Rewa Rice Limited | 100% | 2008 |
| 9. | Unit Trust of Fiji (Management) Ltd | 100% | 2009-2010 |
| 10. | Viti Corporation Limited | 100% | 2005-2006 |
| 11. | Fiji Hardwood Corporation Ltd | 100% | 2005-2007 |
| 12. | Housing Authority of Fiji | 100% | 2007-2012 |
| | COMMERCIAL STATUTORY AUTHORITY | | |
| 13. | Public Rental Board | 100% | 2008-2010 |
| | REGULATORY AUTHORITY | | |
| 14. | Fiji Higher Education Commission | | 2010 |
| | GOVERNMENT MINISTRY | | |
| 15. | Ministry of Local Government | | Depending on each Council |

1.2 OAG Reports Tabled in Parliament

The Public Accounts Committee was tasked by Parliament to consider the following reports from the office of the Auditor General:

| | PPNO. | REPORT | STATUS |
|----|------------|---|---|
| | 2007 | | |
| 1. | 6 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2007 | Covered by previous PAC chaired by Hon. Dr Biman Prasad. Report titled “No More Repeats” (Parliamentary Paper No. 24 of 2015) tabled in Parliament |
| 2. | 7 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2007 | |
| 3. | 8 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2007 | |
| 4. | 9 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2007 | |
| | 2008 | | |
| 5. | 10 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2008 | Covered by previous PAC chaired by Hon. Prof. Biman Prasad. Report titled “No More Repeats” (Parliamentary Paper No. 24 of 2015) tabled in Parliament |
| 6. | 11 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2008 | |
| 7. | 12 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2008 | |
| 8. | 13 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2008 | |
| | 2009 | | |
| 9. | 14 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2009 | |

| | PPNO. | REPORT | STATUS |
|------|------------|---|---|
| 10. | 15 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2009 | Covered by previous PAC chaired by Hon. Prof. Biman Prasad. Report titled “No More Repeats” (Parliamentary Paper No. 24 of 2015) tabled in Parliament |
| 11. | 16 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2009 | |
| 12. | 17 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2009 | |
| 13. | 18 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 5 – Audit Report on Government Ministries and Departments 2009 | |
| 14. | 26 of 2016 | Report of the Auditor-General of the Republic of Fiji – Audits of Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities – February 2009 | Tabled in Parliament, referred to PAC. PAC to review and report |
| 15. | 27 of 2016 | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities – Off-Budget State Entities – December 2009. | |
| 16. | 28 of 2016 | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies and Commercial Statutory Authorities – June 2009. | |
| 17. | 29 of 2016 | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – June 2009. | |
| 2010 | | | |
| 18. | 19 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2010 | Tabled in Parliament and referred to PAC |
| 19. | 20 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2010 | Consolidated Report on OAG Reports for 2010-2013 still in draft form |
| 20. | 21 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2010 | |
| 21. | 22 of 2014 | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2010 | |

| | PPNO. | REPORT | STATUS |
|-------------|-------------------|---|--|
| 22. | <i>30 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities, Off-Budget State Entities – December 2010. | Tabled in Parliament, referred to PAC. PAC to review and report |
| 23. | <i>31 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities and Off-Budget State Entities – June 2010. | |
| 24. | <i>32 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – December 2010. | |
| 25. | <i>33 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – June 2010 | |
| 2011 | | | |
| 26. | <i>23 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2011 | Tabled in Parliament and referred to PAC Consolidated Report on OAG Reports for 2010-2013 still in draft form |
| 27. | <i>24 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2011 | |
| 28. | <i>25 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2011 | |
| 29. | <i>26 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2011 | |
| 30. | <i>34 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Off-Budget State Entities, Majority Owned Entities, Provincial Councils, and Special Projects – December 2011. | Tabled in Parliament, referred to PAC. PAC to review and report |
| 31. | <i>35 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, and Off-Budget State Entities – June 2011. | |
| 32. | <i>36 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – December 2011. | |
| 33. | <i>37 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – June 2011 | |
| 2012 | | | |

| | PPNO. | REPORT | STATUS |
|-------------|-------------------|---|--|
| 34. | <i>27 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2012 | Tabled in Parliament and referred to PAC |
| 35. | <i>28 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2012 | Consolidated Report on OAG Reports for 2010-2013 still in draft form |
| 36. | <i>29 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2012 | |
| 37. | <i>30 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2012 | |
| 38. | <i>38 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Off-Budget State Entities and Majority Owned Entities – December 2012. | Tabled in Parliament, referred to PAC. PAC to review and report |
| 39. | <i>39 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Off-Budget State Entities and Majority Owned Entities – June 2012 . | |
| 40. | <i>40 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – December 2012. | |
| 41. | <i>41 of 2016</i> | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – June 2012. | |
| 2013 | | | |
| 42. | <i>2 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2013 | Tabled in Parliament and referred to PAC |
| 43. | <i>3 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2013 | Consolidated Report on OAG Reports for 2010-2013 still in draft form |
| 44. | <i>4 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2013 | |
| 45. | <i>5 of 2014</i> | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2013 | |

| | PPNO. | REPORT | STATUS |
|-------------|------------|---|---|
| 46. | 45 of 2016 | Report of the Auditor-General of the Republic of Fiji – Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities – Off-Budget State Entities – June 2013. | Tabled in Parliament, referred to PAC. PAC to review and report |
| 47. | 46 of 2016 | Report of the Auditor-General of the Republic of Fiji – Audits of Statutory Authorities – June 2013. | |
| 2014 | | | |
| 48. | 1 of 2015 | Report of the Auditor - General of the Republic of Fiji - Audit Report on Municipal Councils - December 2014 | Tabled in Parliament, referred to PAC for review, and reporting |
| 49. | 2 of 2015 | Report of the Auditor - General of the Republic of Fiji - Audit Report on Statutory Authorities - December 2014 | Tabled in Parliament, referred to PAC |
| 50. | 3 of 2015 | Report of the Auditor- General of the Republic of Fiji - Audit Report on Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities, Off- Budget State Entities - December 2014 | Tabled in Parliament, referred to PAC for review, and reporting |
| 51. | 4 of 2015 | Report of the Auditor-General of the Republic of Fiji - Audit Report on Special Projects - December 2014 | As above |
| 52. | 5 of 2015 | Report of the Auditor - General of the Republic of Fiji - Audit Report on Performance Audits - Volume 1 - December 2014 | Tabled in Parliament, referred to PAC for review, and reporting |
| 53. | 6 of 2015 | Report of the Auditor - General of the Republic of Fiji - Audit Report on performance Audits - Volume 2 - December 2014 | |
| 54. | 34 of 2015 | <i>Office of the Auditor General – Annual Report 2014</i> | Tabled in Parliament, referred to PAC |
| 55. | 63 of 2015 | Report of the Auditor General of the Republic of the Fiji Islands Volume 1 – Audit Report on the Whole of Government Financial Statements and Annual Appropriation Statement 2014 | Tabled on 6 th November and referred to PAC |
| 56. | 64 of 2015 | Report of the Auditor General of the Republic of the Fiji Islands Volume 2 – Audit Report on Government Ministries and Departments 2014 | Tabled on 6 th November and referred to PAC |

| | PPNO. | REPORT | STATUS |
|-----|--------------|---|--|
| 57. | 65 of 2015 | Report of the Auditor General of the Republic of the Fiji Islands Volume 3 – Audit Report on Government Ministries and Departments 2014 | Tabled on 6 th November and referred to PAC |
| 58. | 66 of 2015 | Report of the Auditor General of the Republic of the Fiji Islands Volume 4 – Audit Report on Government Ministries and Departments 2014 | Tabled on 6 th November and referred to PAC |

Fifty-eight reports from the Office of the Auditor General were tabled in Parliament, out of which 13 were covered in the first PAC Report titled “No More Repeats” (Parliamentary Paper No. 24 of 2015). This second report covers 16 OAG Reports whilst the remaining 29 reports will form future reports of the Committee.

A consolidated draft report on OAG Reports for 2010-2013 on government ministries and departments was also compiled by the previous Public Accounts Committee, but not tabled. The current Committee considered the draft report but felt that further clarification was needed for some of the issues, before tabling the report in Parliament.

CHAPTER 2: REVIEW OF STATE-OWNED ENTERPRISES AND GOVERNMENT MINISTRIES

The Public Accounts Committee acknowledges that the period of audit for most of the State-owned enterprises is four to seven years old, and therefore many issues raised have been addressed and/or no longer relevant. Nonetheless, the Committee identified several anomalies during their scrutiny of the OAG Reports and called upon the following organisations for clarification of these anomalies:

2.1 Airports Fiji Limited (AFL)

2.1.1 Background

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

AFL operates 15 public airports in the Fiji Islands. These include two international airports – Nadi and Nausori, and 13 outer island airstrips. Seamless processing of travelers in and out of Fiji is an important part of this work.

AFL also provides air traffic management (ATM) in the Nadi Flight Information Region (FIR). The Nadi FIR includes the air spaces of Fiji, Tuvalu, New Caledonia, Kiribati, and Vanuatu covering an area of 6.1 million square kilometres. The ATM operation is currently done in-house by AFL staff. One example of the ATM work is management on the Pacific Route of all international flights between North America and Australia.

2.1.2 Audit Opinion

The audits of the financial statements of Airports Fiji Limited for the years ending – **31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011** and **31 December 2012** resulted in the issue of unqualified audit reports. Nonetheless, the PAC identified several anomalies and sought further information in public hearings with AFL and were satisfied with the responses provided.

2.1.3 Audit Issues Raised by the Committee

- *Traffic management:* The Committee was informed that air traffic management is being done in-house after the termination of SASL's contract in November 2006. SASL was unable to resolve its industrial relations dispute and provide the required services. AFL had to take over the provision of air navigation services and bring it in-house to avoid:
 - i) Its upper airspace being taken over by Australia or New Zealand; and
 - ii) Putting at risk the continued and safe navigation of flights to and from Fiji.
- *Concession income:* The Committee noted from the submission that this is income generated through lease of rental spaces at Nadi and Nausori. These include duty-free shops, food and beverages, money exchanges, telephone and data network outlets, inbound tour operators, hire of rental cars, advertising, etc. Details of concession income for 2008 and 2009 are as follows:

| CONCESSION DETAILS | | |
|--------------------------------------|---------------------|---------------------|
| Nadi Airport | 2008 | 2009 |
| Arrivals – Duty Free DFT & Waqavuka | 1,426,019.33 | 1,759,757.42 |
| Arrivals – Others | 133,143.54 | 115,864.58 |
| Departure – Duty Free DFT & Waqavuka | 3,649,888.06 | 3,568,508.60 |
| Departure – Others | 716,963.82 | 634,692.48 |
| Catering | 778,347.18 | 716,556.01 |
| JUHL | 649,227.42 | 572,660.45 |
| ANZ Bank | 553,801.48 | 596,854.12 |
| Advertising | 439,983.87 | 499,560.44 |
| | 8,347,374.70 | 8,464,454.10 |
| Nausori Airport | | |
| Duty Free | 94,505.89 | 88,401.01 |
| Catering | 36,353.41 | 57,863.89 |
| | 130,859.30 | 146,264.90 |
| | | |
| Total | \$8,478,234 | \$8,610,719 |

- *Reduction in passenger service charge from \$3,073,966 in 2008 to \$2,827,869 in 2009:* The Committee was informed that in 2009 billable passengers decreased by 49,219 when compared to year 2008. Total billable passenger numbers for 2008 was 614,793 whereas for 2009 it was 565,574. Accordingly a decrease in passenger service charge revenue was noted. The Global Financial Crisis, and less use of the airport as a consequence, was the main reason provided for this one-off drop.

- *Ex-gratia payment to former General Manager Finance of \$156,790 during 2009:* The Committee was informed that AFL is guided by its Board resolution. In addition to specifying a Job Description (JD), the executive employment contracts that AFL currently has, states that the executive is to do whatever is necessary to achieve the board objectives of his or her roles. It is believed that the 2009 Board strictly looked at the JD of the GMF and determined that the particular work he did was outside of his JD. It was acknowledged by the CEO that this is no longer the practice of AFL, preferring broad objectives written into contracts so there is no confusion about what work is part of the job or not. In public hearings, the CEO stated: *"the approach that we follow now...is based on empowering our staff, our human resources, so that if they perform well they get a reward but not something where we go outside of the ambit of the contract to enter into some contingency agreement with them²".*
- *Fixed Assets Records:* Information was provided to the Committee that AFL has undertaken the following measures to ensure effective record keeping of fixed assets:
 - a) Independent verification and numbering of assets was conducted by KPMG in 2011.
 - b) Second verification of asset numbering done in 2012 by AFL's audit executives.
 - c) A new fixed asset form has been designed to include asset details, details of the person to whom the asset has been assigned and the details of the person updating the fixed asset register in the system. This form ensures that correct details, description and location are available in the fixed asset register.
- *Executive Remuneration and Job Evaluation Exercise:* The Committee was informed that the officials were unable to find the relevant legislative provisions that require the General Manager positions to be governed by the Higher Salaries Commission. However, records show that there were a number of correspondences between the Higher Salaries Commission and AFL on GM positions. There have been no further communications since 25th May, 2011 thereafter in AFL records by way of a response from the Higher Salaries Commission. The only GM position currently in place at AFL is the GM Air Traffic Management.

² From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

Recommendation 1: The Higher Salaries Commission, with the Ministry for Public Enterprises, clarify legislative coverage in relation to General Manager positions at AFL, as well as any other entities where the structure of the entity raises concerns, doubts, or confusion on legislative requirements.

- *Rotuma Airport Upgrade:* The Committee noted from the explanation that in 2011, AFL had given an estimate of \$19.5 million to Government for the upgrade of Rotuma Airstrip to allow ATRs to land, however the budgetary allocation provided at the time was around \$1.9 million so Government had requested AFL put the project on hold. When AFL assumed responsibility and no longer relied on the Government budget to carry out the projects, the project was re-scoped and re-tendered in April 2016 and currently, the tender evaluation process is underway. Five bids are being evaluated. As the CEO stated in his public evidence *“the good news is it is happening and we are going to fund it through AFL by way of Government’s vision for connecting the outer island people to mainland Fiji”*³.
- *Savusavu Airport Upgrade:* The Committee was informed that the Savusavu Airport upgrade was poorly scoped under the design and build model which ended up in a dispute with the contractor. Certain disciplinary actions were taken internally within AFL that led to the termination of the contractor. The dispute between the contractor and AFL is currently before the Arbitration Court. In his public evidence, the CEO acknowledged the problems with this project; *“We learn from the mistakes that are made. That is a mistake and that is the purpose of an audit...”*⁴
- *Budget allocation for an airport in the North:* Even though this was not part of the audit period in question, in the public evidence provided, the CEO of AFL answered a question in relation to a budget allocation for an airport in the north. This was informative, with the CEO stating: *“The budgetary allocation for the North, ideally an airport in the middle of Labasa and Savusavu which will be Seaqaqa is to undertake feasibility or preliminary studies which Seaqaqa could be a suitable location for an international airport. So, it is to simply carry out that preliminary study. One of the biggest stakeholder in this is FijiLink so in undertaking the preliminary studies, Fiji Link is participating with AFL to find a space which is large and flat enough without constraints of mountains nearby or other obstacles that could allow us to build an*

³ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

⁴ Same as footnote 3

international airport. I will say that, as of now, we have not been able to find a space in Seaqqa⁵

Recommendation 2: All relevant authorities and communities assist AFL, Fiji Link, and others, in the preliminary process of locating a space large enough and flat enough and without impediment to allow for progress on an airport for the North.

- *Domestic passenger service charge:* the aeronautical fees and charges are governed by the Commerce Commission under a set of guidelines and rules. One of the key factors considered by the Commerce Commission is the need to do infrastructure upgrades and in this particular instance, the reason given to introduce a domestic passenger service charge of \$5.75 VIP per passenger was to enable them to undertake upgrading at Nausori International Airport.
- *Nausori Airport Upgrade:* During public questioning as part of this reporting process, the CEO expanded on plans for the Nausori Airport upgrade. He stated “One of the pending issues in Nausori that we still have, although we have made a significant degree of progress, is the land acquisition. The Director of Lands negotiates on our behalf as all of the land that is owned by airports is leased by Director of Lands and then Director of Lands leases that back to AFL. They have made significant progress over the last one year and I think we were very close to acquiring the land that we require. Immediately after that we get into the planning phase.”⁶

Recommendation 3: All relevant Ministries and entities assist the Ministry of Lands to finalise land acquisitions for the Nausori Airport Upgrade in order to allow AFL to move into the planning phase of the airport upgrade and expansion.

2.1.4 Resolution

Apart from the queries raised by the Committee, all audit queries for the years 2008 to 2012 have been resolved.

⁵From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

⁶ Same as footnote 5

2.2 Fiji Broadcasting Corporation

2.2.1 Background

Fiji Broadcasting Commission (FBC) is a government commercial company corporatised in 1998 under the government's public sector reform programme.

FBC is responsible for providing commercial and public broadcasting services nationwide and operates six radio stations in the three major languages of Fijian, Hindustani and English.

The CEO summarized in his opening remarks to public evidence: *"We are a public service broadcaster, yet we are also a commercial government company, so we are a unique animal in the world of broadcasting in Fiji because not only are we supposed to provide services that do not make us any money, we also do provide services that make us money"*⁷

The CEO also outlined the recent journey of FBC in his opening remarks to the public hearing; *"The FBC, for a long time, has had the reputation of not performing very well and in fact, when I first joined in 2008, we were faced with the prospect of closing down the FBC because the company was defunct, the building that we were established in was condemned...I think the only reason we kept on going was because it was a Government company in a Government building but a lot has changed since then. Profits have been made after the first year, then a major undertaking took place where not only did we refurbish the whole building and all our infrastructure including all our transmission sites, but also got into the very competitive and challenging business of television with the aim of not only providing commercial television but a public service broadcasting television arm as well. Here we are, nine years later, we consider ourselves to be one of the better performing public enterprises"*⁸.

2.2.2 Audit Opinion

The audit of the financial statements of Fiji Broadcasting Corporation Limited for the years ending **31 December 2008** and **31 December 2009** resulted in the issue of unqualified audit reports.

⁷ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

⁸ Same as footnote 7

2.2.3 Audit Issues Raised by the Committee

- *Delay in audit:* The Committee was informed that the delay in audit for 2009 to 2013 was due to the massive upgrade project of radio and television and also the movement from the FBC to Civic Towers and then back after the completion of the new FBC premises. Until to date, all audits have been completed and FBC was the first state-owned enterprise to submit its audited report for the 2015 financial year.
- *Balance Sheet:* The Committee was informed that FBC had initially taken a loan from Fiji Development Bank (FDB) with the initial interest rate of 12 percent for the purpose of upgrade projects including new towers, radio and TV equipment, FBC building renovation and so on. It was also mentioned that the restricted cash of \$5.58 million is the cash available in overseas bank accounts solely for the purpose of acquisition of new television and radio equipment which were not available in local markets. That account closed after the project was completed.
- *Missing receipts:* The Committee noted from the explanation that the only instance in which the receipts were found missing was in 2009. Appropriate actions have been taken to resolve the issue.
- *Contra Accounts:* FBC officials informed the Committee that all the financial reports are now prepared according to International Financial Reporting Standards (IFRS). Both services provided to and received from the contra partners are recorded in the financials at an agreed contra value.
- *Government Assistance:* The Committee was informed that FBC had a Public Service Broadcast agreement with the Fiji Government and the amount provided was not “assistance” but a fee to produce local programs that are of public interest. It was mentioned that FBC would continue to request Government for assistance to enable them to produce programs that are not going to have any commercial value but done only as a service for the community.
- *Accounting treatment of offshore Escrow bank account:* FBC explained that the project was completed in 2011 and the account is now closed off.
- *Review of Aged Debtor’s Report:* The Committee was made aware that FBC has a 30-day account with clients so the debtors listing is reviewed weekly by the CFO. Ageing reports are reviewed at the end of the month and presented to the FBC Board for deliberation.
- *Risk Management:* Monitoring and risk compliance is considered important for FBC and the types of risk management policies in place includes financial risk management, credit risk management, liquidity, regulatory risk management and

interest risk management. These are monitored on a timely basis and highlighted in the reporting part of the financial reports which clearly states the mechanisms in place to cater for this process.

2.2.4 Resolution

It is noted a number of recommendations from the Audit Office were made to FBC throughout this period. The responses received from FBC to these recommendations are also noted. Of itself, the healthy, transparent dialogue between OAG and FBC is a positive sign of reform. PAC is satisfied this dialogue, and the modernisation agenda of FBC itself, is leading to substantial improvements in governance in 2016.

The Committee also acknowledged the openness and knowledge of senior management in their verbal presentation to the public hearings of August 2016. Apart from the queries raised by the Committee, all audit queries for the years in question have been resolved.

2.3 Unit Trust of Fiji (Management) Limited

2.3.1 Background

The Unit Trust of Fiji (UTOF) was established in 1976, and launched on April 25, 1978. It was based on an idea floated by the Fijian Affairs Board (FAB) and the Native Land Trust Board (NLTB) for an investment vehicle for the average person 'on the street'.

Since its establishment in 1978, UTOF has offered an attractive investment opportunity for individuals, companies and other types of investors. It continues to invest in the shares of profitable companies, bonds and other securities to provide the returns required by unit holders.

In addition to returns on their investments through cash dividends, unit holders also benefit from the capital growth of the Trust Investment portfolio. Unit holders can only realise this growth when they sell their units.

The UTOF gives small investors in Fiji an opportunity to own shares and other investments while at the same time spreading their risks and leaving the management of their investments in the hands of experts. It also assists the Government's policy of promoting wider participation by residents in the future development of Fiji.

2.3.2 Audit Opinion

The audit of the financial statements of the Unit Trust of Fiji [Management Limited] for the years ending **30 September 2009** and **31 December 2010** resulted in the issue of unqualified audit reports. The financial reporting period for the Unit Trust of Fiji (Management) changed from the financial year ending 30 September to the period 31 December.

2.3.3 Audit Issues Raised by the Committee

- *Abridged financial statements for 2008 and 2009:* The Committee was informed that in 2009, expenses increased substantially compared to 2008 for the following reasons:
 - Investment feasibility study expenses – the write-off of \$448,109 related to investments in Fiji Wai Limited.
 - Professional fees – a total of \$179,841 included payments to Maxumise Consulting Pty Ltd for human resource services and to G. Lal Chartered Accountant for consultancy services.
 - Other Operating expenses:
 - Bank charges – in the 2009 financial year, UTOF was operating without Trustees. In their absence, inter-company transfers could not happen. This resulted in the Management Company not being reimbursed for until holder transactions that led to substantial increase in bank charges from \$7,224 in 2008 to \$46,321 in 2009
 - Sundry expenses – Management Company had to reimburse unit holders due to a fraud case by an employee which resulted in sundry expenses increasing from \$23,618 in 2008 to \$54,648 in 2009.
- *Decrease in receivables from \$3.8 million in 2008 to \$774,000 in 2009:* The Committee noted from the response that the decline in receivables was mainly due to clearance of inter-company transactions in 2009. These transactions were outstanding in 2008 since Unit Trust of Fiji's bank account (Income Account) had a low cash balance. Furthermore, expenses relating to Fiji Wai Project were expensed off in 2009 whereas they were recorded as receivables in 2008.

- *Bank Reconciliation:* The Committee was informed that all outstanding items in the bank reconciliation has been cleared. The process has been further streamlined hence minimal transaction between the Management and the Trustee Company.
- *Fixed Asset Register Not Updated:* The Committee took note of the response that the fixed asset register is currently systemized, updated and reviewed fortnightly.
- *Increase in Cash at Bank from \$32,800 in 2009 to \$270,477 in 2010:* The Committee was informed that due to a change in financial year, the year 2010 comprised 15 months from 1st October 2009 to 31st December 2010. Expenses relating to Fiji Wai Project in 2009 provided a low cash balance.
- *Increase in income tax refundable from \$19,599 in 2009 to \$270,477 - \$49,180 in 2010:* The Committee was informed that the company paid a total of \$104,230 as income tax in 2009, which includes advance tax payments. The company incurred a loss of \$278,338 in the same year. The advance paid in 2009 was offset against the 2010 income tax payable, which resulted in the decrease in tax paid in 2010 that lead to the increase in income tax refund as at 31 December 2010.
- *Discrepancies in Annual Leave Entitlements:* The officials mentioned that the annual leave was accumulated due to management's direct involvement in recovery of UTOF's \$12 million and \$1 million investments in Muainarewa Resorts Limited (Momi Bay Stage 2) and Royal Davui Island Resort, respectively. The annual leave issue has been addressed by the Board and Management. Annual leave for the management team shall normalize by 2017. As the CEO stated in his evidence to the public hearing; *"When we came on board in 2008 and 2009, we had an issue before us. We had a portfolio of around \$20 million non-performing which was made up of \$12 million in Momi, we had a water project on our hands, we had Royal Davui and we had some partial investments here and there. The first task given to us was to rehabilitate, recover, and restructure whatever possible to recover our funds...in that process we had to compromise in terms of us going on leave. To recover a partial investment, for example Momi Bay, it took us nothing less than 18 months in terms of the process"*⁹

⁹ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

2.3.4 Resolution

While concerned by the monetary size of some of the anomalies throughout the period of audit, PAC is satisfied these anomalies raised by the Audit Office through the period in question have been addressed.

It is also noted the final statement from the CEO to the public hearing, where he noted *"I would like to assure the Auditor-General and our shareholders, as well as the Committee, that we have taken necessary actions and measures to streamline the business. I am happy to share some of the performance of our company for the last seven to ten years and that will be the reflection of the changes we have brought about. Some of the things we acknowledge and weaknesses we had, but I can assure you that we have taken serious steps in terms of addressing those issues"*¹⁰

2.4 Post Fiji Limited

2.4.1 Background

The Department of Posts and Telecommunications was established through the first Postal Act passed by the first Legislative Assembly of the Fiji Government in 1871. The status of the company has changed over the years from a Government Department to a Government Commercial Company.

On 1 July 1996, Post Fiji Ltd began operation as a Government Commercial Company and is registered and incorporated under the Companies Act as a private company with the shareholding wholly owned by the Government. The company is managed by a Board of Directors, appointed by the Government.

The core activities of the company include message communication in letters and distributing courier and parcel items. It also provides stamps, financial transactions, telegram services, data processing and mail production services. Over the years, the company has also diversified its revenue earning activities to include Post Shops and agency services.

The Acting CEO added the following background in his opening remarks to the public hearing: *"From a global point of view, we have been on a decline for many many years. That is an accepted fact and it is a question of what are we going to do about that. We currently operate out of 58 outlets in Fiji and Rotuma Islands....like the saying goes that IT technology is mail's worst enemy but parcels and packages best*

¹⁰ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

friend....in 2012, we made a small profit of just over \$230,000 after tax ...and then the profitability has continued after those years¹¹.

2.4.2 Audit Opinion

The audit of the financial statements of the Post Fiji Ltd for the years ended **31 December 2009** and **31 December 2010** resulted in the issue of qualified audit reports, for the following reasons:

- The Balance Sheet includes inventory with the value of \$5,035,768. In practice, Post Fiji Limited uses the last in first out (LIFO) formula to measure the cost of inventories, contrary to its accounting policy and the *International Accounting Standards 2 – Inventories*, which only allows the use of either first in first out (FIFO) or the weighted average for inventory costing. The audit was unable to determine the exact adjustment if FIFO method was used due to limitation of scope of audit¹².
- The Balance Sheet includes inventory with the value of \$3,976,454. In practice, Post Fiji Limited uses the last in first out (LIFO) formula to measure the cost of inventories, contrary to its accounting policy and the *International Accounting Standards 2 – Inventories*, which only allows the use of either first in first out (FIFO) or the weighted average for inventory costing. The audit was unable to determine the exact adjustment if FIFO method was used due to limitation of scope of audit¹³.

However, the audit of the financial statements of the Post Fiji Limited for the year ended **31 December 2011** resulted in the issue of an unqualified audit report.

2.4.3 Audit Issues Raised by the Committee

- *Audit Opinion 2010 - has this issue been addressed or has it become a recurring issue:* the Committee was informed that the issue was addressed in late 2011 and Post Fiji has had a clear set of accounts from that year.
- *Fraud in the Money Order (MO) Account:* The Committee was informed that corrective measures had been put in place. All forms have paid stamps in place and monthly reconciliations are being done to rectify any anomalies in MO. Daily MO voucher verification is now being carried out by the MO team for all online stations. For offline stations, MO figures are received by the team daily and verified against the actual vouchers received.

¹¹

¹² Audit Opinion 2009, Report of GCC & CSA – June 2011

¹³ Audit Opinion 2010, Report of GCC, CSA & Off Budget State Entities – December 2011

- *Inventory Control:* The Committee was made aware that Post Fiji is now in the practice of conducting bi-yearly stock takes. All variances are reported and investigated. Internal audit also performs stock-counts during audit. Security measures have been put in place with security personnel present in larger stations and security cameras installed at major locations.
- *Profit Margin:* The Committee was informed that the issue has been addressed. All products at category levels have recommended profit margins and monthly analysis is being done to ensure that the recommended profit margins are achieved. This also ensures that the inventory costing and cost of sales are correctly captured, for example, Stationery 40%; charge cards 12% Vodafone; 10% telecom; 8% Digicel
- *Tender Irregularities:* The Committee noted that management has adopted a transparent tender process with tenders getting advertised in the daily paper and the tender committee comprising of ExComm and Management are responsible for all tender opening and
- *Debtor's control:* The Committee was informed that the audit recommendations had been noted and implemented. The organisation's POS system (Post Global) has a feature where credit limits are set for customers. Management has ensured that all debtor records are corrected so that debt collections become easier.
- *Data Backups:* The Committee was informed that management had changed the Finance (Navision) and POS (Post Global) systems. The two systems are full integrated and daily backups have been automated. Also, a new DR site has been built to ensure alternate site storage of data is kept safely in the event of a disaster at the Suva General Post Office.
- *No Assets Tag:* Explanation was provided by the Acting CEO that asset tagging was conducted in 2013, however, due to the remote and dispersed locations of post offices, the tagging was not completed. All major centres were tagged except for rural and maritime areas with minimal assets.
- *Debtor Account not Updated for Dishonored Cheque:* The Committee was informed that Management records dishonoured cheques in a separate GL as dishonoured cheque account. However, the account is continuously reconciled and all outstanding dishonoured cheques are pursued and cleared. For agency payment cheques that get dishonoured, the amount is reduced from our agency payments when settlement is done.

- *Trust Account:* The Acting CEO informed the Committee that the core role of Post Fiji Limited was in terms of postal services (commercial company) and not as a trust entity. The nature of services being provided and money collected is totally operational to Post Fiji hence it has a normal operating bank account where all money received is banked intact and the reimbursements to the respective customers are done as per the agreements. Payments made by cheque get debited in Post Fiji's bank account. The deposits provided by the bill pay customers are security deposits for undertaking transactions on their behalf hence these are operational in nature.
- *Audit Opinion 2009:* The Committee was informed that the issue was rectified in 2011 where the costing method was corrected in the point of sale system from last-in-first-out (LIFO) to first-in-first-out (FIFO). It is also in line with international accounting standards and practice.
- *Inventory Costing:* The Acting CEO mentioned that the previously used point of sale system (called WRE) has been replaced with a more dynamic and integrated system (Post Global) with superior features and capabilities.
- *Misappropriation of Cash:* The Committee was informed that with the change in system from WRE to Post Global, adequate checks and balances are taking place within the system to detect fraud and errors. There are user level restrictions to perform transactions and approvals. Further to that, monthly reconciliations are carried out by the organisation's Finance Unit to detect any fraud and errors and by PFL's internal audit during audit.
- *Poor Implementation of the IMAS and WRE Systems:* the Committee was informed that the recommended suggestion was considered during the changeover of the financial system from IMAS to Navision. Post Fiji Limited had run a parallel transition for two months before going live with the new system. For IMAS and WRE, the problems were rectified through the assistance of the service providers and the PFL team with the necessary corrective measures taken.
- *Cash and Stock Shortages:* The Acting CEO mentioned that with the assistance of the internal audit team, frequent visits were made to all locations for surprise cash and stock verifications. Anomalies detected during these surprise checks were reported to management and subsequently to Police. To mitigate risk, the company has also insured stock and cash from losses which are recovered from the insurers. Post Fiji also conducts continuous on-the-job trainings and awareness to employees.
- *Creditors-Aged Payables Adjusted:* Explanation was provided that the IMAS system's payable module was later discussed with service providers and corrective measures taken. Proper reconciliation of all creditor accounts were undertaken and corrected.

However, management have now changed the IMAS system and replaced it with Navision and Creditors' records and reports are now intact.

- *Creditors-Variances in Balances:* The Committee was informed that Post Fiji was reconciling all creditor accounts on a monthly basis and any differences between the creditor statements and our ledger is rectified and corrected in a timely manner. With an improved cash flow, creditors are now being paid in a timely manner.
- *Cash:* The Committee was made aware that Post Fiji has implemented procedures whereby the post masters are required to send in their cash accounts with all relevant documents. The PMBA team in Finance is responsible for verification of the cash accounts and the documents. With assistance of the internal audit team, surprise cash verification is conducted and any anomalies reported and necessary actions are taken. The Finance team is also involved in conducting sport checks on cash at Post Offices to help strengthen PFL checks.
- *Debtors over 90 Days:* the Committee was informed that Management has put in place some stringent debt collection measures to ensure that debt outstanding is within minimal days. The debt management team monitors the outstanding and carries out aggressive debt collection. The credit worthiness of existing and new customers is assessed prior to approval of credit transaction.
- *Cash Account Reconciliations Not Provided:* The Acting CEO confirmed that procedures had been maintained and further strengthened to ensure that all cash accounts are accurately recorded and records are available at all times (postal agencies in Batiki/Levuka-i-daku/Makadru/Narokorokoyawa had already closed at the time of audit hence records were an issue).
- *Outdated Corporate Governance Manual:* the Committee was informed that the process to update the Corporate Governance Manual has already commenced with each SBU being tasked to review their respective areas and for compilation of information to enable the formulation of a draft for review and finalization. Work on this is on-going given Post Fiji's vast diversification of business activities.

2.4.4 Resolution

Apart from the queries raised by the Committee, all audit queries for the years 2009 to 2010 have been resolved.

2.5 Fiji Public Trustee Corporation Ltd

2.5.1 Background

The corporation was established through the Fiji Public Trustee Corporation Act 2006. The principal activity of the corporation is to act as a custodian and provide administrative services to estates of those persons who are deceased, of unsound mind or persons incapable of conducting their own affairs.

The Fiji Public Trustee Corporation Ltd provides State Administration Services, Trustee Services, and also Will Making Services to the people of Fiji.

2.5.2 Audit Opinion

The audit of the financial statements of the Fiji Public Trustee Corporation Ltd for the years ending **31 December 2007, 31 December 2009, 31 December 2010 and 31 December 2011** resulted in the issue of unqualified audit reports

2.5.3 Audit Issues Raised by the Committee

- *Abridged Income Statement:* The committee was informed the Fiji Public Trustee Corporation Limited as a Government Commercial Company provides Estates Administrative services, Trustee services, Will Making and other selected legal services to the public. These services are provided at a fee that is regulated and legislated as governed under the Fiji Public Trustee Corporation Act. 2006. The fees are for the services provided for Estates Administrative services, Trustee services, Will Making. The latest are as outlined under Legal Notice No. 114 on the FPTCL- (Fees & Charges) Regulations 2008.
- *Accounting Depreciation Rates to be reviewed:* The committee was informed the Corporation does review depreciation rates. Currently, the corporation is using the statutory tax depreciation rates. The assets of the Corporation at the time of the said audit were mainly Fixtures & Fittings, Office Equipment, Motor Vehicle and Computer Software.
- *Individually Held Investments to be restated to market value:* The committee was informed the Corporation has, over the years, adopted the market value method of individually held investments. The majority of these investments are now held in a common-pooled fund to attract higher returns on investments. These are stated at market value.

- *Non-Cash Assets for the Trust:* The committee was informed the rental arrears for these properties are not recorded in the books of the Corporation as these properties do not belong to the corporation. These are assets that belong to the individual estates. Income from these assets and any rental arrears are recorded in individual estate accounts.
- *Investment Policy:* The committee was informed that in 2013; the Corporation sought the services of a reputable legal consultant to review and identify the parameters and provide an expert opinion on the ability of the entity to invest in diversified portfolios and to recommend a set of governing rules for the operation of any common fund. Investment guidelines were put in place as part of the consultation report, whilst work is continuing on an investment policy.

Recommendation 4: Where relevant, all Commercial Statutory Entities should review their investment portfolios and strategies, and ensure a clear investment policy, or at the least investment guidelines, are in place in order to risk manage current and future investment decisions.

- *Internal Audit and Enterprise Risk Management Function:* The committee was informed the corporation does not have an internal audit department mainly because of the small size of the operation. Therefore, the decision was made that the internal audit functions would be outsourced as required. Internal audits such as the Operation audit and the IT audit, have been carried out by the Office of the Auditor General. Fiji Public Trustee Corporation is working on an Enterprise Risk Management document. However, the corporation over the years has continued to work towards mitigating risk at the operational level. This included the purchase of an office building away from Suva's tsunami area to a safe zone area, especially for the safe custody of records and legal documents and also for the Occupational Health & Safety requirements. This was also done to reduce the cost of doing business, especially rental costs. They also sought the services of Legal Consultants on the investment of Trust Fund held by the Corporation. They developed comprehensive Standard Operational Procedures for operations with the assistance of the Australian Government. The corporation will be holding a workshop on the risk management framework, which is part of the Corporation's 3 year strategic plan.

Recommendation 5: Internal audit strategies are an important part of governance. The Ministry of Public Enterprise should do an assessment of the internal audit systems of each Commercial Statutory Authority in Fiji, and where deemed inadequate, to assist that entity in building stronger systems.

- *Review and Maintenance of Accounting Records:* The committee was informed during this audit the Corporation was in its fourth year of operations since corporatization in 2006. Accounting records had been updated as part of the corporatization process. Since then, the accounting records have been well maintained and this is reflected in the subsequent audits of the Corporation's financial statements. Since corporatization, the accounts have all been prepared in accordance with the International Financial reporting Standards without any qualification/condition on the financial statements. The corporation developed a Finance Policy in 2007 and this was reviewed in 2009 after the implementation of the TrustSoft system with the guidance of the chartered accounting firm – KPMG.
- *Abridged Income Statement:* The committee was informed the increase in interest income in 2010 was due to better strategic investment placements during the year, taking advantage of the high term deposit interest rates in 2010. This however fell again in 2011 after the high liquidity in the banking system.
- *Abridged Balance Sheet:* The committee was informed since the first four years audit were all completed in 2010, the trade and other receivables in the Corporation accounts were ascertained and reconciled together with the trade payables in the Trust & Estate balance sheet for fees an interest due to be paid to the Corporation. The payment was made after the 2006-2009 Audit in 2010. Hence the reduction.
- *Inadequate size of Board:* The committee was informed appointments are made by the Ministry of Public Enterprises. The number is therefore beyond the Board's or Management's control. The old Companies Act required a minimum of 2 directors for a private company.

Recommendation 6: The Ministry of Public Enterprise to assess the Board make-up of each Commercial Statutory Authority in Fiji to ensure the minimum number of Board members are in place.

- *Risk Management Policy:* The Corporation will be holding a workshop on the risk management framework, which is part of the Corporation's 3 year strategic plan.

- *Individually Held investments not stated at market value:* The committee was informed the Corporation has, over the years, adopted the market value method of individually held investments. The majority of these investments are now held in a common-pooled fund to attract higher returns on investments. These are stated at market value.
- *Reconciling Adjustments:* The committee was informed the corporation's Finance and Administration Section has over the years worked on improving reconciliation methods and the proper review and documentation of the various general ledger accounts. This is also part of the Finance Policy that officers have to adhere to.
- *Value Added Tax:* The committee was informed the Corporation since this audit has continued to ensure that monthly VAT reconciliations are in agreement with FRCA's VAT assessments. The correct monthly VAT payments are made before due date. Recently, VAT refunds have also been paid by FRCA to the Corporation. We ensure that the Corporation continues to be compliant with all statutory requirements including filing of VAT returns.
- *Discrepancies in the Interest due for Distribution Reconciliation:* The committee was informed this is the variance in the reconciliation of Interest Due for Distribution general ledger account. The variances existed mainly due to interest on the interest not accounted in the reconciliation for that particular year. However, the amount was redistributed to beneficiaries with the 2011 interest the following year.
- *Debit Balances in the Trust Account:* The committee was informed these trust accounts with debit balances were mainly accounts transferred from the old Public Trustee Office that were either overdrawn or with outstanding service fees to be recovered. Net amounts recovered (amount recovered less cost of recovery) are added back to the Capital Reserves account forming part of equity.
- *Discrepancies in Interest distribution:* The committee was informed the annual interest distribution into individual trust accounts are calculated based on pro-rata balances at a given period. These calculations are first manually checked by officers for correctness and accuracy before the distribution of interest is done by the system. A sample check is then carried out again after system processing. During this audit period, there were Trust Accounts identified that were not vetted during the initial audit and required to be manually adjusted for interest accrued

and fees due resulting in some variances. This however is no longer an issue in the current status of accounts.

- *Legal Fees Charge Rates:* The committee was informed of in-house counsel providing additional legal assistance to core business clients and charging these clients legal fees for services rendered. The legal fees charged by the in-house counsel are always lower than the market rate charged by solicitors in private practice. Over the years the Corporation has introduced other legal services to complement core business and supplement income.

2.5.4 Resolution

PAC is satisfied all anomalies raised by the Audit Office through the period in question have been addressed.

2.6 Rewa Rice Limited

2.6.1 Background

The Rewa Rice Limited (RRL) is a limited liability company incorporated on 8 March 1960. It is 100% owned by the Government of the Fiji Islands. The shareholders are the Permanent Secretaries for Finance and Public Enterprises.

RRL is a government commercial company with the principle objective of operating as a profitable and efficient business comparable to businesses that are not owned by the state. The company also has a community service obligation of helping promote the local rice industry by ensuring that there is a market for all paddy produced by farmers.

The principal activities of the company at the time of audit were purchases, milling and distribution of quality rice and associated products in Fiji. RRL aims to be the leading provider of quantity nutritious rice at prices consumers can afford.

2.6.2 Audit Opinion

The audit of the financial statements of Rewa Rice Limited for the year ended **31 December 2008** resulted in the issue of a qualified audit report. The issues qualified were as follows:

- a) The Company failed to provide general ledgers for all accounts for the year 2008 for audit verification. Consequently tests were unable to be carried out to satisfy the Audit Office regarding the occurrence and completeness and disclosure of

income totaling \$533,216 and expenditure amounting to \$685,343 as recorded in the financial statements.

- b) Management attention was also drawn to the excess of liabilities over assets of \$4,897,373 of which the principle components are advances and loans from government amounting to \$6,725,382¹⁴.

The company failed to provide general ledgers for all accounts for the year 2008 for audit verification. The Audit was informed that the MYOB Accounting system had crashed resulting in loss of general ledger and the various efforts made to recover the general ledger turned futile. Additionally, no backup of the general ledger was maintained by the company.

The Audit Office also made concerning findings reminding Rewa Rice Limited that it is always necessary that the company operates with positive net assets to be sustainable in the long run.

The Audit noted that as at 31 December 2008 there was an overall excess of liabilities over assets of \$4,897,373 (2007: \$4,905,577). Accordingly, there was significant uncertainty as to whether the company would be able to continue as a going concern and whether it would be able to pay its debts as they become due and payable, and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

2.6.3 Audit Issues Raised by the Committee

- *Impact by Grace Road:* It was made known to the Committee that Rewa Rice did not see Grace Road as a threat to its operations. Rewa Rice Limited approached Grace Road to partner with it for their operations in Vanua Levu where Grace Road would concentrate on planting and Rewa Rice would mill. The competition is welcomed and Rewa Rice is progressing to survive in the market through rebranding, repositioning and market penetration, have a new mill and other quality control measures.
- *General Ledger:* the Committee was informed that internal controls are in place and the company has continued to do that by providing secure backup of data on service, hard drive and CDs; proper filing of hard copies; disciplines and improvement of government culture; internal audit done in 2013 by Ministry of Public Enterprises and 2016 by Ernst and Young; audit and compliance policy for the company; on-going round of policy improvement with next round of review by the end of the year; and

¹⁴ Audit Opinion, Report of GCC & CSA – November 2012

supply of FEA power to Dreketi Mill so the reporting and record keeping will improve with clear returns and stock movement.

- *Going Concern:* Officials of Rewa Rice Limited noted the point raised by the Committee and mentioned that the company on the books is insolvent because of government liability. These liabilities are expected to be converted to equity since government is a major shareholder and as such, the Company has just completed a balance sheet stress test for its viability. The company is currently formulating 5 year plans which should be ready with projections by the end of September 2016.
- *Increase in price of paddy:* the Committee was informed that the company has taken note of the point raised. In 2010, the paddy price increase is noted, which is considered to be a shortfall of procedural method.
- *No documentation for reconciliation and monthly stock of inventories:* the Committee was informed that this was now in order with FEA power in Dreketi, and the stock movement will be better managed.
- *Viability of the company in future:* Officials of Rewa Rice Limited mentioned that the company was viable. The Committee was informed that the low cost of production was mainly due to government commitment towards the rice industry in the form of machinery, water, fertilizer, weedicides and a subsidized price of paddy with is currently \$750 per tonne.

2.6.4 Resolution

The Audit found that failure to improve the company position would have an adverse impact on the future operations of the entity. As such, the Audit Office recommended the entity needed to re-evaluate its operation and purpose of existence or seek government assistance to ensure that it operates in the future.

Due to concerns, this is an entity the PAC has agreed to monitor closely and revisit for further assessment in the future.

2.7 Fiji Ports Corporation Limited

2.7.1 Background

The Fiji Ports Corporation Limited was incorporated in 2004 to take over the operations of the Maritime Ports Authority of Fiji. The principal activities of the Corporation are providing and managing the port infrastructure and services within declared ports.

The company conducts its business within the legal framework of the Companies Act, VAT Decree, Income Tax Act, Sea Ports Management Act and the Public Enterprises Act.

The company has two subsidiaries trading as Ports Terminal Ltd and Fiji Ships & Heavy Industries Ltd. The company took over the operation of Fiji Ships & Heavy Industries Ltd in June 2009.

The Fiji Ports Corporation Ltd went through a privatisation process in 2015 and Ports Terminal Ltd went through a privatization in 2013. As such, the majority of the issues raised via Audit were cleared prior to these privatizations. With the current Fiji Ports Corporation Ltd, the shareholding is 41% Government, 39% the FNPF and 20% relating to previously in 2013

2.7.2 Audit Opinion

The financial statements of the Fiji Ports Corporation Limited and its subsidiaries for the year ended **31 December 2009** resulted in the issue of an unqualified audit report from the Audit Office.

2.7.3 Audit Issues Raised by the Committee

- *Group vs Company:* The Committee was informed that “**Company**” refers to Fiji Ports Corporation Limited and “**Group**” referred to Fiji Ports Corporation Limited, Ports Terminal Limited and Fiji Ships Heavy Industry Limited.
- *Takeover by Fiji Ports of Fiji Ships & Heavy Industries Limited:* The Committee was informed that FPCL paid \$300,000 for the takeover of Fiji Ships Heavy Industries Limited. (FSHIL Investment value of \$6,600,000 recorded in the books)
- *Internal Audit:* The Committee was informed that the Internal Audit Contract awarded to KPMG from 2010. PWC internal audit contract was not renewed when the term of the engagement expired in December 2008. The Board Finance & Audit Management Sub Committee in 2009 agreed to tender out the Internal Audit services which was awarded to KPMG in 2010.

- *Trade Debtors' Statement:* The Committee was informed that the new Navision accounting software implemented in 2009 has rectified this issue.
- *Fiji Military Forces Long Outstanding Reimbursement Cost:* The Committee was informed that the Board Finance, Audit & Risk Management Sub Committee in 2014 approved the writing back of RFMF account to FPCLs income.
- *Off-site Data Backup:* The Committee was informed that FPCL engaged VT Solutions to provide off-site data backup services up until 2015. From December 2015 live data backup service was provided by Vodafone Fiji limited (VFL). All changes are replicated at the interval of 15 minutes.

FIJI SHIPS & HEAVY INDUSTRIES LIMITED

- *Fixed Assets:* The Committee was informed that this has been rectified when the FSHIL submitted 2014 Tax lodgment in May 2015. FSHIL did a comprehensive fixed asset verification exercise in June 2014 and a Board paper was also done by CFO to seek Board's approval on disposal of those items that had zero WDV and was not physically present on site. Another verification exercise was done by the internal auditors KPMG in October 2014.
- *Creditors:* The Committee was informed that this had been rectified in 2011. When the rollover was done in 2013 from old MYOB software to new MS Dynamics NAV, all balance was reconciled then. Current creditor's ledger is also up to date.
- *Reconciliation of Value Added Tax:* The Committee was informed that this has been rectified and reconciled. All lodgments are done on time and also refunds are followed up and received in timely manner.
- *Fixed Assets Register for 2008:* The Committee was informed that this had been rectified when FSHIL submitted 2014 Tax Lodgment in May 2015. FSHIL did a comprehensive fixed asset verification exercise in June 2014 and a board paper was also done by the CFO to seek board's approval on disposal of those items that had zero WDV and were not physically present on site. Another verification exercise was done by the internal auditors KPMG in October 2014.
- *Receipting:* The Committee was informed that the receipting process is as follows:
 - The debtor's officer receives the money and does the receipting in GL.
 - Debtors' officer prepares the banking deposits which are checked against GL receipting by the accountant.

- The receipts are also checked whilst doing Bank and VAT reconciliations by the accountant.
- When monthly accounts are prepared, the Manager Finance FPCL does another check on Bank and VAT reconciliations.
- Debtors' reports are also prepared and discussed by Accountant and Manager Finance to ensure money paid is receipted against respective debtors.

PORTS TERMINAL LIMITED

- *Services provided by Ports Terminal Limited:* The Committee was informed that PTL provided Stevedoring and Port management services.
- *Abridged Balance Sheet:* The Committee was informed that PTL's Intercompany loan was given during the period 2009-2010 and the first one was done due to the company's financial constraint affected by the tariff review and second one was for the purchase of new forklifts for their operation. Loan was given in 2009 at the interest rate of 7.5% and interest rate was revised to 4% in December 2011.
- *Manual Adjustments in Cash:* The Committee was informed that bank and cash reconciliations are up to date and reconciled regularly. New controls are in place to eliminate any risks associated in cash handling.
- *Creditors:* The Committee was informed that creditors' ledger is up to date and being reviewed regularly to avoid any unforeseen contingencies.
- *Shareholders:* The Committee was informed that FPCL sold 51% shareholding in PTL to ASPLC in August 2013 under the PPP arrangement initiated by the government. Post August 2013, PTL has 2 shareholders and were fully in compliance with the Companies Act.
- *VAT Receivables:* The Committee was informed that the issue has been rectified before the 2013 privatization.
- *Lack of Supporting Documents:* The Committee was informed that all unsupported accruals were reversed subsequently.

2.7.4 Resolution

PAC noted several recommendations from OAG to Fiji Ports Corporation Ltd, as well as management responses. The transparent dialogue is welcome, and each of the issues raised has an importance of its own. PAC is now satisfied matters raised by the Audit Office through the period in question have been addressed.

2.8 Viti Corporation Company Limited

2.8.1 Background

Viti Corporation Company Limited is an agro based government owned company and was reclassified as a Government Commercial Company in March 2000. The company's business activity includes beef (cattle) and piggery farming, aquaculture and cassava farming. In 2005, the government decided to lease the property in Navua to a private investor (Dairy Farmers Fiji Limited) for development of dairy capital.

The company consist of five main operational units as follows: Pig Unit, Aquaculture Unit, Dairy and Beef Unit, Crop and Vegetable Unit and, Maintenance and Administration Unit.

The Ministry of Public Enterprises is currently managing VitiCorp. As the PS of the Ministry stated in his public evidence: *"At the moment it is basically a holding company which is basically managing the land that are leased to VitiCorp¹⁵".*

2.8.2 Audit Opinion

The audit of the financial statements of Viti Corporation Company Ltd for the year ended **31 December 2005** resulted in the issue of a qualified audit report as follows:

- Assets and Liabilities for 2005 cannot be relied upon due to the qualifications in the 2004 Financial Statements.
- A breakdown to support creditors and other payables of \$87,497 written back to Operating Revenue were not provided. As a result the creditors as per the financial statements may be understated¹⁶.

The audit of the financial statements of the Company for the year ended **31 December 2006** resulted in the issue of an unqualified Audit Report however the attention of the Board was drawn to the following matter:

- At 31 December 2006, the Company accumulated losses of \$5,678,134 (2005: \$5,727,934) and there is an overall excess of current liabilities over current assets of \$360,941 (2005: \$403,097). Accordingly, there is significant uncertainty as to whether the Company will be able to continue as a going concern and whether it

¹⁵ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

¹⁶ Audit Opinion, Report on GCC, CSA & Off-Budget State Entities – June 2010

will be able to pay its debts as they become due and payable and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amount nor to the amount or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

The PS of Ministry of Public Enterprises made the following observations during his public evidence; *"We acknowledge that the reports are being delayed – the financials and the audit that are now before the Committee but we have appointed an accounting firm to update the reports. The financials are ready, it is just a matter of alignment which we hope to complete in the next week¹⁷".*

2.8.3 Audit Issues Raised by the Committee

- *Audit Opinion:* The committee was informed that VCCL Directors at that time (2010) had accepted the 2005 qualified opinion expressed by the Auditors by endorsing the report in 2010. In addition, the 2006 report was a clean report with no major audit issues highlighted, hence the qualifications in 2005 is a non-recurring issue.
- *Other Operating Revenue:* Officials mentioned that this comprised of a Government Grant in the amount of \$58,667; Gain on Sale of Shares - \$509 and Other Income (creditors written back) - \$87,497.
- *Source of revenue amounting to \$119,659 in 2005:* It was made known to the committee that the amount was derived from rental income in the amount of \$96,750 and Livestock sales amounting to \$22,909.
- *Government Grant to pay off creditors:* Officials took note of the Committee's concerns but could not confirm the write-offs as majority of the company's documents were destroyed in the 2004 flood. The company has not received any claims on money owed by creditors for prior years. Matter to be discussed with BDO as they were the accountants for VCCL at that time. Additionally, VCCL may reach out to other accounting firms on options to resolve the matter. Also, under the Limitations Act, creditors cannot claim their debt six (6) years after the contract has lapsed.
- *Long term liability:* the committee was informed that this was a loan undertaken by VCCL with the Ministry of Economy (formerly known as Ministry of Finance) in 1999.

¹⁷ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

In 2005, Cabinet agreed that the loan term be revised to suit VCCL's financial position.

- *Issued capital and share deposits:* the committee was informed that the breakdown of the issued capital were as follows: Government of Fiji (5,999,997 shares); Fusi Vave (In trust for the Government of Fiji – PS Ministry of Youth & Employment) – 2 shares; and Savenaca Narube (In trust for the Government of Fiji – Governor of RBF) – 1 share.
- *Control Issues Accounts Payable:* VCCL informed the Committee that this related to the 2005 audit accounts. VCCL could not confirm write-offs as majority of the company's documents were destroyed in the 2004 flood. Issue was not highlighted in the 2006 audit report.
- *Grant:* the committee was informed that given the lapse of time, VCCL could not confirm where the funds were used. However, looking at the cash flow statement and the old records, the grant was used for the operations of the business such as paying creditors.
- *Fixed Assets Register:* there was an expression of interest advertised in 2004. In 2005 Cabinet approved Dairy Farms Fiji to be awarded a 30 year lease from VCCL. Certain assets amounting to \$178,222 was sold to DFF in consideration of the following: Plant and Equipment - \$117,150); existing Dairy and Beef Cattle - \$57,525 and Shares in Rewa Dairy Co-op - \$3,547. The remaining plant, equipment and livestock were auctioned in 2005 realising net sale proceeds of \$19,201.
- *Sale of assets except land:* The Committee was informed that the land was currently leased to FNU for educational purposes. The VCCL Board recently approved FNU to sub-lease portions of VCCL land to the private sector with the intention to enhance investment in the agriculture sector and provide more protection on domestic food security. FNU received numerous interests from aquaculture, dairy and rice companies to participate in this opportunity.
- *Board of Directors:* The current VCCL Board members were Mr David Kolutagane Chairman, Mr Shaheen Ali – PS MITT, Mr Jitendra Singh – PS Agriculture. The Board is determined to ensure that the statutory requirements and compliance are adhered to and all pending lodgements will be done immediately.
- *Loan Balance Variance:* VCCL confirmed that they had liaised with the Ministry of Economy to reconcile the loan amount.

- *Going Concern:* the committee was informed that VCCL was pursuing additional revenue opportunities and strategies to strengthen its financial position. Some opportunities include reviewing the rental rates since it has remained unchanged. Furthermore, VCCL currently enjoys a healthy cash-flow position that keeps the company afloat.

2.8.4 Resolution

In the August 2016 public hearings of PAC, it is noted the Ministry for Public Enterprises Permanent Secretary presented evidence on behalf of Viti Corporation. This is because the Ministry has enough concern to have “red flagged” the entity, and is now directly managing the entity in question. Their evidence indicated that today, Viti Corporation is a very small company, and basically a holding company as per Cabinet Decision. PAC has agreed to monitor the on-going activities of Viti Corp as an entity of concern.

2.9 Housing Authority of Fiji

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

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

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

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

The audit of the financial statements of the Housing Authority of Fiji for the years ended 31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012, resulted in the issue of qualified audit reports. This was due to conflict over reporting standards. The Authority did

not report to the OAG as per International Financial Reporting Standards, as policy interpretation was not consistent with obligations to the Reserve Bank of Fiji (Banking Supervision Policy Statement No.3) reporting. This is an issue that needs policy clarity.

Recommendation 7: All entities are to report as per International Financial Reporting Standards and the Ministry for Public Enterprise should confirm this with all entities. Any policy interpretation or confusion should be clarified between the Ministry and the entity.

Recommendation 8: The Reserve Bank of Fiji should review its policy to ensure all requests of all entities are in line with the International Financial Reporting Standards. This should be done in consultation with entities like the Housing Authority who have followed the Reserve Bank of Fiji Guidelines, yet fail to meet IFRS, and receive qualified Audit reports as a consequence.

The PAC did have concerns about past procurement practices. Beyond this, PAC is satisfied matters are progressing with the OAG and the Housing Authority.

2.10 Public Rental Board

2.10.1 Background

The Public Rental Board (PRB) was established under the Housing (Amendment) Decree No 12 in 1989 to take-over and manages the rental section of the Housing Board on an economic basis. The Housing (Amendment) Decree is the subsidiary legislation of the Housing Act of 1955.

Under section 34 of the Housing (Amendment) Decree No 12 of 1989, the Board is primarily to operate on a non-commercial basis by inviting Government to make good the shortfall by way of subsidy, where the assessed rental applicable to a tenancy represents a disproportionate percentage of earnings.

The main activities of the Board are management of all rental estates inherited from the Housing Board including the repairs and maintenance of buildings, grounds and other common facilities; rental of units to low income earning families; assessment and collection of rent from its tenants; and extension of the rental estate via building projects.

2.10.2 Audit Opinion

The audit of the financial statements of the Public Rental Board for the year ended **31 December 2008** resulted in the issue of an unqualified independent audit report, however the Board's attention was drawn to the following issues:

- There was an unexplained difference of \$29,273 between the depreciation charge in the Income Statement and that in Note 16 to the Accounts
- The Fixed Assets Register included an amount of \$81,866 which the Board cannot assign or trace to any specific asset. This unsubstantiated amount has been carried forward from prior years.

The audit of the financial statements of the Public Rental Board for the years ended **31 December 2009** and **31 December 2010** resulted in the issue of an unqualified independent audit reports.

2.10.3 Audit Issues Raised by the Committee

- It is noted by PAC that several recommendations were made by OAG to the Public Rental Board, with no management response provided to these recommendations. This lack of engagement in the process is unhelpful, particularly for PAC in determining what explicit and transparent steps have been taken by the entity in response to the Audit Office recommendations made. As a general comment to all entities in the future, it is important that dialogue occurs and answers/responses are provided to OAG recommendations. This applies even where disagreement exists. It is through this process that understanding can deepen for all interested parties, including the PAC on behalf of the Parliament of Fiji.

Recommendation 9: When recommendations are made toward an entity from the Office of the Auditor-General, the entity should treat these recommendations as a priority issue to respond to with a full and explicit answer, as well as implement the relevant changes where agreed.

- PAC acknowledges the period of audit is four to seven years old, and therefore many issues raised have been addressed and/or are no longer relevant. However, due to no responses being provided to the recommendations made, and due to further clarifications being required, PAC has agreed to monitor the Public Rental Board over the coming Parliamentary term to ensure reform progress continues.

2.10.4 Resolution

- While PAC is satisfied the Public Rental Board is progressing on some very challenging issues, there are some outstanding concerns. One, for example, is the evidence provided to PAC that the Public Rental Board has over \$40 million of assets, with a significant part of this asset base uninsured. PAC will give more consideration to issues such as this one in the future.

2.11 Fiji Hardwood Corporation Limited

2.11.1 Background

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

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

During 2006 financial year the company was also engaged in processing of logs into sawn timber. Apart from the above there were no significant changes in the nature of activities of the company during the year. In 2016, it is noted Fiji Hardwood Corporation is no longer processing or milling, and has no land ownership.

2.11.2 Audit Opinion

The audit of the financial statements of the Fiji Hardwood Corporation Limited for the years ended **31 December 2005**, **31 December 2006** and **31 December 2007** resulted in the issue of unqualified audit reports. However attention was drawn to the following matter;

2.11.3 Audit Issues Raised by the Committee

- The audit report for the year ended 31 December 2005 reported the inability to ascertain the accuracy and reliability of the books of accounts maintained for the year ended 31 December 2005. There is uncertainty that income, expenditure, assets and liabilities that were brought into account were disclosed accurately and therefore unable to ascertain the impact of this on the financial position, results and cash flows for the year ended 31 December 2006. The Office of Auditor-General is waiting on 2009-2015 financials to be submitted. Fiji Hardwood has confirmed their 2009 and 2010 financials will be submitted by year end, as they are nearly complete and nearly signed off by Board.

- PAC is concerned that the Audit trail does not yet exist for Fiji Hardwood for the past seven (7) years. PAC accepts there has been a change of management at the most senior level and also accepts the new CEO's evidence that 2009 and 2010 financials will be submitted to the Audit Office by the end of the year, with the years 2011, 2012, 2013, 2014 and 2015 to follow sometime in 2017. While past behaviour has been far from adequate, PAC is willing to allow the new management time to deliver, and will continue to take a keen interest in the activities of Fiji Hardwood as it attempts to progress major internal reform in the coming period.

2.11.4 Resolution

The PAC has agreed to follow Fiji Hardwood closely over the coming period, to ensure all financials are submitted within the coming 6 months.

2.12 Yaqara Pastoral Company Limited

2.12.1 Background

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

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

YPCL business activity has primarily two divisions; Livestock Division, Crops Division.

2.12.2 Audit Opinion

The audit of the financial statements of Yaqara Pastoral Company Ltd for the year ended **31 December 2008** resulted in the issue of an unqualified audit report however, attention was drawn to the following:

- Leasehold land and buildings were revalued by the Directors based on independent valuation in October 2002. Upon adoption of IFRS (2006), the company elected the option provided under IFRS 1 to apply the cost model (deemed cost) for leasehold land and buildings previously revalued, and accordingly, the cost value of leasehold land and buildings included revaluation

increment amounting to \$7,588,784. An independent valuer is currently engaged to perform the valuation however, the company has not created provisions for impairment of the leasehold land and buildings.

- The company has been receiving royalty income from Natural Waters of Viti Limited since 2000. These receipts have not been declared in the VAT returns and the required VAT amounts paid to FIRCA.

The audit of the financial statements of Yaqara Pastoral Company Ltd for the year ended **31 December 2011** resulted in a qualified audit report due to biological assets being recorded at a total value of \$2,967,112, yet it not being practicable for OAG to carry out normal audit procedures relating to the confirmation of biological assets as at 31 December 2011. As a result, audit was not able to confirm the existence or valuation of biological assets recorded in the statement of financial position. The annual mustering records are done after the balance date with not all livestock being driven to the counting stations. The total livestock used in the accounts were 5,502 while the mustering records showed 5,185, with estimation made on the 316 cattle to be present at balance date.

2.12.3 Audit Issues Raised by the Committee

- *Land Valuation:* The committee was informed a review of the status of the land valuation in the books was carried out in late 2011 and the valuation was taken out of the accounts in 2012 on the basis that the company is leasing the land and does not own it.
- *Directors of the company in 2012:* The committee was informed Mr. Peter Drysdale (Chairperson), Mr. Simon Cole, Mr. Sant Kumar and Mr. Aca Thomas were Directors.
- *Biological Assets:* The committee was informed is the total value of all livestock owned by the company. For instance for the year ended 31 December 2012 total biological assets was valued at \$2.4 million and these were 4,359 cattle, 590 sheep, 130 goats and 67 horses. The value is based on market price and differs depending on the age of the animal.
- *Books of Accounts and Audit Adjustment:* The committee was informed these have been updated and rectified.
- *VAT Output on Royalty Income:* The committee was informed all due VAT payments on royalty is up to date and paid by YPCL on a monthly basis.

- *Income Tax Return:* The committee was informed the returns have been updated and the latest tax return lodged was 2013. 2014 Accounts have been audited and ready for signing by the directors hence Tax returns will be lodged by end September 2016. 2015 Draft Accounts have been submitted to AOG for Audit.
- *Certificate of Exemption:* The committee was informed the direct deduction of the royalty withholding tax by Natural Waters of Viti Limited to government (FRCA) did not necessarily warrant a COE. To have a COE would only delay the remittances to FRCA.
- *PAYE Summary:* The committee was informed this matter has been updated and rectified.
- *Verification of NWVL Turnover:* The committee was informed Natural Waters of Viti Limited's auditors currently issue an Audit Certificate to YPCL for each year verifying total gross turnover on which royalty is calculated.
- *Statutory Register:* The committee was informed the company will take measures to maintain the mandatory statutory register for the members of the company-PS for Ministry of Finance and PS for Ministry of Public Enterprise. Share certificates were finally obtained from the 2 ministries in 2015.
- *Bank Reconciliation:* The committee was informed bank reconciliations were subsequently done and to date monthly bank reconciliations are done for all 3 bank accounts held by the company.

2.12.4 Resolution

- The PAC can see progress on the issues raised by the Audit Office through the period in question, and looks forward to further progress for the people of Fiji.

2.13 Fiji Higher Education Commission

2.13.1 Background

The Fiji Higher Education Commission was established on 14 October 2008 under the Higher Education Commission Promulgation (Promulgation No. 24 of 2008).

The functions of the Commission are to register and regulate higher education institutions according to the provisions of the promulgation; foster and safeguard the national interest, the interest of students and parents, and also of local higher education providers; establish national standards for different qualifications; oversee the review process of higher education institutions; provide assurances that the program developed by the institutions meet national standards; promote the development of Fiji as a knowledge society; allocate government funds marked for higher education annually to higher education institutions according to a transparent and well-publicised criteria for allocation; foster co-operation among higher education institutions and linkages between higher education institutions and industry; maintain a database of higher education information; develop or cause to be developed an academic broadband facility for use by higher education institutions; and make recommendations to the Minister with respect to issues consistent with its functions including special projects.

2.13.2 Audit Opinion

The audit of the financial statements of the Fiji Higher Education Commission (FHEC) for the year ended 31 December 2010 resulted in the issue of a qualified audit opinion. FHEC has included in the Statement of Receipts and Payments other expenses totaling \$35,723 which were incurred by the Ministry of Education from the Fiji Higher Education Commission's grant funds. The expenses did not relate to FHEC operations. As a result FHEC total expenditure for the year was overstated and Accumulated Fund balance was understated by the same amount.

Recommendation 10: the responsible Ministry (Education) outlined the status of Fiji Higher Education commission as an independent reporting entity, as officers presenting, and the audit office, were unclear of the financial duties and responsibilities of the entity itself.

2.13.4 Resolution

The PAC is satisfied matters are progressing with the Audit Office, the Ministry of Education and the Higher Education Commission.

2.14 Ministry of Local Government

2.14.1 Background

The Local Government Act has established a common objective for municipal councils' operation in Fiji and that is, to promote the health, welfare and convenience of its inhabitants and preserve the credits thereof as per section 88. The Ministry of Local Government through the office of the Honourable Minister, plays a supervisory role as far as the management and the operations of the municipal councils goes in Fiji. Since 2009, there has been a Local Government Review Reform programme that has been introduced at the municipal council level, directly supervised by the Ministry of Local Government, Housing and Environment.

2.14.2 Issues of Concern raised by Audit

The lack of financial reporting and submission from Councils was a real concern based on the Audit reports tabled in Parliament over the past 12 months.

As a consequence, the PAC met with the Ministry of Local Government to receive clarity on why the delays. Before meeting with the Ministry, the PAC also met on the 18th August, 2016 with Fiji Institute of Accountants, Ministry of Public Enterprises, Ministry of Finance, and the Office of Auditor-General to understand why several entities were routinely failing to submit financials to the audit office, or receiving qualified reports when they did.

Here is a summary of the recent background that explains these delays;

Chair Sudhakar: "while discussing the matter with the OAG we have noticed that the Auditor-General's Reports that were tabled in Parliament had some entities not submitting their financial accounts on time and in fact we have found some Provincial Councils that are lagging behind by about 20 years. There are some Municipal Councils lagging behind five years, some entities either State-owned Enterprises, GCC lagging behind by a few years. The main reason they give ... was that they do not have the resources or there was a change in the accounting system"

Fiji Institute of Accountants: "There was a big change in 2011 which is what I think they were referring to....basically International Financial Reporting Standards (IFRS) for small-medium businesses (SME's) replaced Fiji Accounting Standards from January 1st, 2011. At the moment...we have full IFRS...applying to those entities

which are large and publicly accountable as I have defined there. Every other entity should comply with IFRS for SME's¹⁸.

PAC held several discussions with the Ministry for Local Government on this matter. When they arrived to the public hearings on Thursday 1st September 2016, they provided the following statement in their public evidence;

"Municipal financial accounts have been upgraded to match international financial reporting standards effective from 1st March, 2016. Prior to the upgrade, a joint meeting was held with Finance Managers from all municipal councils....a key point of development was the realignment and the establishment of reporting structures. Whilst Suva and Lautoka City Councils will comply to full IFRS, the other municipal councils would be covered under the SME category given the level of transactions and the equity base of the municipal councils. For the purpose of the upgrade, all municipal councils have an established starting point of upgrade, so IFRS reporting standards are as follows;

- *Suva City Council – 2011*
- *Lautoka City Council – 2011*
- *Nadi Town Council – 2013*
- *Nasinu Town Council – 2012*
- *Tavua Town Council – 2015*
- *Nausori Town Council – 2012*
- *Labasa Town Council – 2014*
- *Lami Town Council – 2014*
- *Ba Town Council – 2015*
- *Rakiraki Town Council – 2015*
- *Savusavu Town Council – 2011*
- *Levuka Town Council – 2012*
- *Sigatoka Town Council – 2014*

The second financial meeting between the Department of Local Government and the councils has been planned for September 2016. This forum will evaluate the progress made and a way forward mapped from there onwards. This will then set the platform for a shared service model where smaller councils which struggled to find resources to manage their finance and accounting processes will come together and form a shared service platform, a one-stop-shop model that would provide these services for a cluster group of councils.¹⁹"

¹⁸ From oral evidence at PAC Public Hearings during the week 29th August to 2nd September. All transcripts available at www.parliament.gov.fj

¹⁹ Same as footnote 18

2.14.3 Resolution

PAC was very concerned with the state of the financial audit trail within Local Government in Fiji. However, throughout 2016, based on a number of meetings and a number of collective decisions, PAC is also welcoming of the moves to IFRS, and the desire for all Councils to present up to date accounts up to 2015 by March 2017. If achieved, this is a significant achievement by all officers involved.

CHAPTER 3: CONCLUSION

As an observation the PAC noted the limited resources within OAG and the limited options for outsourcing of audits when audits of GCCs are conducted.

PAC also notes a general trend of improvement across most, if not all entities. However, there are four general categories of concern that all entities need to be aware of, and where necessary, address as a matter of priority;

Recommendation 11: There still remains a backlog of financials that have yet to make it to the Audit Office from some entities for up to five years. This is unacceptable. PAC flags the importance of submitting all outstanding financials to the OAG as the priority issue for all entities. The expectation then is to have an annual financial statement for each year to OAG by March of the following year, in accordance with International Financial Reporting Standards.

Recommendation 12: There are still signs of inadequate internal audit procedures within several entities. PAC flags the importance of internal audit for good governance and encourages all entities to reflect on their internal audit policies and procedures and to strengthen them where necessary.

Recommendation 13: Staffing challenges remain within many entities. This appears in various forms. The staff to work ratio does appear to be a challenge in several entities, as does the skills and capacity to perform duties. This also appears at senior levels within some entities. Whether it is the minimum number of board members actually being appointed, or having separation of duties as per governance standards (for example Chair and CEO would ideally be separate). PAC encourages reflection from each entity on this issue of staffing in order to lift performance to another level.

Recommendation 14: Special projects. It remains a disappointment that examples of infrastructure or project failure continue to appear in the audits of various entities. While these examples seem to be reducing quite quickly over the past decade, PAC requests all entities to be vigilant in ensuring taxpayers dollars are spent wisely and efficiently.

